

“...NEW ERA FOR MASSMART AS A SUBSIDIARY OF THE WORLD'S LARGEST RETAILER...”

MARK LAMBERTI
CHAIRMAN



“...MASSMART GROUP INTO THE NEXT PHASE OF ITS SPECTACULAR GROWTH PATH...”

GRANT PATTISON
CHIEF EXECUTIVE OFFICER

REPORTS TO STAKEHOLDERS

MASSMART
Dedicated to Value

“...ACQUIRED 51% OF MASSMART'S ISSUED SHARES ON A FULLY-DILUTED BASIS...” GUY HAYWARD CHIEF FINANCIAL OFFICER

REPORT TO STAKEHOLDERS

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Chairman's letter to Stakeholders

This report is on behalf of the past and present Boards of the Company, at the start of a new era for Massmart as a subsidiary of the world's largest retailer.

Most of the events that led to this transition have been widely publicised, with your company attracting more headlines over the past year than over the previous twenty. Sadly, little of this was related to our primary objective of good shop keeping, and the commentary surrounding the change of Massmart's ownership contained varying degrees of accuracy and emotion, reflective more of narrow self-interests than those of broader society.

The catalyst was an initial non-binding offer by Walmart to acquire the entire issued share capital of Massmart for R148 per share. At an historic price earnings ratio of 26, this placed a value of R31 billion on your company and represented a 19.2% premium to the then share price, thought by some to be inflated by speculation.

In due course Walmart made a binding offer to purchase 51% of the company at the same price per share.

The end of an era

Consistent with their fiduciary record and stakeholder orientation, the members of the previous Board deliberated at length on the strategic, commercial and societal merits of the transaction and concluded that control by Walmart would enhance the growth and prospects of Massmart with substantial benefits for all stakeholders.

Shareholders would receive a fair price for 51% of their shareholdings and also benefit in their remaining shareholdings from future participation in the Walmart-enhanced performance of the Company. Management would deepen their expertise in the art and science of retailing. Staff would be presented with new career prospects arising from faster growth and Walmart's support of the Broad Based Black Economic Empowerment initiatives that resulted in Massmart being a Level 3 contributor with the highest Employment Equity score of all listed retailers. Suppliers would benefit from participation in leading edge distribution practices and the potential to access Walmart's international supply chain. And South African consumers would benefit from lower prices, on more products, in more locations. In short the transaction would enhance the sustainability of the Company.

Following a unanimous recommendation by the Board, ninety seven per cent of shareholders voted in favour of the transaction. The regulatory approval process, delayed to ensure full participation by all dissenting parties, ended on 31 May 2011, when the Competition Tribunal approved the transaction after an exhaustive and thorough evaluation process. This concluded the largest



Mark J Lamberti
Chairman

UP BY 9.8%



75.9

BBBEE SCORE

2010: 66.1

Chairman's letter to Stakeholders *continued*

investment in South Africa by an American company, the 10th largest corporate transaction in South Africa over the past decade, and the fifth largest acquisition by Walmart.

The investment in Massmart by the largest retailer in the world is indicative of the growing significance of Africa for global companies, and an extraordinary vote of confidence in the government, private sector and consumers of South Africa.

It is also a vindication of over two decades of strategic positioning and operational implementation by almost 30,000 Massmart people, led in recent times by a cohesive management team who Walmart insisted must remain, under the direction of a Board who with an average tenure of over ten years, delivered an enviable record of service to all stakeholders.

Gratitude

It is common cause, and my experience, that competent individuals do not necessarily make an effective board. The Massmart Board members that brought the Company to this juncture were individually competent and collectively excellent, and it is fitting that I pay tribute to those whose departure was volunteered in its reconstitution.

BOARD RETIREES

- › Dods Brand
- › Kuseni Dlamini
- › Jim Hodkinson
- › Nigel Matthews
- › Peter Maw
- › Dawn Mokhobo
- › Michael Rubin

- › Michael Rubin joined Makro in 1989 as Development Director, served as an executive director on the Massmart Board from its inception and became a non-executive director in 1997. I relied heavily on his advice in the repositioning of Makro and the early acquisitions, and store location and design decisions that resulted in the creation of Massmart and its growth thereafter. Michael is a contrarian with an impeccable ethic, who always forced us to think more deeply about retail, financial and social issues.
- › Nigel Matthews joined the Board in 2001 and served with extraordinary diligence as Chairman of the Audit and Risk Committees. His savvy corporate wisdom could always be relied on, and the cordial relationship he developed with the finance community, internal auditors and external auditors belied a steely commitment to the establishment and maintenance of a robust control environment and impeccable governance.
- › Dawn Mokhobo joined the Board in 2002 and served on the Remuneration and Nominations Committee, and the Sustainability and Transformation Committee, where her experience and humanity found full expression mainly in support of the Group's internal constituencies.
- › Peter Maw joined the Board in 2003, bringing his formidable financial and corporate finance expertise to bear through astute questions and his membership of the Audit, Risk, Strategy and Investment Committees.
- › Dods Brand joined the Board in 2003, enriching the Board's deliberations with principled insight and a perspective borne from his experience as Chief Executive of a JSE-listed retail group.
- › Jim Hodkinson joined the Board in 2004. The quietest member of the Board but a consummate shopkeeper whose experience and reputation as Chief Executive and Chairman of B&Q plc added inestimable value in the stores, and in developing access to international retailers and trends.

- › Kuseni Dlamini joined the Board in 2006, bringing a keen independent mind to bear on all debate, particularly though his Chairmanship of the Remuneration and Nominations Committee, where the tensions around executive remuneration were always confronted thoughtfully.

On behalf of all associated with Massmart, I thank them for over 70 years of collective service and for their part in making your company Walmart's preferred target. We wish them every good fortune in the years ahead.

2011 performance

The strategic, operational, financial and societal performance of Massmart in the year to June 2011 is described in detail throughout this report.

From the Board's view point the following matters warrant emphasis.

Performance

Sales grew 11.6% to R53,0 billion and pre-tax profits before transaction costs grew 10.3% to R2,1 billion. Headline earnings per share fell 23.6% to 433.3 cents per share, depressed by R408.8 million of costs directly associated with the Walmart transaction. Headline earnings per share adjusted for these costs increased by 10.0%.

Notwithstanding a R1,2 billion capital investment programme, your company continues to render high returns on sales, equity and capital employed of 3.8%, 33.7% and 47.2% respectively.

These high Level metrics were the result of continued investment in strategic initiatives and sound operational management in a recovering low interest rate, low inflation consumer economy.

A demanding strategic agenda

Massmart has always been driven by a rolling three year strategic agenda, which aims to enhance the competitive advantage and positioning of the Group and its parts. The breadth and complexity of the initiatives arising from this thinking has increased each year, concomitant with the increase in Massmart's resources and capabilities.

In a year when organic growth and everyday trading was challenging, and the Walmart transaction exciting but potentially diversionary, the progress with a multitude of strategic initiatives was impressive. Acquisitions and a necessary disposal; the thrust into retail food in three Divisions; the development of new stores, formats, categories and private labels; the rebranding of stores; and the enhancement of the regional distribution capability; were underpinned by a continued investment in the development of people and the pillars of sustainability.

As a result, by year end, your company comprised: 313 stores; trading under ten brands; totalling 1,280,936 square metres; selling almost 501,000 SKUs in General Merchandise, Home Improvement, Food and Liquor; supported by regional

READ MORE REPORT TO STAKEHOLDERS

More detail on the financial performance can be found in Chief Financial Officer's report on page 41.



Chairman’s letter to Stakeholders continued

distribution centres of 89,711 square metres; employing over 30,495 people (over 26,500 employed in the prior year), in 13 sub-Saharan countries.



Managing the change of ownership

A change of ownership is typically disruptive to a business. This has not been our experience. While management of the transaction and the regulatory developments required Grant Pattison (Chief Executive Officer) and Guy Hayward (Chief Financial Officer) to totally redirect their efforts, the vast majority of the organisation remained focussed on managing the implementation of the strategic agenda, delivering value to customers and producing the results contained in this report.

This was a reflection both of the depth and calibre of divisional and functional leadership, and of the excitement and confidence with which all Massmart people view the new ownership. The relationship with Walmart and the Sam M. Walton College of Business has been cultivated over 20 years and many of our executives and senior managers have experienced the humble warmth and hospitality personified by Walmart associates. With few exceptions there is an alignment of philosophies, values and culture, and contrary to the trepidation normally prevalent in the acquired organisation, the dominant sentiment in Massmart today, is an urgency to extract value from Walmart’s expertise and resources.

Leaders invariably determine the success of organisational change and Grant, ably assisted by Guy, must take credit not only for concluding the transaction but also for inspiring the enthusiasm with which the Company is embracing a demanding integration agenda. He did this while handling a wide range of new and unpredictable developments with sound judgement and a cool demeanour that belied the gravity and complexity of the issues we were facing.

In consequence, your company is stretched but not stressed.

Reconstitution of the Board

The Board was reconstituted on 20 June 2011, when Walmart’s control, direction and oversight were given effect through:

- › the resignation of the seven directors acknowledged above
- › Chief Executive Officer Grant Pattison and Chief Financial Officer Guy Hayward retaining their positions as executive directors
- › Christopher Seabrooke retaining his position as Deputy Chairman and lead independent non-executive director
- › Dr. Lulu Gwagwa and Ms. Phumzile Langeni retaining their positions as independent non-executive directors
- › the appointment of: Doug McMillon, President and Chief Executive Officer of Walmart International; JP Suarez, Walmart International Senior Vice President of International Business Development; and Jeffrey Davis, Walmart International’s Senior Vice-President Finance & Treasury.

READ MORE CORPORATE GOVERNANCE

More detail on the Board can be found in

- › The Board 159
- › Board process and evaluation 160
- › Board and committee attendance 162
- › Board committee 163



It was a singular honour to be asked by Walmart Chief Executive Michael Duke to remain on as the independent non-executive Chairperson of Massmart. I accepted the appointment mindful that it may one day entail the leadership of a board divided on what is in the best interests of the Company, the controlling shareholder and the minority shareholders. If and when this occurs, I am confident that the Board will ensure that the best interests of the company prevail.

Moving forward

Since its inception Massmart has experienced numerous forms of ownership. While past shareholders have always acted in the best interests of the Company, none have possessed the expertise or capabilities to enhance Massmart's strategic or competitive stance in the distribution of consumer goods to the mass market. This is no longer the case.

Walmart's ownership is the catalyst for new avenues of efficiency, productivity and growth in pursuit of lower prices to more customers in more places. Notwithstanding the current global economic challenges, Massmart powered by Walmart's scale, capabilities and experience, is poised to accelerate its high return expansion on the sub-continent.

We look forward to a year of stimulating learning for all involved.



Mark J. Lamberti
Chairman

5 October 2011

THE BOARD COMPRISES:

- › Two Executive Directors
- › Four Independent Non-executive Directors
- › Three Non-executive Directors

Chief Executive Officer's review



Grant Pattison
Chief Executive Officer

The June 2011 financial year will be forever imprinted on our minds, and marks the transition of the Massmart Group into the next phase of its spectacular growth path – from being a strong regional player to being part of a leading global retail company.

Massmart began the financial year owned by a spread of Institutional Investors, and ended the year as a Walmart subsidiary. This brings a great deal of change from all dimensions but also brings opportunity to the Group in the years ahead.

Walmart's entry into Africa signals the increasing confidence that the global market has in Africa, South Africa, South African retailers and most significantly, Massmart.

Whilst the demands of completing the transaction were significant, the Group managed to operate in a disciplined manner and continued to implement its ambitious growth strategy. Operating disciplines were tightly managed and any mistakes made were identified and responded to with a sense of urgency.

Our main trading brands of Game, Makro, Builders Warehouse, Cambridge Foods and Saverite are in good health. Their business models, social relevance and competitive advantage remain strong and all have significant growth plans in place.

The environment within which we operate remains challenging and complex, but managing that complexity is both stimulating and rewarding.

Financial performance

Pre-transaction cost operating profits increased by 10.3%, just below the increase in sales of 11.6%, which was a reasonable performance given the economic environment that prevailed during the 2011 financial year.

At a Divisional level, Massdiscounters and Massbuild had strong performances each growing profits above 20%; Makro a more tempered 9.3% profit growth; and Masscash a disappointing 20.1% profit decline. This trading pattern and profit performance was typical of the low inflation, low interest rate environment in South Africa.

For the 52 weeks to 26 June 2011, sales increased by 11.6% (comparable sales by 5.2%), Trading Profit increased by 6.4%, Operating Profit before Transaction costs increased by 10.3% and Headline Earnings before Transaction costs increased by 10.0%.

The Walmart transaction costs significantly affected Earnings, with Earnings and Earnings per Share down 22.5% and 23.6% respectively.

Stock is up by 10.7% compared to the sales increase of 11.6%, showing an improvement in stock efficiencies.

Walmart transaction

We were delighted with the 31 May 2011 Tribunal approval of the acquisition of Massmart by Walmart. Included with the approval were four conditions, three of which Massmart had volunteered. The conditions we offered the Tribunal were, in a sense, intuitive as they represented our natural intentions to contribute positively to the environment within which we operate, and our desire to find solutions with parties with whom we disagree. During the course of a "social dialogue", these conditions had been offered to the Opposing Parties involved in the merger approval process, but had been rejected.

Subsequently, SACCAWU, Massmart's major representative union, lodged an appeal against the Competition Tribunal ruling and three Departments of Government lodged a review of the Tribunal process. The hearing for both has been set down on 20 and 21 October 2011.

We have begun to manage the implementation of the Tribunal's conditions, the two most visible being the offer of re-employment of the 503 retrenched Massdiscounters' colleagues and the R100 million Supplier Development Fund. Work has begun on both. We have appointed an executive to manage the Supplier Development Fund, Mncane Mthunzi, who joined us on 1 September 2011.

Legally, implementation of the transaction is not delayed by any appeal or review, and so Integration workstreams commenced in July 2011. The 12-person Integration expatriate team is in place, and the Integration process has got off to a successful start. Integration is a disciplined process where 155 different potential projects (toolkits) are being evaluated, approved, implemented, measured and monitored by combined teams from both Massmart and Walmart. It is expected that the Integration process will last between 18 months and three years.

It is worth noting that within the controversy generated by aspects of the transaction, we rarely disagreed with the objectives of some of the opposition, but did at times disagree on how to achieve those objectives. We remain open to partnering with anyone in the best interests of customers in the markets in which we trade, on an equal and mutually respectful basis.

Perhaps the most under-reported aspect of the Walmart transaction, is that members of Massmart's Thuthukani Empowerment Trust for employees, 86% of whom are black and 41% of whom are women, had their shareholdings in Massmart valued at R840 million, 51% of which was realised in cash and the balance freed up to be realised at the 9,000 individual employees' discretion. Although this share scheme was criticised in some quarters at its inception in October 2006, this is perhaps one of the best examples of BBBEE in action, and one of which Massmart shareholders can be very proud.



Chief Executive Officer's review continued

Group inflation	-1.3%
Food and Liquor	1.6%
Home Improvement	0.7%
General Merchandise	-7.8%

Environment

The Group performance suggests that the South African consumer is in reasonable shape, in an environment which is enabling them to invest their savings from low non-durable goods inflation into durable goods spending. In addition, the negative inflation in durable goods has encouraged consumers to either buy more durable goods, or to upgrade to higher quality durable goods.

Market data suggests that Builders Warehouse and Massdiscounters materially increased their market shares. This however, suggests that our sales growth rates are not reflective of higher consumer spending levels and that the health and confidence of the South African consumer may be weaker than it appears.

The semi-durable goods sector, which we barely participate in, has performed well, although market shares may have moved between players.

Meaningful interpretation of the current state of the South African retail market will have to wait until the national data for July and August 2011 is released, which will give us an accurate reading for the first time in several months, during which time the prior year base was affected by the timing of Easter moving and the significance of the 2010 Soccer World Cup.

The African markets outside of South Africa have begun to recover from the global financial crisis, and despite high inflation, consumers appear to be increasing spending on durable goods.

Divisional operating review

Massdiscounters. Sales increased by 9.6% (and by 3.7% on a comparable basis). Sales deflation was -7.3%. Given the low comparable sales growth, this Division's profit performance was remarkable and was achieved through effective gross margin and expense management. Even more impressive is that the African business struggled due to Rand currency strength and weak local economies, and therefore Game SA performed even better than the overall Division. Although still small, DionWired had another spectacular performance, and is changing the market within which it operates as it expands.

During the year, some historic milestones were reached. The 70,000m² Johannesburg Regional Distribution Centre (RDC) was opened and, despite some commissioning challenges, ended the year operating smoothly. Four Game Foodco stores were opened successfully, a concept first contemplated in January 2010.

The R500 million overstock position evident after the 2010 festive period was also dealt with well and we commenced the 2012 financial year in a satisfactory inventory position.

This year the Division's focus will be on building and executing the Foodco rollout strategy, building the final KwaZulu-Natal RDC, and Integration.

Masswarehouse: Sales increased by 10.6% (and by 6.9% on a comparable basis). Sales deflation was -0.4%. General Merchandise was the best performing category increasing sales by 14.2% with Food and Liquor sales recovering in the second half to reach growth of 8.9%.

READ MORE

OPERATIONAL REVIEW

More detail on the operational performance can be found in

- › Massdiscounters divisional review 82
- › Masswarehouse divisional review 93
- › Massbuild divisional review 103
- › Masscash divisional review 113



Margins and overheads were well controlled. Given that a new Makro store was opened during this financial year, with the associated higher than average costs and pre-opening costs of R14.0 million, the Division did well to grow profits to the extent it did.

The two stores comprising Makro Zimbabwe were sold. As a consequence, we reported transaction-related losses, partly resulting from the procedural delays, and the total amount of R38.6 million was excluded from headline earnings.

The Division's focus is on new stores, building the Fresh and retail offering, and Integration. The new supply chain executive role is developing a Supply Chain and Africa Strategy, both of which are progressing well.

Massbuild: Sales increased by 14.2% (and by 7.2% on a comparable basis). Sales inflation was 0.8%. Very pleasingly, trading profits increased by 21.0% (off a prior year profit increase of 27.0%). By the end of the third quarter, we were on track for an even better performance but were hampered by the sales weakness of the last quarter of the 2011 financial year. The good start to sales growth in the 2012 financial year indicates that perhaps the World Cup effect was larger in Massbuild than anticipated – but we have no compelling explanation for this.

Builders Warehouse continues to perform the best. Builders Express did well in its comparable stores but saw weaker sales in the acquired stores – this was primarily due to poor stock and system conversion problems. Builders Trade Depot sales remained weak, but stable. We are implementing a Project Complete strategy in Builders Trade Depot, which is working, and will be well positioned when growth returns to the building contractor market.

At a Divisional level, the integration is complete and all three formats are running off a single Divisional Head Office. Analysis is underway to consider having a single IT system across the Division.

The Division's focus is to complete Builders Trade Depot's repositioning, build a pipeline of new stores able to serve smaller markets, expand into Southern Africa and Integration.

Masscash: Sales increased by 12.7% (and by 4.1% on a comparable basis). Sales inflation was 2.1%. Trading profit decreased by 20.1%. The year was difficult because of first deflation and then low food inflation, compounded by a competitive market. Not assisting this were several own goals, some of which were probably avoidable. From a trading perspective, sales were reasonable given the low inflation, but margins were tight as competitors traded hard and targeted our store locations.

In context though, we confronted and implemented some difficult decisions. These include converting the Gauteng and Free State retail stores to Cambridge Foods branding; completing the roll-out of the new wholesale IT systems; selling the loss-making Saverite corporate stores and installing a Gauteng DC for the Retail business. While each decision was correct, they increased expenses and hurt profits.



Chief Executive Officer's review continued

READ MORE

CORPORATE ACCOUNTABILITY

More detail can be found in Corporate Accountability Report page 125



The Division's focus will be on growth in both our Saverite franchises and Cambridge Foods stores, and enhancing our supply chain capacity as we expand.

Corporate accountability review

In the 2011 Corporate Accountability Report I expressed concern that our accountability agenda had become cluttered and this could impact negatively on implementation quality. I also indicated that we needed to improve our understanding of how retailers can optimise their practical corporate accountability impact. As a result, we made three improvements:

1. We expanded the corporate accountability team by appointing two group corporate sustainability project managers (including an ecologist) and a researcher. They are tasked with identifying, sharing and tracking implementation of accountability best practice across our group.
2. We initiated a study to gain insight into stakeholder views about how we could improve our impact. The study revealed firm stakeholder opinions that we should:
 - › establish clearer relevance of sustainability projects within the retail industry, social discourse and public policy contexts;
 - › improve communicability of our sustainability commitment by focusing on three accountability themes;
 - › avoid a 'one size fits all' approach by differentiating each division's focus based on retail format, merchandise proposition and commercial model.

It became clear that the pivotal role retailers occupy in the supply chain creates high stakeholder expectations that we use our supplier convening power and unparalleled consumer access to improve accountability in the supply chain. The result is a reframing of our accountability focus around three themes:

- › enabling sustainable supply and consumerism;
 - › minimising our group environmental footprint; and
 - › championing social equality initiatives.
3. Finally, we utilised our access to Walmart by identifying opportunities to leverage their sustainability expertise. These opportunities are numerous and include areas such as sustainable agriculture, packaging rationalisation, eco-label advocacy, consumer empowerment and energy efficiency.

Through this process we did not lose sight of the need to ensure continuity of our established sustainability commitments. We were delighted to achieve a Level 3 BBEE contributor status and be ranked the most empowered retailer in the 2011 Top Empowerment Companies Survey. This included being rated 7th of all JSE-listed companies for Employment Equity representation. (Having said this, it's likely that our 2011/12 BBEE score will be lower, reflecting a dilution in the Thuthukani staff shareholding and the implementation of revised Enterprise Development best practice guidelines.)

We have also been focused on developing format-specific energy intensity benchmarks that are sensitive to opportunities to improve energy efficiency in

our old and new stores. One energy efficiency highlight for us was the launch of Makro Vaal, which is 25% more energy efficient than similar sized older stores and which serves as a model for future Makro stores.

I was pleased to see that the Massmart human resource community's efforts to improve enrolment of HIV-positive staff on our Impilo treatment programme have begun to bear fruit. A total of 87% of HIV-positive staff are now enrolled, and although this is still 13% below our 100% enrolment target, it's significantly better than two years ago. A new objective will be to concentrate on improving our testing penetration rate to at least 70% of staff.

We're confident that we now have a better-resourced and more structured corporate accountability approach. When combined with input from Walmart, we anticipate that our efforts will be more impactful than in the past. This is not to say that there won't be difficulties and disappointments. There will be, but we believe that we are even better equipped to deal with these as they arise.

Vision for growth 2014

Due to the distraction of the Walmart transaction, we followed an abbreviated strategy process this year and focussed on preparations for Integration. I believe the fundamental strategy remains sound and valid. The Strategic Action Plan remains focussed as:

- › Leadership and Transformation development
- › Grow core business (comparable stores)
 - › Customer-focussed Trading
 - › Supply Chain Development
 - › Private Label Development
 - › Financial Services
- › Retail Food (Cambridge Foods, Saverite, Foodco, Makro Food Retail)
- › New Categories
- › Organic growth in SA and Africa
- › Sustainability (Governance, Climate Change, BBBEE, CSI)
- › Integration

The final point of Integration is obviously new, otherwise the Strategic agenda remains unchanged, but will be enhanced by Walmart's ownership.

Prospects

Massmart's total sales increased by 14.7% for the first 14 weeks to 2 October 2011, with product inflation averaging 0.7%. Comparable sales increased by 8.0% for the same period.

With the first quarter's sales indicating a return to stability with growth in all categories and Divisions, the financial year ahead looks to be solid. Management will have to balance operating discipline with the investment in growth and the speed of Integration. We will also have to balance the sometimes divergent interests of different stakeholders.

PROSPECTS

14 weeks to 2 October 2011
Total stores 14.7%
Comparable sales 8.0%

Chief Executive Officer's review *continued*

Appreciation

In addition to the usual thanks to all Massmart colleagues, we would also like to thank Massmart Board members, old and new, our advisors, our Walmart colleagues, our suppliers, and our shareholders, old and new, for their advice and support over a very significant period in Massmart's life.

Over the past year, we have engaged more than usual with Regulators, Government, Union leadership, Industry and NGOs. We have appreciated the constructive engagement and were also appreciative of the general support we enjoyed. At times we have disagreed, but in those disagreements we always learnt and, where necessary, changed our views. We thank you for your input.

To our customers, the most sincere thanks. You can rely on the fact that the entire Massmart supply chain will be focusing our attention on helping you save money, so that you can live better.



GM PATTISON
Chief Executive Officer

5 October 2011

Chief Financial Officer's review

The Walmart transaction became effective on 20 June 2011 at which time it acquired 51% of Massmart's issued shares, on a fully-diluted basis, for a cash consideration of R148 per share.

It is important that we improve the quality and relevance of Massmart's formal reporting to our stakeholders. In doing so, we ensure that our technical accounting disclosure remains of the highest standard, while also endeavouring to keep our explanations clear and simple despite many accounting standards becoming increasingly complex and technical.

Our efforts have been recognised in the South African Ernst & Young Excellence in Corporate Reporting Awards where Massmart has received an Excellent rating for the past six years and has been in the top five companies since 2009.

Key issues

- › Difficulty interpreting sales growth during the six months to June 2011 due to the Easter and the World Cup base-effect
- › Continued low product sales inflation
- › Effective cost control
- › Inventory levels normalised by June 2011
- › Highest ever capital expenditure levels

Financial impact of Walmart transaction

The Walmart transaction became effective on 20 June 2011 at which time it acquired 51% of Massmart's issued shares, on a fully-diluted basis, for a cash consideration of R148 per share. The legal conditions imposed by the Competition Tribunal in granting its approval are discussed in the CEO review. There were two main financial consequences of this transaction, being Transaction costs of R408.8 million and the effects of the vesting and purchase by Walmart of the Massmart share options held by share trust participants and beneficiaries.

Total Transaction costs of R408.8 million included total advisers' fees and expenses of R238.7 million, the establishment of the R100.0 million Supplier Development Fund (required by the Competition Tribunal) and R70.1 million in accelerated IFRS 2 charges. The latter two amounts are non-cash and a portion of all three cost categories may not be tax-deductible. Given the once-off nature of these costs, where relevant, references in this CFO review and in this report to profit, profitability, earnings and balance sheet returns are calculated after reversing these costs.



Guy Hayward
Chief Financial Officer

Chief Financial Officer's review *continued*

With regard to the effects of the vesting and purchase by Walmart of the Massmart share options, at the end of June 2011 the Group's share premium increased by a net cash amount of R481.6 million as 51% of all vested and unvested share options held by trust participants and beneficiaries (including our general staff scheme, Thuthukani) were converted into ordinary shares and then acquired by Walmart. Issued shares therefore increased by 12.4 million or 6.1% to 213.9 million shares. These additional shares had a limited impact on the weighted-average number of shares due to the transaction occurring in late June 2011.

In addition, cash proceeds were received from Walmart on 20 June 2011 but at 26 June 2011, the Group's actual year-end date, had not yet been paid to share trust participants and beneficiaries. As the share trusts are consolidated with the Group, the net cash proceeds of R1,093.6 million are shown as Restricted cash held on behalf of scheme participants, with an equal amount included as a Scheme participant liability. This cash was paid to beneficiaries shortly after the financial year-end.

Acquisitions

In comparison to previous years, acquisition activity was minimal with six stores acquired, being an ex-Mica store in Johannesburg North that was converted to a Builders Express, four stores now forming part of CBW and one store now forming part of the Cambridge brand. In aggregate, seven businesses representing these six stores and one property, were acquired for a cash consideration of R171.0 million, which was financed using short- and medium-term debt facilities, and gave rise to goodwill of R185.0 million.

Disposals

The only business disposal during the June 2011 financial year was the sale of the two Makro stores in Zimbabwe. The agreement to sell these stores was signed in November 2010 and was finalised in late February 2011. The loss on sale of R38.6 million represents trading losses funded by Massmart incurred before the decision to sell and then during the extended period until eventual disposal.

The financial results for Makro Zimbabwe were deconsolidated since 2007 as Massmart could not 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'. Over the period, the financial effect of this exclusion was minimal.

Accounting policies

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

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'

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GROUP FINANCIAL STATEMENTS
 More detail on the accounting policies can be found in note 1 on page 214



that will only be achieved in the medium term. In addition, these targets are also '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
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 equity (ROE)

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

The decline in the Group's profitability (measured by ROS) during the economic recession in 2009 and 2010 was the main cause of the decline in the Group's return on shareholders' equity. This was also affected by the Group's ongoing investment in new stores and new businesses which increased the size of the balance sheet. As the Group's profitability improves, and as the new stores and business begin to trade optimally, the ROE will improve to higher levels. In 2011, despite the improved profitability, the significant investment in capital assets caused the ROE to remain at similar levels to 2010.

Progress to date – Massmart's current return on average shareholders' equity is 33.7% (2010: 34.9%).

The Divisions are responsible for delivering operational returns, being their returns to their 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 Division must therefore 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 been rigidly applied in Masscash owing to minority

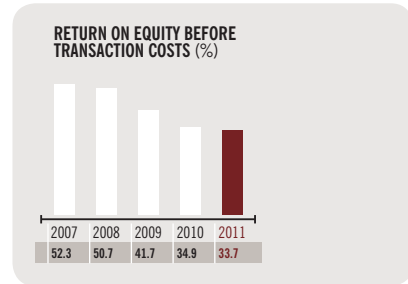
DEFINITIONS THROUGH-THE-CYCLE

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

FORMULA RETURN ON EQUITY (ROE)

Return on equity before transaction costs

$$\frac{\text{Headline earnings before transaction costs}}{\text{transaction costs}}$$



Chief Financial Officer's review *continued*

shareholders in that business, although interest income from one year to the next is generally comparable.

Gearing

Massmart prefers some 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 (i.e. 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 R5.5 billion (2010: R4.6 billion). Note that these gearing figures exclude any capitalised lease obligations.

Rm	2011	2010
Gearing	39.9%	17.9%
Average interest-bearing debt for the year	1,484.8	583.8
Average capital and reserves	3,717.8	3,262.2

Average interest-bearing debt is calculated by grossing up the net interest paid of R107.2 million (2010: R46.7 million) by the average interest rate of 7.2% (2010: 8.0%).

From 2008, the Group decided to rather own than lease certain of its larger stand-alone store formats, specifically Makro and Builders Warehouse stores, and this will add incrementally to the Group's gearing. This change does not however, represent a major financial shift as all it will be doing is converting a fixed long-term lease commitment, which is recorded off-balance sheet, to an on-balance sheet asset and liability. As regards financing any acquisitions, depending on the 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 (including higher cash balances that are paid to creditors after month-end), the Group's gearing levels are best calculated using the net interest paid (or received) for the financial period.

For most of the second half of the June 2011 financial year, the Group funded Massdiscounters' significant over-stocked position which caused average gearing to reach 39%. This over-stocked position has been resolved and the Group's current average gearing levels are approximately 20%.

Progress to date – the Group's average gearing was 39.0% (2010: 17.9%) for the financial year.

Dividend cover

Massmart's current dividend policy is to pay total annual cash distributions representing a x1.7 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 is made to the dividend calculation for the unrealised or non-cash portion of any foreign exchange translation gain or loss, unless these figures become 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 2010, despite this dividend policy, marginally higher headline earnings and the impact of the Transaction costs.

The Board has no desire to build up cash reserves 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 actual dividend cover ratios:

	2011	2010	2009	2008	2007	2006	2005	2004
Dividend cover	x1.59*	x1.46	x1.55	x1.70	x1.70	x2.00	x2.00	x2.00

* This was calculated using headline earnings before Transaction costs (taxed)

The 2006 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, 50% of the ordinary dividend in year two, 75% of the ordinary dividend in year three, and 100% of the ordinary dividend in year four (2010) and thereafter. 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. Although the third and final tranche was intended for October 2012, a specific consequence of the Walmart transaction was that the restriction on this vesting was lifted with effect from June 2011 and so participants have been free to vest and sell Massmart shares.
- › 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.

STORE PROGRESS

Opening balance..... **288**

Game stores opened **9**

- Pretoria CBD (Gauteng)
- Woodlands Boulevard (Gauteng)
- Clearwater (Gauteng)
- Vosloorus (Gauteng)
- Lilongwe (Malawi)
- Bayside, Blaauwberg (Western Cape)
- Polokwane Mall of the North (Limpopo)
- Brits (North West Province)
- Jubilee Mall, Hammanskraal (Gauteng)

DionWired stores opened **2**

- Amanzimtoti (KZN)
- Polokwane Mall of the North (Limpopo)

Makro store opened **1**

- Makro Vaal (Gauteng)

Builders Warehouse stores opened **3**

- Riverhorse (KZN)
- Woodlands (Gauteng)
- Witbank (Mpumalanga)

Builders Express stores opened **2**

- Kenilworth (Western Cape)
- Willowbridge (Western Cape)

Builders Express store acquired **1**

- Cedar Square, Fourways (Gauteng)

Builders Trade Depot store closed **(1)**

- Port Elizabeth (Eastern Cape)

CBW stores acquired **4**

- JD's Vosloorus, Gauteng
- Savemore, Thembisa, Gauteng
- Liquorland express, Diepkloof, Gauteng
- Rahme Guys, City Deep, Gauteng

Cambridge stores opened **3**

- Randburg, Gauteng
- Devilliers, Hillbrow, Gauteng
- Bara Hotel, Diepkloof, Gauteng

Cambridge store acquired **1**

- Nongoma, KZN

TOTAL STORES IN 2011 **313**

Chief Financial Officer's review *continued*

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 October 2006. The current year's charge was R64.7 million (2010: R69.7 million). The acceleration IFRS 2 Share-based Payment charge as a result of the Walmart Transaction totalled R22.8 million (included in the R408.8 million Walmart Transaction costs). 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 at October 2006 relative to the Group's market capitalisation at the same date, suggests that the total 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.

READ MORE

GROUP FINANCIAL STATEMENTS

More detail on the consolidated income statement and related notes can be found in

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> Other income (note 4)	230
> Net finance costs (note 9)	235
> Taxation (note 10)	236
> Headline earnings (note 12)	238



READ MORE

OPERATIONAL REVIEW

More detail on the operational performance can be found in

> Massdiscounters divisional review	82
> Masswarehouse divisional review	93
> Massbuild divisional review	103
> Masscash divisional review	113



Income statement

	2011 Rm	2010 Rm	% change
Sales	52,950.1	47,451.0	11.6
Gross profit	9,668.3	8,495.1	13.8
<i>Gross margin</i>	18.3%	17.9%	
Other income	139.4	99.6	40.0
Expenses	(7,676.7)	(6,640.3)	(15.6)
<i>Operating expenses as a % of sales</i>	14.5%	14.0%	
Trading profit	2,182.9	2,027.8	7.6
<i>Trading profit as a % of sales</i>	4.1%	4.3%	
Foreign exchange loss	(72.3)	(87.7)	
Operating profit before Transaction costs	2,058.7	1,866.7	10.3
Transaction costs	(408.8)	–	
Loss on disposal of Makro Zimbabwe	(38.6)	–	
Operating profit	1,611.3	1,866.7	(13.7)
<i>Operating profit as a % of sales</i>	3.0%	3.9%	
Finance costs	(140.4)	(92.6)	(51.6)
Finance income	33.2	45.9	(27.7)
Net finance costs	(107.2)	(46.7)	(129.6)
Profit before taxation	1,504.1	1,820.0	(17.4)
<i>Profit before taxation as a % of sales</i>	2.8%	3.8%	
Taxation	(585.3)	(608.2)	3.8
Profit for the year	918.8	1,211.8	(24.2)
Headline earnings:			
Including Transaction costs	881.9	1,138.6	(22.5)
Excluding Transaction costs	1,252.7	1,138.6	10.0
Headline earnings per share (cents):			
Including Transaction costs	433.3	567.2	(23.6)
Excluding Transaction costs	615.5	567.2	8.5

Sales

The Group's average product selling price inflation rate for the 2011 financial year was -1.3%, i.e. deflation, which is lower than the 0.4% deflation recorded in 2010. Inflation/deflation for each of the Group's major product categories is shown in the table alongside.

As noted previously, changes in product inflation beyond an approximate range of 5.0% – 8.0% are usually linked to significant movement in the US\$/Rand exchange rate. The strength of the Rand exchange rate in 2010 and 2011 therefore partly caused deflation in Food and General Merchandise.

Looking ahead to 2011/12, inflationary pressure will be felt across all Massmart's product categories as South African core cost inflation remains at 5.0% – 8.0% and, provided the currency remains stable, these cost pressures inevitably feed into product prices. Should the current Rand weakness continue however, product inflation, particularly in Food, will increase towards 8% – 10%.

Total Group sales of R52.95 billion increased by 11.6% over 2010. Comparable stores' sales growth was 5.2% while non-comparable stores including acquisitions added 6.4%. With the Group's average product inflation of -1.3%, this comparable sales growth represents volume growth of 6.5%. Sales growth in the second half of the 2011 financial year slowed as the 2010 World Cup moved into the base. Subsequent to June 2011, sales growth has returned to 6% – 8% levels.

During the 2011 financial year, the Group opened 20 new stores, closed one store, and acquired six stores, thereby increasing its trading area by an unweighted 6.0% to 1,280,936m².

Gross profit

The Group's gross margin of 18.26% is above the prior year's 17.90% due to higher gross margins in Massdiscounters, Makro and Massbuild. Group gross margin is returning to pre-economic crisis levels, specifically the 18.42% recorded in 2008. Higher gross margins in 2011 were achieved as these three Divisions gained market share to the detriment of independent competitors still battling the effects of the grudging economic recovery.

The Group's gross margin is dependent upon the sales mix across the Divisions and the required trading aggression occasioned by competitor activity. In a positive economic cycle, it should increase marginally owing to the increased contribution from the higher-margin Massbuild division, as well as a higher proportion of General Merchandise sales. 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 R139.4 million (2010: R99.6 million) comprises royalties and franchise fees from in-store third parties, property rentals, investment income excluding interest, and sundry third party management and administration

Group inflation	-1.3%
Food and Liquor	1.6%
Home Improvement	0.7%
General Merchandise	-7.8%

DEFINITIONS COMPARABLE SALES

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

Chief Financial Officer's review *continued*

INSIGHT EXPENSES

Employment and occupancy costs together represent 70.7% of the Group's total expenses.

UP BY 12.3%
R3,766.3m
 EMPLOYMENT COSTS
 2010: R3,352.9m

UP BY 17.6%
R1,664.7m
 OCCUPANCY COSTS
 2010: R1,415.1m

fees. In 2011, it included R11.5 million being the first-time accrual of our profit share in the RCS business unit that offers consumer credit to Massdiscounters' customers.

Expenses

	2011 Rm	2010 Rm	% change
Depreciation and amortisation	(476.3)	(382.8)	(24.4)
Impairment of assets	(10.0)	(3.7)	(170.3)
Employment costs	(3,766.3)	(3,352.9)	(12.3)
Occupancy costs	(1,664.7)	(1,415.1)	(17.6)
Other operating costs	(1,759.4)	(1,485.8)	(18.4)
Total expenses	(7,676.7)	(6,640.3)	(15.6)

Total expenses represent 14.50% of sales, a decline in this ratio compared to the prior year's 13.99% of sales. Although total expenses increased by 15.6%, comparable expenses increased by only 5.4% demonstrating the Divisions' ability to control costs. The major expense categories and significant expenses included in total expenses are discussed in more detail below.

Employment costs, the Group's single largest cost category at 49.1% of total expenses, are 12.3% higher than the prior year. On a comparable basis, these costs increased by only 4.7%. Included in employment costs are IFRS 2 Share-based Payments charges of R110.7 million (2010: R149.4 million) which arise from shares and options issued to beneficiaries of the Massmart Employee Share Trust, the Thuthukani BEE Staff Scheme and Black Scarce Skills Trust. The Group employed 4.3% more employees (on a full-time equivalent basis or FTE) compared to 2010, increasing as we opened new stores and from acquisitions. The inflexibility of South African organised labour requires that new stores should be opened with fewer employees as improved business practices and processes are implemented.

For the forthcoming financial year, the Group's salary increases are between 5.0% and 7.0% and the wage increases, which have all been finalised, are in a range of 7.0% and 8.0%.

Occupancy costs, the Group's second biggest operating cost at 21.7% of total expenses, increased by 17.6%. On a comparable basis, these costs increased by 4.2%. The new Massdiscounters Johannesburg Regional Distribution Centre (RDC) opened in July 2010 and added additional lease charges of R45 million (or 3%) to the increase in the 2011 occupancy costs. Property lease costs comprise only 69% of total occupancy costs, the balance comprises ancillary property costs including municipal rates and services which continue to increase in excess of national South African inflation levels. Expressed as a percentage of sales, occupancy costs, at 3.1%, are higher than the prior year equivalent of 3.0%. As Makro embarks on its aggressive new store roll-out, this Group ratio may deteriorate slightly as the new Makro stores usually take about two years to reach full trading potential.

The lease-smoothing accounting policy applicable to operating leases (thereby affecting all store leases) has the effect of keeping comparable-store lease charges broadly equal from one year to the next, and so any increase in property lease costs 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 19.1% while total trading space increased by 6.0%.

Depreciation and amortisation is the Group's third largest cost category and represents 6.2% of total expenses. Owing to the accelerated capital investment in new stores, the depreciation and amortisation charge increased by 24.4% which is well ahead of sales growth, and will continue to increase ahead of sales growth due to the Group's capital expansion programme.

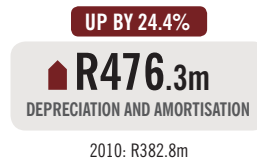
Most Divisions refurbish their stores on a regular basis, resulting in steadily higher depreciation charges.

The three major cost categories described above together represent 77.0% of the Group's total expenses. Other operating costs represent every other item of expense in the Group, including: insurance, bad debts, travel, professional fees, advertising and marketing, stationery and consumables. Combined, this category represents the most manageable, or variable, costs and so while total costs in this category increased by 18.4%, comparable costs increased by only 8.2% due to intense management focus. It is unlikely that this level of cost-containment will be sustained and so inevitably 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 are net unrealised and realised losses on foreign currency transactions and translations of R72.3 million (2010: net loss of R87.7 million). During the 2011 financial year, the translation of Massdiscounters' African balance sheets accounted for R58.7 million of this (2010: R64.2 million loss) and there was a net translation loss from other foreign monetary balances of R13.6 million (2010: R23.5 million gain). Both these accounting adjustments show that the South African Rand strengthened, on average, against other currencies during the 2011 financial year. Should the Rand weaken against these currencies, it is likely that the Group will report foreign exchange translation gains.

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 2011 amounted to R58.6 million (2010: R35.9 million) which included R14.0 million for the new Makro store opened in October 2010. With three new Makro stores opening during the 2012 financial year, these pre-opening costs will increase by approximately the same amount per new Makro store.



READ MORE
GROUP FINANCIAL STATEMENTS

More detail is provided in note 7 on page 232 and note 39 on page 276 on the nature of the Group's foreign currency exposure, particularly with regard to Massdiscounters' African stores.



Chief Financial Officer's review continued



Trading and operating profit

Group trading profit, which is shown before accounting for the foreign currency translation movements and the Transaction costs, grew by 7.6% which is just below sales growth of 11.6%. This is a good trading performance given the Group's product deflation, the tough African environment and intense competition in our domestic market. Expressed as a percentage of sales, Group trading profit before interest and tax deteriorated slightly from 4.3% to 4.1%.

Group operating profit, which includes the foreign currency translation movements but excludes the Transaction costs, was 10.3% above the prior year.

The Group's 2011 financial performance has been covered in detail above, but can broadly be summarised as:

- › Total sales growth boosted by new stores and acquisitions during the year;
- › Good comparable sales growth achieved despite product deflation;
- › Higher gross margins in Massdiscounters, Makro and Massbuild;
- › Effective comparable cost control; and
- › Consequently, two Divisions, being Massdiscounters and Massbuild, improved operating profit margins and adjusting for the pre-opening costs of the new Vaal store, Makro would have increased its operating profit margin.

Net finance costs

As noted above, due in particular to the significant over-stocked position in Massdiscounters for much of 2011, average Group gearing was higher than 2010, this despite slightly lower commercial interest rates.

Using net interest paid as a proxy, the Group's average net gearing for the 2010 financial year was 39.9% (2010: 17.9%). Taking into account anticipated capital expenditure and excluding any unforeseen developments or new initiatives, the Group will remain net geared for the foreseeable future.

Taxation

The total tax charge represents an overall tax rate of 38.9% (2010: 33.4%), but the current year's figure is distorted by the effect of the non-deductible portion of the Transaction costs discussed above. Adjusting for these reduces the Group tax rate to a more representative 32.6%. The slightly improved tax rate is partly caused by the increased profitability reducing the effect of non-deductible charges. 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 5.6% (2010: 4.6%) to the tax rate while the non-deductible IFRS 2 charge had a reduced but nonetheless adverse effect of 2.1% (2010: 2.3%).

Excluding the impact of STC and IFRS 2, we expect Massmart's 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.

TAXATION CALCULATION

South African corporate taxation	28.0%
28% in 2010	
Secondary Tax on Companies	5.6%
+4.6% in 2010	
IFRS 2	2.1%
+2.3% in 2010	
Other	3.2%
1.5% in 2010	
Overall tax rate	38.9%
33.4% in 2010	
TOTAL TAX CHARGE	R585.3m
R608.2m in 2010	

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 of 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, before Transaction costs, of R1,252.7 million (2010: R1,138.6 million) are 10.0% above the prior year. Including Transaction costs however, reduces headline earnings to R881.9 million which are 22.5% below the prior year. The more representative figure is 10.0% which better reflects the Group's actual trading performance in 2011.

Headline earnings per share (HEPS), before Transaction costs, of 615.5 cents is 8.5% higher than the 2010 HEPS of 567.2 cents. Including Transaction costs however, reduces HEPS to 433.3 cents which is 23.6% below the prior year.

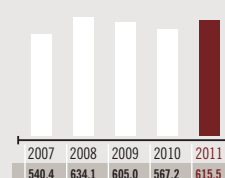
After adjusting for the potential future conversion of 11.2 million shares (2010: 9.07 million shares), the diluted HEPS before Transaction costs is 583.5 cents (2010: 542.7 cents). Under the calculation required by IFRS, the number of potentially dilutive shares was increased due to the significantly higher weighted-average Massmart share price during this financial year but was reduced by Walmart acquiring 51% of all unvested Massmart share options.

Statement of financial position

	2011 Rm	2010 Rm
Assets		
Non-current assets	5,846.7	4,974.9
Current assets	11,427.6	9,314.5
Total assets	17,274.3	14,289.4
Equity and liabilities		
Capital and reserves	3,965.9	3,469.7
Minority interest	215.8	122.1
Total equity	4,181.7	3,591.8
Non-current liabilities	1,205.2	895.3
Current liabilities	11,887.4	9,802.3
Total equity and liabilities	17,274.3	14,289.4

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

HEADLINE EARNINGS (cents)



READ MORE GROUP FINANCIAL STATEMENTS

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

- > Statement of financial position 211
- > Property, plant and equipment (note 13) 240
- > Goodwill (note 14) 243
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- > Other current liabilities (note 28) 259



Chief Financial Officer's review continued

Non-current assets

	2011 Rm	2010 Rm
Non-current assets	5,846.7	4,974.9
Property, plant and equipment	2,717.8	2,055.2
Goodwill	2,049.4	1,875.0
Other intangibles	309.0	220.8
Investments	367.6	315.3
Other financial assets	137.9	270.3
Deferred taxation	265.0	238.3

Property, plant and equipment and goodwill together represent 81.5% (2010: 79.0%) of the Group's total non-current assets.

Massmart continually refurbishes older stores and is building new stores, and so during 2011 expenditure of R1,042.4 million (2010: R520.1 million) was spent on property, plant and equipment. Of this, R249.6 million (2010: R191.6 million) was replacement capital expenditure, while the balance of R792.8 million (2010: R328.5 million) was invested in new capital assets, including new stores and the new RDC. Acquisitions added a further R82.2 million (2010: R205.8 million) to Group property, plant and equipment.

Goodwill increased by R174.4 million, reflecting the goodwill arising from this year's acquisitions (R185.0 million) less a minor impairment of R10.0 million. 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. Other than as noted earlier, no goodwill impairment was necessary this year or in the prior 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.

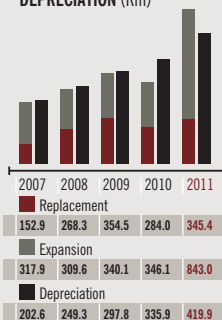
Capital expenditure for 2012 is budgeted to be R1.6 billion and is higher than previous levels due to the three new Makro stores and the Massdiscounters' Foodco conversions and new stores. In total, about 27 new stores will be opened during the 2012 financial year, representing new space growth of about 9.0%.

Investments and other financial assets

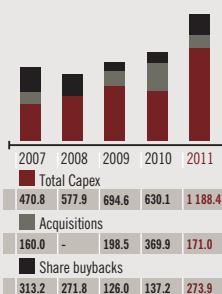
Investments comprise mainly a R250.0 million (2010: R223.6 million) participation in an international treasury, shipping and trading business unit, revalued to reflect the foreign-denominated net assets within that business unit. The R70.6 million (2010: R60.8 million) shown as a bare dominium revaluation represents the Group's share of the estimated market value of the right to acquire a portion of the bare dominiums in certain Makro stores in 2022.

Other financial assets of R137.9 million (2010: R270.3 million) include executive and employee loans of R92.5 million (2010: R216.1 million) owed

CAPITAL EXPENDITURE AND DEPRECIATION (Rm)



CAPITAL EXPENDITURE, ACQUISITIONS, AND BUYBACKS (Rm)



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. As a result of Walmart acquiring 51% of the unvested shares, executives were required to settle the loans associated with those shares – hence the reduction of the amounts due in this category. The finance lease deposit of R45.3 million (2010: R51.1 million) is related to the financing of the Makro Strubens Valley store originally built in 2003.

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.

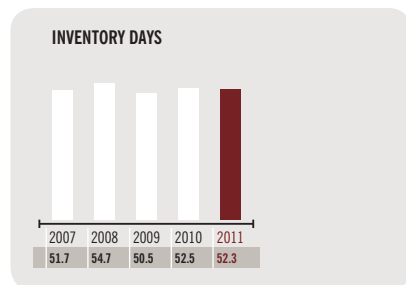
Current assets

	2011 Rm	2010 Rm
Current assets	11,427.6	9,314.5
Inventories	6,199.7	5,601.5
Trade, other receivables and prepayments	2,562.7	2,322.6
Taxation	22.5	22.1
Cash and bank balances	1,549.1	1,368.3
Restricted cash held on behalf of Massmart Employee Share Trusts' beneficiaries	1,093.6	–

Net inventories represent approximately 52.3 days' sales (on historic sales basis), an improvement on the prior year's figure of 52.5 days. The prior year figure was higher than normal as a result of the 2010 World Cup boosting sales and therefore requiring higher inventory levels in Massdiscounters, particularly Game South Africa, Makro General Merchandise and Builders Warehouse.

In general, Massdiscounters, being a retail discounter with 113 stores, with several stores in Africa with longer supply-chains, 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 R2,694.1 million (2010: R2,468.5 million) represents about 44% of total Group inventory, while Food net inventory at R1,862.3 million (2010: R1,647.6 million) is the second largest Group inventory category but with the fastest stock-turns. This inventory category has increased by 13% due to the Cambridge expansion. Home Improvement net inventory levels have increased from the new stores in that Division and higher sales growth.



Chief Financial Officer's review *continued*

Total trade and other receivables and prepayments, net of provisions, is 10.3% higher than the prior year and is below sales growth. Included here are net trade accounts receivable of R1,273.4 million (2010: R1,216.2 million), which increased by only 2.8% as the businesses focused on keeping debtors within their terms. Although trade credit is offered to certain customers in Massbuild and in Masscash, it is well controlled, is insured with a credit risk insurer, and is kept within the Group's parameters. The improved situation is also reflected in steady allowances for doubtful debts at year-end, which increased marginally from 4.4% of total trade receivables to 4.5% at June 2011.

For more detail, refer also to the commentary on credit risk in the Financial risks section in note 39 on page 276.

Non-current liabilities

	2011 Rm	2010 Rm
Non-current liabilities	1,205.2	895.3
Non-current liabilities:		
– Interest-bearing	598.7	385.8
– Interest-free	417.3	423.5
Non-current provisions	167.0	66.6
Deferred taxation	22.2	19.4

Major items included in the total of R1,205.2 million (2010: R895.3 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.

The interest-bearing liabilities included in this category are medium-term bank loans and this balance increased during the financial year as a new R500 million three-year amortising loan was raised. Interest is fixed on this loan at 8.1%. A further three-year fixed term loan of R500 million was secured during the second half of the previous financial year, also repayable quarterly over three years. The loan bears interest of 9.8%. Two five-year amortising loans of R250 million each which were raised during the 2006 financial year to finance the Massbuild acquisitions were paid-down during 2011.

Capitalised finance lease balances are R58.5 million (2010: R76.7 million).

The largest balance in non-current non-interest-bearing liabilities is the total operating lease liability of R414.3 million (2010: R422.8 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 R66.0 million (2010: R58.3 million) arising from the actuarial valuation of the Group's potential liability, unfunded, arising from post-retirement medical aid contributions owed to current and future retirees. With effect from 1999, post-

retirement medical aid benefits were no longer offered to new employees joining the Group. The R100 million Supplier Development Fund raised as part of the Competition Tribunal's approval of the Walmart transaction is included here. Annually, Massmart must report to the Tribunal about our expenditure and achievements under this condition.

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

Current liabilities

	2011 Rm	2010 Rm
Current liabilities	11,887.4	9,802.3
Trade and other payables	9,381.8	9,194.3
Massmart Employee Share Trusts' beneficiaries liability	1,093.6	–
Provisions	26.8	25.8
Taxation	170.6	201.9
Other current liabilities	409.9	322.9
Bank overdrafts	804.7	57.4

Included in the total trade and other payables figure are trade payables of R7,553.9 million (2010: R7,329.0 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. The lower figure is however, more representative of the Group's supplier terms. The higher prior year figure was caused by the disproportionately high General Merchandise inventory levels around the 2010 World Cup.

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 year-end trade payables are overstated in comparison to the average cannot be accurately calculated but is approximately R1.6 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 R294.9 million (2010: R217.9 million) being the short-term portion of the medium-term loans noted above.

Cash flow statement

The Group's cash flow generated from operations was adversely impacted by the normalisation of the extent of supplier funding, noted above. This is unlikely to occur again and so the usual cash release from working capital can be expected.

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.'

Chief Financial Officer's review continued

Cash flow from operating activities

	2011 Rm	2010 Rm
Cash flow from operating activities		
Operating cash including cash-effect of		
Transaction costs	2,264.8	2,346.8
Working capital movements	(625.4)	292.6
Cash generated from operations	1,639.4	2 639.4
Interest received	33.2	45.9
Interest paid	(140.4)	(92.6)
Investment income	48.9	36.1
Taxation paid	(645.1)	(552.8)
Dividends paid	(822.5)	(822.4)
Net cash inflow from operating activities	113.5	1,253.6

Operating cash before working capital movements is below the prior year figure but includes the cash-effect of the Transaction costs. Adjusting for this increases the amount to R2,503 million which is 6.6% ahead of the prior year.

Despite profit before taxation being 17.4% below the prior year, Cash taxation paid is 16.6% higher than 2010 due to timing differences on certain provisional tax payments at the financial year-end.

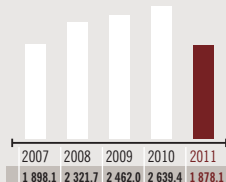
The total cash dividend paid is almost identical to the prior year figure due as there was negligible movement in issued shares during the year. The impact on issued shares from the Walmart transaction will affect dividends paid in the 2012 financial year and beyond.

READ MORE GROUP FINANCIAL STATEMENTS

More detail on the consolidated cash flow can be found in note 38 on page 274



CASH GENERATED FROM OPERATIONS BEFORE TRANSACTION COSTS (Rm)



Cash flow from investing and financing activities

	2011 Rm	2010 Rm
Cash flow from investing activities		
Investment to maintain operations	(345.4)	(284.0)
Investment to expand operations	(843.0)	(346.1)
Proceeds on disposal of property, plant and equipment	25.2	6.2
Proceeds on disposal of assets classified as held for sale	15.0	-
Investment in subsidiaries	(171.0)	(369.9)
Disposal of subsidiary	-	26.9
Other investing activities	21.3	(163.8)
Net cash outflow from investing activities	(1,297.9)	(1,130.7)
Cash flow from financing activities		
Net cash outflow from financing activities	615.3	193.8
Net decrease in cash and cash equivalents	(569.1)	316.7
Foreign exchange movements	2.6	(30.9)
Cash and cash equivalents at the beginning of the year	1,310.9	1,025.1
Cash and cash equivalents at the end of the year	744.4	1,310.9

Total capital expenditure (replacement and expansion) was R1,188.4 million, a significant increase on the prior year's total of R630.1 million. Investment in new stores caused this increase, particularly as we were able to acquire and pay for the land for one of the new Makro stores to be opened during 2012.

The Investment in subsidiaries has been described in more detail in the Acquisitions paragraph on page 42.

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 R9,700.3 million (2010: R4,266.5 million). As at June 2011, total interest-bearing debt amounted to R1.0 billion (2010: R0.7 billion).

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 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 8.1% and 9.8% respectively. The remaining interest-bearing funding is done through overnight facilities at floating interest rates.

Of the Group's total financial liabilities of R12.3 billion, 85.2% or R10.5 billion 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 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.

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 R446.3 million (2010: R699.9 million) of which 99.1% (2010: 99.5%) were US Dollar liabilities.

READ MORE GROUP FINANCIAL STATEMENTS

More detail on financial risks and sensitivity analyses can be found in note 39 on page 276



Chief Financial Officer's review *continued*

The sensitivity of the Group to this exposure is shown in note 39 on page 276. In brief, if the Rand strengthened by 5% from the year-end rate of R6.95/US Dollar, there would be a R3.8 million charge, while a 5% weakening would give rise to a R3.8 million gain (2010 equivalent figures were R6.7 million).

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 232 and further detail on the sensitivity analysis can be found in note 39 on page 276.

READ MORE GROUP FINANCIAL STATEMENTS

The detailed technical review can be found in note 2 on page 225



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 2011. Owing to the nature and volume of Exposure Drafts (EDs), no review has been provided except for the lease exposure draft specifically discussed in note 2 on page 225.

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.

Integrated reporting

We are closely monitoring the progress with integrated reporting both from an international perspective and with regard to South Africa's King III. Until the final recommendations by the International Integrated Reporting Committee (IIRC) have been used, we will not change the format of our report but do believe that this 2011 annual report has addressed almost all the headings and information considered by King III and the discussion paper issued by IIRC.

INSIGHT THE INTERNATIONAL INTEGRATED REPORTING COMMITTEE, IIRC

The International Integrated Reporting Committee, IIRC, is a powerful, international cross section of leaders from the corporate, investment, accounting, securities, regulatory, academic and standard-setting sectors as well as civil society. The IIRC is chaired by Sir Michael Peat, Principal Private Secretary to TRH The Prince of Wales and The Duchess of Cornwall. Professor Mervyn King, Chairman of the Global Reporting Initiative is Deputy Chair.

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. 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).

Reasons for the slow acceptance in South Africa are 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 programme and later, companies will be mandated to use XBRL as a format for filing purposes.

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 207 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 Finance colleagues and their teams at the Massmart Divisions and the Massmart corporate office. The 2011 financial year was a once-in-a-lifetime experience for many of us as the Group's finance communities dealt with the extensive Walmart due diligence investigation and then the uncertainty that naturally follows any similar corporate action, but all the while delivering superbly on the ongoing demands of their Divisions and the Group.



Guy Hayward
Chief Financial Officer

5 October 2011

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.







DION WIREDS

DION WIREDS

IT'S OUR

5th
ANNIVERSARY

BIRTHDAY

PS3

Wii

Apple
iPod
iPhone

Alpha