MASSMART

Dedicated to Value

Interim reviewed consolidated results for the 26 weeks ended December 2004

Massmart is a unique, managed portfolio of nine wholesale or retail chains, each focused on high-volume, low margin, low cost distribution of mainly branded consumer goods for cash, in ten countries in Southern Africa. The Group is the third largest distributor of consumer goods in Southern Africa, the leader in general merchandise and liquor and the fourth largest in food.

Sales increase	Trading profit increases	Headline earnings increase	Headline earnings before acquisitions increase	Headline EPS increases	Cash flow from operations increases	Distribution to shareholders increases
14%	14%	21%	18%	22%	7%	82%
to R13 929 million	to R620 million	to R443 million	to R427 million	to 223,0 cents	to R1 152 million	to 111 cents per share

Overview

Fuelled by an exuberant middle and upper income consumer market, but depressed by average deflation of 2,3% across all product categories, negligible growth of basic food consumption among lower income consumers, and the impact of a stronger Rand on foreign sales, revenue grew by almost R1,7bn to register Massmart's 32nd consecutive half-year of real sales growth. Massmart's headline earnings per share has now grown consistently for the past 13 half-year reporting periods.

The complementarity and resilience of the Massmart portfolio was demonstrated by the Group's ability to maintain margins in a lower interest rate, deflationary climate with the excellent performance of Massdiscounters and Masswarehouse, offsetting a decline in profits in Masscash and Masstrade, the latter exacerbated by an R18m pre-tax error attributable to prior years.

The highlights of the half-year were:

- Record sales and profits for the period
- Real comparable store and comparable member growth of 10,5%
- Record pre-interest and stable post-interest operating profit margins of 4,45% and 4,42% respectively
- An improvement in rolling twelve-month return on equity from 32,2% to 36,1%
- Extending the store network to 168 with the acquisition or opening of 11 new stores with estimated annualised sales of R1,3bn
- Foreign operations contributing 6% of sales

Strategy and implementation

Since 1990, Massmart's growth and profitability have been reliant on the achievement of an appropriate balance between two major objectives. The first is strategically aligned, organic and acquisitive growth, through trading divisions constituted on the basis of similar target markets and business models. The second is collaboration between these divisions, which results in profitability and returns greater than could otherwise be achieved. Despite fundamental changes to the economic and competitive landscape over the past 15 years, the successful implementation of this strategy has resulted in a sustained growth of sales, profits and returns, off an increasingly demanding base.

The management of Massmart remains focused on a Vision for Growth, a rolling three-year financial forecast resulting from the implementation of clearly defined strategies over that period. The Vision for Growth 2007 contained specific plans and objectives for: continued real sales growth from existing outlets; expansion into new categories and formats; the relocation, enlargement and refurbishment of selected outlets and the opening or selected acquisition of at least 50 stores that conform to Massmart's strategic and financial criteria.

In support of these medium-term objectives, 11 stores were opened or acquired during the half-year, increasing Massmart's trading space to 703 200 square metres and enhancing the quality of the portfolio and the Group's presence in under-represented markets.

The internal rate of change is accelerating in Massmart as we align the organisation to the challenges of managing a large growing group in the context of new economic conditions, an evolving new consumer market and new competitive threats and opportunities. This change imposes a demand on all 19 354 of us to learn and grow without compromising our service to customers and each other. Without this extraordinary personal learning, growth and service, Massmart would be an ordinary organisation, and we thank you.

Environment

For some years we have attempted to draw shareholders' attention to two factors which are now common cause.

The first is the structural adjustment to the segmentation of South African consumer markets. The transformation of our society, epitomised by the employment equity plans of every company, are leading to greater expenditure by our previously disadvantaged fellow citizens, on food and clothing, through home electronics, appliances and improvements to cars and domestic property. Recognition of this began with anecdote and is increasingly supported by hard data. This change to the profile of the middle to upper income consumer group (LSM 5 to 10+) presents a wide range of opportunity for astute retailers and will mute the economic cyclicality that would otherwise have occurred. This segment accounted for 54% of Massmart's sales and 77% of profits during the half-year.

The second, in contrast, is the fact that half of our population (LSM 1-4) is far removed from what are considered acceptable living standards by the developed world. It is they whose lives are fraught with the challenges of poor education, unemployment and AIDS, notwithstanding substantial government aid in recent years. Much of the food they consume (estimated at between 42% and 49% of all food sales) is bought from traders who source their goods predominantly from formal and independent cash and carry operators. Favourable climatic conditions and a strong Rand have resulted in low inflation, and substantial deflation in the staple starches that represent a large proportion of low income earners' consumption. While this has benefited consumers, it has depressed the sales and margins of all participants in this channel of the supply chain, leading to lower inventories and escalating competition, some abetted by the contravention of employment, tax and import legislation. Massmart is now the only public company participating in this channel of the supply chain which generated 46% of the Group's sales and 23% of profits in the half-year.

Performance

Sales growth before acquisitions was 11,3%. Acquisitions, comprising seven cash and carry and two home improvement outlets, contributed sales of R421m. Real comparable store and member growth was 10,5%. Comparable store and member growth of 8,2% was depressed by average deflation of 2,3% (the weighted average of 5,2% deflation in general merchandise, 0,7% deflation in food and 7% inflation in liquor) and the impact of the stronger Rand on foreign sales. General merchandise grew 18,1%, liquor 22,8% and food 8,2%. Trading profit before interest and acquisitions grew 10% to R596m. Headline earnings per share before acquisitions grew 18% to 215 cents per share. Industry statistics and the reported sales of competitors indicate that Massmart gained market share, particularly in wholesale food.

	December 2004 (Reviewed) Rm	December 2003 (Reviewed) Rm	*% change*	June 2004 (Audited) Rm
Trading profit before tax*	**624,5**	548,1	*13,9*	944,3
As a % of sales	***4,5***	*4,5*		*4,0*
Massdiscounters	**310,2**	213,9	*45,0*	340,2
Masswarehouse	**215,0**	170,3	*26,2*	303,9
Masscash (note 5)	**99,3**	163,9	*(39,4)*	300,2

** Trading profit before tax is before corporate interest paid of R9,4m (2003: R7,0m), goodwill impairment/amortisation and exceptional items.*

Massdiscounters – comprises retail general merchandise discounters Game (61 stores), which trades in South Africa, Namibia, Botswana, Zambia, Uganda, Mozambique and Mauritius, and Dion (11 stores), which trades in the Gauteng province of South Africa. Comparable store sales grew 6,5%.

Innovative merchandising and marketing enabled Game South Africa and Dion to profit from a buoyant durables market, achieving the highest rates of growth ever recorded in certain product categories and sustaining a high rate of comparable store growth, despite the impact of deflation which averaged 4,3%, but reached 50% in selected imported product categories. Foreign comparable sales in Rands were in line with the previous year. Massdiscounter's sales for the month of December exceeded R1bn for the first time.

Notwithstanding a foreign exchange loss of R13m, exceptional control of margin, expenses, inventory and debtors resulted in Massdiscounters achieving record half-year pre-tax profits only 9% below its full year performance to June 2004, substantially exceeding its recently increased medium-term annual profit before tax return on sales target of 6%.

Masswarehouse – comprises the 12-store Makro warehouse club trading in food, general merchandise and liquor, 10 Builders Warehouse outlets trading in DIY and builders hardware and nine Tile Warehouse outlets trading in tiles and sanitaryware, all in the major metropolitan areas of South Africa. Comparable store sales grew 14,1%.

The reopening of the Strubens Valley store and the relocation of the old Pretoria West store to Wonderboom, stimulated staff and consumer enthusiasm in Makro and dramatically accelerated general merchandise and liquor sales growth in the second quarter. A less impressive food performance, and one off restraint payments and pre-opening costs of R13m, constrained the rate of profit growth to that of sales.

The efficacy of our approach to the burgeoning home improvement market was demonstrated by the excellent progress and performance of the Builders Warehouse and Tile Warehouse formats over the period. The tenth Builders Warehouse store and the ninth Tile Warehouse store were opened in Polokwane, the integration of the newly acquired Rivonia and Edenvale outlets made good progress, and a number of additional sites were secured for development in the short-term. Trading margins were firm, buoyed by the appointment of highly experienced management and the continued adoption of Massmart's management, trading and systems practices.

The acquisitions referred to below will complement these initiatives and rapidly further our strategic objective of a national footprint in the DIY, home improvement sector.

The division exceeded its recently increased medium-term annual profit before tax return on sales target of 5%.

Masscash – comprises 58 CBW and seven Jumbo wholesale cash and carry outlets trading in South Africa, Lesotho, Namibia and Botswana. Comparable store sales grew 4,7%.

Weak demand by low income food consumers and food deflation of 2,1% resulted in a deceleration in both comparable and total sales growth over the period. Deflation and to a lesser extent, aggressive trading required to maintain market share, exerted pressure on trading margins resulting in a decline in profits for the first time in the company's history. Although CBW has an efficient, well executed business model reflected in its high return on sales relative to South African food retailers, the dominance of commodities in the merchandise mix limits opportunities to compensate for deflation through merchandise mix management. Furthermore, in a climate where downstream operators are loath to hold high stocks, any reduction of price through promotional activity results in a reduction of gross margin which is not compensated for by a concomitant increase in volume.

Under similar conditions, aided by the relocation of the Durban outlet and the purchase of a new outlet in Cape Town, Jumbo produced a marginal improvement in sales and profits, improving its return on sales.

We anticipate that the prevailing trading conditions will improve as poor cash flows force market participants to behave more rationally, inflation stabilises and the authorities continue to curtail commercial crime.

For the first time the divisional profit before tax return on sales regressed relative to its previous medium-term annual target of 4%.

Masstrade – comprises voluntary buying organisations Shield (serving 720 independent food outlets) and Furnex (serving 892 independent furniture and appliance outlets). Comparable member sales growth was 5,7%.

Arising from unacceptable IT systems, accounting and control standards, the directorate and senior management of the division was substantially restructured in July 2004. Since then, under the leadership of Group Commercial Director, Grant Pattison, the new management team has meticulously reviewed and where necessary made changes to every aspect of the Masstrade business.

While sales growth was satisfactory, the division experienced the trading margin pressures from competitive deflationary conditions, the burden of excessive costs required to reinstate systems and accounting standards, and a lower level of rebates, referred to below. The result was a profit before tax of R15m for the period. Despite a pleasing customer response to an improving competitive offering, the margin and cost pressures in this division are unlikely to abate in the short-term and the new level of profitability is likely to persist.

With the release of the 2004 results in August, we advised shareholders, on the basis of information available at the time, that incorrect accounting in the early stages of the Great Plains systems implementation in Shield and the subsequent merger of Shield and Furnex, had resulted in an overstatement of the 2003 profits by R25m, which was adjusted as part of the 2004 accounts. At the Massmart Annual General Meeting in December, we reported on progress towards our objective of reinstating acceptable standards of accounting and control, and on the basis of emerging information, cautioned that further provisions and costs would eliminate Masstrade's profit potential in the current year.

Earlier this month a comprehensive seven month review of all accounting from 2002 was concluded by the new management team and audited by Deloitte & Touche. The review revealed an over accrual of rebates and therefore an overstatement of the profitability of the division by R43,3m over the past two years. Given the R25m adjustment made to the 2004 result, a second and final prior year adjustment of R18,3m has been made, reducing this half-year's trading profit to a loss of R3,3m. Whilst there was an overstatement of profits, there has been no loss of cash to the division. The determination of the nature of the culpability (ie fraud, gross incompetence or misrepresentation) is still under investigation.

Given Masstrade's relative size, and the unique characteristics of wholesale trading systems and control well understood by the leadership of Masscash, Masstrade's results will be included in Masscash with immediate effect, resulting in Massmart reporting on three trading divisions. Because of the current underperformance of Shield and Furnex, the medium-term profit before tax target of 4% for the enlarged Masscash will be reduced to 3%.

Acquisitions

It is with satisfaction that we report on the acquisition of Federated Timbers and De La Rey, subject only to the approval of regulatory authorities not expected before the end of May, for a total consideration of between R576m and R660m dependent on performance over the next two years. In the year to June 2006, these businesses are expected to enhance Massmart's sales by over R1,7bn at a margin significantly above that currently generated by Masswarehouse, where the businesses will reside.

The three store, Western Cape based De La Rey has a very similar customer profile to our Builders Warehouse format – predominantly cash paying retail customers with a lesser participation by small building contractors who selectively enjoy short-term credit facilities. Federated Timbers operates 34 stores in nine provinces and is the mirror image of the Builders Warehouse model, but with building contractors the dominant customer group.

While the businesses will be managed as separate companies within the Masswarehouse division, we will pursue all mutually beneficial opportunities to extract commercial value and improve returns, working with leadership of De La Rey who will retain responsibility for the management and expansion of this format in the Western Cape and with the leadership of Federated Timbers who will retain responsibility for the progress of this unique asset in the Massmart portfolio. We look forward to welcoming the leadership and staff of both companies into Massmart in the knowledge that their qualifications, expertise and industry experience will enhance our strategic and operating objectives.

The acquisition of these companies furthers our strategic objective to become a major participant in the distribution of DIY and home improvement products, through a national network of distinctly different, complementary formats, providing a platform for measured organic growth and exceptional local and international merchandise procurement opportunities. We are confident that the appropriate deployment of these formats will enable significant and profitable penetration of the South African DIY and home improvement markets, in an era when the cyclicality of the building cycle is being muted by extensive housing development, increasing home ownership by upwardly mobile, previously disadvantaged citizens, and the re-rating of domestic property values.

Board and Executive Committee changes

Mr Dan Barrett resigned by rotation from the Board in December 2004. We thank him for his valued contribution to the Group since 1998, during which time he held the executive positions of Managing Director of Game, Managing Director of Massdiscounters and Deputy Managing Director of Massmart before becoming a non-executive director in January 2004.

Mr Grant Pattison, Group Commercial Executive, was appointed to the Board as Group Commercial Director in November 2004.

Mr Aubrey Cimring, Group Finance Executive and Company Secretary, was appointed to the Massmart Executive Committee as Deputy Chief Financial Officer earlier this month.

Prospects

Within the context of our 2007 Vision for Growth, the announcements above reflect our progress towards market leadership in the distribution of three major merchandise categories: general merchandise, home improvement and building supplies and basic foodstuffs. In doing so we will extend our presence in those market segments and product categories that provide superior growth and returns, while curtailing sales growth in low return businesses of higher risk.

We caution that second half trading profit is likely to grow at a slower rate than that of the first half, as a result of the interest savings arising from the exceptional working capital improvements made by Massdiscounters in the corresponding period in 2004, and the current underperformance of the newly constituted Masscash. In addition Secondary Tax on Companies (STC), which was not applicable in 2004, will add approximately 2,5% to Massmart's effective rate of taxation for the year to June 2005.

For the 34 weeks to 20 February 2005, total sales grew 12,6%, sales before acquisitions grew 10,7% and comparable store sales grew 7,5%.

Distribution and dividend policy

Massmart's dividend policy is to declare and pay an interim and final dividend representing a two times dividend cover unless circumstances dictate otherwise.

Notice is hereby given that an interim dividend of 111 cents per share in respect of the period ended 26 December 2004 has been declared payable to the holders of ordinary shares recorded in the books of the company on 18 March 2005. The last date to trade cum-dividend will therefore be 11 March 2005 and Massmart shares will trade ex-dividend from 14 March 2005. Payment of the dividend will be made on 22 March 2005. Share certificates may not be dematerialised or rematerialised between 14 March 2005 and 18 March 2005, both days inclusive.

On behalf of the Board

Mark J Lamberti
Deputy Chairman and
Chief Executive Officer

Guy Hayward
Chief Financial Officer

23 February 2005

Income statement

	6 months ended December 2004 (Reviewed) Rm	6 months ended December 2003 (Reviewed) Rm	% change	Year ended June 2004 (Audited) Rm
Sales	**13 929,2**	12 254,7	*13,7*	23 787,7
Massdiscounters	**3 965,6**	3 590,0	*10,5*	6 783,5
Masswarehouse	**4 292,4**	3 668,7	*17,0*	7 066,5
Masscash (note 5)	**5 671,2**	4 996,0	*13,5*	9 937,7
Trading profit before interest	**620,3**	544,0	*14,0*	923,5
As a % of sales	***4,5***	*4,4*		*3,9*
Massdiscounters	**312,4**	229,5	*36,1*	356,6
Masswarehouse	**208,3**	157,0	*32,7*	277,8
Masscash (note 5)	**99,6**	157,5	*(36,8)*	289,1
Goodwill impairment/amortisation (note 4)	**(46,3)**	(35,9)		(74,6)
Exceptional items (note 2)	–	16,5		5,0
Net interest paid	**(5,2)**	(3,0)		(7,2)
Profit before tax	**568,8**	521,6	*9,0*	846,7
Taxation	**(170,3)**	(171,8)	*(0,9)*	(275,5)
Profit after tax	**398,5**	349,8	*13,9*	571,2
Minorities	**(1,9)**	(4,3)		(8,9)
Net profit for the period	**396,6**	345,5	*14,8*	562,3
Reconciliation of net profit for the period to headline earnings				
Net profit for the period	**396,6**	345,5		562,3
Exceptional items (note 2)	–	(16,5)		(6,0)
Goodwill impairment/amortisation	**46,3**	35,9		74,6
Loss on sale of fixed assets	**0,5**	0,7		3,3
Headline earnings	**443,4**	365,6	*21,3*	634,2
Headline EPS (cents)	**223,0**	183,5	*21,5*	318,8
Diluted headline EPS (cents)	**215,3**	176,6	*21,9*	307,5
Attributable EPS (cents)	**199,5**	173,5	*15,0*	282,6
Diluted attributable EPS (cents)	**192,6**	166,9	*15,4*	272,6
Distribution/dividend (cents):				
– Interim	**111,0**	61,0	*82,0*	61,0
– Final	–	–		98,0
Ordinary shares (000's):				
– In issue	**199 191**	199 191		199 191
– Weighted-average	**198 803**	199 191		198 951
– Diluted weighted-average	**205 898**	207 068		206 244

Balance sheet

	December 2004 (Reviewed) Rm	December 2003 (Reviewed) Rm	June 2004 (Audited) Rm
Assets			
Property, plant and equipment	**768,8**	604,3	570,1
Goodwill	**631,0**	604,1	614,0
Investments and loans	**241,8**	240,2	249,7
Deferred tax	**170,7**	115,5	146,5
Inventories	**3 263,2**	2 753,2	2 356,5
Accounts receivable and prepayments	**2 268,0**	1 919,2	1 997,8
Cash and bank balances	**1 512,9**	1 433,7	1 105,8
Total	**8 856,4**	7 670,2	7 040,4
Equity and liabilities			
Shareholders' equity	**2 047,9**	1 899,0	1 850,2
Minority interests	**6,8**	27,4	31,7
Long-term liabilities – interest bearing	**166,5**	246,6	202,1
Other long-term liabilities and provisions	**36,0**	34,0	34,0
Deferred tax	**71,0**	29,5	64,9
Accounts payable and accruals	**6 402,9**	5 109,1	4 697,9
Bank overdraft and short-term borrowings	**125,3**	324,6	159,6
Total	**8 856,4**	7 670,2	7 040,4
Net asset value per share (cents)	**1 028,1**	953,4	928,9

Cash flow statement

	6 months ended December 2004 (Reviewed) Rm	6 months ended December 2003 (Reviewed) Rm	Year ended June 2004 (Audited) Rm
Cash inflow from trading	**658,9**	596,9	1 015,2
Working capital movement	**492,6**	481,0	255,3
Cash flow from operations	**1 151,5**	1 077,9	1 270,5
Taxation paid	**(134,4)**	(93,4)	(124,2)
Net interest paid	**(4,4)**	(3,0)	(5,5)
Investment income	**10,4**	10,6	19,0
Dividends paid and share premium distribution	**(195,2)**	(97,5)	(218,7)
Net replacement of fixed assets	**(128,6)**	(52,2)	(74,8)
Investment in fixed assets	**(148,2)**	(148,2)	(263,3)
Businesses acquired	**(77,2)**	(102,4)	(89,9)
Other investing activities	**(44,3)**	(15,5)	(7,3)
Net financing activities	**15,0**	37,7	(39,8)
Foreign exchange losses taken to statement of changes in equity	**(4,1)**	(2,7)	(4,2)
Opening cash and cash equivalents	**1 025,2**	563,4	563,4
Closing cash and cash equivalents	**1 465,7**	1 174,7	1 025,2

Statement of changes in equity

Opening balance	**1 850,2**	1 666,1	1 666,1
Exchange differences	**(1,3)**	(2,7)	(7,9)
Dividends paid and share premium distribution	**(195,2)**	(97,5)	(218,8)
Net profit for the period	**396,6**	345,5	562,3
Shares issued/converted	**–**	12,8	12,8
Reduction of deferred tax asset	**–**	–	(94,8)
Net movement of treasury shares	**29,4**	–	(29,4)
Share trust loss	**(31,8)**	(25,2)	(40,1)
Closing balance	**2 047,9**	1 899,0	1 850,2

Additional information

Trading profit before items below:	**691,4**	609,4	1 057,0
– Depreciation	**(71,1)**	(65,4)	(133,5)
Trading profit before interest	**620,3**	544,0	923,5
Capital expenditure:			
– Authorised and committed	**26,1**	19,8	41,3
– Authorised not committed	**154,7**	132,8	168,3
Contingent liabilities	**–**	8,5	2,2
Operating lease commitments (2004 – 2013)	**4 204,9**	3 903,8	4 355,8
US dollar exchange rates – period end	**5,66**	6,86	6,34
– average	**6,19**	7,02	6,84

Notes

1. Deducted from trading profit is R12,1m (2003: R10,0m) in net realised and unrealised foreign exchange translation losses and a translation loss on open forward exchange contracts at December 2004 of R3,6m (2003: R7,6m).
2. Exceptional items in the prior period comprise a profit on sale of buildings of R16,5m in Masscash previously included in trading profit.
3. These financial statements have been prepared in accordance with AC127 (Interim Financial Reporting), using accounting policies that are in line with South African Statements of Generally Accepted Accounting Practice and on a basis consistent with prior periods, except for the implementation of AC140 Business Combinations (note 4), and the change in definition for segmental reporting for which the comparatives have been restated (note 5).
4. AC140 was implemented in the current reporting period. In accordance with the statement goodwill is no longer amortised and comparatives have not been restated. All acquisitions since 31 March 2004 have been accounted for in line with AC140. An impairment loss of R46,3m was recorded in Masstrade due to the reduced profitability of the business model.
5. For segmental reporting purposes, Masstrade has been included in the Masscash division. The Masstrade results are:

	December 2004			December 2003			June 2004		
	Sales	**PBIT**	**PBT**	Sales	PBIT	PBT	Sales	PBIT	PBT
Masstrade	**1 834,8**	**–**	**(3,3)**	1 715,7	51,5	46,6	3 288,4	61,4	57,1

6. Due to Christmas trading, Massmart's earnings are weighted towards the six months to December.
7. These results have been reviewed by auditors Deloitte & Touche and their unqualified review opinion is available for inspection at the registered office.

Directorate: CS Seabrooke (Chairman), MJ Lamberti* (Chief Executive and Deputy Chairman), MD Brand, ZL Combi, GRC Hayward*, JC Hodkinson**, P Langeni, IN Matthews, P Maw, DNM Mokhobo, G Pattison*, MJ Rubin, *Executive **United Kingdom

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