MASSMART

Dedicated to Value

Reviewed consolidated results for the 26 weeks ended December 2005

Massmart is a managed portfolio of 11 wholesale and retail chains, each focused on high volume, low margin, low cost distribution of mainly branded consumer goods for cash, in ten countries in sub-Saharan Africa. The Group is the third largest distributor of consumer goods in Africa, the leading retailer of general merchandise, liquor and home improvement equipment and supplies, and the leading wholesaler of basic foods.

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%	**35%**	**28%**	**20%**	**28%**	**40%**	**17%**
to R15 916 million	to R777 million	to R515 million	to R481 million	to 258,2 cents	to R1 621 million	to 130 cents per share

Overview

We are pleased to report record first-half sales, profits, cash flow and profitability. This is Massmart's 34th consecutive half-year of real sales growth and our 15th consecutive half-year of headline earnings per share growth. Notwithstanding a favourable consumer economy, this result is particularly gratifying for a predominantly cash retailer and wholesaler, operating in a deflationary environment.

The highlights of the half-year were:

- Record first-half sales of R15,9 billion, 6,4% of which was from 19 foreign stores.
- Given estimated average inflation of zero, real comparable store sales grew 5,2% and real sales before acquisitions grew 7,8%.
- Consumer credit sales comprised 2,6% of Group sales.
- Trading profit before tax grew almost three times faster than sales to R801 million, 82% of the full-year trading profit to June 2005.
- Pre- and post-interest operating profit margins increased to 4,9% and 5,0% respectively.
- Cash flow from operations rose 40% to exceed R1,6 billion.
- Rolling 12-month return on equity increased from 41,8% to 43,9%.
- The store network was increased to 222 (882 205 m^2) with the opening of eight new stores and the acquisition of one store with combined estimated annual sales of over R1 billion.

Environment

Over four years ago we were among the first commentators to recognise the structural change in the South African consumer economy, which resulted from increasing middle and upper income Black consumer expenditure. In December last year, the South African Advertising and Research Foundation released their 2005 All Market and Product Statistics (AMPS), which attempted to quantify this with some accuracy, reporting that Black consumers in middle and upper Lifestyle Measurement Categories (i.e. LSM 7 – 9) increased by 704 000 or 60% between 2001 and 2005 with a 421 000 or 29% growth between 2004 and 2005. Seen from a different perspective, from 2004 to 2005, 439 000 more Black consumers moved into the R7 000 to R12 000 per month household income category.

Massmart has been a beneficiary of this transformation of the South African consumer economy, the growth of which has been further enhanced by low inflation, low interest rates and a strong rand. These factors have resulted in a sustained period of consumer confidence – which reached its 2005 high in the last quarter – and in a high but gradually declining growth of retail sales.

Performance

This half-year result demonstrates Massmart's unique strategic positioning, its structural focus and the efficacy of its business model.

Massmart's sales growth continues to be affected by the policy announced in February 2005, to curtail sales of low return business of high risk. Acquisitions, comprising Federated Timbers, De La Rey, Servistar, Cell Shack and a cash and carry outlet, contributed sales of R1 038 million. Comparable store growth of 5,2% was depressed by deflation in general merchandise and the impact of the stronger rand on foreign sales. General merchandise, including home improvement, grew 22,5% and food and liquor 8,7%. Massmart's estimated average inflation of zero on selling prices was the weighted average of 2,0% deflation in general merchandise, including home improvement, inflation of 1,4% in food and 7,2% in liquor.

Industry statistics and the reported sales of competitors indicate that Massmart gained market share, particularly in appliances, home improvements and liquor, which each grew well ahead of the Group's sales growth.

Despite a R16,8 million negative effect of foreign exchange movements, trading profit before acquisitions grew 25,8% to R726,1 million. Headline earnings per share before acquisitions grew 20% to 241 cents per share.

Operational review

Rm	**6 months ended December 2005 (Reviewed)**	6 months ended December 2004 Restated for IFRS (Reviewed)	*% change*	Year ended June 2005 Restated for IFRS (Reviewed)
Sales	**15 915,8**	13 944,1	*14,1*	26 673,8
Massdiscounters	**4 196,1**	3 965,6	*5,8*	7 396,6
Masswarehouse (note 10)	**4 057,2**	3 814,6	*6,4*	7 178,8
Massbuild (note 10)	**1 934,7**	675,3	*186,5*	1 509,5
Masscash	**5 727,8**	5 488,6	*4,4*	10 588,9
Trading profit before interest and tax	**777,1**	574,9	*35,2*	998,1
As a % of sales	**4,9**	*4,1*		*3,7*
Massdiscounters	**351,9**	299,8	*17,4*	484,0
Masswarehouse (note 10)	**167,6**	107,5	*55,9*	173,6
Massbuild (note 10)	**146,2**	73,2	*99,7*	144,4
Masscash	**111,4**	94,4	*18,0*	196,1
Trading profit before tax*	**800,9**	577,3	*38,7*	976,1
As a % of sales	**5,0**	*4,1*		*3,7*
Massdiscounters	**360,1**	297,6	*21,0*	465,8
Masswarehouse (note 10)	**178,4**	110,9	*60,9*	181,3
Massbuild (note 10)	**147,5**	74,7	*97,5*	145,5
Masscash	**114,9**	94,1	*22,1*	183,5

** Trading profit before tax is after net chain interest income but before corporate interest paid of R42,1 million (2004: R9,4 million) and goodwill impairment.*

Massdiscounters – comprises retail general merchandise discounters Game (65 stores), which trades in South Africa, Namibia, Botswana, Zambia, Uganda, Mozambique, Mauritius, and Nigeria, and Dion (11 stores), which trades in the Gauteng province of South Africa. Divisional comparable store sales growth was flat as a result of estimated deflation of 3,3%.

Despite a R13,8 million negative impact of foreign exchange movements, excellent expense and working capital control enabled the division to grow trading profits well ahead of sales growth. In the core categories of appliances, home electronics and computers, sales growths substantially exceeded those reported by competitors. With estimated annual sales of

R300 million, four new Game stores (including one in Nigeria and three new small format 2 800 m^2 stores), were opened during the period, adding 14 000 m^2 to the division. The performance and early profitability of the new format Game outlets is encouraging, prompting their aggressive expansion into smaller peri-urban and rural catchment areas. With a trading profit before tax return on sales of 8,6%, the division exceeded its medium-term full-year target of 7% and its international benchmark of 7,4%.

Masswarehouse – comprises the 14-store Makro warehouse club trading in food, general merchandise and liquor in South Africa and Zimbabwe. Divisional comparable store sales grew 5,9% with estimated inflation of zero.

Innovative merchandising and new cardholder recruitment, underpinned by excellent inventory and expense management, resulted in trading profit before tax growth 60% up on the previous year, which was depressed by costs associated with the opening of two new stores, both of which are performing ahead of expectations. New accounting standards required the inclusion of the two Zimbabwean outlets which had been deconsolidated in 2001 following restraints on the repatriation of dividends and management fees. This inclusion, which is not material to the division's result, required the application of hyperinflationary accounting standards. The Masswarehouse trading profit before tax return on sales of 4,4% compares favourably with its medium-term full-year target of 4% and its international benchmark of 5%.

Massbuild – comprises 64 outlets, trading in DIY, home improvement and builders hardware, under the Builders Warehouse, Federated Timbers, Servistar and De La Rey brands in the major metropolitan areas of South Africa. Divisional comparable store sales grew 17,4% with estimated inflation of 2,4%.

The buoyant domestic property market and the consequent propensity of homeowners to invest in construction and refurbishment provided a firm foundation for Massmart's foray into the home improvement market. The defining characteristics of the companies comprising this division are their target market, product categories and business model and they have accordingly been grouped into a single new division. Massbuild's strategic imperative is the growth of and extraction of value from these companies through aggressive new store development and the rationalisation of structures, systems, processes and brands, without the loss of operating focus, customer loyalty and brand equity which they traditionally enjoyed. The inclusion of Federated Timbers, Servistar and De La Rey and the opening of one new Builders Warehouse outlet enabled the division to register the highest levels of sales growth, comparable sales growth and profit growth in the Group. Massbuild's trading profit before tax return on sales of 7,6% reflects pleasing progress towards its medium-term full-year target of 8% and its international benchmark of 10%.

Masscash – comprises 60 CBW and eight Jumbo wholesale cash and carry outlets trading in South Africa, Lesotho, Namibia, and Botswana, and voluntary buying organisations Shield (serving 818 independent food outlets) and Furnex (serving 898 independent furniture and appliance outlets). Divisional comparable store sales increased by 7,7% with inflation of 1,8% and member sales decreased by 12,0% with estimated inflation of zero.

With a slight increase in inflation and an improvement of sentiment in the wholesale commodity food market, CBW produced an excellent result with profit growth almost twice that of its double-digit sales growth. Jumbo produced a satisfactory result given the investment in store development, professional management structures and information technology necessary for the repositioning of the chain.

The focus in Shield and Furnex remained on the preservation of assets and the implementation of the processes and controls necessary to mitigate risk. This approach continued to result in an improvement in the state of the debtors book and a substantial decline in sales in Furnex. Given the potential conflict of the roll-out of smaller Game stores with the customers of Furnex, the latter has been disposed of with effect from 1 March 2006, subject to the approval of the Competition authorities.

Masscash's trading profit before tax return on sales of 2,0% compares with its medium-term full-year target and its international benchmark of 3%.

Strategic overview and progress

The management of Massmart remains devoted to the strategy which has ensured the Group's progress for 18 years: aggressive organic and acquisitive growth; value-adding collaboration between focused trading entities; and incentivisation for alignment.

Medium-term performance is guided by our "Vision for Growth", a rolling three-year internal financial target resulting from implementation of the above strategies, given effect through specific plans and objectives for: continued real sales growth from existing outlets; expansion into new categories and formats; new outlets; the relocation, enlargement and refurbishment of selected outlets, selected acquisitions that conform to Massmart's strategic and financial criteria and continued net margin growth. These activities will be underpinned by the imperative to reduce operating expenses, leverage management capabilities and facilitate shareholder understanding, by simplifying the structures and processes of the Group.

The "Vision for Growth 2008" announced last August called for a number of strategic, structural and operational performance improvements, as well as the opening of 35 new stores, which would generate estimated sales of R3,2 billion by June 2008. Excellent progress towards this objective was made during the reporting period with eight new stores opened and one acquired with combined estimated sales of R1,2 billion by 2008.

Shareholders' insight into the strategy, portfolio and performance of Massmart will be enhanced by the new four division structure, which was implemented on 1 July 2005 and is presented here for the first time.

Acquisitions

In October 2005, the Competition Commission recommended the prohibition of Massmart's acquisition of 84,1% of Moresport for R403,8 million, first announced on 26 April 2005. Massmart and the Competition Commission are currently placing their cases before the Competition Tribunal, which is expected to deliver a ruling before the end of March 2006. A decision on the previously announced capital raising by way of a R500 million preference share issue, will be held in abeyance until the conclusion of any and all regulatory processes related to this transaction.

Massmart's people

In its essence, retail is about dedicated people anticipating and serving the needs of others. Because each of us is unique and changing, this is a difficult task with an elusive formula. Although pursuit of the balance between the art and science of retailing can be a stimulating lifelong task, the hours are long and the work oftentimes arduous and intense.

We thank each of the 23 000 Massmart colleagues for their contribution to this result and particularly for their efforts over the holiday season.

Prospects

The shift late last year towards a more benign outlook on inflation and interest rates, and the recent announcement of a budget that will benefit both the housing market and middle to lower income consumers, augurs well for Massmart. These factors will sustain the general growth of retail sales, albeit at a slightly lower rate. More specifically, they will benefit Massbuild, our home improvement division, and Masscash, our commodity food business, which wholesales to traders who retail commodity food to our poorest citizens. The latter will be direct beneficiaries of the government's R70 billion social security grants and the skills development and job creation initiatives aimed at reducing unemployment.

We are confident that in the year to June 2006, Massmart will produce earnings per share growth ahead of sales growth and last year's growth. The full year's earnings growth may however be lower than that of the first half.

For the 34 weeks to 19 February 2006, total sales grew 15,0%, sales before acquisitions grew 7,5% and comparable store sales grew 4,7%, with profit growth significantly ahead of sales growth and last year. As reported historically, these sales growths exclude Makro Zimbabwe.

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 130 cents per share in respect of the period ended 25 December 2005 has been declared payable to the holders of ordinary shares recorded in the books of the company on Friday, 17 March 2006. The last day to trade cum-dividend will therefore be Friday, 10 March 2006 and Massmart shares will trade ex-dividend from Monday, 13 March 2006. Payment of the dividend will be made on Monday, 20 March 2006. Share certificates may not be dematerialised or rematerialised between Monday, 13 March 2006 and Friday, 17 March 2006, both days inclusive.

On behalf of the Board

Mark J Lamberti
Deputy Chairman and
Chief Executive Officer

Guy Hayward
Chief Financial Officer

22 February 2006

Income statement

Rm	6 months ended December 2005 (Reviewed)	6 months ended December 2004 Restated for IFRS (Reviewed)	% change	Year ended June 2005 Restated for IFRS (Reviewed)
Sales	**15 915,8**	13 944,1	*14,1*	26 673,8
Cost of sales	**(13 515,3)**	(11 940,9)	*13,2*	(23 012,5)
Gross profit	**2 400,5**	2 003,2	*19,8*	3 661,3
Expenses	**(1 623,4)**	(1 428,3)	*13,7*	(2 663,2)
Trading profit before interest and tax	**777,1**	574,9	*35,2*	998,1
Goodwill impairment	**–**	(46,3)		(72,4)
Net interest paid	**(18,3)**	(7,0)	*161,4*	(22,0)
Profit before tax	**758,8**	521,6	*45,5*	903,7
Taxation	**(233,6)**	(164,0)	*42,4*	(308,7)
Net profit for the period	**525,2**	357,6	*46,9*	595,0
Attributable to:				
Minority interest	**10,1**	1,8		2,4
Equity holders of the parent	**515,1**	355,8	*44,8*	592,6
	525,2	357,6		595,0
Reconciliation of net profit for the period to headline earnings				
Net profit for the period attributable to equity holders of the parent	**515,1**	355,8		592,6
Goodwill impairment	**–**	46,3		72,4
(Profit)/loss on sale of fixed assets	**(0,6)**	0,5		(0,6)
Headline earnings	**514,5**	402,6	*27,8*	664,4
Basic EPS (cents)	**258,5**	179,0	*44,4*	297,8
Diluted basic EPS (cents)	**250,0**	172,8	*44,7*	287,6
Distribution/dividend (cents):				
– Interim	**130,0**	111,0	*17,1*	111,0
– Final	**–**	–		72,0
Headline EPS (cents)	**258,2**	202,5	*27,5*	333,9
Diluted headline EPS (cents)	**249,8**	195,5	*27,8*	322,4

Balance sheet

Rm	December 2005 (Reviewed)	December 2004 Restated for IFRS (Reviewed)	% change	June 2005 Restated for IFRS (Reviewed)
ASSETS				
Non-current assets	**2 865,7**	2 025,5		2 733,3
Property, plant and equipment	**875,1**	691,3	*26,6*	802,6
Goodwill and other intangible assets	**1 267,3**	708,2		1 261,4
Investments and loans	**316,9**	239,0		275,1
Deferred tax	**406,4**	387,0		394,2
Current assets	**7 861,6**	6 906,2		5 370,0
Inventories	**3 573,2**	3 283,5	*8,8*	2 677,0
Accounts receivable and prepayments	**2 294,5**	2 108,3		1 851,1
Cash and bank balances	**1 993,9**	1 514,4		841,9
Total	**10 727,3**	8 931,7		8 103,3
EQUITY AND LIABILITIES				
Total equity	**1 986,1**	1 607,3		1 648,2
Equity attributable to equity holders of the parent	**1 938,6**	1 599,1	*21,2*	1 610,5
Minority interest	**47,5**	8,2		37,7
Non-current liabilities	**1 158,4**	759,3		744,5
Long-term liabilities – interest-bearing	**548,0**	166,5		140,0
Other long-term liabilities and provisions	**507,0**	493,9		504,4
Deferred tax	**103,4**	98,9		100,1
Current liabilities	**7 582,8**	6 565,1		5 710,6
Accounts payable and accruals	**7 321,0**	6 435,4	*13,8*	5 176,8
Bank overdraft and short-term borrowings	**261,8**	129,7		533,8
Total	**10 727,3**	8 931,7		8 103,3

Reconciliation of previous SA GAAP to IFRS

	Net profit for the period		Equity attributable to equity holders of the parent		
Rm	6 months ended December 2004 (Reviewed)	Year ended June 2005 (Reviewed)	Year ended June 2004 (Reviewed)	6 months ended December 2004 (Reviewed)	Year ended June 2005 (Reviewed)
As previously reported	396,6	606,8	1 429,8	2 047,9	1 616,2
SA GAAP adjustments	(21,6)	–	–	(441,9)	–
IAS 17 Leases (note 2)	(21,6)	–	–	(441,9)	–
IFRS adjustments	(19,2)	(14,2)	(3,4)	(6,9)	(5,7)
IFRS 2 Share-based Payment (note 3)	(7,7)	(17,0)	–	–	–
IAS 21 The Effects of Changes in Foreign Exchange Rates (note 4)	(10,4)	1,4	(10,5)	(12,8)	(9,5)
IAS 27 Consolidated and Separate Financial Statements (note 5)	(1,1)	1,4	7,1	5,9	3,8
	355,8	592,6	1 426,4	1 599,1	1 610,5

Cash flow statement

Rm	6 months ended December 2005 (Reviewed)	6 months ended December 2004 Restated for IFRS (Reviewed)	Year ended June 2005 Restated for IFRS (Reviewed)
Cash inflow from trading	**881,7**	664,7	1 154,1
Working capital movement	**739,5**	490,2	92,9
Cash flow from operations	**1 621,2**	1 154,9	1 247,0
Taxation paid	**(213,4)**	(137,7)	(337,6)
Net interest paid	**(18,2)**	(6,2)	(22,0)
Investment income	**45,5**	10,4	35,2
Dividends paid and share premium distribution	**(143,8)**	(195,2)	(416,4)
Net replacement of fixed assets	**(72,4)**	(129,0)	(256,0)
Investment in fixed assets	**(113,5)**	(150,1)	(157,6)
Businesses acquired	**–**	(77,2)	(685,0)
Other investing activities	**(95,8)**	(44,3)	(11,8)
Net financing activities	**465,3**	15,0	(22,6)
Foreign exchange losses taken to statement of changes in equity	**(5,3)**	(4,1)	5,4
Opening cash and cash equivalents	**404,8**	1 026,2	1 026,2
Closing cash and cash equivalents	**1 874,4**	1 462,7	404,8

Statement of changes in equity

Balance as previously reported	**1 616,2**	1 429,8	1 429,8
IFRS adjustments (Refer to IFRS reconciliation)	**(5,7)**	(3,4)	(3,4)
Restated opening balance	**1 610,5**	1 426,4	1 426,4
Exchange differences	**(4,5)**	6,7	(0,5)
Dividends paid and share premium distribution	**(143,8)**	(195,2)	(416,4)
Net profit for the period	**515,1**	355,8	592,6
Shares issued/converted	**1,1**	–	18,8
Net movement of treasury shares	**–**	29,4	29,5
Share trust transactions	**(39,8)**	(24,0)	(39,9)
Equity attributable to equity holders of the parent	**1 938,6**	1 599,1	1 610,5
Minority interest	**47,5**	8,2	37,7
Total	**1 986,1**	1 607,3	1 648,2

Additional information

Net asset value per share (cents)	**970,6**	802,8	806,7
Ordinary shares (000s):			
– In issue	**199 741**	199 191	199 641
– Weighted-average	**199 293**	198 803	199 010
– Diluted weighted-average	**206 006**	205 898	206 060
Trading profit before items below:	**878,5**	645,9	1 156,6
– Depreciation	**(101,4)**	(71,1)	(158,5)
Trading profit before interest and tax	**777,1**	574,8	998,1
Capital expenditure			
– Authorised and committed	**21,9**	26,1	114,6
– Authorised not committed	**225,1**	154,7	230,5
Acquisition commitment (pending Moresport acquisition)	**480,0**	–	480,0
Contingent liabilities	**–**	–	1,5
Operating lease commitments (2006 – 2022)	**4 472,9**	4 204,9	4 862,1
US dollar exchange rates – period end	**6,37**	5,66	6,73
– average	**6,55**	6,19	6,21

Notes

1. The Group adopted International Financial Reporting Standards (IFRS) from 1 July 2005. Comparative results have been restated.
2. The results for December 2004 have been restated following the circular 7/2005 issued by SAICA on 2 August 2005, a clarification of the reinterpretation of IAS 17 (Leases) for South African companies. This reinterpretation was taken into account in compiling the June 2005 results.
3. In accordance with IFRS 2 (Share-based Payment), the Group has recognised an expense in the income statement for share options granted to employees, with a corresponding credit to equity, representing the fair value of outstanding employee share options. The fair value at grant date is charged to profit or loss over the relevant vesting periods, adjusted to reflect actual and expected vesting levels. Fair value is determined using the Binomial model. The IFRS 1 (First-time Adoption of International Financial Reporting Standards) exemption was elected, resulting in the inclusion of equity instruments granted after 7 November 2002 that vested after 1 January 2005 in the valuation.
4. IAS 21 (The Effects of Changes in Foreign Exchange Rates) introduced the concept of "functional currency". This change primarily affected the accounting for the African subsidiaries of Massdiscounters, where there was a reclassification of certain foreign exchange gains and losses from the income statement to the foreign currency translation reserve (FCTR) in the balance sheet. The IFRS 1 exemption was elected, which had the effect of eliminating the FCTR on the date of transition (1 July 2004).
5. IAS 27 (Consolidated and Separate Financial Statements) eliminated the option of temporary control, where the entity was operating under severe long-term restrictions that significantly impaired its ability to transfer funds to the parent. As a result, Makro Zimbabwe has been consolidated retrospectively. All these companies operate in a hyperinflationary environment, and thus the principles of IAS 29 (Financial Reporting in Hyperinflationary Economics) have been applied. The financial impact on net profit attributable to equity holders of the parent for December 2005 is a profit of R0,4 million.
6. IAS 16 (Property, Plant and Equipment) requires the reassessment of an asset's useful life and residual value at each balance sheet date. Applying this standard retrospectively has had no material adjustment on the Group's results.
7. These financial statements have been prepared in accordance with IAS 34 (Interim Financial Reporting), using accounting policies that are in line with IFRS and consistently applied to prior periods, except for the change in definition for segmental reporting for which the comparatives have been restated. Refer to note 10.
8. The net realised and unrealised foreign exchange translation losses deducted from trading profit amounted to R16,8 million (2004: R27,8 million). Included in exchange differences in the statement of changes in equity is a R6,8 million unrealised loss on open forward exchange contracts which have been designated as effective cash flow hedges.
9. The operating lease smoothing adjustment expensed in the period was R10,2 million after tax (2004: R21,5 million).
10. For segmental reporting purposes, Massbuild, comprising Builders Warehouse, Federated Timbers, De La Rey and Servistar, has been excluded from the Masswarehouse division. The Masswarehouse results on the previous basis of reporting, would have been:

	Dec 2005			Dec 2004			June 2005		
	Sales	**PBIT**	**PBT**	Sales	PBIT	PBT	Sales	PBIT	PBT
Masswarehouse	**5 991,9**	**313,8**	**325,9**	4 489,9	180,7	185,6	8 688,3	318,0	326,8

11. Furnex (a division of Masscash) has been sold since balance sheet date. The effective date of sale will be 1 March 2006. The financial impact of the sale, which is not material, will be accounted for in the second half of the financial year, in accordance with IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations).
12. Due to Christmas trading, Massmart's earnings are weighted towards the six months to December.
13. These results have been reviewed by auditors Deloitte & Touche and their unqualified review opinion is available for inspection at the registered office.

GRAPHICOR 33888