MASSMART

2004 Annual Report

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Complexity increases risk and expense. Differentiation sustains competitiveness and profitability. For sixteen years our creation of stakeholder value has been fuelled by a quest for simplicity and uniqueness in the distribution of consumer goods in Southern Africa. This year, we report on some features that make Massmart "Simply Unique".

simply unique

Group structure

Massmart is a managed portfolio of nine wholesale and retail chains, each focused on high volume, low margin, low cost distribution of mainly branded consumer goods for cash, through 157 outlets and two buying associations serving 1 596 independent retailers and wholesalers, in nine countries in Southern Africa.

The Group is the third largest distributor of consumer goods in sub-Saharan Africa, the leader in general merchandise and liquor, the third largest in food and the largest food wholesaler.

Massmart Holdings Limited

Sales **R23,8bn**, Trading profit **R929m**, Headline earnings **R634m**

Massdiscounters (Retail discount stores)	Masswarehouse (Wholesale and retail warehouse outlets)	Masscash (Wholesale Cash & Carry outlets)	Masstrade (Buying groups for independent wholesalers and retailers)
Sales R6 784m EBITA R357m	Sales R7 068m EBITA R259m	Sales R6 648m EBITA R252m	Sales R3 288m EBITA R61m
game 56 stores General merchandise – RSA, Botswana, Namibia, Zambia, Mauritius, Uganda	makro 14 outlets General merchandise/Food/ Liquor – RSA, Zimbabwe	CBW WHOLESALERS 57 outlets Food/Liquor – RSA, Lesotho, Namibia, Botswana	Shield 532 members/740 retail and wholesale outlets Food – RSA, Botswana, Namibia, Swaziland, Lesotho
DION HOME WORK PLAY 11 stores General merchandise – RSA	BUILDERS WAREHOUSE 8 outlets Building Materials/ DIY – RSA	JUMBO 6 outlets Cosmetics/Food – RSA	FURNEX 714 members/856 retail outlets Furniture/Appliances – RSA
	TILE WAREHOUSE 7 outlets Tiles/Sanitaryware – RSA		

Strategic principles

Mission

Massmart's mission describes the assets and competencies necessary for strategic success.

- Massmart is a **South African-based international, management group, invested** in a portfolio of **differentiated, complementary, focused wholesale and retail formats,** each reliant on **high volumes** and **operational excellence** as the foundation of **price leadership,** in the distribution of mainly **branded consumer goods for cash.**

- The Group actively seeks the continual improvement of performance in the portfolio and its parts, through **strategic and structural clarity, high market shares, excellent management and leadership, cost-effective technology** and the **sharing or agglomeration of capabilities, knowledge, resources, influence and information.**

- To this end, thought leadership, individual and collective performance, and collaboration throughout the Group are **appropriately rewarded,** with executive management **incentivised predominantly on Group performance.**

Vision

Massmart's vision describes the response we strive for from stakeholders.

- **Customers** will regard Massmart's wholesale and retail formats as their **first choice** when buying those categories of merchandise offered by the formats.

- **Suppliers** will regard Massmart as a valued **partner** in accessing and understanding their end consumers.

- **Career retailers** will regard Massmart as the **preferred employer** in the distribution industry.

- **Investors** will regard Massmart as a portfolio **rendering superior growth and total returns at relatively lower risk** than alternative wholesale and retail investments.

- **The community** will regard Massmart as a **sensitive, caring, trustworthy, South African** corporation.

Values

- We value diversity, dignity and respect, integrity and trust, stewardship and accountability and entrepreneurship.

Strategic intent

- To be considered a **leader by all stakeholders in our chosen markets.**

Investment proposition

Within Southern African retail and wholesale distribution, Massmart is a unique investment, offering:

Strategic clarity

- Strict adherence to organic and acquisitive growth criteria
- Additional value created through inter-divisional collaboration
- Behaviour aligned by short and long-term incentives

Management quality and depth

- The top 58 executives, average age 43, hold 70 degrees and have on average 15 years' retail or wholesale experience

Diversification

- Customers – All mass market socio-economic strata
- Geography – Nine Southern African countries
- Merchandise – Leadership in five general merchandise categories and liquor, with a dominant defensive food profile
- Four routes to market

Revenue growth

- Proven record of successful organic (170 944 m^2) and acquisitive (12 acquisitions) growth
- Proven record of comparable store sales growth
- New stores in South Africa planned for Game, Makro, Builders Warehouse, Tile Warehouse, CBW and Jumbo
- New stores in Africa planned for Game and CBW
- Acquisition opportunities constantly under consideration

Profit growth

- High average sales per store (R130,6 million in 2004)
- Improving operating practices and cost reduction
- Inter-divisional collaboration
- Growing net margins

Relatively low risk

- Four business models
- High cash flows and stock turns of food complement the higher margins of general merchandise
- High cash generation and high cash dividend growth
- Retail credit only 2% of total sales

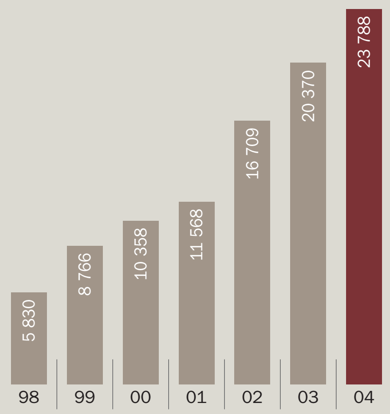
Good governance

- Compliant with the King II Report on Corporate Governance
- Compliant with the JSE SRI Index criteria
- Member of the Ethics Institute of Southern Africa

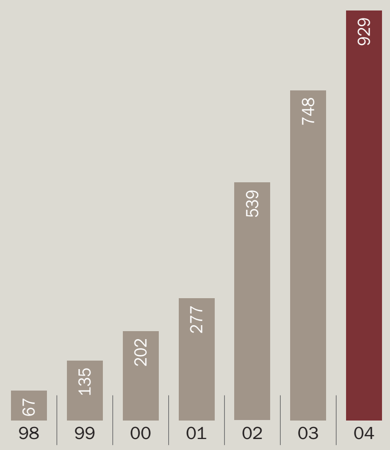
Financial highlights

Trading performance

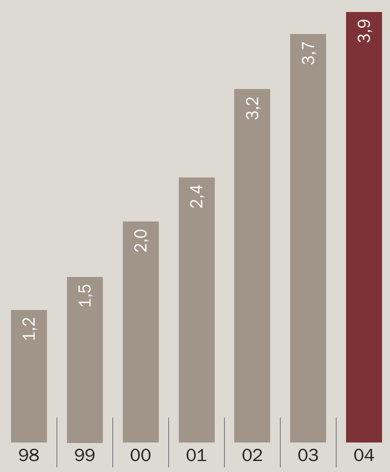
Sales (Rm)



EBITA (Rm)



Operating margin (%)



for the year ended 30 June 2004

Group summary	**2004 Rm**	2003 Rm	*Change %*
Sales	**23 787,7**	20 369,5	*16,8*
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	**1 062,0**	855,5	*24,1*
Operating profit	**853,9**	698,2	*22,3*
Headline earnings	**634,2**	480,0	*32,1*
Cash generated from operations	**1 270,5**	785,3	*61,8*
Shareholders' equity	**1 850,2**	1 666,1	*11,1*
Total assets	**7 040,4**	5 881,3	*19,7*
Ordinary share performance	**Cents/ share**	Cents/ share	*%*
Headline earnings	**318,8**	242,4	*31,5*
Diluted headline earnings	**307,5**	235,6	*30,5*
Attributable earnings	**282,6**	216,8	*30,4*
Dividends	**159,0**	97,0	*63,9*
Net asset value	**928,9**	839,0	*10,7*
Financial statistics*	**%**	%	
Operating margin	**3,9**	3,7	
Return on capital employed	**68,9**	63,2	
Return on shareholders' equity	**36,1**	31,2	
Debt: equity	**10,9**	14,7	

** See explanatory notes forming part of the seven-year review on pages 6 and 7.*

Operating highlights and Prospects

Operating highlights

for the year ended 30 June 2004

- Sales approached R24 billion
- Comparable stores and comparable members sales grew 10,7%
- Record pre and post-interest operating profit margins of 3,90% and 3,87% achieved
- Full year cash flow from operations exceeded R1 billion for the first time
- Rolling twelve-month return on equity increased from 31,2% to 36,1%
- Organic sales growth of 43% increased the proportion of organic growth since 1988 to 29%
- Stores increased to 157 with the acquisition and opening of 17 new units with estimated annualised sales of R1,5 billion
- Foreign operations contributed 6,2% of sales
- Significant increase in the free float as a result of the sale by Dutch multinational SHV of its 31% shareholding

Prospects

for the year to 30 June 2005

For the 18 weeks to 24 October 2004, total sales grew 13,6%, sales before acquisitions grew 10,5% and comparable store sales grew 9,5%. Deflation persists in many product categories, arising predominantly from the impact of a stronger Rand on direct or indirect imports and on local merchandise influenced by the exchange rate. Estimated volume growth is 16,0%. Profit is in line with budget, ahead of the comparable period in the previous year.

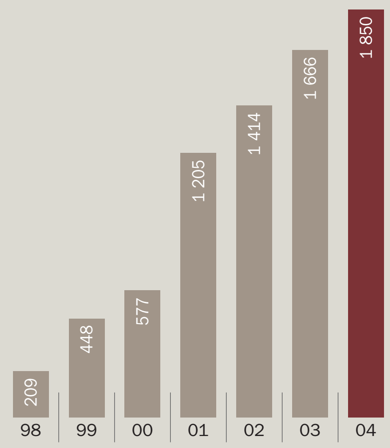
We remain confident that Massmart's leadership depth, complementary portfolio, and unique approach to high volume, low cost distribution will ensure sustained performance at the forefront of the sector and sound progress towards our 2007 strategic and financial objectives.

However, our decision to aggressively meet competition in food wholesaling and the opening of 19 new stores (including two Makros), while increasing sales growth, will depress operating income growth.

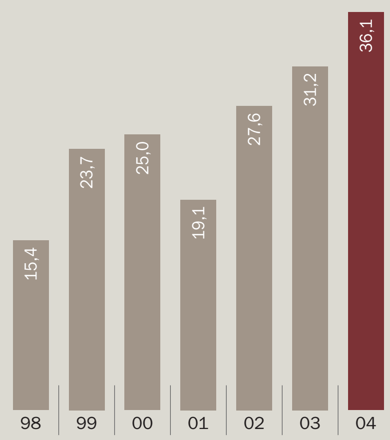
In addition, a record capital expenditure of almost R400 million, a substantially higher cash tax payment, and the payment of secondary tax on companies will depress the rate of growth of headline earnings per share.

Equity performance

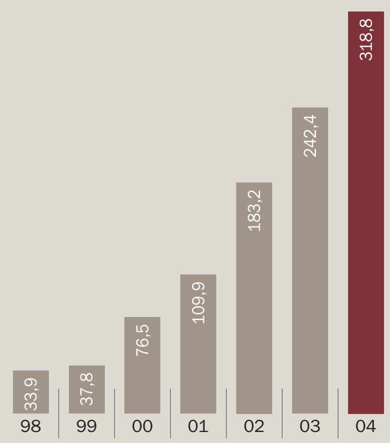
Shareholders' equity (Rm)



Return on shareholders' equity (%)



Headline EPS (cents)



Seven-year review in SA Rand

	Notes	Compound growth % per annum	2004	2003	2002	2001	2000	1999	1998
Operating results (Rm)									
Sales		*26*	**23 787,7**	20 369,5	16 709,2	11 568,4	10 357,7	8 765,5	5 830,1
EBITDA	1	*44*	**1 062,0**	855,5	645,0	360,0	265,4	190,3	117,9
EBITA	2	*55*	**928,5**	747,7	538,8	277,0	201,5	135,3	67,4
Net interest (paid)/received			**(7,2)**	(50,4)	(14,1)	9,4	(56,6)	(67,9)	(0,8)
Headline earnings		*63*	**634,2**	480,0	361,6	216,0	106,2	38,5	33,5
Balance sheet (Rm)									
Shareholders' equity	3	*44*	**1 850,2**	1 666,1	1 414,0	1 204,6	576,7	447,9	208,8
Net cash/(borrowings)			**1 025,2**	563,4	550,3	498,8	(83,4)	192,2	131,0
Total assets		*29*	**7 040,4**	5 881,3	4 944,9	4 143,4	3 067,6	2 627,6	1 535,6
Inventories			**2 356,5**	2 236,7	1 981,9	1 555,7	1 318,5	1 107,7	552,9
Accounts payable			**4 422,2**	3 686,1	3 042,7	2 247,1	2 034,1	1 796,9	1 176,6
Cash flow (Rm)									
Cash generated from operations		*42*	**1 270,5**	785,3	668,7	344,4	64,6	167,0	154,3
Cash spent to maintain operations			**(136,3)**	(83,6)	(76,3)	(94,6)	(20,9)	(75,0)	(74,0)
Cash spent to expand operations			**(263,3)**	(216,6)	(73,1)	(32,3)	(136,6)	(103,0)	(7,0)
Profitability and gearing ratios (%)									
Operating margin	4	*22*	**3,9**	3,7	3,2	2,4	2,0	1,5	1,2
Return on capital employed	5	*14*	**68,9**	63,2	66,2	37,0	54,2	46,7	31,8
Return on shareholders' equity	6	*15*	**36,1**	31,2	27,6	19,1	25,0	23,7	15,4
Debt: equity	7		**10,9**	14,7	16,7	42,4	0,5	93,9	3,9
Cash earnings cover	8		**1,5**	1,0	1,3	1,2	(0,2)	2,4	4,1
Liquidity ratios									
Current ratio			**1,1**	1,1	1,2	1,0	1,0	1,0	1,0
Quick ratio			**0,6**	0,6	0,5	0,5	0,4	0,4	0,6
Inventory days	9		**42**	46	50	57	54	50	38

Notes:

1. *EBITDA is earnings before interest, taxation, depreciation and goodwill amortisation.*
2. *EBITA is earnings before interest, taxation and amortisation. We prefer using EBITA rather than operating profit as the latter includes the charge for goodwill amortisation which can distort traditional trading ratios and returns.*
3. *In 1999 the convertible debentures of R410 million have been included in shareholders' equity. These debentures were converted to ordinary shares on 1 January 2000.*
4. *Operating margin is the percentage of EBITA to sales.*
5. *The return on capital employed is the percentage of EBITA to the average of the opening and closing balances of capital employed (at historical net book value excluding goodwill and deferred tax assets).*
6. *The return on shareholders' equity is the percentage of headline earnings to the average of the opening and closing balances of shareholders' equity.*
7. *Debt comprises non-current interest-bearing liabilities (and amounts due to vendor in 2001).*
8. *Cash earnings cover represents the ratio of operating cash flow per share to headline earnings per share.*
9. *Inventory days is calculated using total cost of sales.*

Seven-year review in US Dollars

	Notes	Compound growth % per annum	2004	2003	2002	2001	2000	1999	1998
Operating results ($m)									
Sales		*20*	**3 478,9**	2 247,7	1 643,5	1 518,6	1 631,0	1 443,9	1 191,6
EBITDA	1	*36*	**155,3**	94,4	63,4	47,3	41,8	31,3	24,1
EBITA	2	*46*	**135,8**	82,5	53,0	36,4	31,7	22,3	13,8
Net interest (paid)/received			**(1,1)**	(5,6)	(1,4)	1,2	(8,9)	(11,2)	(0,2)
Headline earnings		*55*	**92,7**	53,0	35,6	28,4	16,7	6,3	6,8
Balance sheet ($m)									
Shareholders' equity	3	*40*	**291,8**	210,2	139,1	149,5	83,2	73,5	38,8
Net cash/(borrowings)			**161,7**	71,1	54,1	61,9	(12,0)	31,5	24,4
Total assets		*25*	**1 110,5**	741,8	486,3	514,1	442,5	431,1	285,5
Inventories			**371,7**	282,1	194,9	193,0	190,2	181,7	102,8
Accounts payable			**697,5**	464,9	299,2	278,8	293,4	294,8	218,7
Cash flow ($m)									
Cash generated from operations			**185,8**	86,7	66,6	45,2	10,2	27,5	31,5
Cash spent on maintaining operations			**(19,9)**	(9,2)	(7,5)	(12,4)	(3,3)	(12,4)	(15,1)
Cash spent on investing in operations			**(38,5)**	(23,9)	(7,2)	(4,2)	(21,5)	(17,0)	(1,4)
Profitability and gearing ratios (%)									
Operating margin	4	*22*	**3,9**	3,7	3,2	2,4	2,0	1,5	1,2
Return on capital employed	5	*14*	**70,8**	61,4	60,6	37,5	55,7	44,4	32,3
Return on shareholders' equity	6	*16*	**36,9**	30,3	24,6	19,4	25,7	22,9	15,4
Debt: equity	7		**10,9**	14,7	16,7	42,4	0,5	93,9	3,9
Cash earnings cover	8		**1,5**	1,0	1,3	1,2	(0,2)	2,4	4,1
Liquidity ratios									
Current ratio			**1,1**	1,1	1,2	1,0	1,0	1,0	1,0
Quick ratio			**0,6**	0,6	0,5	0,5	0,4	0,4	0,6
Inventory days	9		**45**	53	50	54	49	50	35
Exchange rates (Rand/US$)									
At year-end			**6,34**	7,93	10,17	8,06	6,93	6,10	5,38
Average for the year			**6,84**	9,06	10,17	7,62	6,35	6,07	4,89

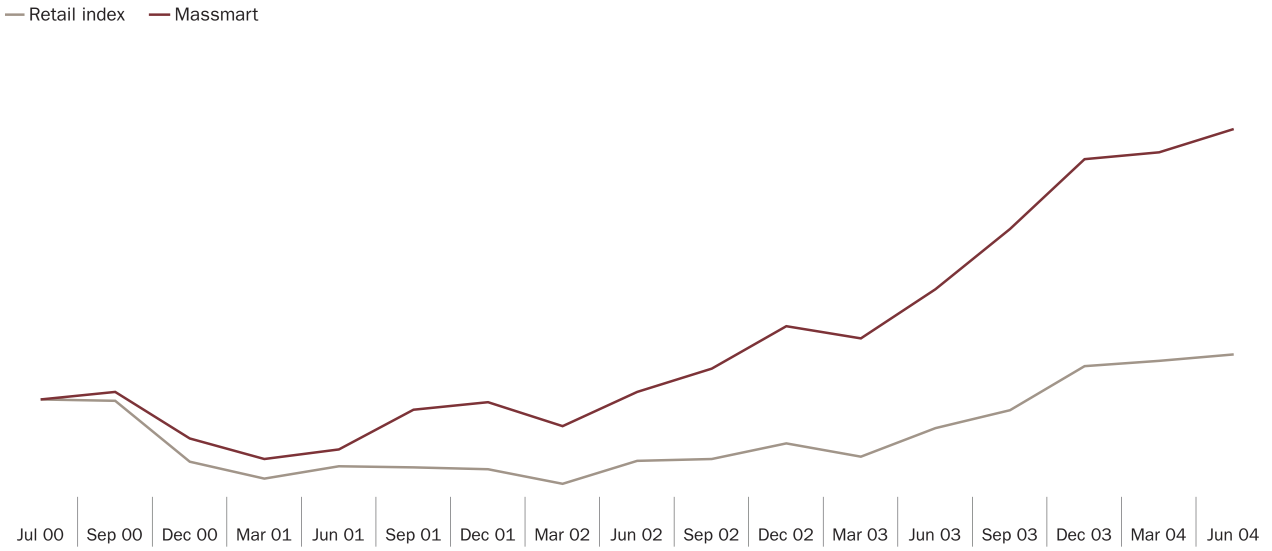
Notes:
All notes refer to the seven-year review in SA Rand on page 6.

Share performance

	Notes	*Compound growth % per annum*	**2004**	2003	2002	2001	2000	1999	1998
Per share performance (South African cents)									
Headline earnings		*43*	**318,8**	242,4	183,2	109,9	76,5	33,9	37,8
Diluted headline earnings		*42*	**307,5**	235,6	181,9	109,8	76,3	55,3	37,7
Attributable earnings		*39*	**282,6**	216,8	163,0	91,4	71,8	192,7	39,7
Dividends/distribution		*103*	**159,0**	97,0	61,0	36,0	9,4	–	–
Cash flow from trading	1	*28*	**510,0**	428,6	319,1	170,8	182,0	126,1	118,3
Operating cash flow	2	*21*	**473,0**	253,4	240,2	133,4	(13,5)	80,5	154,2
Net asset value		*26*	**928,9**	839,0	714,8	611,2	367,1	368,6	230,6
Per share performance (US cents)									
Headline earnings		*35*	**46,6**	26,8	18,0	14,4	12,1	5,6	7,7
Diluted headline earnings		*34*	**45,0**	26,0	17,9	14,4	12,0	9,1	7,7
Attributable earnings		*31*	**41,3**	23,9	16,0	12,0	11,3	31,1	8,1
Dividends/distribution		*98*	**23,2**	10,7	6,0	4,7	1,5	–	–
Cash flow from trading	1	*21*	**74,6**	47,3	31,8	22,4	28,7	20,8	24,2
Operating cash flow	2	*14*	**69,1**	27,4	24,0	17,5	(2,1)	13,3	31,5
Net asset value		*23*	**146,5**	105,8	70,3	75,8	53,0	60,4	42,9
Stock exchange information									
Shares in issue (millions)			**199,2**	198,6	197,8	197,1			
Shares traded (millions)			**256,6**	86,1	40,2	27,1			
Percentage of shares traded (%)			**128,8**	43,4	20,3	13,8			
Share price South African (cents):									
High			**3 359**	2 222	1 550	1 455			
Low			**2 080**	1 275	930	760			
Closing			**3 258**	2 100	1 350	930			

Notes:
1. Cash flow from trading per share is calculated using the cash flow from trading, before working capital movements.
2. Operating cash flow per share is calculated using the net cash flow from operations, after working capital movements, excluding exceptional items.

Massmart share price versus JSE General Retailers index (rebased to 100)



Massmart was listed on the JSE Securities Exchange South Africa on 4 July 2000.

Letter from the non-executive chairman

The year under review was characterised by improved consumer confidence and spending aided by lower inflation and interest rates and stronger exchange rates. Although exchange rate volatility has been a major challenge for business, the current levels are in line with the long-term purchasing power index, which suggests continuing improved perceptions of the economic performance of the country as a whole.

In this environment Massmart's management produced exemplary results. Headline earnings per share increased by 31% to 319 cents per share thereby continuing a growth rate well above the industry average since Massmart's listing in 2000. Cash flow from operations rose 62% to R1 271 million reflecting not only the higher level of profits but also sound management of the Group's assets.

Massmart continues to deliver on its stated strategies of organic and synergistic acquisitive growth, enhanced by collaboration between its operating units through the Group's Channel and Chain strategy.

The Group attracts and retains some of the best executives in the industry through aggressive incentive plans and a participative management culture. The Group employs 17 565 people and recognises its responsibilities to its staff and all its stakeholders, in addition to its shareholders. This year's annual report contains a comprehensive sustainability review which sets out the extent and quality of our interaction with our stakeholders.

Massmart remains committed to sound corporate governance at all levels. Board members have a range of skills and experience which enable them to interact constructively with management on all issues. The Board's committees are operating effectively in support of management processes and enhance the functioning of the Board. The performance of the Board, each of its committees, each Board member, the Chairman and the CEO are all subject to annual written assessments and debate where appropriate. A detailed corporate governance review is included in this report.

A key issue during the year has been the approval of a comprehensive BEE strategy within the framework of Massmart's vision and strategy. This continues to be refined and implemented by management in consultation with the Board.

Our previous largest shareholder, the SHV Group in the Netherlands, disinvested in January 2004 in accordance with their own worldwide strategy. SHV was a responsible shareholder of reference for the Group and we are pleased to note the satisfaction expressed by them with their returns arising from their period of investment.

I express my congratulations and appreciation to our Chief Executive and his team for the achievements in the past year and pledge my support and that of the Board for the periods ahead. I also record my appreciation to my co-directors for their own performance and for the quality of our interactions. My special thanks go to our departing directors Folkert Shukken, Derk Doijer, William Kirsh, Mavuso Msimang and Steve Leggatt. A warm welcome to our new directors, Phumzile Langeni and Jim Hodkinson.

I am confident that Massmart will continue to deliver results ahead of industry norms as it has in the past.

Christopher Seabrooke

26 October 2004

Letter from the executive directors

Overview

Aided by a buoyant middle to upper income consumer market, but depressed by average inflation of minus 1,2% across all product categories and the impact of a stronger Rand on foreign sales, revenue grew over R3,4 billion to establish a five-year compound annual sales growth of 22,1%. The Group has now registered its 31st consecutive half-year of real sales growth, with an 8% per annum compounded growth of sales before inflation over 16 years.

Productivity improvements, expense control and excellent working capital management resulted in improved margins and profits, establishing a five-year compounded annual headline earnings per share growth of 56,5%. Massmart's headline earnings per share have now shown consistent growth for the past 13 half-year reporting periods, increasing by 316% since the Group's listing on the JSE Securities Exchange South Africa on 4 July 2000.

The year's result was once more a consequence of our unwavering focus on the three drivers of Massmart's performance. Each division produced strong **organic growth** by refining its value proposition, increasing operating efficiencies and strengthening the quality and depth of management. Sales and profits were enhanced by **acquisitions** as Builders Warehouse and Tile Warehouse were fully integrated and three independently owned businesses comprising nine stores were acquired during the year. The performance of individual divisions was further enhanced by **inter-divisional collaboration**, which continues to be an integral source of operating and strategic performance.

Massmart's real sales growth accelerated throughout the year, resulting in a first half in which sales grew 16,1% and earnings per share grew 26,3%, rising to 17,5% and 38,4% respectively in the second half. Group sales for the full year grew 16,8% to R23,8 billion with sales growth before acquisitions of 12,0%. Acquisitions, comprising Trident (representing six wholesale stores in Botswana) and three cash and carry outlets, contributed sales of R415 million. Comparable store and member growth of 10,7% was depressed by a decrease in inflation and the impact of the stronger Rand on foreign sales. General merchandise grew 23,9%, liquor 29,3% and food 9,4%. Massmart's minus 1,2% average inflation on selling prices was the weighted average of minus 5,3% inflation in general merchandise, 1,2% in food and 9,7% in liquor.

Trading profit before interest and acquisitions grew 11,9% to R837 million. The 22,3% increase in headline earnings before acquisitions to R579 million grew to 32,1% or R634 million after acquisitions. Headline earnings per share before acquisitions grew 21,7% to 291 cents per share, and 31,5% to 318,8 cents after acquisitions. Cash flow from operations rose 61,8% to R1 271 million, substantially strengthening the balance sheet.

Industry statistics and the reported sales of competitors indicate that Massmart gained market share, particularly in wholesale food.

A detailed report on the financial performance and position of the Group appears on pages 56 to 59 followed by the audited financial statements.

This report reflects our dedication to the continual improvement in qualitative and quantitative disclosure however uncomfortable this may be in times of underperformance.

Environment

The following environmental developments influenced Massmart's results.

Economic – During the reporting period the retail and wholesale environment was enhanced by four major economic factors:

- Exchange rate – The aberrant volatility experienced in 2001/2 diminished as the Rand/Dollar exchange rate reverted to its long-term trend. This relative stability reduced the trading risk of purchasing, inventory, margin and pricing decisions on Dollar-based merchandise, particularly in those merchandise categories with longer lead times or slower stock turns. During the financial year under review, the average Rand/Dollar exchange rate strengthened 20,0% from R7,93/$ to R6,34/$.
- Inflation – Retail inflation declined steadily from 5,2% in June 2003 to 3,3% by June 2004. Average retail inflation for the

twelve months to June 2004 was 3,5% compared to 10,2% for the comparable period in 2003. Producer price inflation fell from 1,5% in the first quarter of the financial year to 1,3% in the final quarter.

- Interest rates – As the South African Reserve Bank's inflation target of 3% to 6% was achieved, it responded with four stimulatory rate cuts, which resulted in prime interest rates declining from 15,5% to 11,5%. Consumer and domestic property markets responded favourably.
- Confidence – The positive impact of these economic factors on consumer and business confidence was enhanced by a number of national events (e.g. a flawless general election and South Africa securing the 2010 World Soccer Cup) which drove retailer and wholesaler confidence to a 16-year high and consumer confidence to a 22-year high.

Competitors – For some years we have noted and commented on the phenomenon of retail convergence – a development typical of mature or overtraded markets – where market participants, struggling to achieve growth in their chosen category, forsake their historic product/market positioning to enter into the product or category domains of other retailers known for such products. Despite a buoyant consumer market, this trend continued over the reporting period with a number of organic and acquisitive growth initiatives by participants who have now become competitors.

Lower interest rates increased consumers' propensity to increase debt. Credit retailers of semi-durable and durable goods responded with aggressive promotional activity, which resulted in them achieving higher rates of sales growth.

Low, and in some cases negative, inflation created a platform for very aggressive competition in food wholesaling.

Regulatory – Crime was a significant factor over the past year with armed robberies resulting in the loss of one life and R15,9 million of merchandise and cash. Some 2 313 people were caught and charged for shoplifting.

Less obvious, but more detrimental to the sustainability of legitimate businesses and the jobs that they create, is the trade in stolen and counterfeit goods, and the widespread contravention of employment, tax and import legislation, by traders who lack the ability and morality to compete legitimately.

Massmart defining events 1990 – 2004

1990 – 1994

1990	Massmart founded
	With R895 million sales through six Makro stores, Massmart's multi-chain, organic and acquisitive growth strategy formulated
1991	Transpaco Stationers acquired and integrated to form Makroffice
1992	Drop Inn acquired
	Acquisition of Shield (378 members)
1993	Acquisition of Dion (20 stores)
1994/6	Merger, profit fall and demerger of Makro/Dion

1995 – 1999

1996	Sale of 25% of Massmart to SHV
	Balance of "Channel & Chain" clarified
1997	Acquisition of Makro franchise in Zimbabwe
1998	Acquisition of 51% of CCW (14 stores)
	Acquisition of Game (26 stores)
	Sales exceed R5 billion
1999	Operating profit exceeds R100 million
	Massdiscounters formed to integrate and rationalise Dion and Game

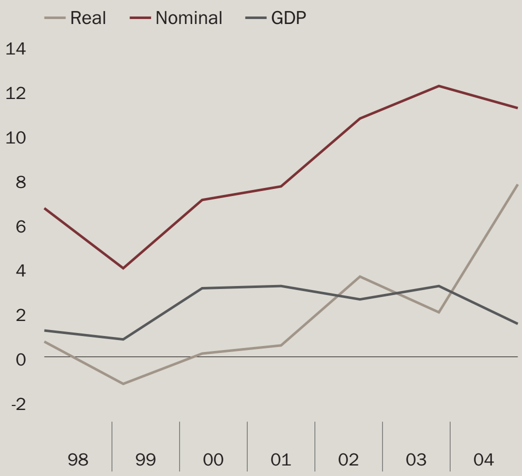
2000 – present

2000	Massmart listed on the JSE Securities Exchange South Africa
	Sales exceed R10 billion
2001	Acquisition of Jumbo (6 stores) and Browns and Weirs (22 stores)
2002	Restructuring of Group into four divisions
	Acquisition of Furnex (390 members)
	Operating profit exceeds R500 million
2003	Integration of Furnex
	Acquisition of Builders Warehouse (five outlets) and Tile Warehouse (four outlets)
	Sales exceed R20 billion
2004	Acquisition of three independent cash and carry businesses into CBW (9 stores)
	Liquidity rises significantly as institutional shareholders purchase SHV's 31% shareholding

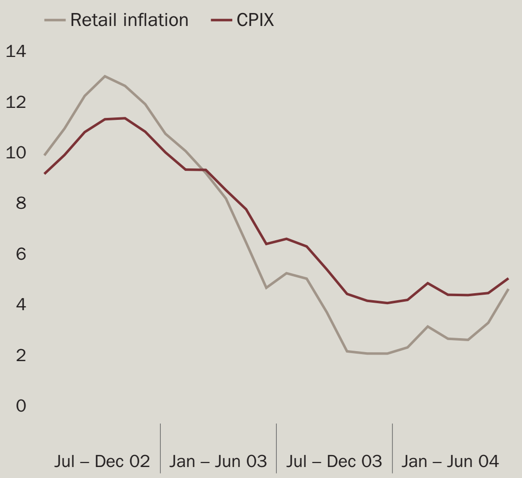
Rapid integration of acquisitions through appropriate strategy, structure, systems and processes

SIMPLE

South African retail industry growth



Retail inflation



While we applaud the stated intention of South African Revenue Service (SARS) to improve tax and duty compliance by distributors of consumer goods, there is as yet no evidence of firm action being taken against medium-sized, privately-owned wholesalers, where most of the abuse takes place. In product categories where the average gross margin is lower than the 14% VAT rate, these traders enjoy considerable competitive advantage by the total or partial evasion of VAT either by way of "VAT free" cash sales or "exports" which never leave the country. While we monitor, and regularly report to the authorities on the trading practices and pricing of these entities, it appears that their poor or duplicitous record keeping undermines the authorities' ability to root out the widespread evasion that deprives the fiscus of revenue and erodes the competitiveness of legitimate tax paying entities.

We are encouraged by the consultative process surrounding liquor, tobacco and pharmaceutical legislation but remain concerned that the differing interpretation of national legislation, and the additional laws promulgated by provincial authorities, may severely undermine efficiency and therefore increase the prices at which national chains can distribute goods. We urge provincial legislators to resist unacceptably complex legislation in the interests of consumers, particularly the poorest of the poor who are frequently prejudiced by such complexity.

The consumer market

As our President reminds us, South Africa is a country of two economies.

The first, affected by inflation, interest, and exchange rates, comprises those in the LSM 5 to 10+ groups who purchase the semi-durable and durable goods sold by Massmart's various formats. Over the past year these consumers reached their highest confidence levels in decades and any retailer who failed to prosper through serving them, did not deserve the approbation of fellow shopkeepers. This segment accounted for 57% of Massmart's sales and 64% of profits.

The second, the 4,8 million households or 23,2 million people who constitute the LSM 1 to 4 groups and who struggle to survive, are for the most part, the ultimate consumers of the fast moving consumer goods sold by Massmart's wholesale outlets. These consumers were cautious in the face of actual or potential unemployment, and with low or negative inflation, the intermediary traders who serve them realised that holding high levels of inventory was not

the profitable pursuit it once was. Volumes and margins were depressed by the low inflation rate and competition was intense. This segment accounted for 43% of Massmart's sales and 36% of profits.

Strategy and targets

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, collaboration between these divisions, results in profitability and returns greater than could otherwise be achieved.

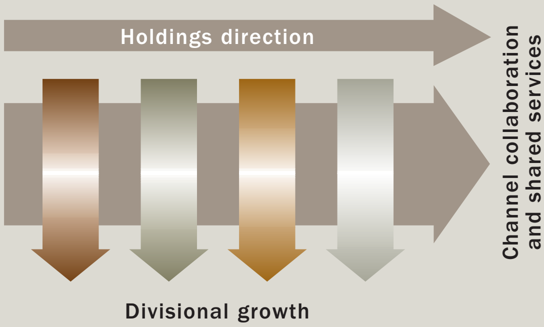
Through various economic and competitive scenarios, the successful implementation of this strategy has resulted in a sustained growth of sales, profits, profitability, and returns, off an increasingly demanding base.

The management of Massmart remains clearly 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" contains 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 and selected acquisitions that conform to Massmart's strategic and financial criteria.

In support of these medium-term objectives which are targeted to achieving sales approaching R36 billion by 2007, 17 new stores were opened or acquired during the past year, enhancing the quality of the portfolio and improving the Group's penetration of under-represented markets. Of the 50 stores (each with estimated average sales exceeding R100 million) targeted to open before June 2007, at least 19 will be opened in the current year, increasing Massmart's trading space to 721 000 m^2.

Concurrently we are targeting a pre-tax margin approaching 4,6% by 2007, arising from continuous investment in people, systems and logistics and the resultant judicious management of gross margins, portfolio and profit mix, expenses and working capital.

Massmart Business Model



Holdings direction

- Strategy and structure
- Portfolio
- Capital allocation
- Performance
- Governance

Divisional growth

- Divisions comprise chains or formats with similar target markets and business models
- High volume, low margin operating models
- Differentiated competitive offerings
- Dominant in complementary product categories
- Multiple target markets and regional reach
- Favourable cash characteristics
- Sound organic growth
- Strict acquisition criteria

Channel collaboration

- Procurement (forums)
- Coordinated retailing (positioning, pricing and promotion)

Shared services

- Non-differentiating services rendered at lower cost to divisions
- Executive development and human capital management

Management structure – Group leadership of strategy, structure, finance, Channel leadership of collaboration; Divisional leadership of trading

UNIQUE

Business model

Holdings direction

Massmart is led by a small but effective group of executives who focus on strategy and structure, the constitution of the portfolio, capital allocation, and performance. Executives in the holding company also direct and coordinate the activities of the Channel and shared service departments.

Divisional growth

To mitigate the risks of rapid organic and acquisitive growth, the development of the Massmart portfolio of Chains is reliant on the following principles:

- The housing of Chains with similar target markets and business models within divisions which facilitate inter and intra divisional collaboration.
- An aggressive high volume, low margin, competitive trading stance in each Chain, comprising a unique mix of location, format, product categories, merchandise ranges, promotional activity and services, each directed at a clearly defined market segment.
- A strong participation in one or more of the seven large product categories which collectively constitute 90% of Massmart's sales.
- The development of an expanding regional presence.
- Favourable cash characteristics.
- A quest for high comparable store sales growth.
- Acquisitions that are value accretive, enhance category influence, add strategic value to Massmart, and are enhanced by Massmart's ownership and collaborative activity.

Divisional performance is fully described in the reports on pages 20 to 23 and the divisional analysis on pages 24 and 25.

Channel collaboration and shared services

The Channel refers to any shared or collaborative activity that enhances profitability beyond that which would otherwise be achieved independently by the Chains. This activity is planned and coordinated through a series of forums focused on the core trading and functional activities of the Group. All costs and benefits of any such activity, including those of the holding company, are allocated to the Chains. The Channel continues to be a core element of the Massmart Business Model and an increasing source of profitability.

A detailed report appears on page 27.

Corporate social responsibility

Massmart was founded on the belief that long-term corporate success entails accountability to all stakeholders and we recognise that sustained progress or success is not possible if the reasonable demands of stakeholders are neglected.

This year, for the first time, we include a Sustainability report on pages 28 to 55, which provides detail of our economic contribution and the governance practices that shape our behaviour towards shareholders, employees, customers, and the industry, society and environment in which we operate.

Board and senior executive development

Following the sale of its 30,9% shareholding in Massmart on 21 January 2004, SHV-appointees Messrs Mavuso Msimang, Folkert Shukken and his alternate Derk Dojier, resigned from the Board. During May and June respectively, Messrs William Kirsh and Steve Leggatt resigned from the Board to concentrate their energies on the companies they serve as chief executives. We thank each of these gentlemen for their valued contribution over many years.

Ms Phumzile Langeni, an executive director of Barnard Jacobs Mellett, and Mr Jim Hodkinson, previously a director of Kingfisher PLC and managing director of its major subsidiary B&Q for 12 years, were appointed independent non-executive directors of the Board with effect from 25 August 2004.

During the year the composition and quality of the divisional boards and executive committees were enhanced with 11 new appointments.

Appreciation

We are ever mindful that poor implementation results in business failure more often than poor strategy. There are 17 565 Massmart employees who ensure the sound implementation of our strategies every day in their dealings with the stakeholders we serve and whose respect we hope to earn. Without the growing competence, extraordinary energy, and humbling loyalty of our associates in eight countries, Massmart's performance and growth would be unsustainable. We are deeply indebted to each of them for their contribution to these results.

Prospects

For four years South African retail has been the beneficiary of favourable economic conditions, the evolution of a new consumer market and a secular upward valuation of domestic property. We believe these developments are more structural than cyclical and are likely to endure for some time. Conversely we believe that South Africa's relative immunity to international developments in recent times cannot be relied on, and we are cautious about the potential negative effect on our economy of sustained high oil prices and the exposure to the US Dollar.

Management efforts are dedicated to providing more customers with excellent value, through innovative merchandising and a low cost operating philosophy, while mitigating the effects of currency volatility through tight working capital management and a rapid response to relevant performance metrics. A unique approach to these imperatives will ensure high returns and earnings growth at the forefront of the retail sector, but at a lower rate of growth than in recent years.

Our confidence in our country and our company is evident in a record R400 million capital expenditure programme planned for the current year, adding at least 71 000 m^2, in support of a budgeted sales growth approaching R4 billion.

MJ Lamberti

Chief Executive Officer and Deputy Chairman

GRC Hayward

Chief Financial Officer

Regional and segmental reach

Stores by region

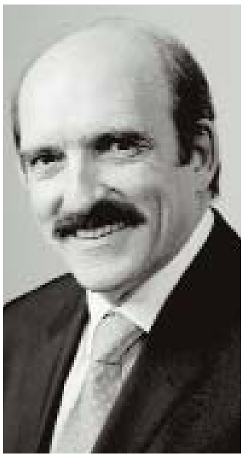
	2004	2003
South Africa		
Gauteng	**50**	45
KwaZulu-Natal	**33**	35
Western Cape	**11**	9
Eastern Cape	**17**	17
Other	**30**	25
Subtotal	**141**	131
Outside South Africa		
Namibia	**3**	3
Botswana	**8**	2
Zimbabwe (results not consolidated)	**2**	2
Zambia	**1**	1
Lesotho	**2**	2
Mauritius	**1**	1
Uganda	**1**	–
Subtotal	**18**	11
Total	**159**	142

Merchandise mix – leadership in seven major categories across 290 000 SKUs
FMCG, Appliances, DIY and Building, Hi Tech, Liquor, Sports and Outdoor, Multimedia and Office

SIMPLE

Massmart directorate

Executive directors



Mark James Lamberti (54)

BCom, MBA (Wits), PPL (Harvard)

Chief Executive Officer and Deputy Chairman of the Board

Chairman of the Executive Committee

Appointed 1 August 1988

Following progress through a multi-functional retail career that began in 1975, Mark was appointed Managing Director of Makro in 1988. With the successfully repositioned Makro as a base, he founded Massmart in 1990 as a vehicle for multi-chain growth in food, liquor, and general merchandise distribution. His role as architect and leader of Massmart's growth strategy was recognised with his appointment as Executive Chairman of Massmart in 1996. From 1 July 2003 Mark was appointed CEO and Deputy Chairman of the Board in compliance with the JSE Securities Exchange South Africa requirements.

Guy Hayward (39)

BCom, CTA, CA(SA)

Chief Financial Officer

Member of the Risk Committee

Secretary to the Nomination and Remuneration Committee

Appointed 15 May 2001

Guy graduated from the University of Cape Town in 1986 and qualified as a Chartered Accountant with Deloitte Haskins & Sells in 1989. Previous work experience includes senior financial roles at Malbak, CNA Gallo and investment bank, Goldman Sachs, in London. Guy joined Massmart as Group Financial Executive in 2000 and was appointed Chief Financial Officer in 2001.

Non-executive directors

Chris Seabrooke (51)#

BCom, BAcc, MBA, FCMA

Chairman of the Board, Chairman of the Nomination and Remuneration Committee

Member of the Audit Committee

Appointed 1 February 2000

Chris is CEO of Sabvest Limited. He is also a director of the JSE-listed companies Datatec, MGX, Primedia, Primeserv and Setpoint and is Chairman of the State Theatre of South Africa and Deputy Chairman of Business & Arts South Africa. Internationally, he chairs financial services groups in London and Europe. Chris was appointed non-executive Chairman of the Board from 1 July 2003.

Nigel Matthews (59)#

MA (Oxon), MBA (UCT)

Chairman of the Audit and Risk Committees

Member of the Nomination and Remuneration Committee

Appointed 1 November 2001

Nigel's career in the South African hotel and tourism industry included the positions of Managing Director of Holiday Inns and Executive Director of Rennies. He later started his own business, Sentry Group, and was Chairman of the company when it was sold to an international group in 2001. He is a non-executive director of City Lodge Hotels Limited and Sun International Limited and non-executive Chairman of Prism Holdings Limited.

Dan Barrett (53)*

BSc (Hons), BCompt (Hons), CA(SA)

Member of the Risk Committee

Appointed 13 November 1998

Dan has been involved in the retail industry in financial and general management for 20 years. He was the Chief Executive Officer of Game where he defined and led its turnaround strategy from 1993 until 1998 when Massmart acquired the business. He was appointed Chief Executive Officer of the newly formed Massdiscounters in 1999, Chief Operating Officer of Massmart in 2000 and Deputy Chief Executive in 2001. From 1 July 2003 Dan handed over his operating responsibilities and remains on the Board as a non-executive director.

Dods Brand (61)#

Member of the Risk Committee

Appointed 25 February 2003

Dods is the Chairman and majority shareholder of P.O.S.S.E. Management Group (Pty) Limited and P.O.S.S.E. Investment Holdings Limited. He has extensive experience in retail and was Chief Executive Officer of Moregro (Morkels Retail Group Limited), in which he had held various directorships and senior positions in both the Group and its chains. He was also a director of KAP Beteiligungs AG, a Frankfurt-listed company, as well as a number of JSE-listed entities. Dods is currently a non-executive director of Peermont Global Limited.

Zitulele ("KK") Combi (52)#

Appointed 25 February 2003

KK is currently the Executive Chairman of Master Currency. He also holds directorships at the VAT Refund Company and the Western Cape Board of ABSA. In 2001 he was awarded the Cape Times Business Personality of the Year, the IMM Award for Outstanding Achievement and was named as Ernst & Young's World Entrepreneur of the Year Award for Managing Change.

James (Jim) Hodkinson (60)*#

Appointed 25 August 2004

Commencing in 1962 as trainee manager, Jim progressed through a multi-functional career in retail to attain the position of Chief Executive for B&Q PLC, a subsidiary of Kingfisher PLC in which capacity he served for four years. Amongst other roles held at Kingfisher, Jim served as International Development Director and led the pursuit of opportunities in Asia. After a short term at Home Depot (USA) Jim returned to B&Q upon his appointment as Chairman and Chief Executive. He served on the Kingfisher board as Chairman of DIY, Kingfisher. As Chief Executive of New Look PLC Jim transformed a family owned business to a public company with a multi-national footprint. Current directorships include Polymer Logistics, Big Idea Management, Furniture Village, Edinburgh Woollen Mill and Ideal Shopping Direct.

Phumzile Langeni (30)#

Appointed 25 August 2004

Phumzile is currently an executive director of BJM Securities, South Africa's largest independent stockbroking firm. A stockbroker by profession, Phumzile has practised as an equity trader for both local and international institutions. Following a term at Real Africa Durolink (RAD) securities where she subsequently sat on the board, she was one of the founding members and executive director of Mazwai Securities. She remains a practising member of the South African Institute of Stockbrokers, is a non executive director of Imperial Holdings, a member of the ALT-X Advisory Board and a member of the Securities Regulation Panel.

Peter Maw (43)#

BCom (Hons), CA(SA), HDip Tax Law

Member of the Audit and Risk Committees

Appointed 25 February 2003

Peter is a specialist in private equity and corporate finance and heads the private equity interests of the Oppenheimer family in South Africa. He was one of the founders of Primedia Limited and as an executive director from 1992 to 2003, was responsible for all of its corporate finance activities. Peter remains a non-executive director and member of the Audit and Risk Committees of Primedia Limited. Prior thereto, following the completion of his articles at Coopers and Lybrand in 1987, Peter spent two years in corporate finance at Standard Merchant Bank before co-founding Merhold Kirsh Capital in 1991.

Dawn Mokhobo (55)#

BA (Social Science)

Member of the Nomination and Remuneration Committee

Appointed 1 June 2002

Dawn is presently a member of the boards of directors of Nozala Investments, Engen, Vitalaire, Capacity Outsourcing and also serves as Chairperson at Tsebo Outsourcing Group and Africa International Advisors. She has had a pioneering career spanning the public, private and parastatal sectors and was an influential member of the management board of Eskom prior to establishing her own company, MBM Change Agents, in November 1996. Dawn is a previous recipient of the South African Businesswoman of the Year Award and has occupied influential positions on numerous government-appointed committees.

Michael Rubin (54)#

BSc, MBA (UCT), MBA (Columbia)

Appointed 30 August 1990

Michael worked as a specialised retail consultant in New York and Toronto for nine years. After returning to South Africa, he joined Massmart as Development Director in 1989. Michael left Massmart in 1997 to become involved in private equity management and property development.

Aubrey Cimring (33)

BCom (Hons), CA(SA)

Company Secretary

Aubrey qualified as a Chartered Accountant in 1995. Previous work experience includes the role of financial director at Choice Holdings Limited before joining Discovery Holdings Limited where, for almost six years, he held the senior financial role at both Discovery Health and Discovery Holdings. Aubrey joined Massmart in the role of Group Financial Executive and Company Secretary in February 2003.

** United Kingdom*
 # Independent

Massmart executive committee

The Executive Committee, chaired by Mark Lamberti, comprises Guy Hayward and the following executives:

Steve Glendinning (43) *BSocSci (Hons), MEd (Ed Psych)*

Steve was appointed Group Organisation Executive in May 2002, with Group responsibility for Human Capital and the coordination of Group Organisation Development. He has 14 years of varied experience in industry and consulting and spent four years with Deloitte & Touche Consulting Group. He was previously an executive in the Mondi division of Anglo American and an executive director of Massdiscounters.

Fanus Nothnagel (42) *BCom, Dip MAct, ACMA*

Fanus was appointed Massdiscounters Managing Director in July 2003. His early career was spent at Lever Brothers and South African Breweries, whereafter he joined SC Johnson & Son as Financial Director, South Africa, before spending three years in marketing and sales in the United States. In 1999, Fanus returned to South Africa as Managing Director of SC Johnson & Son South Africa, which was followed by his promotion to General Manager SC Johnson throughout sub-Saharan Africa.

Gareth ("Joe") Owens (55)

Joe, the Managing Director of Masswarehouse and Chief Executive Officer of Makro, joined Makro as the non-foods Manager in 1971. Following a period with the Checkers group from 1978, he returned to Makro in October 1988, was appointed Merchandise Director in 1989 and Managing Director in 1993. In March 2003 he was appointed Chairman of Builders Warehouse on acquisition of that company. Joe has 30 years of mass merchant, general merchandise and FMCG experience.

Grant Pattison (33) *BSc (Eng)*

Grant was appointed Group Commercial Executive in July 2003, with responsibility for inter-divisional collaboration and Group strategic interventions. Grant obtained an Electrical Engineering degree with honours in 1991 from the University of Cape Town. After four years with the Anglo American group, he spent two years consulting with The Monitor Company. Grant joined Massmart in 1998 as assistant to the Executive Chairman and has since held various positions within the Group, including Managing Director of Massdiscounters, Group Commercial Executive and most recently Managing Director of Masstrade.

Robin Wright (48) *BCom, CA(SA)*

Robin is the Managing Director of Masscash and Managing Director of CBW. After studying at Natal University and serving articles with Ernst & Young, he qualified as a Chartered Accountant in 1978 and spent six years in retailing and wholesaling at WG Brown before founding CCW in 1985. From 1 July 2003 he was appointed Chairman of Jumbo.

Divisional directorate

(as at 1 November 2004)

Massdiscounters

Mark Lamberti
Chairman

Guy Hayward
Massmart

Steve Glendinning
Massmart

Grant Pattison
Massmart

Stephanus Nothnagel (42)
BCom, Dip MAct, ACMA
Managing Director
Joined Massdiscounters 2003

Stephen Whiley (38)
BCom, ACA (ICAEW)
Financial Director
Joined Massdiscounters 2003

Rob Barrell (47)
Store Operations Director
Joined Game 1981

Jay Currie (30)
BSc
Systems & Supply Chain Director
Joined Massdiscounters 1999

Masswarehouse

Makro

Mark Lamberti
Chairman

Guy Hayward
Massmart

Grant Pattison
Massmart

Gareth Owens (55)
Chief Executive
Joined Makro 1988

Michael Jordan (49)
ACIS, ACMA, GMP (Michigan), MBA
Financial Director
Joined Makro 1999

Bruce Cayzer (44)
Food Director
Joined Makro 1999

Makro
(Continued)

John Hudson (49)
BCom, MBA
Organisational Effectiveness Director
Joined Makro 1985

Derick Kalan (36)
General Merchandise Director
Joined Makro 1986

Alison Lambert (46)
BA, HDE
IT & Projects Director
Joined Makro 1989

Gert Lourens (50)
Operations Director
Joined Makro 1993

Thuli Mpshe (45)
BCom, Postgraduate Certificate in Business Management
Human Resources Director
Joined Makro 2003

Chris Nezar (46)
BCom, MBA
Marketing Director
Joined Makro 1989

Builders Warehouse

Gareth Owens
Chairman and CEO

Mark Lamberti
Massmart

Guy Hayward
Massmart

Aubrey Cimring
Massmart

Norman Kretzmer (41)
BCom, BAcc, CA(SA)
Managing Director
Joined Builders Warehouse 2004

Chris Crossman (43)
Managing Director
Tile Warehouse
Joined Tile Warehouse 1998

Builders Warehouse
(Continued)

Hamish Middleton (33)
BCom, CA(SA), CFA
Financial Director
Joined Builders Warehouse 2003

Sidney Newman (54)
Commercial Director
Joined Builders Warehouse 2004

Alex Rymaszewski (52)
Operations Director
Joined Builders Warehouse 2003

Masstrade

Mark Lamberti
Chairman

Guy Hayward
Massmart

Aubrey Cimring
Massmart

Grant Pattison
Managing Director
Joined Massmart 1998

Bradley Evelyn (51)
BCom, Postgraduate Diploma in Accounting
Financial Director
Joined Game 1986 and Masstrade 2004

Ahmed Goondiwala (63)
New Business Director
Founded Shield 1973

John Loomes (35)
MBA
Shield Director
Joined Masstrade 2003

Mike Marshall (47)
FCMA
Business Systems and Process Director
Joined Masstrade 2004

Richard Millson (32)
BCom (Hons), MBA
Furnex Director
Joined Massmart 2002

Masscash

Mark Lamberti
Chairman

Guy Hayward
Massmart

Grant Pattison
Massmart

Robin Wright (48)
BCom, CA(SA)
Managing Director
Founded CCW 1985

Neville Dunn (35)
BCom, CA(SA)
Financial Director
Joined CBW 2002

Fred Cresswell (37)
BSc (Eng), MBA
Operations Director
Joined Massmart 2001

Robert Masefield (43)
MBA
IT Director
Joined CBW 2003

Craig Surmon (42)
Marketing Director
Joined CCW 1987

Divisional review

Massdiscounters

Massdiscounters comprises a chain of 67 retail discount stores, trading under the Game and Dion brands in South Africa, Namibia, Botswana, Zambia, Mauritius and Uganda, offering a wide range of general merchandise and non-perishable groceries to the value-seeking customer, in the LSM 6 to 10 market segment.

Divisional overview

Aggressive merchandising and marketing, good cost control and excellent working capital management resulted in Massdiscounters achieving 49,9% profit before tax growth over the prior year. Sales grew by 8,9% over the prior year in an environment where significant deflation in many of the key departments resulted in average deflation across all product categories of 4,2%. Comparable store sales grew 9,5%. During the year one store was relocated and the expansion into Africa continued with the opening of Game Kampala in Uganda on 24 June 2004.

Game South Africa performed strongly over the past year and Dion's profit now exceeds the combined profit of Game and Dion at the time of the merger in 1998. While the foreign stores on average continue to contribute greater sales and profits than the South African stores, their performance was depressed by a strong Rand which caused a total loss on translation of foreign balances of R23,8 million.

A focus on costs and cost control has contained expense growth while specific focus on stock, forward cover and the clearance of aged and discontinued stock has resulted in improved working capital and progress towards a cash positive business. The latter led to a R47,6 million turnaround in the interest charge for the year, and ensured that the division was a net interest earner.

The trading efforts of the year resulted in a profit before tax of 5,02% of sales. This improvement from last year's 3,6% exceeded the medium-term divisional target of 5%, which has now been revised to 6%.

It is with deep sadness that we note the tragic and unexpected passing of Barry Clements, a co-founding member of Game who was involved at the most senior executive level of the business for the past 30 years.

Divisional prospects

Innovative store development, marketing and merchandising has positioned Game as Southern Africa's leading general merchandise discounter, with Dion playing an important role in maintaining share in the densely populated Gauteng province. Rigorous market research has led to the conclusion that while additional new store opportunities within South Africa are limited, the opening, closure and relocation of selected stores will optimise alignment within the Chains' target markets, leading to higher sales per store and significantly higher Chain profits.

In addition, a new small store Game has been launched with a trading area of around 3 000 m^2, to be opened in towns and markets unable to sustain a fully-fledged Game format. Market research and identification of potential sites has begun and it is intended to roll out at least 10 of these small format Game stores by June 2007.

Expansion of the traditional format Game store throughout Southern Africa will continue with at least four stores planned for the current year.

Masswarehouse

Masswarehouse comprises the 12-store Makro warehouse club trading in food, general merchandise and liquor; eight Builders Warehouse stores trading in home improvement and builders hardware and seven Tile Warehouse outlets trading in tiles and sanitary ware. All trade in the major metropolitan areas of South Africa and, apart from Makro's food which is resold by independent traders into the LSM 3 – 5 markets, all target the LSM 5 – 10 market.

Divisional overview

Divisional sales grew 23,9% with average inflation of 3,6%, while comparable store sales grew 12,5%. Trading profit before tax grew by 64,4%.

Makro

Makro experienced excellent trading with general merchandise performing well despite the deflationary environment. Food and liquor reported steady trading with low real growth. The year was unfortunately marred by the total destruction by fire of the Strubens Valley store on 13 May 2004. The fire was started by subcontractors during the course of a store extension programme necessitated by the exceptional growth of that store since its opening in October 2002. The injury-free evacuation of customers and staff was directly attributable to the R20 million that has been invested in fire equipment, prevention and training throughout the Makro Chain over the past three years. The insurance claim was settled at an increased excess resulting in a R19 million exceptional loss. The store was re-opened on 27 October 2004.

Notwithstanding the very low inflationary environment, sales growth of 13,7% was achieved from a total trading space of 103 206 m^2, while comparable sales growth was 12,2%. The successful recruitment of new cardholders and innovative marketing, underpinned by sound control of margins, expense and working capital, produced profit growth almost three times that of sales.

The business continues to derive substantial benefits from the 2001 implementation of the SAP Retail software system, with the SAP Customer Relationship Management system producing higher quality customer insight and service at a lower cost through marketing and merchandising more aligned with the needs of individual Makro customers. The SAP software platform is now being leveraged to enhance the business benefits through the implementation of a number of supply chain initiatives.

A new Makro was opened in Wonderboom, Pretoria North on 20 October 2004 to replace the ageing and poorly located Pretoria West store, which was closed. Makro's store development opportunities will be mainly in the area of refurbishment and the relocation of stores, although two additional stores will be opened over the next two to three years if appropriate sites can be found.

Builders and Tile Warehouse

Significant progress was made with the growth and integration of the Builders Warehouse and Tile Warehouse Chains. The relocation of Builders Warehouse head office into the Makro campus accelerated the integration process and improved the ability to share knowledge, infrastructure, systems, training and procurement.

During the year, two new Builders Warehouse stores and two new Tile Warehouse stores were opened. The calibre of management was improved as well as the quality of procurement and promotional activity. New financial systems have been implemented and new merchandise systems are currently being upgraded and will be implemented during the 2005 financial year. These initiatives should enhance profitability and establish a firmer foundation for future growth.

Subsequent to the year-end, the Group acquired the large Mica Home Warehouse in Edenvale and the Mica Rivonia store.

The executive team has been strengthened with the appointment of Norman Kretzmer as Managing Director and Sidney Newman as Commercial Director, both with extensive retail and hardware experience. Aubrey Cimring has been appointed to the board of Builders Warehouse.

Divisional prospects

The aggressive growth plans of Builders and Tile Warehouse are on target to create a national footprint of home improvement and builders hardware outlets with at least 15 new outlets planned to be opened or acquired by 2007. This growth phase will be underpinned by stronger management skills deeper in the organisation and significantly improved systems, training and logistics.

With the strategy more defined, we expect to see more growth opportunities with new departments within the stores.

Massdiscounters operating highlights

- Sales grow 9% to R6,8 billion
- Profits increase 50% to R340 million
- Exceptional working capital management
- Launch of new small Game concept
- 1 new store opened increasing trading space to 278 877 m²

Masswarehouse operating highlights

- Sales grow 24% to R7,1 billion
- Profits increase 64% to R285 million
- Improvement in working capital
- Completed integration of Builders/Tile Warehouse into the Masswarehouse Division
- 4 new stores opened increasing trading space to 160 274 m²

Corporate structure – four divisions, each focused on similar target markets and business models

SIMPLE

The division exceeded its 4% medium-term profit before tax margin target which has now been increased to 5% in line with a weighted application of international benchmarks.

Masscash

Masscash comprises 57 CBW and six Jumbo wholesale cash and carry outlets serving independent traders who target lower income consumers (LSM 2 to 6). CBW distributes basic food and groceries in peri-urban and rural areas in South Africa, Lesotho, Botswana and Namibia. Jumbo distributes cosmetics, food, and general merchandise in urban areas in South Africa.

Divisional overview

Increased co-operation between CBW and Jumbo and the opening and acquisition of several new stores resulted in divisional sales growth of 15,8% with comparable store growth of 5,1%. Profit before interest increased 20,6% and profit before tax 14,2%. At year-end trading space was 209 772 m^2. After-interest profits were depressed by a net capital outflow of R61 million comprising payments for acquisitions, a first time dividend payment by CBW and a cash inflow from the sale of certain land and buildings.

Excluding a R24,2 million profit on sale of these land and buildings, Masscash achieved record profit albeit at a slightly lower profit before tax return on sales relative to its 4% target.

CBW

Inflation of 1,2% exerted pressure on CBW's sales and margin. This was most evident in the Chain's dominant category of maize meal, where price reductions resulted in a sales decline of approximately R200 million. This, together with a R6,6 million currency loss on foreign operations, and six new outlets that have yet to achieve their target profitability, undermined the profitability that should have resulted from a higher second half sales growth.

A 75% shareholding was acquired in Trident Holdings, a six-store wholesale chain in Botswana, effective October 2003. Despite the February 2004 currency devaluation, Trident Holdings has performed in line with expectations.

Three South African stores were purchased and three new stores opened in Kimberley, Klerksdorp and Phillipi. The full benefits of this increased capacity will be realised in the 2005 financial year.

Jumbo

Jumbo produced a consistent improvement in most key measures throughout the year, culminating in higher sales growth and higher pre- and post-interest profits in the second half. In the first half, aggressive competition, falling inflation, a decline in exports resulting from a stronger Rand, a 14-day strike in October and the closure of the Isipingo store, depressed sales and profits. In contrast, during the second half, the opening of the Nelspruit store, a better performance from the Durban outlet (which has been relocated to larger premises since year-end), strong real sales growth and better management of expenses and inventory resulted in higher profits and profitability than the first half, narrowing the shortfall on the previous full year.

Divisional prospects

For a variety of reasons, we anticipate extremely aggressive trading in the wholesale cash and carry food market and will respond in a manner that at worst retains our market share. This will depress profit before tax margins which to some extent should be mitigated by product management and customer relationship initiatives.

The growth and profitability of Jumbo will be enhanced by the recently approved acquisition of Cosmos Cash & Carry in Cape Town. Additional trading opportunities are being explored in southern Africa in conjunction with CBW.

New space will be added through the relocation of two stores, extending two stores and the opening of three stores in the current year.

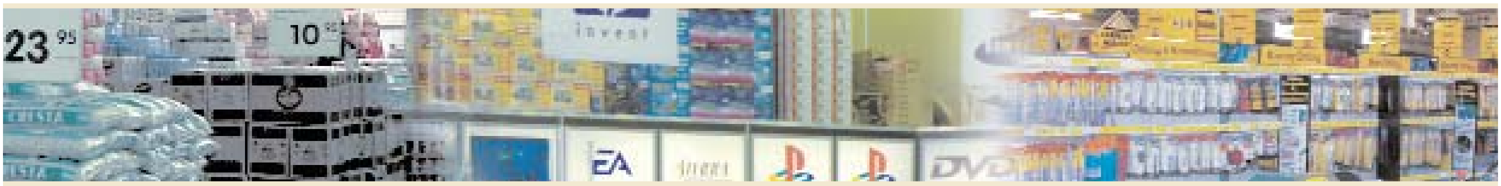
Profitability will be enhanced over the next two years through extracting management, systems and operational efficiencies in collaboration with CBW. This will be facilitated by the consolidation of the Board structures of the two businesses under the Masscash banner from November 2004.

Masstrade

Masstrade is a voluntary buying association comprising Shield and Furnex. Shield serves 740 independent food wholesale and retail trading outlets, targeted primarily at lower income LSM 2 to 6 consumers, in South Africa, Lesotho, Swaziland, Namibia and Botswana. Furnex supplies 856 independent furniture, appliance and home electronics outlets targeting middle to upper income, LSM 6 to 10 consumers in South Africa.

Divisional overview

Since its founding 31 years ago, Shield has added value to independent food wholesalers and retailers by providing them with credit, and lower prices resulting from the agglomeration of their purchases, simultaneously providing suppliers with a risk-free route to market by guaranteeing the independent trader's debt.



In late 2001, a strategy was formulated to transform the Shield business model by implementing more efficient technology and processes and to create a trading hub able to serve the independent trade with a broader range of merchandise. The implementation of the strategy commenced in 2002 with the installation of new systems, the purchase of Furnex, which extended the merchandise offering, and the creation of the Masstrade Division to house both businesses and to facilitate greater efficiency.

Masstrade's sales growth of 22,0% (comparable 25,2%) was driven in Shield by the growth in the member and supplier bases, despite low inflation in the food market, and in Furnex, by the buoyant market conditions in furniture, appliances and electronics on top of significant member growth. Despite good sales growth the market was highly competitive and margins were under pressure.

A satisfactory trading performance was undermined by a pre-tax write off of R25 million attributable to 2003, related to balance sheet items incorrectly accounted for during the early stages of the implementation of the Great Plains systems in Shield and the subsequent merger of Shield and Furnex. Pursuant to this, the directorate of the division has been substantially restructured.

As a result trading profit before tax declined from R77,8 million to R57,1 million producing a disappointing return on sales of 1,7%.

Divisional prospects

The focus in the year ahead will be to establish a formula for an acceptable risk-adjusted return on investment. This will require a focus on profitable sales, efficient administration and a review of the risk management and accounting processes.

Profitable sales will be driven by managing the supplier/member mix through more efficient reporting systems and more scientific decision making processes and philosophies, where margins are optimised against risk.

Administration will be streamlined and focused with a renewed investment in process and technology with the objective of serving the needs of our members.

We anticipate a highly competitive low inflation food environment that will slow a recovery of profitability and our progress towards the medium-term targeted return on sales of 3%.

Masscash operating highlights

- Sales grow 16% to R6,6 billion
- Profits increase 14% to R267 million
- Good result in low inflation environment
- Further progress with Jumbo integration
- 12 new stores opened/acquired increasing trading space to 211 472 m^2

CBW WHOLESALERS

JUMBO

Masstrade operating highlights

- Sales grow 22% to R3,3 billion
- Profits decrease 27% to R57,1 million
- Non-cash pre-tax write-off R25 million
- Substantial restructuring of the divisional directorate
- 78 new members added

Shield

FURNEX

Common Groupwide, high volume, low margin, low cost operating philosophy

SIMPLE

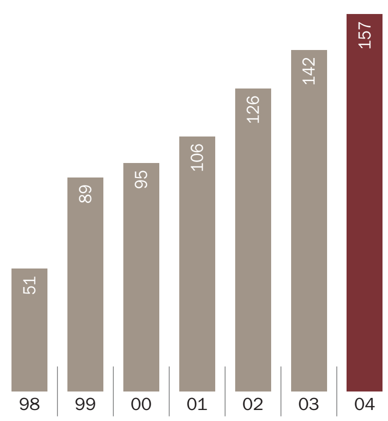
Divisional analysis

		Group[1]			Massdiscounters		
		2004	2003	% *change*	**2004**	2003	% *change*
Financial information							
Sales	Rm	**23 788**	20 370	*17*	**6 784**	6 229	*9*
EBITA	Rm	**929**	748	*24*	**357**	298	*20*
Operating profit before interest	Rm	**854**	697	*22*	**340**	227	*50*
Inventories	Rm	**2 357**	2 237	*5*	**1 084**	1 212	*(11)*
Total assets	Rm	**7 040**	5 881	*20*	**2 145**	1 933	*11*
Total liabilities	Rm	**5 159**	4 193	*23*	**2 047**	1 886	*9*
Net capital expenditure	Rm	**338**	276	*23*	**85**	83	*2*
Cash flow from operating activities	Rm	**941**	502	*87*	**361**	144	*151*
Operational information							
Number of stores		**157**	142	*11*	**67**	66	*2*
Trading area	m^2	**648 923**	586 030	*11*	**278 877**	274 082	*2*
Number of employees		**17 565**	16 763	*5*	**8 738**	8 367	*4*
Operational statistics[5]							
Sales per store (excluding Masstrade)[3]	R000	**130 569**	124 465	*5*	**101 245**	94 379	*4*
Sales per m^2 (excluding Masstrade)	R000	**32**	30	*7*	**24**	23	*4*
Sales per employee	R000	**1 354**	1 216	*11*	**776**	744	*4*
EBITA per employee	R000	**53**	45	*18*	**41**	36	*14*

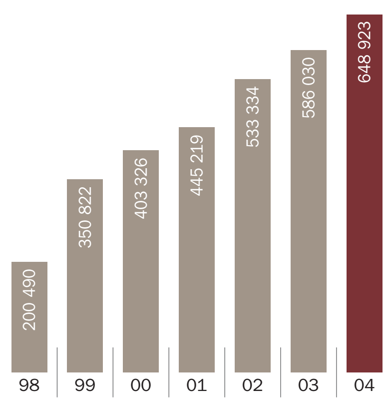
1 Group includes consolidation adjustments and head office figures.
2 Masswarehouse excludes the two Makro Zimbabwe outlets.
3 Masstrade is shown as average sales to each independently owned outlet (i.e. this represents only a portion of the outlet's sales).
4 Masscash includes the six Trident cash and carry stores acquired in October 2003. These nine-month figures have been annualised when calculating the operational statistics.
5 Calculated using year-end Balance sheet figures

Resource productivity

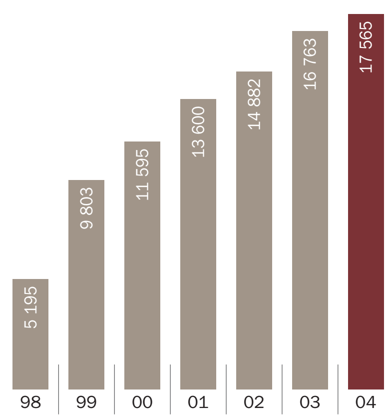
Stores



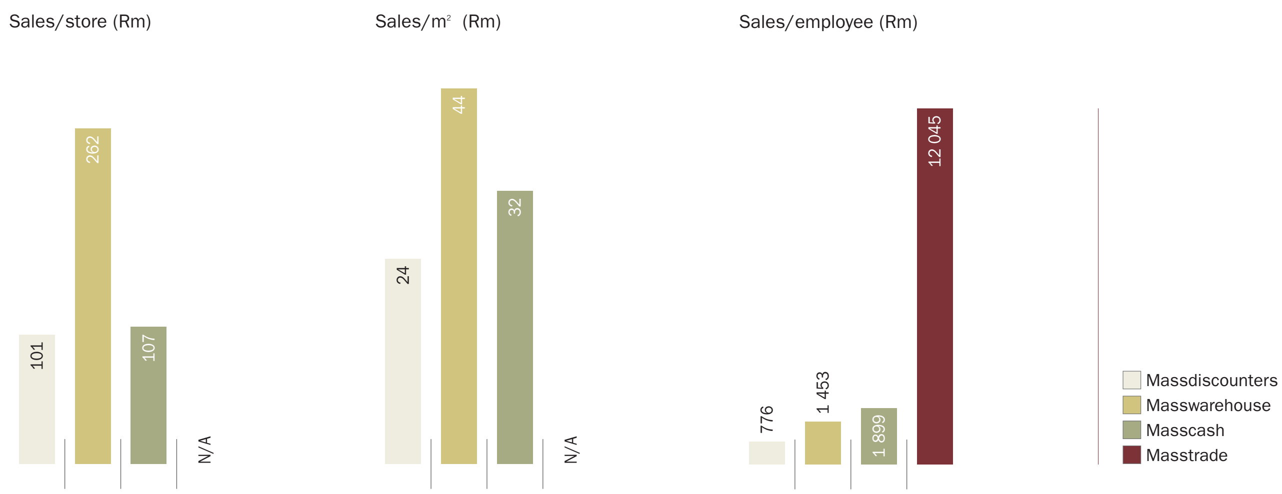
Trading space (m^2)



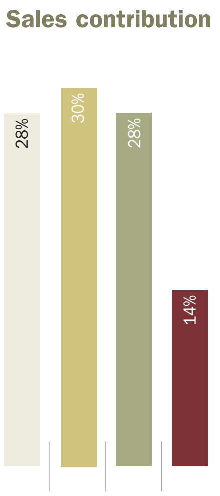
Employees

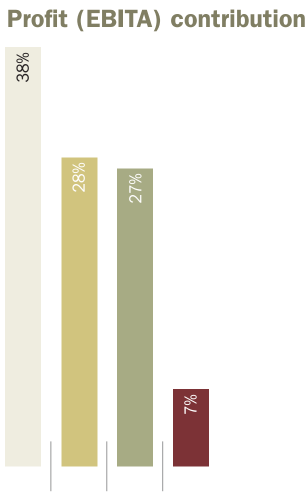


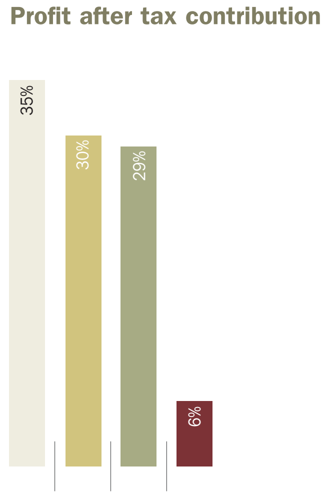
	Masswarehouse[2]			Masscash[4]			Masstrade		
	2004	2003	*% change*	**2004**	2003	*% change*	**2004**	*2003*	*% change*
	7 068	5 705	*24*	**6 648**	5 740	*16*	**3 288**	2 696	*22*
	259	160	*62*	**252**	209	*21*	**61**	81	*(25)*
	285	173	*65*	**267**	234	*14*	**57**	78	*(27)*
	663	557	*19*	**591**	463	*28*	**18**	5	*260*
	1 806	1 511	*20*	**1 694**	1 359	*25*	**1 020**	841	*21*
	1 749	1 502	*16*	**1 488**	1 271	*17*	**928**	712	*30*
	115	101	*14*	**97**	35	*180*	**36**	29	*24*
	151	137	*10*	**84**	170	*(51)*	**48**	(41)	*217*
	27	24	*13*	**63**	52	*21*	**–**	–	
	160 274	141 452	*13*	**209 772**	170 496	*23*	**–**	–	
	4 864	4 881	*–*	**3 559**	3 126	*14*	**273**	263	*4*
	261 785	253 697	*3*	**107 277**	110 385	*(3)*	**2 060**	1 934	*7*
	44	43	*2*	**32**	34	*(6)*	**–**	–	
	1 453	1 247	*17*	**1 899**	1 836	*3*	**12 045**	10 251	*18*
	53	39	*36*	**72**	67	*7*	**225**	308	*(27)*

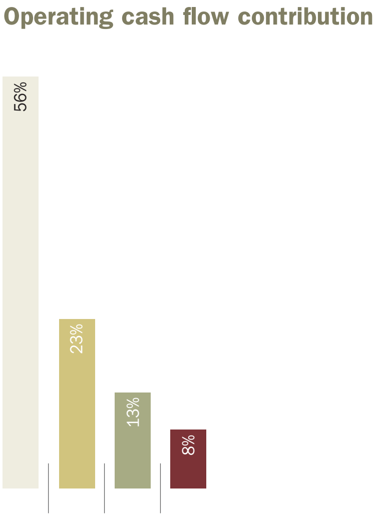


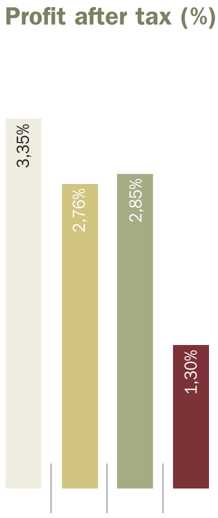
Divisional information











- Massdiscounters
- Masswarehouse
- Masscash
- Masstrade

Channel collaboration review

As described on page 14, Channel activity continues to be an important and growing source of value creation in Massmart through the work done in various forums.

During the past year, through increased coordination and process leadership by Massmart Holdings, attention was given to better planning, structuring and resourcing of the Channel.

Core trading forums

The focus, agendas and attendance of the trading forums (food, general merchandise and cellular) were renewed with emphasis placed on detailed category analysis in order to better understand the industries and markets in which we currently trade, and to proactively analyse potential new market opportunities. This attention to the Groupwide gathering, consolidation and analysis of business intelligence has allowed us to generate new insights with which to plan and better manage product categories.

The future focus is to explore opportunities to utilise this knowledge to the benefit of specific Chains and to extract further value through collaboration. Designated projects include the development and management of private label brands across selected categories, the further development of market share tracking and analysis, competitor tracking and analysis, collaborative planning and forecasting with suppliers, and value chain initiatives.

Collaborative opportunities between the Chains, and with suppliers, were identified and will be pursued in terms of product category and industry.

Functional forums

Whilst the trading forums manage the procurement of merchandise for resale, the functional forums focus on managing procurement of goods and services consumed by the Group. These include information technology (technology information and process forum – TIP), administration expenses (cost forum) and store development (store portfolio optimisation forum – SPO).

The TIP forum pools the combined skills of our IT, audit and process skills around the Group. Quality is driven and managed by defining strict processes to be followed, and standards to be achieved in the purchase, implementation and maintenance of our business systems. Internal and external benchmarking of both cost and quality are maintained and the general technology environment is monitored.

Our largest investment is in opening and refurbishing stores. Furthermore, our market penetration and profitability is determined by the portfolio of stores we deploy in any particular market. We have therefore developed technology which assists us to evaluate a variety of store deployment options (brands, number, size, location) under a variety of conditions (market size, market share, sales deflection, market growth) to optimise value creation and investment.

The cost forum takes responsibility for all procurement not related to core trading and stores, and looks for opportunity to leverage the Group's buying power. The forum focuses on benchmarking, procurement processes and governance authorities.

Shared service departments

Where it is possible to provide a service to the Chains at a better cost than they can obtain individuality or procure from a third party, a shared structure is maintained. We currently have seven shared services: Internal Audit, Supplier Contract Negotiation and Administration, International Commerce, Company Secretarial, Employee Benefits, Group Tax and Treasury services.

These service functions are continually looking for ways to add value to the Chains, by remaining abreast of the latest trends, legislation, technology and thinking. In some instances they are at the forefront of developing new innovations to the advantage of our Chains.

Incentive schemes – alignment of human behaviour with long-term shareholder interests

SIMPLE

Sustainability report

Message from the Chief Executive Officer

Since my earliest days in business I have rejected the notion of shareholder supremacy. Clearly the rights of ownership must never be undermined, but equally owners cannot profit at the expense of others who are directly or indirectly associated with the enterprise. More practically, every disaffected stakeholder has the ability to damage the enterprise or to limit its progress, and their reasonable expectations must therefore be addressed. Thirdly, while business is not democratic, the context of modern democracy demands transparency, accountability, and stewardship from all entrusted with assets or power. Finally it is trite to suggest that business should simply pay taxes on today's profits and leave government to deal with broader society tomorrow – this is an abdication of a leadership obligation in respect of specific societal concerns in a particular business or industry.

Against this background we welcome and embrace reporting and action that ensures the alignment of our corporate behaviour with the long-term interests of all stakeholders.

Massmart's wholesale and retail success predicates on relationships with millions of customers who represent a broad and diverse cross-section of Southern African society. Our relationship with them, and the consequent risk of failure, hinges primarily on our ability to provide them with innovative merchandise that satisfies their varying definitions of value. It also relies on their positive perception of Massmart as a responsible corporate citizen, committed to adding value to broader society over time.

The Group's record of satisfying an increasingly broad spectrum of Southern African consumers is manifest in a high rate of sales growth over many years. The success of this endeavour has resulted in an increasing presence in, and contribution to, communities throughout the region; the creation of numerous employment opportunities; a growing base of suppliers to whom Massmart represents an important route to market; the collection and payment of a significant portion of the country's taxes; and consistent creation of shareholder value. The past year's record performance reflected progress in each of these areas.

In keeping with the requirements of the King II Report, we are committed to developing, and reporting on, strategies for sustainable development and an overarching approach to managing our triple bottom line impacts. While our past behaviour has always reflected our philosophical alignment with these concepts, the past year saw the start of a more formal and structured approach to ensure measurement and accountability throughout the organisation, led and driven by the Group Executive Committee.

As a company and a country, we face numerous unique challenges that will only be overcome through dialogue and collaboration. Many of these are highlighted in this report, which we regard as an important first step, not only in appraising stakeholders of our approach and progress to sustainability, but also in establishing a sound platform for future progress and a basis for exchange with stakeholders on issues of importance to them.

Mark J Lamberti

Deputy Chairman and Chief Executive Officer

About this report

In our last annual report, we reviewed our human capital strategy and described some of the practices that demonstrate our societal responsibility, as well as our corporate governance approach and practices. For the first time, this report now addresses a broader range of issues that we consider essential to the long-term survival of our Group and the society in which we operate. We believe that sustainable corporate performance results only from balancing the reasonable demands of all stakeholders and, through this report, we hope to demonstrate our commitment to this end.

Because our operations impact a broad spectrum of issues, we have chosen to segment the report in terms of the schematic below.

Economic contribution						
Share-holders	Human capital	Customers	Suppliers	Industry	Society	Environ-ment
Corporate governance						

The full extent of our economic contribution is evident when this sustainability review is read in conjunction with our operational overview and segmental report on pages 20 to 23 and 24 to 25 respectively. The Global Reporting Initiative (GRI) Content Index at the back of this report demonstrates our commitment to consider a wide range of best-practice sustainability reporting indicators.

Apart from communicating our practices and intentions, this report aims to be a catalyst for engaging more extensively with our stakeholders, and through which we will embed sustainability practices in our Group. We also consider this report to be the first step in a cycle of continuous improvement, and we intend providing more tangible targets and time frames in future reports. The report represents an aggregated Group view of the activities of our subsidiaries, with a particular emphasis on our South African operations.

Massmart qualifies for the JSE's new SRI Index

In the latter part of 2003, the JSE Securities Exchange South Africa (JSE) assessed 74 listed companies for their suitability for inclusion in a new Socially Responsible Investment (SRI) Index. In this process Massmart was subjected to a rigorous assessment of a range of its non-financial policies and performance and reporting indicators – across economic, social, transformational, environmental and governance dimensions.

Massmart was one of 51 JSE-listed companies that qualified for the Index which was launched in May 2004, pointing to our progress across a range of sustainability dimensions. Our inclusion in the Index also demonstrates our willingness to be benchmarked on sustainability issues relative to our listed peers, and commits us to regular scrutiny regarding our responsible business practices.

Portfolio of leading wholesale and retail brands – as determined by consumer research

UNIQUE

Sustainability highlights over the past two years

- **Environment** Introduced a new Environmental Policy to be implemented in all Chains.
- **Corporate social investment (CSI)** Redefined our CSI policy to focus mainly on the education of previously disadvantaged persons.
- **Corporate governance** Separated the role of Chairman and Chief Executive, and increased the number of independent non-executive directors to nine.
- **Operational risk management** Introduced a comprehensive risk analysis process, covering all external and internal risks including macro economic, social and competitive risks as well as occupational health and safety, fire, security, transport and environmental issues. Began an externally-facilitated formal Business Continuity Planning process.
- **Suppliers** Formulated new supplier trading terms, incorporating human rights, ethical trading, and social and environmental management.
- **Food safety** Implemented a food safety and quality assurance programme.
- **Ethics** Introduced a comprehensive Code of Ethical Conduct with guiding principles and "whistle-blowing" mechanisms.
- **Human capital** Formulated a Group Human Capital strategy to provide leadership in the management of our most precious resource and to integrate and facilitate collaboration between divisional human capital initiatives.
- **Succession planning and executive development** Implemented a programme for the development, career planning and succession of our "Top 200" managers.
- **HIV/Aids** Embarked on the second phase of HIV/Aids measurement. 65% of employees have been tested to date.
- **Black economic empowerment** Approved an integrated BEE strategy to develop our own transformation scorecard, to rate our current progress, and to develop Groupwide plans for implementation. Achieved our self-imposed equity targets for mid and low-level employment grades and registered progress at higher levels. Created an Enterprise Development Division and an investment company tasked with nurturing and developing small and medium black businesses.
- **SRI Index** Qualified for inclusion on the JSE's new Socially Responsible Investment Index.

Looking ahead

Some of our sustainability challenges in the year ahead:

- Continue to embed the principles of Good Corporate Citizenship and sustainable business practice as a business ethos throughout the Group in order to guarantee our progress with the Socially Responsible Investment Index criteria.
- Engage an independent organisation to verify the Group's compliance with our recently implemented Code of Ethical Conduct.
- Complete the Business Continuity Planning process in all divisions to reduce our risk exposure.
- Improve adherence to our operational risk management requirements (including occupational health and safety measures), particularly in remote branch locations.
- Reassess the impact of crime on our operations, identifying further opportunities to protect our customers, our staff and our assets.
- Accelerate the momentum of our transformation process, with emphasis on enabling our direct and indirect empowerment initiatives.
- Increase our CSI spend across the Group to 1% of profit after tax and focus CSI spend more thoughtfully on the education of previously disadvantaged individuals.
- Establish open access for all our employees, wherever they are located, to voluntary HIV/Aids counselling and testing.
- Evaluate and enhance the performance of all divisions in terms of the aspirational guidelines described in our environmental framework.

Economic contribution

We will always be mindful to balance our pursuit of business and economic prosperity with the aspirations and legitimate interests of our stakeholders. Impressive results may never be used to justify a management process that is conspiratorial, manipulative or otherwise disrespectful of the rights of staff, shareholders, suppliers, customers and the communities in which we operate.

As a managed portfolio of nine wholesale and retail chains, Massmart is the third largest distributor of consumer goods in southern Africa, the leader in general merchandise and liquor and the third largest in food.

Through successfully satisfying the needs of independent resellers and end-user consumers, we have produced seven successive years of record turnover, profits and profitability. We have achieved this by growing organically (with new products, new stores and added trading space), by acquiring new businesses, and by leveraging Group synergies through inter-divisional collaboration.

Our approach reduces business risk and contributes to the long-term sustainability of the Group, given effect through:

- a number of focused wholesale and retail formats, which distribute goods to intermediaries and directly to end-users through four divisions constituted on the basis of their target markets and business models;
- a diverse product portfolio of general merchandise, food and liquor comprising a broad range of product categories and stock-keeping units (SKUs) – spanning 15 categories and 290 000 SKUs across the Group; and
- our broad geographic coverage across South Africa and in eight other Southern African countries.

We believe that this approach gives us an operating platform less susceptible to economic, societal, consumer and competitive exigencies.

Our financial statements, business overview and segmental reporting, covered elsewhere in this report, highlight our financial performance in greater detail, but we use the Group cash value added statement presented here to underscore our economic contribution to our stakeholders.

Group value added statement

	2004 June Rm	**%**	2003 June Rm	%
Sales, royalties, franchise fees, rentals and management and administration fees (inclusive of VAT)	**26 592,0**		22 722,7	
Cost of sales	**(20 647,6)**		(17 750,0)	
Interest and investment income	**81,3**		92,5	
Net costs of services and other operating expenses	**(769,4)**		(677,3)	
Net exceptional items	**–**		6,7	
Value added	**5 256,3**		4 394,6	
Applied as follows:				
To employees as salaries, wages and other benefits	**1 416,6**	***27***	1 168,5	*27*
To government as taxation	**3 004,9**	***57***	2 551,0	*58*
To shareholders as dividends (note 1)	**97,3**	***2***	166,6	*4*
To lenders as interest	**55,5**	***1***	78,5	*2*
Depreciation and amortisation	**208,1**	***4***	157,3	*4*
Minorities	**8,9**	**–**	10,0	–
Net earnings retained	**465,0**	***9***	262,7	*6*
Total	**5 256,3**	***100***	4 394,6	*100*

Note 1:
In 2004 the December interim dividend was paid via a distribution from share premium giving a total distribution for the year of R218 million.

It is straightforward to quantify our direct economic impact, as reflected in the Group value added statement above. However, measuring our indirect contribution to society – through the benefits our customers enjoy from goods we source and distribute, through the dependants of our employees and those of our suppliers, and through our contribution to "downstream" traders – is less tangible and more difficult to calculate.

We are conscious of the difference we make in the lives of those who purchase our products, but particularly in low-income communities through the products we distribute and through our interaction with informal traders and small retail businesses. For poor communities, particularly those in deep rural settings, access to affordable food and products makes an enormous difference to their quality of life. Furthermore, the economic driving force in such communities consists of the low-end trading and retailing entrepreneurs who are our customers.

Since a significant proportion of Massmart's sales reach these retailers and low-income households, we have estimated our indirect contribution based on broad but conservative assumptions. For the year ending June 2004, approximately 90% (R10,4 billion) of Group food turnover found its way into this market – through independent wholesalers and supermarkets, general dealers, hawkers, street vendors, spaza shops, tuckshops and stokvels. The figure is higher if general merchandise and liquor sales were included.

Our economic contribution to this sector is amplified by the retail profits realised by independent traders, because their profits flow back into their communities. Since their margins typically range from 3% – 10%, this equates to an additional contribution of approximately R0,3 billion – R1,0 billion.

In addition, we are ever mindful that in our society of high unemployment, a single employee may support five to seven dependents, making Massmart directly responsible for the livelihood of at least one hundred thousand people. The creation of sustainable permanent employment is therefore an important contribution to our society.

We will devote further effort to understand these impacts so that future business decisions can enhance our contribution whilst simultaneously supporting our goal of long-term sustainable growth.

Corporate governance and shareholders

We will always ensure as before that we act in good faith, with care, diligence and skill in the way that we manage our business.

Codes and regulations

Our Group is committed to complying with all legislation, regulations and best practice relevant to the business.

For the period under review, the Board confirms that the Group complied with almost every aspect of the Code of Corporate Practices and Conduct as set out in the King II Report on Corporate Governance.

The Board

The Board of Massmart is responsible for directing the Group towards the achievement of the Massmart Vision. The Board is ultimately accountable for the development and execution of the Group's strategy, operating performance and financial results, practised within the Group's formal governance authorities. The Board is responsible for its own composition, the appointment of the Chairman and Chief Executive Officer, and the constitution and composition of its sub-committees.

At the financial year-end, the Massmart Board comprised two executive directors and eight non-executive directors. Since then a further two independent non-executive directors have joined the Board, resulting in nine directors who are independent of Massmart and its shareholders. The role of all directors is to bring independent judgement and experience to Board deliberations and decisions.

Chris Seabrooke is Chairman of the Board and Mark Lamberti is Deputy Chairman and Chief Executive Officer. Brief biographical details of each Board member are reported on pages 16 to 17.

All directors retire by rotation every three years. Unless requested to serve a further term by the Board, retiring directors are not proposed for re-election by the shareholders. In addition, shareholders must ratify the initial appointment of all directors at the first general meeting of shareholders following that director's appointment.

Directors' attendance at Board meetings:

	Aug 2003	Nov 2003	Feb 2004	May 2004
CS Seabrooke	Y	Y	Y	Y
MJ Lamberti	Y	Y	Y	Y
DG Barrett	Y	Y	Y	Y
MD Brand	Y	Y	Y	Y
ZL Combi	Y	Y	Y	Y
GRC Hayward	Y	Y	Y	Y
W Kirsh	Y	Y	Y	Y
S Leggatt	Y	Y	Y	Y
IN Matthews	Y	Y	Y	Y
P Maw	Y	Y	Y	Y
DNM Mokhobo	Y	Y	Y	Y
M Msimang	Y	Y	–	–
MJ Rubin	Y	Y	Y	Y
F Schukken	Y	Y	–	–
D Doijer (alternate to F Schukken)	N	N	–	–

Following the sale by SHV of its 31% shareholding in Massmart in January 2004, its representatives on the Board, namely Messrs Msimang, Schukken and Doijer, resigned.

Board process and evaluation

The Board meets quarterly and on an ad hoc basis should a particular issue demand its attention. The Board's authority is devolved sequentially through the Massmart Executive Committee, the Divisional Boards and the Divisional Executive Committees as prescribed by the Massmart governance authorities. In addition, the Board has delegated certain specific responsibilities to Board Committees, as described more fully below.

The Board works to a formal agenda that covers strategy, structure, operating performance, growth initiatives and other key activities of the Group. To do so effectively, formal documents and minutes of all Board Committees are included in the Board papers.

Directors are encouraged to take independent advice, at company cost, in the proper execution of their duties and responsibilities. They have direct, unfettered access to the external auditors, our professional advisers and to the advice and services of the Company Secretary.

The Nomination and Remuneration Committee facilitates a comprehensive annual formal performance evaluation of the Chief Executive Officer, comprising a self-evaluation, an evaluation of the CEO by every non-executive director by way of a questionnaire which includes open-ended comments, and an appraisal of the CEO by each of his direct reports using a different questionnaire. Summary and feedback of the above is provided to the CEO by the Chairman, and he is encouraged to probe and debate any aspect of the evaluation with the full Board.

In addition, all Board members complete a detailed Board self-assessment each year, probing the composition, duties, responsibilities, process and effectiveness of the Board.

Thirdly, all Board Committee members complete a detailed self-assessment probing the composition, duties, responsibilities, process and effectiveness of their Committees.

Finally, all Board members formally assess the Chairman's performance and the Chief Executive Officer provides feedback.

These assessments are approached in a constructive manner and provide valuable input that is used to enhance the effectiveness of the Board and its Committees.

Board Committees

Audit Committee

The Audit Committee comprises Messrs Nigel Matthews (chairman), Chris Seabrooke and Peter Maw. When necessary, the Chief Executive Officer, the Chief Financial Officer, senior financial executives of the Group and representatives from the external and internal auditors attend the Committee meetings by invitation.

Trading intensity – very high sales per store, per square metre and per employee

UNIQUE

The Audit Committee is responsible for reviewing and reporting that:

- adequate books and records are maintained;
- appropriate accounting policies have been adopted and consistently applied;
- robust internal control systems, designed in response to identified key business and control risks, are in place and have been effective throughout the period;
- there has been compliance with the King II Report;
- the going-concern assertion remains appropriate; and
- the financial statements give a true and fair view, consistent with information known to the Committee, which makes a recommendation that the Board considers adopting the interim and final financial statements.

The Committee reviews the scope, as well as the independence and objectivity, of the external auditors. The nature and extent of non-audit services provided by the external auditors is reviewed annually to ensure that fees for such services do not become so significant as to call into question their independence of Massmart. The Committee has adopted a guideline that fees paid to the Group auditors for non-audit services (excluding due diligence investigations) should not exceed the level of audit fees charged to the Group. If it appears that this guideline will be breached on a consistent basis, non-audit services will be outsourced to third party auditors.

The Audit Committee recommends the appointment of the external auditors for Board and shareholder approval. During the financial year, Deloitte & Touche were the external auditors for all Group companies, with the exception of the six recently acquired Trident stores based in Botswana.

During the year, Deloitte & Touche provided certain non-audit services, including tax reviews and advice, and reviews of information technology systems and applications.

The Committee reviews the scope and coverage of the Internal Audit Department, and has approved that department's coverage and work plan for the forthcoming year.

The internal and external auditors have unencumbered access to the Audit Committee and present formal reports to the meetings.

The Audit Committee met three times during the year and members of the Committee also met with the head of internal audit and the external auditors.

Attendance at Audit Committee meetings:

	Aug 2003	Feb 2004	May 2004
IN Matthews	Y	Y	Y
CS Seabrooke	Y	N	Y
S Leggatt	Y	Y	Y
P Maw	Y	Y	Y

Mr Steve Leggatt resigned from the Committee with effect from June 2004.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee, comprising Messrs Chris Seabrooke (chairman), Nigel Matthews and Ms Dawn Mokhobo, and Mark Lamberti who attends by invitation (who recuses himself from discussion on matters affecting his remuneration), is responsible for the Group's remuneration policy and the short-term and long-term incentive policies for directors, executives, management and staff. It considers and approves the remuneration and incentives for directors and executive management, and requests the trustees of the Massmart employee share incentive scheme to award shares granted in terms of the policy and rules of the scheme.

The Committee is responsible for the recruitment and nomination of new non-executive directors and for ensuring that succession plans are in place for the Chief Executive, the executive directors and divisional heads.

The Nomination and Remuneration Committee met three times during the year.

Attendance at Nomination and Remuneration Committee meetings:

	Aug 2003	Nov 2003	May 2004
CS Seabrooke	Y	Y	Y
IN Matthews	Y	Y	Y
F Schukken	Y	Y	–
D Mokhobo	–	–	Y

Mr Folkert Schukken resigned from the Committee in January 2004 and Ms Dawn Mokhobo joined the Committee from May 2004.

Risk Committee

The Risk Committee, comprising Messrs Nigel Matthews (chairman), Dan Barrett, Peter Maw, Guy Hayward, Fanus Nothnagel, Grant Pattison and Norman Gray (Head of Massmart Internal Audit), is responsible for ensuring compliance with the principles of risk management as outlined in the King II Report. The Committee is therefore responsible for monitoring and managing risk in the Group on an ongoing basis. In order to facilitate the effective operation of the Committee to assess risk at all levels in the Group, the Committee is not exclusively comprised of non-executive directors.

The Risk Committee is responsible to the Board for the Group's risk management and the assignment of designated managers to manage significant risks. Where appropriate, reports from the Risk Committee are provided to the Audit Committee and the external and internal auditors.

The Group's first risk register was tabled to the Board in February 2003 after having completed a formal process, facilitated by PricewaterhouseCoopers, which identified and assessed all significant risks facing the individual Chains and Corporate Office. These risk registers were then aggregated and combined with those risks facing a listed holding company, in order to form the Group risk register.

In mid-2004, following formal review by the Chain boards of the updated Chain risk registers (prepared by their respective risk officers), the Risk Committee aggregated the risks and then submitted the updated Group risk register to the Board for consideration and adoption at its August 2004 meeting.

The Risk Committee met once during the year; its second meeting was rescheduled and held in July 2004.

Attendance at the Risk Committee meeting:

	Apr 2004
IN Matthews	Y
DG Barrett	Y
GRC Hayward	Y
P Maw	Y
F Nothnagel	Y
G Pattison	Y
N Gray	Y

During the year, Messrs Peter Maw, Fanus Nothnagel (Managing Director of Massdiscounters) and Grant Pattison (Group Commercial Executive) joined the Committee. Mr Dods Brand joined the Committee in August 2004.

Executive Committee

The Massmart Executive Committee is the most senior executive decision-making body in the Group. The Committee is chaired by the Chief Executive Officer and comprises the Chief Financial Officer, the Group Commercial Executive, the Group Organisation Executive and the four divisional Managing Directors. The Committee deliberates, takes decisions or makes recommendations on all matters of strategy and operations. Within the parameters described by the Board-approved Governance and Approvals Framework, the decisions or recommendations are sometimes referred to the Board or its relevant Committee for final approval, while in other cases the power to take decisions is delegated to individual subsidiary boards, or subsidiary executive committees.

The Executive Committee has specific responsibility, inter alia, for:

- monitoring and measuring the structures, trends and performance of markets and competition;
- strategic planning;
- defining, configuring, financing and structuring the Group's portfolio of assets;
- shaping and approving the competitive strategies, operating plans and budgets of the divisions and functional departments;
- measuring, monitoring and taking proactive corrective action on divisional performance;
- ensuring adequate risk management, controls and governance throughout the Group; and

- shaping and approving succession plans and senior executive management appointments.

In many respects, the relationship between the Massmart Board and the Executive Committee is analogous to the Supervisory Board and Management Board relationship found in the European governance model.

Remuneration of directors and executives

Massmart strives for remuneration policies that enable it to recruit, retain and motivate the executive talent needed to achieve superior performance. The Nomination and Remuneration Committee, with periodic advice from external executive remuneration consultants, ensures the provision of executive remuneration packages that are competitive with reference to other major South African retail companies, as well as other companies similar to Massmart in their size, spread and complexity.

The Massmart remuneration policy strives for fixed remuneration at the median of comparable positions, but places particular emphasis on generous annual incentives for high performance for both executive directors and executive management. This policy, communicated to and understood by the Group's executives, codifies a range of performance incentives linked to annual earnings-per-share growth targets for the Group in excess of average CPIX plus 10%, or profit before tax targets for each division, as appropriate. The Nomination and Remuneration Committee also has the discretion to reward superior individual performance.

In addition, longer-term equity incentive plans ensure the alignment of executive reward with shareholders' interests, in particular the sustained creation of shareholder value. Here the Committee (in conjunction with the trustees of the employee share incentive scheme) has adopted a new policy of issuing annual allocations of shares or options when Massmart's growth in earnings per share exceeds average CPIX plus 10%, based upon a factor of the executive's total prior year remuneration plus incentive bonus.

With effect from July 2002, only members of the Massmart Executive Committee can elect to receive scheme shares, whilst all other participants receive options.

Non-executive directors receive fees in the top quartile for their role as directors and for their roles on Board Committees.

Details of individual directors' remuneration are provided on page 89.

Shareholder communication

We strive to provide generous and frequent disclosure to our shareholders, regardless of how hard this may be in periods of difficulty or underperformance.

Massmart reports formally to shareholders twice a year (in February and August) when its half-year and full-year results, together with an Executive Review, are announced and issued to shareholders and the media. On both occasions the Chief Executive Officer, Chief Financial Officer and selected senior management give presentations to institutional investors, analysts and the media.

Early in January and July, shortly after the conclusion of the half-year and full-year trading periods, on release of the annual report and at the Group's annual general meeting in November, Massmart releases trading statements reporting on the Group's year-to-date sales performance.

During the year, apart from closed periods, the Chief Executive Officer and Chief Financial Officer meet regularly, but never alone, with institutional shareholders and, in addition, are available for meetings with analysts and any existing or prospective Massmart shareholder.

Massmart's website, www.massmart.co.za, provides financial and business information about the Group and includes electronic copies of all recent formal announcements, public statements and presentations made by Massmart.

Share buy-back programme

In prior financial years, the shareholders in general meeting gave the Company the authority – valid until this year's annual general meeting and subject to the listings requirements of the JSE Securities Exchange South Africa (JSE) – to purchase its own shares up to a maximum of 15% of the issued shares, at a price not greater than 10% above the preceding five-day weighted average. Shareholders have been asked to renew this authority at the forthcoming December 2004 annual general meeting.

In the year to June 2004, 2 413 711 shares were repurchased by a Massmart subsidiary at an average price of R26,76. Most of these shares were sold to the Massmart share trust before the financial year-end, and those remaining in the Company and the trust were treated as treasury shares. The amount and timing of future purchases will be determined by the Board and are dependent on prevailing market conditions and other factors. The share trust will also acquire shares from time to time to partially mitigate the dilution caused by the Company issuing new shares when options are exercised.

Share dealings

No director, executive or employee may deal, directly or indirectly, in Massmart shares where that person may be aware of unpublished price-sensitive information. There are strict closed periods during which all directors, executives and employees are not allowed to deal in Massmart shares. The periods begin one month prior to the end of each reporting date (31 December and 30 June) and end on release of the Group results. A closed period also applies whenever Massmart issues a cautionary announcement. In addition, all directors, executives and employees are not allowed to deal in Massmart shares in the final hour of trading on the JSE. All share dealings by a director, executive or employee must be authorised by either the Chief Executive Officer or Chief Financial Officer. Any dealings by the Chief Executive Officer are authorised by the Chairman.

Accountability, risk and control

The Board recognises its responsibility to report a balanced and accurate assessment of the Group's financial results and position, its business, operations and prospects. Aspects of how this is achieved are covered in the section below.

Internal control framework

Massmart maintains clear principles and procedures designed to achieve accountability and control across the Group. These are codified in the Governance and Approvals Framework that describes the specific levels of authority and the required approvals necessary for all major decisions at both Group and divisional level. Through this framework, operational and financial responsibility is formally and clearly delegated to the divisional and Chain boards. This is designed to maintain an appropriate control environment within the constraints of Board-approved strategies and budgets, while providing the necessary local autonomy for day-to-day operations.

Audit Committee

The Audit Committee receives regular reports on Group companies' financial performance, internal controls, adherence to accounting policies and areas of significant risk, amongst others. After considering these reports, the Committee formally reports to the Board, twice each year, regarding the overall framework and effectiveness of controls.

Monitoring risk management

To succeed, risk management requires internal accountability. We have therefore appointed a Risk Programme Manager in each of our Chains who is responsible and accountable for overseeing these issues.

The cornerstone of risk management is our "Risk-Disk" system, an analytical tool developed for us by external consultants which was initially introduced throughout the Makro Chain and continues to be introduced in the rest of the Group. This tool covers various risk areas and focuses on measures necessary to comply with legislation and regulations, procedures to mitigate risk, ways to assess compliance and readiness, and training.

The "Risk-Disk" system enables risk managers to conduct risk assessments, set key performance indicators and monitor the status of the overall Risk Management Programme in their Chains.

To verify our own assessments, we engage qualified external risk management specialists to conduct a bi-annual compliance audit, to do a full health and safety risk control audit, and to measure our risk management effectiveness.

Governance – European model of supervisory board and management committee

SIMPLE

Internal audit

The responsibilities of the Massmart Internal Audit department are clearly defined in a charter approved by the Audit Committee.

The department uses a risk based internal audit methodology to provide management, the Board and the Audit Committee with independent assurance regarding the adequacy and effectiveness of controls, the efficiency of operations, the safeguarding of assets, the management of significant business risks, and compliance to laws and regulations, including corporate governance.

The head of Massmart Internal Audit department reports only to the Audit Committee, with an administrative reporting relationship with the Chief Financial Officer. The Internal Audit department has unencumbered access to the Audit Committee.

Risk

The Board assesses the risks in the Group's business environment, with a view to eliminating or reducing them in the context of the Group's strategies and operations.

Compliance

The Board is of the opinion that the Group currently complies with all significant requirements of the Code of Corporate Practice and Conduct as set out in the King II Report.

Litigation and legal

In the normal course of business, Massmart is subject to various legal proceedings, actions and claims. These matters are subject to risks and uncertainties that cannot be reliably predicted. The Board does not believe that there is any material pending or threatened legal action.

Information technology

Protecting Massmart's electronic assets is increasingly complex as networks, systems and electronic data expand and, in some cases, are shared with third parties and business partnerships. Depending on the Internet for communication brings additional risk. Ensuring proper system security, data integrity and business continuity is the responsibility of the Board, but is given effect by the Audit Committee, the Risk Committee, the Massmart Technology, Information and Process Forum and Massmart's formally contracted information technology business partners and providers.

Financial risk and appraisal

Financial targets agreed in Group budgets and strategy processes are predicated on assumptions about the future that are uncertain and may prove incorrect or inaccurate. The monitoring and management of this risk is the responsibility of the Executive Committee. Monthly performance is measured and compared to the budget and prior year, and corrective or remedial action taken as appropriate.

Despite extensive financial, accounting and management controls and procedures, including reviews by internal and external auditors, there are risks arising from the Group's cash management and treasury operations, direct and indirect taxation, and employee or third-party fraud or economic crime.

Corporate ethics and compliance

Massmart is committed to achieving the highest standards of ethical behaviour.

To this end, we introduced a Code of Ethical Conduct during the past year. This code guides the standard of behaviour that we apply in our interactions with all Massmart associates and stakeholders. It places particular emphasis on our relations with each other, our customers, our shareholders, our suppliers and the communities in which we operate.

Our overriding objective is to institutionalise ethical behaviour as an essential component of Massmart's culture – by engraining it into the thinking and actions of all our staff. In order to do so, we have:

- appointed a Group Ethics Officer and an Ethics Officer at each of our divisions, and we have established an Ethics Officers' Forum;
- launched an ongoing ethics awareness campaign targeted at all Massmart employees;
- introduced the code into our general training and induction programmes;
- instituted an "ethics hot-line" – run by an independent external service provider – that offers all Massmart associates and stakeholders a confidential mechanism to report suspected incidences of unethical conduct; and
- become a member of the South African Institute of Ethics.

In addition, we undertake to:

- monitor compliance with our code through annual internal and external ethics audits;
- investigate all suspected violations of our Code of Ethical Conduct and institute appropriate remedies; and
- disclose our general levels of compliance and any breaches to our associates and stakeholders – fully, fairly, accurately and timeously.

Human capital

Our approach to the management of human capital is based on a belief that if the learning and growth of our business is not matched by the same level of learning and growth amongst our staff, then the value of their contribution, and the business, will be placed at risk.

In Massmart we value and strive for a stable working environment underpinned by responsible employment practices, competitive remuneration and cordial employee relations that demonstrate trust, mutual recognition and respect. Throughout all Massmart divisions we aim to provide stimulating and entrepreneurial places of work in which initiative, flair and a strong work ethic are well rewarded. Ours is a demanding working environment in which we ask a great deal from our employees. We do not accept mediocrity or complacency; instead we expect highly competent leadership and exceptional staff productivity. As such, we place emphasis on employing, developing and retaining highly capable people.

The rapid growth of the Massmart Group has been characterised by a corresponding growth in the number of people who work for us. This trend continued during 2003/4 as a result of new acquisitions and store growth. Massmart's employee complement grew to 17 565 full-time-equivalent employees at June 2004 with employment costs totalling R1,4 billion for the year to 30 June 2004, representing 6% of Group sales.

Within the framework of Massmart's Vision for Growth, we believe that we have not yet truly optimised the inherent performance capacity and potential of our people. We therefore see the further development of every individual and the continued provision of motivational career opportunities as critical to the sustainability of a satisfied, productive and continually developing workforce.

Remunerating and incentivising our staff

Massmart understands the highly competitive nature of the job market, both within the local economy and internationally. We are also acutely aware of the disruption to operations associated with high staff turnover and the significant cost of acquiring and training staff. Most importantly, our experience tells us that well-designed incentives are central to improved productivity and optimum business performance.

Our use of non-permanent staff

In recent years our Group has made more extensive use of external contractors and flexi-timers, employed via labour brokers, to staff certain sections of our stores, e.g. the front-end cashiers. While it is preferable to engage our own permanent employees, external contractors give us greater flexibility in terms of staff scheduling for seasonality and the long, irregular trading hours of retail.

By carefully framing and managing the contract with our external labour brokers, our experience has been that many workers engaged through them are as committed to doing good work and providing service as that of our own permanent staff.

Employee satisfaction at Makro

Makro uses external consultants to conduct a survey with a sample of employees in all stores and head office each month. Characterised as an organisational energy survey, it measures employee perceptions and categorises the results in terms of company energy, leadership, work climate, customer service, knowledge and skill, achievement, innovation and systems.

The results for each of these categories are reported as a monthly "score" and a 12-month rolling average.

We therefore strive to create a work environment that is not only gratifying in itself, but one where basic remuneration and employee benefits are complemented by an extensive set of incentive systems and performance review mechanisms designed to optimise human performance. Our approach to remuneration policy is shaped by our passionately held philosophy that optimal organisational performance is preceded by human performance.

Incentive payments for 2003/4 comprised 18,4% of overall payroll. Incentive schemes extend across all employee levels in the organisation based on various formulae relating to criteria such as store profitability, company/departmental net profitability, shrinkage and/or sales commissions. As an example, store managers in the Chains receive management incentive bonuses based on store and company profitability, calculated as multiples of monthly salary. In addition, certain employees receive a 13th cheque.

We frequently conduct formal surveys to determine benchmarks against the market in order to ensure fair and competitive remuneration. Over and above this, our benefit schemes are highly competitive and presided over by well-qualified trustees.

Aggregated Group employee remuneration

	Rm
Basic remuneration	729
Incentive remuneration	260
Employee benefits (Group pension and medical aid contributions)	94
Other employee costs (including contract staff and flexi-timer costs)	334
Total personnel costs	**1 417**

Aggregated Group employee benefit numbers

Number of permanent employees	11 997
Number on medical schemes	2 743
% on medical schemes	*23*
Number on retirement plans	11 083
% on retirement plans	*92*

With regard to senior executive remuneration, our overriding philosophy is one of "commitment through ownership" in which we provide management with the responsibility to act autonomously within approved values, strategies and budgets (expressed through our decentralised business model), whilst representing the best interests of the Group. This philosophy is reinforced by the setting of incentives relative to business performance, in the short term through an annual bonus scheme, and in the longer term through Massmart share ownership. This approach has fostered an entrepreneurial work environment in which we have demonstrated that the achievement of a balance between the managerial freedom necessary to adapt to the needs of customers and the control necessary to protect shareholders is a winning formula for success in retail.

This policy of "commitment through ownership" is demonstrated by the fact that if all the shares and options owned by management were exercised, that body would own 12% of the Company.

Ensuring employee representation and satisfaction

Our business success relies on a productive workforce, for which sound employee relations and open communication are key.

We recognise our employees' rights to associate freely and to bargain collectively as determined by the South African constitution, labour law and the International Labour Organisation. However, we believe strongly that such association and collective bargaining should not conflict with, and cannot be allowed to dilute, the Company's right to communicate directly with all of its employees at all times.

Over 50% of our employees are represented by bona fide employee representative bodies, being mainly the South African, Commercial Catering and Allied Workers Union (SACCAWU).

Group employee unionisation

Number of permanent employees	11 997
Number unionised	6 363
% unionised	*53*
Full-time equivalent days lost through industrial action	214

Wage negotiations are conducted at various levels determined by the financial structure, business model and legal standing of the bargaining unit. We provide for formal worker representation and promote regular interactive staff communications via various committees and decision-making forums. We have well-established, formal and proactive consultative processes regarding employee grievances. During the year we restricted lost time due to industrial action to 214 full-time equivalent days.

Group employee disciplinary procedures

Number of formal disciplinary hearings for permanent employees	3 380
Number of cases referred to the CCMA	211
Number of CCMA hearings with successful management outcome	118
Number of hearings with successful employee outcome	42*

** Difference accounted for by cases not yet heard or at conciliation and/or referral stage*

Training and developing our staff

We emphasise excellence in human capital from executive management to the shop floor, recognising that no business can survive and prosper without strong leadership, goal-directed management teams and a highly competent and effective workforce.

We distinguish between the day-to-day transactional skills and competencies required to operate and drive our businesses, and the transformational leadership competencies associated with the growth and development of Massmart. Our education, training and development programmes are structured accordingly, focused either on the unique business requirements of our Chains or more generically on Massmart-typical skills per employee category. Our executive education programme has gained considerable momentum based on the needs identified in our Vision for Growth.

Focusing on our future leaders

Massmart's business strategy is one of aggressive acquisitive and organic growth. In meeting the strategic and operating challenges this creates, we pay considerable attention to both the quantitative and qualitative leadership and strategic skills demanded by our future business plans. In particular, we maintain a continuous executive talent pipeline for the future and have adopted several measures to develop an employee pool that is equipped and ready to meet the challenges of Massmart's growth:

- Across the Group we have identified an executive talent pool comprising our "Top 200" executives who are tasked with steering our businesses now and into the future.

Our executive education courses

Examples of courses offered as part of our executive education model include:

- Babson's Strategic Planning and Management in Retail
- Scotwork Negotiation Skills
- Gordon Institute of Business Executive Learning Network

In addition we have relationships with leading local business schools, and also maintain relationships with international institutions in order to offer our executives access to certain programmes. These include:

- Boston University
- Harvard Business School
- London Business School
- Sam Walton Centre for Retail Excellence

Retail education sponsorship

Massmart continues to fund the Chair of Retail Management at the University of South Africa (Unisa), through which we were integral to the development of the Bachelor of Commerce in Retail degree. The first of its kind in South Africa, there are currently approximately 200 students on this course.

Strategy – three unchanged strategic thrusts since 1999; fast organic and acquisitive growth; enhance performance through internal collaboration; incentivise for alignment

UNIQUE

Managing our operational risk

We strive to create a safe environment for our employees and customers and to mitigate risks that potentially compromise continuity of our operations.

In a business as geographically dispersed as ours, with disparate business formats and 157 stores of widely varying size and complexity, we face a number of operational risks. Over the past three years, we have therefore engaged specialist risk management consultants to help us identify these vulnerabilities and introduce appropriate risk management systems that cover:

- planning for **business interruptions** and recoveries;
- controlling the risk of **fire** at any of our stores;
- managing the risk of **security breaches**, including cash and administrative breaches;
- risks related to **vehicles** (including forklifts), drivers, and cargo handling;
- dealing with **transportation** of hazardous substances;
- managing the **health and safety** of our employees and customers; and
- controlling **environmental impairment** and sustainable resource use.

Health and safety issues

Clearly, the health and safety of our employees and customers is one of our most important considerations. Each Massmart division therefore has formal health and safety policies, and each operation has appointed a health and safety committee, health and safety representatives and fire teams, who are trained as required by the Occupational Health and Safety Act. During the year, 545 staff injuries and 800 lost-time days (due to injury or accident) were recorded across the Group.

- We conduct formal "performance and potential" evaluations annually, which focus on measuring each "Top 200" individual's performance in their current role, their ability to contribute to Chain business plans in the short term, and their potential to make an executive contribution in future.
- We conduct intensive psychometric evaluation that guides the setting of self-improvement goals and personal development plans.
- We have a succession management plan in terms of which we visualise the composition of our future executive teams, earmarking individuals and positions as far forward as 2010.
- We have an active mentorship programme which involves key executives who mentor identified succession candidates. A number of those mentored, five of whom have benefited from the direct mentorship of the CEO, now occupy important positions of senior leadership in the organisation.
- We aim to hold personal and career development discussions with our "Top 200" employees twice a year. Dubbed "fireside chats" between an individual, his or her manager and a senior facilitator, these aim to:
  - facilitate an open and honest discussion on the individual's performance and potential for the purposes of our succession management plan;
  - identify possible career opportunities for talented individuals within the Group, based on their personal aspirations and goals; and
  - identify development needs that feed personal development plans, thereby enabling the individual to work towards the required competencies.
- Our executive education programme is comprehensive and includes attendance at leading retail and leadership courses offered by local and international business schools.
- We are developing a High Potential Development Programme that identifies graduates and young employees whom we believe have the potential to move to executive level within five years. Typically, these individuals will follow a two-year programme during which they may, for example, "shadow" a chain MD for six months, attend personal development and functional workshops, participate in some of the programmes listed below, undergo peer-learning and support, or visit leading international retailers.

Developing staff

We recognise the need for functional training as well as personal development for all our staff. Typically our Chains offer employees training and development opportunities by way of the following:

- Middle and junior management are required to demonstrate competence by way of a formalised management development process;

- Some of our Chains offer an internal three-year learnership to develop staff who show the potential to advance to junior management positions (they must complete a three-year Diploma in Retail Management);
- Competency-based training is a priority to ensure competence in various functional areas and proficiency in using new systems and technology;
- Cadetship programmes provide a future supply of qualified retail employees by employing matriculants who must complete a degree by correspondence;
- Adult Basic Education and Training (ABET) courses are offered, through accredited service providers, to those employees who want to improve their numeracy and literacy;
- We actively engage the Wholesale and Retail SETA with regard to training initiatives and recovery of training levies; and
- We support industry learnerships, with 128 in force across the Group during the year, and more anticipated in years to come.

At present, we estimate that our training cost approximates 1% of payroll. We are still formalising our systems to measure and track in-store training, and since we do not monitor the cost of training accurately at all stores, these statistics understate the full extent of our training and development initiatives.

Despite our substantial focus on training and development, we acknowledge that we can do more in this area. We have therefore set challenging targets going forward which we will work toward in the coming year. These include:

- Leveraging training resources across the Group to reach larger audiences by consolidating generic skills training into shared Group programmes;
- Finding more ways to develop and up-skill previously disadvantaged employees; and
- Increasing the number of learnerships offered, through which to nurture the development of retail skills.

In addition, advances in technology are improving the visibility between supply chain and store operations, resulting in the need for increased technical training of staff in key systems-interfacing positions.

Normalising our workplace

Within all Massmart Chains, we are focusing on achieving an equitable and non-discriminatory workforce that reflects our country's demographics.

All our divisions have had equity targets in place since legislation required us to do so, all compile and submit annual Department of Labour equity reports and plans, all have employment equity committees at store level, and all focus on training, developing and nurturing African, Coloured and Indian (ACI) talent.

2004 employment equity indicators (%)

Occupational levels	Male	Female	Total	ACI	White	Total
Executive directors	100	0	100	0	100	100
Top management	82	18	100	22	78	100
Senior management	79	21	100	27	73	100
Professionally qualified and experienced specialists and mid-management	69	31	100	43	57	100
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	50	50	100	81	19	100
Semi-skilled and discretionary decision making	57	43	100	88	12	100
Unskilled and defined decision making	77	23	100	97	3	100
Total permanent	58	42	100	81	19	100
Non-permanent employees	53	47	100	94	6	100
Total	57	43	100	86	14	100

Peer educators: the cornerstone of Massdiscounters' response to HIV/Aids

Massdiscounters formulated an HIV/Aids policy in July 2000 in order to ensure that the disease and its consequences are dealt with objectively, positively and in a non-discriminatory way at all stores.

Massdiscounters' operations are geographically dispersed, with 56 Game stores and 11 Dion outlets trading throughout Southern Africa. This means each store operates as a discrete unit, and that store location, staff composition and operational circumstance potentially affect HIV/Aids and sexually transmitted disease (STD) issues differently.

Apart from demonstrating organisational commitment via an overarching policy and an employee relations manager dedicated to HIV/Aids issues, Massdiscounters recognised that it was critical to integrate policy and programme into the everyday activities of each store.

Peer educators are the cornerstone

The most effective way to do so, in Massdiscounters' experience, was to instil awareness and provide education and counselling opportunities in-store, using fellow staff representatives with whom employees could identify. Massdiscounters has therefore appointed at least two staff members (one female, one male) as peer educators in each store, warehouse and at head office.

Awareness and counselling on-the-ground

Peer educators are responsible for each store's awareness programme, using a "52-week awareness file" that provides them with appropriate material to share with their contemporaries each week. They hold regular workplace meetings to share information and answer their fellow workers' questions, request regional HR managers to run workshops on HIV/Aids, and are available to counsel and give basic care advice to fellow employees.

We have well-balanced equity profiles at the lower employment levels, but ACI and female employees are under-represented against targets – particularly in the case of black Africans – at executive director, top management, senior management and professional levels. Consequently, employment equity is an important part of the Group's objective of achieving a BEE score of greater than 65% by June 2008.

Involvement in our industry SETA

As a member of the Standards Generating Body, Massmart played an active role in creating the standards and qualifications for the Wholesale and Retail Sector Education and Training Authority (W&RSETA). We occupy an important role as a proactive provider of learnerships in the retail sector.

Confronting the HIV/Aids challenge

Massmart's response to the HIV/Aids pandemic is based on a four-phased approach with each phase running concurrently, although at different stages of implementation in the various Chains.

Phase 1 aims at increasing awareness in an attempt to reduce the risk of infection. In order to do this, we use basic posters and pamphlets, video instruction, industrial theatre and peer group discussions. We also have a comprehensive peer educator system at work in many of our stores and we actively engage external agencies and other caregivers, seeking appropriate partnerships that assist us to continually improve our response.

Phase 2 involves understanding the internal impact of the programme. To this end, non-attributable sero-prevalence testing has been undertaken throughout the Group, with the exception of newly acquired businesses. The response to the testing has been extremely encouraging, with approximately 65% of our staff complement tested. As this includes both permanent and contract staff, the percentage of permanent staff tested is significantly higher. Testing has given us a reliable indication of infection rates and the data will be used in Group-wide impact assessments that we are currently commissioning.

Phase 3 represents a first response to deal with those known to be infected with HIV/Aids. Occupational health nurses at some of our stores are available to provide basic advice and to refer employees to external service providers as appropriate.

Phase 4 of our response comprises a full impact assessment so that we can respond appropriately to our Group and individual Chains' circumstances. The impact assessment considers items such as staff turnover and replacement, productivity loss, the impact on retirement and medical aid schemes and the resources required for preventative and VCT measures.

Based on prevalence testing, we estimate that 6,9% of Massmart's permanent workforce and 13,5% of our non-permanent employees are HIV positive.

Customers

We recognise that the success and survival of our business is founded on our ability to research, understand and satisfy our chosen customers' expectations of value. We are ever mindful that these expectations are shaped by every interface with our company, from their first awareness of a Massmart outlet as a potential source of their need satisfaction, through to the long-term benefits derived from their use of the products we sell. In every instance we will attempt to exceed their expectations.

For all our Chains satisfying, retaining and growing our customer base is the key to sustainable business. Our profitability depends on our brand equity and reputation in the eyes of an extremely broad base of customers. We make every reasonable effort to provide excellent customer service, to safeguard customers and their possessions at our operations and to remedy shortcomings if ever our products or services fail to meet the standards we and our suppliers represent.

Research

While a core competence of any retailer or wholesaler is the ability to develop insight into (and thereby pre-empt) customers' requirements, we are cautious about projecting our needs, wants and aspirations onto decisions which affect the customer.

We therefore invest heavily in research to understand market, category and consumer trends; the relative positioning of Massmart's Chains to each other and their competitors; and consumers' attitudes to competitive chains, categories, products and brands.

In addition we subscribe to various independent research and market tracking initiatives, which enable us to evaluate our performance in the eyes of the customers.

Misleading advertising

It has become common practice for certain participants in South African retail and wholesale, to advertise products that they do not have in stock, at prices below those advertised by competitors. In some cases their intention is to "bait and switch" (i.e. advertise one product to attract a customer with a view to salespeople convincing them to purchase another more profitable product), while in other cases it is simply to create a false impression of a competitiveness they are unable to achieve through legitimate means.

During the current year Massmart will advertise approximately 150 000 products through 297 million leaflets. In every instance we strive to accurately estimate customer demand and to stock our stores accordingly. There are occasions when we underestimate such demand or when merchandise is not delivered timeously. In the first case we attempt whenever possible to acquire

Game's customer pledges

Service guarantee

"It's not working? – We guarantee complete after-sales service satisfaction."

"We will have any item under warranty repaired for you – should that take longer than three weeks, the item will be replaced or refunded. For warranty purposes, proof of purchase is required. We also ensure ongoing service on any product bought from Game even after the warranty expires. Costs will be kept to a minimum."

Price guarantee

"Found it cheaper? – Tell us and we will beat that price."

"We will not be undersold – if you purchase any item from Game, and later find the same item for less elsewhere – we will refund more than the difference, on the spot! If you intend purchasing from Game and find the same item elsewhere for less at the same time – tell us and we will beat that price!"

Satisfaction guarantee

"Changed your mind? – We will exchange your purchase or refund you."

"If you've changed your mind – bring it back in unused condition and we will either exchange it or refund you . . . it's your choice!"

Performance driven culture – management own 12% of the Company and 18% of total remuneration is variable

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Massmart's Food Safety and Quality Assurance programme

Food safety is the concern of every retailer and manufacturer operating today. At Massmart, we believe it is our shared responsibility, along with our appointed manufacturers or suppliers, to ensure that our products hold no risk for our consumers.

Our approach is based on risk analysis and assessment, using a Food Safety and Quality Assurance programme to evaluate the probability and severity of adverse health effects arising from our foodstuffs. Primarily, the programme analyses Massmart's private and confined label products, where we are directly accountable, but it is also applied to any branded product or manufacturer that we consider high risk.

Compliance with the Food Safety Act

All our private and confined label products are allocated a risk ranking and we use an independent third party specialist to draw samples from random chain sites and conduct product quality control (QC) tests on our behalf.

In all cases, the product fails if test samples produce a combined QC test score below 92%. Test failure necessitates reclassification of the manufacturer to high-risk status and further testing until remedied.

Auditing manufacturer facilities

We also engage an independent third party specialist to conduct a Good Manufacturing Processes (GMP) audit and/or a hygiene audit quarterly at each manufacturer's facilities (except manufacturers with international quality accreditation, which are tested once-off).

Appraising the programme

Massmart's Internal Audit Services conduct regular audits of the Food Safety and Quality Assurance programme to: assess whether all products have been tested as required, review the completeness of testing, audit that the recommended procedure is followed when a product fails and evaluate the services provided by the third party specialist.

additional quantities from suppliers and in the second we ensure that customers receive the advertised product as soon as it is delivered. In no instance do we advertise to "bait and switch" or in response to competitors without an intention to satisfy the resulting demand.

Ensuring the quality and safety of our merchandise

Whilst our suppliers are ultimately accountable for ensuring the quality and safety of the merchandise they supply to us – particularly in the case of branded goods – we recognise that we, too, have a duty to safeguard our customers, and that our reputation depends on the quality and safety of the goods we sell.

We therefore require that our buyers include in their procurement decision issues such as quality, safety, legality, industry standards, honest feature and benefit communication, and ethical manufacture. We ensure that our products comply with legislated labelling standards such as directions, registration numbers (where applicable), SABS certifications, weights and measures.

A recent initiative has been the introduction of a Food Safety and Quality Assurance programme at all Massmart food-trading chains. This programme focuses on the handling of goods to ensure freshness and safety, with particular emphasis on private label and confined label brands.

Caring for customers

We use various mechanisms to make it easier for our customers to engage with us:

- Our stores abide by customer pledges;
- Most stores provide scan-points to assist customers with price enquiries;
- Each store has an information help-desk to deal with general customer enquiries;
- Each store has a returns counter and a fair returns policy;
- Our retail chain websites offer general information and an easy process for customers to provide feedback or log complaints; and
- Management throughout the Group, to the most senior levels, regard a customer enquiry or complaint as a priority and we are committed to reverting to customers with a solution within 24 hours.

Suppliers

We will always maintain strictly professional relationships with suppliers of goods and services, and we will specifically not engage in any activity or accept any gifts, favours or hospitality that may compromise, or be perceived to compromise, our ability to deal with our suppliers objectively and without special favour.

Massmart purchased over R20 billion worth of merchandise for resale from suppliers during the past year. Our procurement function is therefore one of the key drivers of our sustainability and profitability as a business. This implies that we rely on highly competent buyers who collaborate closely with suppliers and develop special relationships with them. While there will always be a commercial tension in this relationship, we recognise that local and international merchants are partners in our drive to offer customers safe, high quality and competitively priced merchandise.

Managing procurement policies

Within the structure of the Group, the responsibility and authority for all procurement decisions resides with the Divisions or Chains, within approved budgets and strategies. Each has a Buying and Planning structure, which makes all ranging and procurement decisions. However, most trading contracts (terms, rebates and discounts) are negotiated and administered at Group level. This shared service acts under the direction of a series of forums that represent our core trading activities (food, liquor, general merchandise and cellular). These forums comprise pooled expertise from around the Group, and each is led by an individual who is an acknowledged expert in the discipline.

Massmart applies every effort to first procure merchandise from South African manufacturers in so far as they satisfy our customer expectations of style, quality and price. Our commitment to support local suppliers is well illustrated by the Massmart Board's ratification of a comprehensive local procurement policy that was implemented in response to the job crisis in the textile, apparel and footwear industry. This policy includes a commitment by Massmart to actively promote South African textiles, apparel and footwear and is manifest in our Trading Agreement.

Massmart's new Trading Agreement

In reviewing its procurement policies, Massmart is currently introducing a new Trading Agreement for use throughout the Group, with specific terms of trade that will force our suppliers to warrant that:

- they comply with VAT registration and other legislative and administrative requirements;
- they observe all applicable laws related to the manufacture and distribution of their goods, particularly regarding customs and excise, taxation and labour laws;
- they ensure that the goods they supply bear authentic "country of origin" markings;
- they warrant that their products are not manufactured in "sweat shops" that use child labour or other labour practices that are considered an abuse of basic human rights in our country;
- their foodstuffs, cosmetics or disinfectants (where applicable) are not "prohibited goods" in terms of the Foodstuffs, Cosmetics and Disinfectants Act, 1972; and
- their electronic goods (where applicable) comply with the latest SABS requirements and standards.

Influencing supplier behaviour

On the one hand, the scale of our purchasing means there is considerable potential for abuse of power in our dealings with suppliers. We therefore take care to treat our suppliers fairly and even-handedly, and to inculcate and monitor trading practices that are ethical, fair and resistant to corruption. With regard to the latter we regularly survey our supplier base to elicit any dissatisfaction in their dealings with us, and we maintain close contact at the most senior executive level to ensure a conduit for any communication necessary to sustain an ethical relationship.

On the other hand, our large purchasing volumes and responsibility to our customers mean we are in a position to proactively influence the practices of our suppliers. We attempt to achieve this by ensuring, wherever practical, that our suppliers themselves:

- govern and manage their operations responsibly;
- embrace employment practices consistent with the law and workers' rights as determined by the International Labour Organisation;
- are not complicit in any human rights abuses;
- conform to ethical trading practices; and
- commit to responsible social and environmental management practices.

We believe that this additional focus on good citizenship – extending beyond the more traditional product, supply and trading terms – is beneficial for both our Group and society at large.

Industry involvement

We recognise that we can make a significant contribution to the wholesale and retail industry, whilst simultaneously deriving considerable benefit ourselves, through external networking and through our membership and participation in various industry bodies.

We recognise that we are part of a broader wholesale and retail environment in which the practices of others affect our business and our stakeholders' perceptions of our business.

Businesses in our industry face a number of common challenges related to product quality and regulation, suppliers, transport, logistics, information technology, transformation, skills development and training, HIV/Aids, crime, and VAT registration and compliance. Individually, our operations are compromised if others in the industry behave improperly or accept sub-standard practices. Collectively, we can address common, non-competitive concerns, whilst also ensuring a more efficient and responsible industry for all.

We therefore believe that all industry participants should co-operate on non-competitive issues of common interest, and we strive to play a leadership role in the wholesale and retail sector. As such, we support a variety of initiatives through participation by our staff on industry forums, and by offering advice and sharing our experience in an effort to encourage responsible industry standards.

Contributing to the CGSA

Our Chief Executive represents the Group on the Main Board and other senior executives are members of the Executive Committee of the Consumer Goods Council of South Africa (CGCSA), which is the primary representative body of our industry. This Council aims ". . . to enable retailers, wholesalers, manufacturers, logistics and service providers in the SA consumer packaged goods industry to work together to meet consumer needs better, faster, and at least cost."

We are also represented on the Exco and/or workgroups of a number of the CGSA's sub-committees, including:

- **Legal and Regulatory Affairs –** Addresses key legislative and regulatory changes in the industry, impact assessments and responses, industry-wide food safety initiatives, product compliance, and environmental and regulatory affairs.
- **Supply Management –** Includes a best-practice project on pallet pooling and reverse logistics (product returns).
- **Demand Management –** Focuses on efficient consumer response concepts in the manufacturing and retailing sector, including product classification structures and a best-practice process for assortment planning.
- **ECR Crime Prevention Programme –** Collaborates with the SA Police Services and Business Against Crime, and shares best-practice approaches through collective experiences.

Collaborating via the Retailers' Association

A Massmart representative sits on the Retailers' Association, an employers' group that collaborates on non-competitive issues when it makes sense to do so. Its members include leading South African retailers who meet monthly to discuss collective employee relations and training matters. In this way, we share experiences and leverage our individual strengths for the common good of the South African retailing industry and its employees.

Playing our part in BUSA

Our Retailers' Association membership also gives us access and enables us to contribute to the broader business community via Business Unity South Africa (BUSA). Massmart is specifically involved through our representation on BUSA's Standing Committee on Transformation Policy, whose mandate is to ensure that organised business plays a constructive and effective role in all aspects of transformation and broad-based black economic empowerment in our country.

Society

We will always act as a compassionate and responsible corporate citizen that is in touch with the communities in which it operates. In the context of our operational footprint, we will be particularly committed to advancing the process of black economic empowerment and participating in social upliftment initiatives.

Every commercial entity is accountable to the societies in which it operates – whether directly via its employees, suppliers and customers, or less directly via its communities. As a responsible corporate citizen, this means that we identify, engage and interact with the communities surrounding our outlets and with non-governmental organisations and other interest groups.

In a South African context, it also implies that we have the added responsibility to help accelerate the progress of our young democracy by normalising our workplaces, educating our people, uplifting and developing previously disadvantaged individuals, and through other measures that improve social stability.

At Massmart, we are keenly aware of our responsibilities to society, which we give effect through:

- Our commitment to diversify and transform our own workplace, and to empower previously disadvantaged employees to take charge of their own future;
- Our efforts to nurture emerging entrepreneurs through preferential procurement and enterprise development activities; and
- Our corporate social investment in those communities in which we operate and in broader society.

Changing our workplace

As a company with its roots in South Africa, we acknowledge that transforming our workplace and broader society is not only morally and ethically correct, but is also prudent. Transformation is critical for the sustainability of our business, and we understand the implications and challenges it presents and the opportunities and benefits that will materialise through successful transition.

Market penetration – wholesale to LSM 2 – 6, retail to LSM 6 – 10+ in nine countries in Southern Africa

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Developing our transformation plan

Until recently, our operating companies each adopted their own practices and set their own targets related to certain aspects of transformation (notably employment equity). The approach made sense in that each took ownership and accepted responsibility for delivering against their action plans and targets. This approach lacked a Groupwide measure of transformation progress and the synergies that can flow from broad-based initiatives.

During the year, the Massmart Board approved an integrated Black Economic Empowerment (BEE) strategy founded on the Department of Trade and Industry's Broad-Based Black Economic Empowerment Balanced Scorecard.

Since the wholesale and retail sector has yet to provide direction or set out the terms of an industry-wide transformation charter, we engaged an external empowerment consultancy, EmpowerLogic, to:

- Broaden our understanding about the business environment and the transformation imperative in the context of our operations;
- Review our Groupwide transformation progress and measure our BEE status to date;
- Develop our own "transformation charter" with a Groupwide and a per chain BEE strategy and targets for the future.

EmpowerLogic conducted an independent review of all of our divisions (excluding Builders Warehouse), in terms of the DTI balanced scorecard, during the period May to September 2004. The Massmart Group achieved a score of 45%, and the highest score achieved was 48%. Each division has subsequently updated its targets in the areas of Management Control, Employment Equity, Skills Development, Preferential Procurement, Enterprise Development and Corporate Social Investment. The Massmart Group's objective is to achieve a score in excess of 65% by June 2008.

With a framework and targets in place and responsibility for implementation accepted by the business operations, we will be in a position to monitor and report on our progress and address individual challenges as they arise. For this purpose we have appointed an executive at head office to oversee the Groupwide transformation process, and each Chain will designate an executive to support BEE implementation. Our broad approach to some aspects of transformation is covered in the sub-sections below.

Black ownership and control

As part of the BEE project, our Board is currently investigating equity ownership with due regard to our shareholders' requirements that any such transaction should:

- Be minimally dilutive of their interests;
- Be broad based in the scope and scale of beneficiaries likely to benefit from such equity; and
- Enhance the value of the Company by virtue of tangible additional value accruing from any BEE shareholders.

The Board has appointed a sub-committee to evaluate and make recommendations on all aspects of this important dimension of BEE.

Employment equity

This is reported on fully on page 43.

Developing new enterprises

In the context of our BEE strategy, the Massmart Executive Committee recently approved the budget and structure for the establishment of a centralised Enterprise Development Department. This department will work closely with our operating divisions to develop and enlarge their previously disadvantaged supplier and customer bases and so achieve their enterprise development and preferential procurement targets by identifying appropriate businesses with potential, and giving them financial assistance and general business support in order to grow their businesses.

Associated with this, the Executive Committee also mandated the establishment of the Massmart Enterprise Development Investment Company (MEDIC), whose purpose will be to invest – through both equity and loans – in viable black-owned small and medium enterprises that already (or potentially) do business with Massmart as suppliers or customers. For this purpose, Massmart will inject R4 million into MEDIC, which will be invested in these businesses on a commercial basis with the intention of generating a fair return. MEDIC's success will be measured by the annual turnover generated by its investments, and the wealth created by the previously disadvantaged entrepreneurs.

Preferential purchase and supply contracts

All our operating divisions also recognise that, wherever practical, we need to give preference to previously disadvantaged individuals and companies when procuring goods and services for our operations. Massmart's requirements for high volumes and widespread national distribution in the goods we sell makes preferential procurement challenging. We nevertheless do what we can to offer new supplier contracts to emerging businesses that meet our quality and price criteria.

However, we recognise that there is scope for preferential procurement in terms of our service providers and the products we consume in the course of our operations. We are therefore currently establishing the BEE status of all our suppliers and will place increasing focus on this aspect of transformation in the coming year.

Investing in our communities

Our Group has a history of dedicated contribution to social investment, predicated on the desire to do what is right while simultaneously protecting our reputation in the communities in which we operate. The Group is committed to investing 1% of its post-tax profits towards the upliftment of the community. Our contributions take the form of financial assistance, funds raised from staff and third parties at special events, in kind donations, and staff commitments in time. During the past year, we invested approximately R3,8 million of Massmart funds in social initiatives, and also raised and distributed almost R2 million from employees, suppliers, and other third parties. Examples of the organisations our various Chains have supported include the following:

- **Massdiscounters** Raised and distributed funds to the physically disabled, the community, education projects and the aged. Most notable were donations to The Association for the Physically Disabled and Childline.
- **Makro** Raised and distributed funds to various community-related initiatives across a wide spectrum – from children, churches and community chests, to health facilities, the handicapped, sports-related projects and the environment. Although not regarded as strictly a CSI

Massmart's equity fast-track and development initiatives

Some of the fast-track and development initiatives currently in place at our Chains to give opportunities to previously disadvantaged employees and improve our employment equity profile include:

- **Massdiscounters** "Retail Manager Designate" programme
- **Makro** "Cadetship" programme
- **Makro** "Retail Development" programme
- **Makro** "Bachelor of Management Leadership" programme
- **CBW** "Young Turks" programme
- **Massmart** "CIDA" bursary programme

"Banner groups" to assist emerging businesses

In Chains such as Makro, CBW and Masstrade, stores work with "banner groups" in their particular areas. Store managers identify groups of emerging businesses – usually smaller retailers/wholesalers – and assist them by negotiating special deals and payment terms, producing advertising materials (product sales leaflets) for them, and giving them advice and mentorship for their businesses.

By the very nature of their business model as buying groups for independent retailers and wholesalers, our Shield and Furnex brands support emerging retailers through their collective buying power. Shield also uses the concept of "banner groups" within its membership base to support the development of emerging retailers in South Africa's traditional markets, via its "Shop 4 Value" brand.

The Makro Education Trust

Initially a mechanism to provide for the tertiary education of employees' children, the Makro Education Trust has found a more sustainable business model and is branching into more broad-based education initiatives.

Laudable beginnings

In the late eighties, Massmart contributed R0,5 million to a trust that was set up to provide tertiary education for the children of Makro employees. Run on a "give and award" basis, an employee's child would be given a study bursary (typically R10 000 – R12 000), which was then repaid piecemeal from the employee's salary. If the child was successful, the staff member was awarded a full refund.

However, the system initially fell short of its objectives – the trust committee often allocated funds inappropriately and there was no sustainable funding mechanism, with the result that the funds were rapidly being depleted.

A longer-term solution

Makro therefore sought a longer-term approach that would ensure its funding into the future. The trust was restructured in such a way that it retained a central co-ordinator/financial controller, but with each Makro store appointing its own committee responsible for store-based initiatives to raise and contribute funds to the trust – whether via financial commitments from the store or through various fund-raising initiatives at the store.

The result is a far more sustainable entity. The trust currently holds R1,9 million, and awarded approximately 390 bursaries to staff members' children and individuals in the community during the past year.

Branching out

Renamed the Makro Employee Responsibility and Education Trust during the year, it has also expanded its focus beyond its original brief. It now also provides bursaries for education at primary and secondary school levels.

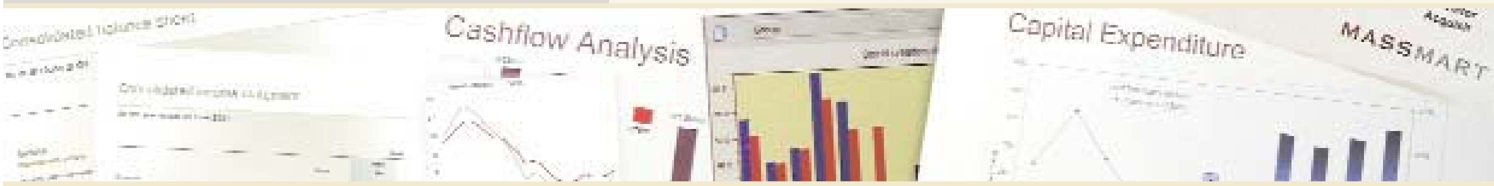
initiative (because it supports employees' children), the Makro Education Trust awarded 390 bursaries during the year. It also broadened its focus by "adopting" impoverished schools in the townships of Diepsloot and Alexandra, near Johannesburg, and providing them with equipment and supplies.

- **CBW** stores collectively donated to various community projects in the areas around its stores – ranging from school feeding schemes, crèches and old age homes, to donations to charities.
- **Jumbo** targets disabled children and HIV/Aids affected communities. Most notable is its annual Christmas party, at which toys are collected and distributed to hospitalised and disadvantaged children. A Jumbo golf day also raised funds for the South African Drug Abuse and Aids Council.

We are, in addition, committed to accelerating the progress of our young democracy, by working closely with Government agencies but not political parties, to enable and assist in the maintenance of social stability, the curtailment of crime (where Massmart was a founding contributor to Business Against Crime) and the development of previously disadvantaged individuals.

Looking to the future

As part of our BEE strategy, we have decided to allocate all future corporate social investment proceeds to the education of underprivileged individuals. Our objective is to encourage each trading entity in the Massmart Group to spend 1% of its after-tax profits on chain-led CSI initiatives that are aligned to the education of underprivileged individuals.



Environment

We will always demonstrate sensitivity to the impact that our activities and our trading partners' activities have on the natural environment.

At Massmart we acknowledge that even though we operate in a so-called "clean industry", we do have significant direct and indirect impacts on the natural environment through our:

- Physical store presence, which affects local traffic conditions, environmental aesthetics and the availability of green space in urban communities;
- Energy consumption for lighting, heating, air conditioning, refrigeration and many other uses;
- Consumption of water and other raw materials used in stationery, packaging, store fixtures and fittings;
- Waste, notably paper-based materials, and also toxic waste from printer cartridges and inks used in our promotional materials;
- Logistics and distribution activities, which use fuel and emit harmful greenhouse gases; and
- Influential role in supplier product lifecycles, from the ingredients that go into the products that we sell to the materials into which they are packaged.

Environmentally friendly practices

Until now we have tried, wherever practical, to be environmentally responsible by, for example:

- Ensuring that new sites were developed only after environmental impact assessment;
- Using reputable waste management companies to dispose of our hazardous waste;
- Conforming to legislation by only distributing plastic bags with a minimum thickness of 30 microns; and
- Collecting and compacting our paper and packaging waste for recycling.

Our objective

Our objective is to ensure that our operations comply in all respects with the provisions of the Occupational Health and Safety Act and with relevant national, provincial and local environmental legislation and regulations. We will specifically ensure that all Massmart entities comply with the relevant provisions of the National Environmental Management Act (NEMA) of 1998.

Dealing with fires at Makro

Over the past decade, three Makro outlets have been destroyed by devastating fires. Our response has been to institute stringent measures to prevent recurrence and safeguard our stakeholders' interests.

Affecting our stakeholders in many ways

During May 2004, our Makro Strubens Valley outlet was destroyed by fire. Fortunately injuries were limited, but the event was serious because it followed similar occurrences at Makro Crown Mines (1994) and at Makro Woodmead (2001).

We acknowledge that these events affect a wide range of our stakeholders. Not only do they compromise the health and safety of our in-store staff, customers and suppliers, but they affect the continued employment of our staff at affected sites; they disrupt supply and therefore business continuity for our wholesale customers; they impact business turnover in the commercial nodes surrounding our operations; they affect our business profitability and so potentially compromise our shareholders' investments; and, of course, they impact surrounding communities through the environmental effects of fire and fire-fighting, such as air- and water-borne pollution and noise.

Investment in prevention systems and training

Following the Woodmead fire in 2001, Makro appointed external risk consultants to evaluate fire risk at all stores. As a result, during the past three years we have spent R20 million on a wide range of appropriate measures to improve the fire prevention systems of each store.

We have also provided instruction to various staff members so that we now have 175 certified first-aiders, 334 fire fighters, 273 safety representatives and 50 zone controllers. Our Vikelela "Be safe" workshop (mandatory for all new employees) has also trained 2 462 staff on how to handle and store hazardous substances, identify safety signs and symbols, prevent and control fires, and follow correct procedures in the event of fire.

Combination of business models – four business models with different income statement structures, asset intensity, cash flow characteristics, cyclicality and seasonality and operating practices

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Dealing with fires at Makro continued

Ensuring additional safety during construction

The Strubens Valley fire was caused by external contractors who were busy with building extensions, despite the fact that we had already instituted additional special precautions that must be taken during any construction work at our stores.

Subsequently, we have instituted even more onerous policies relating to workmen on site. Because the Strubens roof insulation was the cause of the fire's rapid spread, we also immediately embarked on a country-wide programme to replace all roofing insulation with the most anti-inflammable material available.

Our actions after these fires also demonstrated that we were committed to returning our stores to operation as soon as possible, whilst re-deploying all our staff, at minimum inconvenience to them, in the interim.

Our proposed environmental framework includes an aspirational set of guidelines, that will be tempered by commercial reality – recognising that we will sometimes need to make trade-offs in order to integrate the imperatives of commercial, social and environmental sustainability. In terms of the framework, we will:

- Only occupy retail property for which a rigorous environmental impact assessment (EIA) has been conducted and that complies fully with all relevant national, provincial and local urban planning and environmental legislation and regulations;
- Be committed to creating a safe, healthy, comfortable and pleasant store environment that contributes positively to the retail experience of our customers and the workplace experience of our staff;
- Procure merchandise that meets prescribed national and international safety, health and environmental standards;
- Continue to ensure that the plastic shopping bags that are distributed to customers in our stores are re-usable and at least 30 microns in thickness;
- Handle and dispose of our waste through safe and responsible methods, and reduce waste through recycling wherever we can;
- Reduce our internal use of products and services that cause environmental damage or that pose health or safety hazards;
- Explore opportunities to conserve energy by improving energy consumption in our stores and offices;
- Endeavour to limit our store and office water consumption through water saving devices and staff training; and
- Attempt to reduce harmful emissions – principally by exploring the possible use of environmentally-friendly refrigerants and also by improving the efficiency of inbound logistics in order to reduce the frequency of roadbound deliveries to our stores.

Responsibility for giving practical effect to our environmental framework will rest with the divisional Managing Directors and their respective executive teams.

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na: not applicable
nr: not reported

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Financial review

Economic environment

The continued strength of the South African Rand against all major currencies, the negligible official inflation rate and low local interest rates during the year, form the economic backdrop to this review of the financial performance of the Massmart Group for the year to June 2004.

The annual change in general merchandise prices for the financial year, using our sales mix, averaged inflation of minus 2,4%. This resulted in Massdiscounters trading with deflation in stock and purchases for the entire year. Food inflation slowed dramatically but annual inflation, using our mix of sales, was 0,6% for this financial year. Certain basic foodstuffs, particularly maize, reported inflation of minus 0,6%. Inflation in liquor was 9,7%. The Group's weighted-average inflation rate for the financial year was minus 1,2%.

The impact of these various factors saw the remaining Group businesses trade with inflation levels close to zero.

Acquisitions

Masscash through CBW acquired Trident, the six-store food wholesale chain operating in Botswana, with effect from October 2003. In addition, CBW acquired two food wholesale stores operating in Alice and Ficksburg with effect from February 2004, and a third in Johannesburg with effect from December 2003.

The results for Builders Warehouse represent a full year but only four months in the prior year (acquired March 2003), and are included with Makro's results in the Masswarehouse Division.

Income statement

This review covers the consolidated income statement shown on page 64.

Sales

Total sales of R23 788 million increased by 16,8% over the prior year, both years representing 52 weeks' trading. Of the sales growth of 16,8%, existing businesses and stores contributed 10,7%, new stores added 1,3% and the Builders Warehouse and Trident acquisitions the remaining 4,8%.

The Group opened a net six new stores (eight opened and two closed) increasing its trading area by 5,4%, and including acquisitions by 10,7% to 648 923 m^2. The new stores were Game Kampala, Jumbo Nelspruit, CBW Kimberley and Klerksdorp, and Builders Warehouse Strubens Valley and Rustenburg (a Tile Warehouse and Builders Warehouse each). The stores closed were Jumbo Isipingo and Makro Office Moore Road in Durban.

Gross profit

Gross profit of R3 140 million reflects a 13,3% gross margin that is greater than the prior year's 12,9%. This increase had been anticipated given the full-year inclusion of Builders Warehouse's higher gross margins and the reduced promotional and markdown activity in Massdiscounters that had been required to move the excess stock reported in the previous year. The Group's gross margin is very dependent upon sales mix, but is expected to improve slightly, primarily in the general merchandise categories. The food industry remains highly competitive with the concomitant pressures on gross margins in certain food categories.

Other income

Other income of R108 million comprises royalties and franchise fees, property rentals, income from investments (excluding interest), finance charges from Massdiscounters' consumer credit book, and sundry management and administration fees. These are shown in more detail in note 2 on page 73.

Expenses

Total expenses of R2 320 million, excluding goodwill amortisation, represent 9,8% of sales. Although this ratio has improved significantly over the past five years, it is slightly higher than the prior year figure of 9,6%. Costs and cost-productivity remain an area of continual focus across the Group.

Due to ongoing store improvements and refurbishments, and expansion through new stores, the annual depreciation charge (this year R134 million) will generally increase over the prior year as it reflects the higher capital costs of these investments. Makro, in particular, and Game to a lesser extent, have been refurbishing certain of their major stores, and Makro opened two stores in October 2004, which will result in higher depreciation charges.

Goodwill amortisation (R75 million) includes goodwill arising from acquisitions, being Jumbo, Furnex, Builders Warehouse and Trident as well as goodwill arising on the buy-out of minority shareholders in the CBW stores. In terms of generally accepted accounting practice (GAAP), goodwill amortisation is excluded from the headline earnings and earnings per share (EPS) calculations.

Employment costs of R1 417 million are 21,2% higher than the prior year but, excluding acquisitions, are 15,7% higher. Due to the significant degree of incentivised remuneration for staff, management and executives in the Group, total employment costs will generally increase at a rate greater than inflation when exceptional performance is achieved. Total incentive payments across the Group make up 18,4% of employment costs. At 6,0% of sales, employment costs are higher than last year's equivalent figure of 5,7% and remain the Group's single largest operating cost. The Group's salary and wage increase settlements average 7% – 8% for the forthcoming financial year.

Occupancy costs, the Group's second biggest operating cost, increased 12,5% before acquisitions, but increased 20,1% to R491 million after acquisitions. As a percentage of sales, this figure at 2,1% is marginally higher than the prior year equivalent of 2,0%. Although approximately 30% of the stores in the Group have turnover clauses in their lease agreements, very few of these have been triggered by high turnovers, and therefore this operating cost category will increase by an annual average lease escalation of 8%, with an average lease term of approximately seven years.

Other significant items

Included in the net loss on disposal of moveable assets of R0,3 million is a R19 million loss incurred from the destruction by fire of the Makro Strubens Valley store in May 2004. The insurers have admitted liability and, apart from this R19 million loss, Makro is fully covered for all asset losses and costs, including lost profits while the store is being rebuilt and extending until it returns to normal trading profitability.

During the year, CBW streamlined its property portfolio, incurring a R24 million profit on disposal of the properties. This amount is included in the net R0,3 million loss above.

Included in operating profit is a net loss on foreign exchange translations of R38 million (prior year loss of R28 million). Of this, R24 million relates to realised and unrealised losses arising from Massdiscounters' African stores, and a further R7 million was recorded in CBW arising from the February 2004 devaluation of the Botswana currency. Unless the Rand strengthens further during 2005, foreign exchange losses of this magnitude should not be incurred again.

Operating profit

After accounting for the above and excluding goodwill amortisation, Group operating profit of R929 million is 24% ahead of prior year and has improved from 3,7% to 3,9% of sales. This improvement is mostly attributable to increased gross margins, driven primarily by the Group's portfolio mix. Given the cost increases highlighted above and the expected continuing low level of sales inflation, cost control and real sales growth remain key imperatives for the Group.

Net interest paid

Net interest paid of R7 million is significantly lower than the prior year figure of R50 million. Given the significantly lower South African commercial interest rates in the past year, total Group interest paid was expected to decrease in the current year. The focus by Massdiscounters on reducing its core in-stock levels through technology resulted in a net improvement in that business's working capital position of approximately R500 million. This enhanced the positive impact on interest paid.

Due to the planned large capital investment in new stores, the increase in cash tax paid and the lower dividend cover, despite lower interest rates and effective working capital management, it is expected that the Group will remain in a low net interest paid position for the year to June 2005. (Refer also to the net funding position and cash flows commentary below.)

Taxation

As anticipated, in the total tax charge of R275 million, the amount of current tax increased dramatically while the deferred tax charge reduced. In 2004, current tax represents almost the entire tax charge in contrast to 2003 where it represented just over half the tax charge. The reason for this shift was that a major trading subsidiary, Masstores (Pty) Limited, moved into a tax-paying position following the settlement with the South African Revenue Service (SARS). This settlement revolved around the 1998 valuation, for tax purposes, of the Game trademark and the corresponding tax allowances deducted annually since then. Despite SARS having issued a written ruling in May 2002 confirming the trademark valuation, this was withdrawn in October 2003. After discussions between the parties, the trademark valuation and related annual deduction was reduced with no direct impact on the current or previous income statements. SARS required that the terms of the settlement be confidential.

The Group's total effective taxation rate decreased from 32,9% to 32,5%. These figures include the impact of exceptional items which, if excluded, produces an effective headline earnings tax rate of 30,6%, similar to the prior year's comparable figure. In 2004, distributions were paid as a reduction of share premium, with a concomitant reduction in the secondary tax on companies (STC) component from 2,5% to 1,1%. This situation will change dramatically in the new financial year and beyond, due to the greater dividend payments and a return to paying normal cash dividends that will attract STC. The STC component will therefore nearly double. This change is being made to avoid adverse CGT consequences for our South African shareholders. Excluding the impact of STC, Massmart expects its future effective tax rate to be at or near the South African corporate rate of 30% although higher tax rates in certain foreign jurisdictions may marginally increase this.

Massmart is not concerned about any specific element of tax risk in the Group's historical tax returns, but there always remains the uncertainty that adjustments arising from potentially unfavourable tax assessments from the past tax returns, some of which have not yet been assessed by SARS, could impact future earnings. In addition, SARS can re-open any tax assessments within three years of issuing such assessment.

Headline earnings

Adjusting for goodwill amortisation and certain capital items (see note 8 on page 76), headline earnings of R634 million are 32,1% greater than the prior year. Slightly more shares in issue reduced the headline EPS increase to 31,5%. After adjusting for the potential future conversion of 7,3 million share options, diluted headline EPS of 307,5 cents is lower than actual headline EPS of 318,8 cents (calculated in terms of AC104).

Balance sheet

This review covers the consolidated balance sheet shown on page 65.

Fixed assets

Property, plant and equipment of R570 million and goodwill of R614 million together represent the greatest proportion of the Group's non-current assets. Over the past few years Massmart has begun investing heavily in refurbishing and building new stores and during this year R400 million was spent on property, plant and equipment. Of this, R136 million was replacement capital expenditure while the balance (R264 million) was invested in new capital assets, including eight new stores. Included in that balance is R152 million representing acquisitions of several minority interests in CBW property companies and stores. With annual depreciation of R134 million, the linkage between replacement capital expenditure (R136 million) and depreciation remains sound. A detailed reconciliation of the movements in property, plant and equipment is shown in note 9 on pages 77 and 78.

Goodwill increased by a net R114 million (after annual amortisation of R75 million), primarily from the CBW transactions referred to above.

Investments and loans

Other investments of R119 million are marginally higher than the prior year figure of R115 million. In September 2003 the 11,8% investment in Affinity Logic was sold and the shareholder's loan of R21 million repaid in cash, realising R25 million in total. Loans of R131 million primarily comprise an interest-free balance of R99 million owed by participants in the Massmart employee share purchase trust. During the year this loan amount reduced from R126 million due to employees selling shares and repaying the related loans. The finance lease deposit of R26 million is related to the financing of Makro Strubens Valley.

Current assets

Inventories of R2 357 million (2003: R2 237 million) represent approximately 42 days' sales (using the historic basis), an improvement on the prior year's figure of 46 days. Massdiscounters, as a retail discounter with 67 stores, has the highest inventory levels and its sales days in inventory are almost double that of Massmart's wholesale businesses (Masswarehouse and Masscash). During the year, Massdiscounters' focus on inventory management and core in-stock levels resulted in a decrease in net working capital in that business of approximately R500 million. This dramatic improvement shows itself in the relatively lower stock days' figure and in the cash generated from working capital.

Total accounts receivable and prepayments, net of provisions, of R1 995 million have increased by 29% over the prior year figure of R1 551 million. Included in this figure, however, is an amount of R109 million being the accrual of insurance proceeds due to Makro as a result of the Strubens Valley fire. This amount has been received subsequent to year-end. Excluding this amount, the increase in these balances is 22% in comparison to total sales growth of almost 17%. The reason for the increase in debtors exceeding that for sales is due partly to the nine stores acquired, including Trident, as well as new stores.

Of Massmart's total sales, approximately 2% represents consumer credit sales whilst cash accounts for 73% and trade credit for 25% of total sales respectively. Included in accounts receivable and prepayments are trade accounts receivable of R991 million and consumer accounts receivable of R265 million. Consumer accounts receivable, being hire-purchase and revolving credit, are found only in Massdiscounters. For more detail, refer also to the commentary on credit risk in the financial risks section below.

Due to creditor payments being made shortly after each month-end, cash balances in the Group at year-end are not representative of the average level of cash during the remaining period. The Group operated in a net borrowed position for most of the financial year and, given the planned capital expenditure and higher cash tax payments, will also be net borrowed for the 2005 financial year.

Non-current liabilities

These comprise medium-term bank loans and finance leases, deferred tax and long-term provisions. The medium-term bank loans include the remaining balances, raised three years ago, of two five-year loans with South African banks.

Details of non-current liabilities, excluding deferred tax, are included in notes 20 and 21 on pages 83 and 84. The long-term provisions include the actuarial valuation of the Group's potential liability arising from post-retirement medical aid contributions owed to current and future retirees. With effect from 1999, post-retirement medical aid benefits are no longer offered to new employees joining the Group.

Current liabilities

Accounts payable of R4 422 million (2003: R3 686 million) represent approximately 59 days of cost of sales (using the historic basis), which is higher than the prior year figure of 54 days.

The current taxation liability of R268 million was affected by the calendar cut-off of 27 June, with almost all of this liability being paid on 30 June as provisional tax payments.

Cash flow statement

The consolidated cash flow statement is shown on page 66.

Cash flow from trading of R1 015 million (2003: R849 million) is 19,6% higher than prior year and approximates operating profit before depreciation and amortisation of R1 062 million, demonstrating the cash underpinning of Massmart's earnings.

Cash taxation paid in 2005 will increase by approximately R250 million as a major Massmart subsidiary has moved into a tax paying position. Due to having fully provided for deferred tax, however, there will be no earnings impact.

The 100% increase in the final dividend will only appear in the 2005 cash flow statement as the final dividend is paid after the financial year-end.

As noted in the fixed assets section above, total capital expenditure (replacement and expansion) was R400 million. This expenditure is expected to continue at the same level for the next two years.

Financial risks

Liquidity risk

Liquidity risk is considered low due to the Group's conservative funding structure and its high cash generation. Massmart's liquidity requirements are continually assessed through the Group's cash management and treasury function. The Group has total banking facilities, incorporating overnight, short and medium-term borrowings, letters of credit, forward exchange contracts and electronic fund transfers, of R2 659 million. As at June 2004, total interest-bearing debt amounted to R362 million (2003: R353 million). For more detail refer also to note 33 on page 93.

As the Group begins to build inventory levels for the festive season, net interest-bearing debt will increase up to a maximum of approximately R800 million in November and December, but will reduce rapidly as Christmas sales accelerate.

Interest risk

Interest rate exposure is actively monitored due to the Group's significant intra-month cash movements and the seasonal changes in its net funding profile during the financial year. Of the two medium-term bank loans (note 20 on page 82), the interest rate on one loan was fixed and the other bears interest at a rate linked to the 90-day JIBAR.

Credit risk

Trade credit is available at Masswarehouse, Masscash and Masstrade and is adequately controlled by using appropriately trained personnel, applying strict credit granting criteria, continual monitoring and the use of software tools. A large portion of the trade debtors book in Shield is insured with an international insurance company and a further portion is secured through general notarial bonds, pledges and other forms of security.

Massmart is only exposed to consumer debt through its hire-purchase and revolving-credit debtors books in Massdiscounters. The net book of R264 million (2003: R237 million) is conservatively managed, adequately provided for and represents approximately seven months' credit sales. For more detail, refer also to note 33 on page 93.

Currency risk

Currency risk in the Group is actively managed. All foreign-denominated trading liabilities are covered by matching forward-exchange contracts. Foreign-denominated assets are not covered by forward exchange contracts as these are permanent assets held for the long term.

Accounting policies

The Board believes that the appropriate accounting policies, supported by sound and prudent management judgement and estimates, have been consistently applied except as noted below.

The Massmart Employee Share Trust was consolidated for the first time with the results and financial position of the Group. This was as a result of a general ruling issued during the year by the JSE Securities Exchange GAAP Monitoring Panel. The consolidation had no impact on the income statement but in the balance sheet amounts previously shown as being owed by the Trust are now shown as being owed by participants of the Trust. Comparative figures have been restated.

Due to the situation in Zimbabwe, the financial results and position of Makro's two stores in that country are still excluded from the Group results. Depending upon the exchange rate used (the official Zimbabwean Dollar rate is significantly below actual market rates), the pre-tax earnings excluded from Massmart's results are R1 – R2 million.

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 63 for more detail.

Dividends/distributions

Massmart's new dividend policy is to pay total annual cash distributions representing a 2,0 times cover ratio, unless circumstances dictate otherwise.

Gearing

Given the Group's high cash generation and its preference for leasing rather than owning stores, it is difficult to permanently gear, i.e. trade in a net interest-bearing debt position, without potentially reducing asset and equity returns. Strategically, Massmart would prefer some level of gearing, up to a maximum of 30%, in order to leverage the return on shareholders' equity. Given the higher cash tax payments, the higher level of dividends and the high level of capital expenditure, it is anticipated that the Group will be net borrowed, i.e. pay net interest, for the 2005 financial year and possibly the 2006 financial year.

Returns

Massmart is committed to delivering superior returns to shareholders. As part of this process, the divisions are recapitalised annually with shareholders' funds that are equivalent to the book value of long-term assets in each Chain. Each business therefore must fund its net working capital position through cash or interest-bearing debt, depending upon the characteristics of each business model. This process enables business or divisional returns to be evaluated and compared on a consistent basis across the Group. This recapitalisation policy has not yet been rigidly applied in CBW due to minority shareholders in that business.

The Group's medium-term targets are to exceed a 50% return on average capital employed (excluding goodwill and deferred tax assets) and to exceed a 30% return on average shareholders' equity (excluding intangibles previously written off). During the year, the return on average capital employed was 68,9% and the return on average shareholders' equity was 36,1%.

Adjusting for intangibles (goodwill and trademarks) previously written off, the return on average shareholders' equity exceeded 20%. Depending upon the purchase price, acquisitions in the retail and wholesale industry tend to generate significant accounting goodwill due to the relatively low net asset values of these business models.

Annual financial statements as at 30 June 2004

Approval of the annual financial statements

The annual financial statements were approved by the Board of directors on 26 October 2004 and signed on its behalf by:

MJ Lamberti
Chief Executive Officer and Deputy Chairman

GRC Hayward
Chief Financial Officer

Company Secretary certificate

I, Aubrey Cimring, the Company Secretary for Massmart Holdings Limited, certify that to the best of my knowledge and belief, all returns required of a public company have, in respect of the year under review, been lodged with the Registrar of Companies and that all such returns are true, correct and up to date.

A Cimring
Company Secretary

Annual compliance certificate for issuers with a primary listing on the JSE

I, the undersigned, Guy Robert Charles Hayward, being duly authorised hereto, certify to the JSE Securities Exchange South Africa ("the JSE") that Massmart Holdings Limited and its directors have, during the twelve months ended 30 June 2004 complied with all Listings Requirements and every disclosure requirement for continued listing on the JSE imposed by the JSE during that period.

GRC Hayward
Duly authorised hereto, for and on behalf of the directors of the Company

Report of the independent auditors

To the members of Massmart Holdings Limited

We have audited the annual financial statements and Group annual financial statements set out on pages 61 to 103 for the year ended 30 June 2004. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.
An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Company and the Group at 30 June 2004, and the results of their operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act in South Africa.

Deloitte & Touche

Deloitte & Touche
Registered Accountants and Auditors
Chartered Accountants (SA)
Johannesburg
26 October 2004

Directors' report

Directors' responsibilities

The directors acknowledge responsibility for the preparation of the annual financial statements, which, in their opinion, fairly present the results and cash flows for the financial year and the state of affairs of Massmart Holdings Limited and its subsidiaries at the end of the financial year.

The external auditors are responsible for reporting on the fair presentation of these financial statements.

The Company and its subsidiaries have maintained adequate accounting records and an effective system of internal controls to ensure the integrity of the underlying information.

Appropriate accounting policies, supported by sound and prudent managerial judgements and estimates, have been consistently applied except for the consolidation of the Massmart share trust.

The Audit Committee of the Board reviews the financial information presented and ensures that there has been adherence to South African Statements of Generally Accepted Accounting Practice. Internal and external auditors of Group companies have unrestricted access to the Committee.

Group financial results

The financial results of the Group are set out in the income statement on page 64, the cash flow statement on page 66 and the statement of changes in equity on page 67. The financial position of the Group is set out in the balance sheet on page 65.

Share capital

The following ordinary shares were in issue during the year under review:

Opening balance	198 587 492
Shares issued	603 205
Closing balance	199 190 697

Dividend/distribution policy

Massmart's new dividend/distribution policy is to declare and pay an interim and total annual distribution based on a two times cover, unless circumstances dictate otherwise.

Dividends/distribution to shareholders

With regard to the final distribution to shareholders, the directors resolved to propose to shareholders, registered in the books of the Company on 17 September 2004, a final cash distribution of 98 cents (2003: 49 cents) per share, bringing the total distribution for the year to 159 cents (2003: 97 cents) per share.

Directorate and Secretary

The current directorate of the Company is shown on pages 16 and 17.

The Company Secretary is Mr A Cimring, CA(SA).

Mr J Hodkinson and Ms P Langeni were appointed as independent, non-executive directors in August 2004.

In accordance with the provisions of the Company's articles of association, Messrs DG Barrett and JC Hodkinson and Ms P Langeni retire by rotation at the annual general meeting. Being eligible, Mr JC Hodkinson and Ms P Langeni offer themselves for re-election.

Messrs D Doijer, F Schukken, W Kirsh, S Leggatt and M Msimang resigned during the year.

Mr CS Seabrooke was appointed non-executive Chairman of the Board in July 2003, when the roles of Chairman and Chief Executive Officer were separated. Mr MJ Lamberti was appointed Deputy Chairman and Chief Executive Officer at this time.

Mr DG Barrett stepped down as Deputy Chief Executive Officer with effect from August 2003 but remained an executive director until December 2003. He remains a non-executive member of the Board until the next annual general meeting, at which time he retires by rotation, as per the articles of the Company.

Interests of directors in the Company's shares

At 30 June 2004, directors owned ordinary shares in the Company, or options over ordinary shares in the Company, directly or indirectly, aggregated as to beneficial and non-beneficial ownership, as follows:

	2004				2003			
	Shares		Options		Shares		Options	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Non-executive directors								
CS Seabrooke	–	150 000	118 300	–	–	100 000	118 300	–
DG Barrett *	217 500	–	250 000	–	517 500	–	325 000	–
MD Brand	–	–	–	–	–	–	–	—
ZL Combi	–	–	–	–	–	–	–	–
W Kirsh	–	–	–	–	–	–	19 500	–
S Leggatt	944 500	–	–	–	1 194 500	–	–	–
IN Matthews	–	–	–	–	–	–	–	–
P Maw	–	–	–	–	–	–	–	–
DNM Mokhobo	–	–	–	–	–	–	–	–
MJ Rubin	99 785	–	2 245	–	84 785	2 245	–	–
Executive directors								
MJ Lamberti	–	6 587 026	–	–	–	7 804 040	–	–
GRC Hayward	202 524	–	825 000	–	208 643	–	950 000	–

** Non executive director from 1 January 2004.*

At the date of this report, the directors' holdings were as follows:

	Shares		Options	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Non-executive directors				
CS Seabrooke	–	200 000	29 575	–
DG Barrett	217 500	–	250 000	–
MD Brand	–	–	–	–
ZL Combi	–	–	–	–
JC Hodkinson	–	–	–	–
P Langeni	–	–	–	–
IN Matthews	–	–	–	–
P Maw	–	–	–	–
DNM Mokhobo	–	–	–	–
MJ Rubin	100 000	2 245	–	–
Executive directors				
MJ Lamberti	–	6 587 026	–	–
GRC Hayward	202 524	–	625 000	–

Details of shares issued and options granted by the Company in terms of the rules of the Massmart share incentive scheme are dealt with in note 30 on page 90.

Director's service contract

At the 2002 annual general meeting, the Company obtained shareholders' approval of a four-year service contract with Mr MJ Lamberti. This was effective from 1 July 2003 and contains the following salient points:

- The duration of the contract is until 30 June 2007.
- There has been no change to his remuneration package as a result of the new contract.
- He has received an upfront allocation of one million shares from the share trust, which will vest over the four-year period of the contract, but he will not be eligible for future annual allocations which would have been usual in terms of the Group's incentive scheme.
- In the event of the Company wishing to terminate his contract early, his payout will be limited to one month for each year of service to the Group or the remaining period of the contract, whichever is the lesser.

Subsidiaries

Details of the Company's interests in material subsidiaries are set out in note 31 on page 91.

Borrowing powers

In terms of the articles of association, the Group has unlimited borrowing powers. At 30 June 2004, borrowings were R362 million (2003: R353 million).

Going concern

The directors are of the opinion that the business will be a going concern in the year ahead. In reaching this opinion, the directors considered the following factors:

- strong positive cash flows from trading;
- no recurring operating losses;
- well controlled working capital and good quality inventory;
- approved short and long-term financing, with sufficient additional short-term borrowing capacity if required;
- key executive management is in place;
- there have been no material changes that may effect the Group in any of our customer, product or geographic markets; and
- budgets to June 2005 reflect a continuation of the above positive issues.

Address

The Company's registered office and postal address are shown on the inside back cover of this annual report.

Subsequent events

In September 2004, the Board concluded the purchase of two Mica hardware stores. The two stores are now reported as part of Builders Warehouse.

On behalf of the Board

Aubrey Cimring
Company Secretary
26 October 2004

Consolidated income statement

for the year ended 30 June 2004

	Notes	Group 2004 Rm	Group 2003 Rm
Revenue	2	**23 943,9**	20 479,4
Sales		**23 787,7**	20 369,5
Cost of sales		**(20 647,6)**	(17 750,0)
Gross profit		**3 140,1**	2 619,5
Other income		**107,9**	81,8
Depreciation		**(133,5)**	(107,8)
Amortisation	10	**(74,6)**	(49,5)
Employment costs		**(1 416,6)**	(1 168,5)
Occupancy costs		**(491,0)**	(408,8)
Other operating costs		**(278,4)**	(268,5)
Operating profit	3	**853,9**	698,2
Net interest paid	4	**(7,2)**	(50,4)
Exceptional items	5	**–**	6,7
Net profit before taxation		**846,7**	654,5
Taxation	6	**(275,5)**	(215,2)
Net profit after taxation		**571,2**	439,3
Minority interests	19	**(8,9)**	(10,0)
Net profit for the year		**562,3**	429,3
Headline earnings	8	**634,2**	480,0
Earnings per share (cents)			
Attributable	8	**282,6**	216,8
Headline	8	**318,8**	242,4
Diluted attributable	8	**272,6**	210,7
Diluted headline	8	**307,5**	235,6
Dividend/distribution per share (cents)			
Interim	7	**61,0**	48,0
Final*	7	**98,0**	49,0

** Declared and paid after the financial year-end.*

Consolidated balance sheet

as at 30 June 2004

		Group	
	Notes	**2004 Rm**	2003 Rm
Assets			
Non-current assets		**1 580,3**	1 480,8
Property, plant and equipment	9	**570,1**	546,2
Goodwill	10	**614,0**	499,7
Other investments	11	**119,1**	114,7
Loans	12	**130,6**	163,1
Deferred taxation	13	**146,5**	157,1
Current assets		**5 460,1**	4 400,5
Inventories	14	**2 356,5**	2 236,7
Accounts receivable and prepayments	15	**1 994,5**	1 551,4
Taxation		**3,3**	0,3
Bank balances and cash		**1 105,8**	612,1
Total assets		**7 040,4**	5 881,3
Equity and liabilities			
Capital and reserves		**1 850,2**	1 666,1
Share capital	16	**2,0**	2,0
Share premium	17	**356,4**	494,5
Non-distributable reserves	18	**101,5**	159,7
Retained profit		**1 390,3**	1 009,9
Minority interests	19	**31,7**	22,4
Total equity		**1 881,9**	1 688,5
Non-current liabilities		**301,0**	305,7
Non-current liabilities	20	**202,1**	248,5
Non-current provisions	21	**34,0**	31,5
Deferred taxation	13	**64,9**	25,7
Current liabilities		**4 857,5**	3 887,1
Accounts payable		**4 422,2**	3 686,1
Provisions	22	**7,6**	24,6
Taxation		**268,1**	68,8
Current borrowings	20	**79,0**	58,9
Bank overdrafts		**80,6**	48,7
Total equity and liabilities		**7 040,4**	5 881,3

Consolidated cash flow statement

for the year ended 30 June 2004

		Group	
	Notes	**2004 Rm**	2003 Rm
Cash flow from operating activities			
Cash flow from trading	32.1	**1 015,2**	848,9
Working capital movements	32.2	**255,3**	(63,6)
Cash generated from operations		**1 270,5**	785,3
Interest received		**48,3**	28,1
Interest paid		**(53,8)**	(78,5)
Investment income		**19,0**	11,0
Taxation paid	32.3	**(124,2)**	(77,5)
Dividends/distribution to shareholders paid		**(218,7)**	(166,6)
Net cash inflow from operating activities		**941,1**	501,8
Cash flow from investing activities			
Investment to maintain operations	32.5	**(136,3)**	(83,6)
Investment to expand operations	32.6	**(263,3)**	(216,6)
Proceeds on disposal of property, plant and equipment	32.7	**61,5**	23,8
Investment in businesses/subsidiaries	32.8	**(89,9)**	(173,6)
Loans and other investments		**(7,3)**	(59,0)
Net cash outflow from investing activities		**(435,3)**	(509,0)
Cash flow from financing activities			
Shares issued (net of costs)		**12,8**	14,9
Increase in non-current liabilities		**20,4**	56,6
Increase in current borrowings		**21,6**	7,6
Non-current liabilities repaid		**(65,1)**	(48,3)
Acquisition of treasury shares		**(29,5)**	–
Net cash (outflow)/inflow from financing activities		**(39,8)**	30,8
Net increase in cash and cash equivalents		**466,0**	23,6
Foreign exchange losses taken to statement of changes in equity		**(4,2)**	(10,5)
Cash and cash equivalents at the beginning of the year		**563,4**	550,3
Cash and cash equivalents at the end of the year	32.9	**1 025,2**	563,4

Consolidated statement of changes in equity

for the year ended 30 June 2004

	Group						
	Share capital Rm	Share premium Rm	Non-distributable reserves* Rm	Translation reserve* Rm	Retained profit Rm	Minority interests Rm	**Total Rm**
Balance as at 30 June 2002	**2,0**	**479,6**	**169,4**	**17,5**	**745,5**	**12,7**	**1 426,7**
Accounting policy change	–	–	–	–	(6,1)	–	**(6,1)**
Net profit for the year	–	–	–	–	429,3	–	**429,3**
Exchange differences on translation	–	–	–	(10,5)	–	–	**(10,5)**
Transfers from/to retained profit arising as a result of:							
– amortisation of trademarks	–	–	4,5	–	(4,5)	–	**–**
– release of deferred taxation on trademarks	–	–	(21,2)	–	15,7	–	**(5,5)**
– share trust loss	–	–	–	–	(3,4)	–	**(3,4)**
Issue of shares (net of costs)	–	14,9	–	–	–	–	**14,9**
Changes in minority interests	–	–	–	–	–	(0,3)	**(0,3)**
Income attributable to minorities	–	–	–	–	–	10,0	**10,0**
Dividends declared (note 7)	–	–	–	–	(166,6)	–	**(166,6)**
Balance as at 30 June 2003	2,0	494,5	152,7	7,0	1 009,9	22,4	**1 688,5**
Net profit for the year	–	–	–	–	562,3	–	**562,3**
Exchange differences on translation	–	–	–	(7,8)	–	–	**(7,8)**
Transfers from/to retained profit arising as a result of:							
– release of deferred taxation on trademarks	–	–	(50,4)	–	(44,5)	–	**(94,9)**
– share trust loss	–	–	–	–	(40,1)	–	**(40,1)**
Issue of shares (net of costs)	–	12,8	–	–	–	–	**12,8**
Changes in minority interests	–	–	–	–	–	0,4	**0,4**
Income attributable to minorities	–	–	–	–	–	8,9	**8,9**
Dividends declared (note 7)	–	–	–	–	(97,3)	–	**(97,3)**
Share premium distribution to shareholders	–	(121,4)	–	–	–	–	**(121,4)**
Treasury shares	–	(29,5)	–	–	–	–	**(29,5)**
Balance as at 30 June 2004	2,0	356,4	102,3	(0,8)	1 390,3	31,7	**1 881,9**

** These reserves have been combined in the balance sheet as non-distributable reserves.*

Notes to the consolidated annual financial statements

1. Accounting policies

The financial information of the Massmart Group is prepared on the historical cost basis modified by the restatement of financial instruments to fair value.

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The principal accounting policies adopted are set out below. These policies have been consistently applied with prior years except for the consolidation of the Massmart Share Trust, in line with the ruling of the JSE's GAAP Monitoring Panel. Comparatives have been restated accordingly and there is no earnings impact. Group shares held by the Trust are now shown as treasury shares, which decreases the weighted average number of shares in issue.

Consolidation

The Group annual financial statements incorporate the annual financial statements of the Company and the entities it controls. Control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. The operating results of the subsidiaries are consolidated from the date on which effective control is transferred to the Group and up to the effective dates of disposal.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the effective date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair value of the assets and liabilities recognised.

Separate disclosure is made of minority interests where the Group's investment is less than 100%.

Intercompany transactions and balances have been eliminated.

Segmental information

The Group is organised into four divisions for operational and management purposes. Massmart reports its primary business segment information on this basis and on a secondary basis by significant geographical region based on location of assets.

Comparative figures

When an accounting policy is altered, comparative figures are restated if required by the applicable accounting statement and where material.

Discontinuing operations

Discontinuing operations are significant, distinguishable components of an enterprise that have been sold, abandoned or are the subject of formal plans for disposal or discontinuance. Once an operation has been identified as discontinuing, or is reclassified as continuing, comparative information is restated.

Interests in associates

An associate is an enterprise over which the Massmart Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee, but which it does not control.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any decline, other than a temporary decline, in the value of individual investments. The carrying amount reflects the Group's share of net assets of the associate and includes any goodwill on acquisition.

Where a Group enterprise transacts with an associate of the Massmart Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired entity at the effective date of acquisition.

Goodwill is reported in the balance sheet as an asset and is amortised using the straight line method over its estimated useful life. Current estimates of the useful life of goodwill do not exceed ten years.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the effective date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets and is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on the straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets.

To the extent that such goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is released to income immediately.

Property, plant and equipment

Freehold land is shown at cost and is not depreciated. Property, plant and equipment is shown at cost less accumulated depreciation, and reduced by any impairment.

Major improvements to property, plant and equipment are capitalised. Repairs and maintenance are expensed as and when incurred. Minor items of purchased property, plant and equipment are also recognised in the income statement as incurred. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised as income or expense in the period realised.

Computer software is capitalised where expenditure incurred will lead to future economic benefits accruing to the Group. Depreciation is provided on the straight-line basis at rates calculated to write off the cost, less the estimated residual value, over the expected useful life of the asset, as follows:

• Buildings	50 years
• Fixtures, fittings, plant, equipment and motor vehicles	4 to 8 years
• Computer equipment and software	3 to 8 years
• Leasehold improvements	Lease period

Assets held under finance leases, lease premiums and leasehold improvements are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. The amount of impairment loss treated as a revaluation loss is limited to the existing revaluation reserve relating to that asset.

Other than for goodwill, where an impairment loss subsequently reverses, the carrying amount of an asset (cash-generating unit) is increased to the revised estimate of its recoverable amount. This is done so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised in the income statement.

Financial instruments

Financial instruments recognised on the balance sheet include trade receivables, cash and cash equivalents, investments, accounts payable, interest-bearing debt and derivative instruments. Financial instruments are initially measured at cost. The subsequent measurement of the different classes of financial instruments are dealt with below. Where legally enforceable rights of offset exist for recognised financial assets and financial liabilities and the intention is to settle the liabilities and realise the assets simultaneously, such related financial assets and financial liabilities are offset.

Accounts receivable are stated at cost reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents are measured at fair value. For purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in money-market instruments, net of bank overdrafts.

Investments in securities are recognised at cost at trade date (the date the entity commits itself to purchase or sell a financial instrument). Subsequently, investments that the Group has the intention and ability to hold to maturity (held to maturity investments) are measured at amortised cost, using the effective interest rate method, less any impairment losses recognised to reflect irrecoverable amounts.

For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised, impaired or amortised.

Investments other than held-to-maturity investments are classified as either held for trading or available for sale, and are subsequently measured at fair value. Listed investments are carried at market value, which is calculated by reference to stock exchange quoted selling prices at the close of business on the balance sheet date. Other investments are shown at fair value.

Loans originated or created by the Group are held at amortised cost, comprising original debt less principal repayments and amortisations.

Financial liabilities, other than derivative instruments, are recognised at amortised cost, comprising original debt less principal payments and amortisations.

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Debt instruments issued, which carry a right to convert to equity that is dependent on the outcome of uncertainties beyond the control of both the Group and the holder, are classified as liabilities except where conversion is certain.

Financial liabilities include finance lease obligations, interest-bearing bank loans and overdrafts and trade and other payables. The accounting policy for finance lease obligations is outlined below.

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables are stated at their nominal value.

Equity instruments are recorded at the proceeds received, net of direct issue costs.

The Group uses derivative financial instruments including currency forward contracts and options to hedge its exposure to interest rate and foreign currency fluctuations. Such derivatives are initially measured at cost, if any, and are subsequently remeasured to fair value. It is the policy of the Group not to trade in derivative financial instruments for speculative purposes.

Unrealised gains and losses on available-for-sale investments are recognised directly in equity until the disposal or impairment of the relevant investment, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

Other gains and losses from the change in the fair value of financial instruments that are not part of a hedging relationship are included in net profit or loss in the period in which the change arises.

Changes in fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to firm commitments and forecasted transactions are recognised directly in equity. If the hedged firm commitment or forecasted transaction results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged firm commitment or forecasted transaction affects net profit or loss, for example, when the future sale actually occurs.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At the time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Foreign currencies

Transactions in currencies other than the Group reporting currency (South African Rands) are initially recorded at the rates of exchange ruling on the dates of the transactions. Massmart has a policy of covering forward all its foreign exchange liability transactions of a trading nature.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling on the balance sheet date. Exchange differences arising on the settlement of monetary items or on reporting an enterprise’s monetary items at rates different from those at which they were initially recorded are recognised as income or expenses in the period in which they arise. Non-monetary items are recorded at the rate applicable when the asset or liability was acquired.

Foreign investments

Foreign subsidiaries are classified either as foreign entities or integrated foreign operations, for the purposes of foreign currency translation. On consolidation, the monetary assets and liabilities of the Group’s foreign operations are translated into South African Rand at exchange rates ruling on the balance sheet date. Non-monetary assets and liabilities are translated at the rate applicable at the acquisition date of those assets and liabilities. Income and expense items are translated at the weighted-average exchange rates for the period. Exchange differences arising in respect of foreign entities, if any, are classified as equity and transferred to the Group's translation reserve, while exchange differences arising on the translation of integrated foreign operations are taken to the income statement. Translation differences that are transferred to the Group's translation reserves are recognised as income or expenses in the period in which the operation is disposed of.

Should a foreign currency crisis or long-term currency restriction arise in a country that the Group operates in, the results and financial position of the stores in that country would remain unconsolidated. Earnings would be accounted for on a cash-received basis. Summarised results for the unconsolidated business would only be shown as a supplementary note, if material.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor, net of finance charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the differences between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Inventories

Inventories, which consist of merchandise, are valued at the lower of cost and net realisable value. Cost is calculated on the weighted-average method.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The present value of long-term provisions are determined using a market-related discount rate.

Retirement benefit costs

Payments to defined contribution plans are charged as an expense as they fall due. There are no defined retirement benefit plans in the Massmart Group.

Post-retirement healthcare benefit

Post-retirement healthcare benefits are provided by certain Group companies to qualifying employees and pensioners. The healthcare benefit costs are determined through annual actuarial valuations by independent consulting actuaries using the projected unit credit method. Such gains or losses are recognised over the expected remaining working lives of the participating members. Adjustments are made annually through the income statement for provisions held for members who have already retired.

Taxation

The charge for taxation is based on the results for the year adjusted for items which are non-assessable or disallowed.

Deferred taxation is accounted for using the balance sheet method in respect of temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of assessable tax profit. In general, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities, which affects neither the tax profit nor the accounting profit at the time of the transaction.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Secondary taxation on companies (STC) is paid on net dividends paid and is recognised as a tax charge in the year it is incurred.

Any tax on capital gains is deferred if the proceeds of the sale of the assets are invested in similar assets. The tax will ultimately become payable on sale of the similar asset.

Dividends

Cash dividends paid by the Group are recorded and disclosed as dividends in the statement of changes in equity, in the year in which they are paid.

Revenue

Revenue of the Group comprises net sales, royalties, franchise fees, interest received, investment income, finance charges, property rentals, management and administration fees and dividends excluding value added tax.

Sales of goods are recognised when title has passed. Interest income is accrued on a time basis, by reference to the principal outstanding and the interest rate applicable. Dividend income from investments is recognised when the shareholders' rights to receive payment have been established. Other revenue is recognised on the accrual basis in accordance with the substance of the relevant agreements.

Exceptional items

Exceptional items cover those amounts which are not considered to be typical of the ongoing business.

Government grants

Government grants for staff training costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense. Income is not recognised until there is reasonable assurance that the grants will be received.

Participation in export partnerships

Participation in export partnerships is measured at amortised cost using the effective interest rate method. Amortised cost is the Group's cost of original participation less principal subsequent repayments received, plus the cumulative amortisation of the difference between the initial amount and the maturity amount less any write down for impairment.

Treasury shares

Shares in Massmart Holdings Limited held by a wholly-owned Group company are classified as treasury shares. These are treated as a deduction from the issued and weighted average number of shares and the cost price of the shares is deducted from Group equity. Dividends received on treasury shares are eliminated on consolidation.

	Group 2004 Rm	Group 2003 Rm
2. Revenue		
Sales	**23 787,7**	20 369,5
Interest received from investments	**48,3**	28,1
Income from investments	**31,8**	11,0
Finance charges	**58,7**	53,6
Dividends received	**43,6**	36,6
Less: Interest paid on a related liability	**(42,4)**	(36,8)
Royalties and franchise fees	**13,1**	13,3
Management and administration fees	**2,3**	3,3
Property rentals	**0,8**	0,8
	23 943,9	20 479,4
3. Operating profit		
Credits to operating profit include:		
Foreign exchange profit	**40,2**	20,8
Profit on disposal of property, plant and equipment	**25,0**	3,5
Charges to operating profit include:		
Depreciation (owned assets):		
Buildings	**2,5**	2,4
Fixtures, fittings, plant and equipment	**76,0**	66,6
Computer equipment	**33,0**	26,1
Leasehold improvements	**5,6**	3,8
Motor vehicles	**4,8**	3,4
Depreciation (leased assets):		
Buildings	**2,1**	1,6
Fixtures, fittings, plant and equipment	**0,5**	0,2
Computer equipment	**1,9**	1,7
Motor vehicles	**7,1**	2,0
Goodwill amortisation	**74,6**	49,5
Foreign exchange loss	**77,8**	48,8
Operating lease charges:		
Land and buildings	**390,4**	342,8
Plant and equipment	**17,1**	13,1
Computer equipment	**7,5**	6,6
Motor vehicles	**4,9**	5,6
Loss on disposal of property, plant and equipment	**6,1**	4,0
Loss on destruction of property due to fire	**19,2**	–
Fees payable:		
Administrative and outsourcing services	**58,7**	88,1
Consulting	**11,2**	11,0
Auditors' remuneration:		
Current year fee	**6,1**	4,4
Prior year underprovision	**0,8**	0,1
Tax advice	**0,9**	0,6
Consulting and business reviews	**0,6**	3,4
Contract assignments	**0,3**	1,3

	Group	
	2004	2003
	Rm	Rm
4. Net interest paid		
Interest received from investments	**48,3**	28,1
Interest paid on borrowings	**(55,5)**	(78,5)
Net interest paid	**(7,2)**	(50,4)

	Group		
	Net profit before taxation Rm	Taxation Rm	Net profit Rm
5. Exceptional items			
2004			
	–	–	–
2003			
Impairment of investment in Affinity Logic Holdings (Proprietary) Limited	(2,3)	–	(2,3)
Bad debt recovery on prior year VAT settlement	9,0	(2,7)	6,3
	6,7	(2,7)	4,0

	Group	
	2004	2003
	Rm	Rm

6. Taxation

	2004 Rm	2003 Rm
Current year:		
South African normal tax		
Current tax	**238,9**	90,4
Secondary tax on companies	**9,7**	16,3
Deferred tax	**10,2**	102,2
Foreign tax		
Current tax	**24,9**	16,3
Deferred tax	**(13,1)**	(11,5)
Tax effect of participation in export partnerships	**0,6**	(0,7)
Total	**271,2**	213,0
Prior year under/(over) provision:		
South African normal tax		
Current tax	**2,5**	1,1
Deferred tax	**1,4**	4,7
Foreign tax		
Current tax	**0,4**	(3,6)
	4,3	2,2
Total	**275,5**	215,2

Two companies in the Group participate in export partnerships. As the companies are liable for the tax effect of the participation, the amount is classified as a tax charge.

Following the introduction of capital gains tax, all significant assets (including business units) have been valued for submission to the authorities with the tax return first submitted after 30 September 2004. During the current reporting period no significant capital gains or losses were realised.

	%	%
The rate of taxation is reconciled as follows:		
Standard corporate tax rate	**30,0**	30,0
Exempt income	**(2,5)**	(2,7)
Disallowable expenditure	**3,1**	3,3
Withholding taxation	**0,4**	(0,7)
Prior year under provision	**0,5**	0,4
Secondary tax on companies	**1,1**	2,5
Other	**(0,1)**	0,1
Effective rate	**32,5**	32,9

	Group 2004 Rm	Group 2003 Rm
7. Dividends/distribution to shareholders paid		
Final cash dividend No 7 (2003: No 5)	**97,3**	71,3
Interim cash distribution No 8 (2003: No 6)	**121,4**	95,3
Total dividend/distributions paid	**218,7**	166,6

No 7 of 49 cents declared on 19 August 2003 and paid on 15 September 2003 (R97,3 million).
No 8 of 61 cents declared on 25 February 2004 and paid on 23 March 2004 (R121,4 million).
No 9 of 98 cents declared on 25 August 2004 and paid on 20 September 2004 (R128,1 million).

Distribution No 8 and No 9 were paid by way of a reduction of share premium as per note 17.

	Group			
	2004 Rm	2003 Rm	**2004 Cents/share**	2003 Cents/share
8. Earnings per share				
Attributable and headline earnings per share				
The calculation of attributable and headline earnings per share is based on a weighted average of 198 950 759 (2003: 198 050 019) ordinary shares.				
The calculation is reconciled as follows:				
Net profit attributable to ordinary shareholders	**562,3**	429,3	**282,6**	216,8
Adjustments after taxation and minorities:				
Exceptional items – capital	**–**	2,3	**–**	1,2
Profit on disposal of movable assets	**(2,7)**	(0,5)	**(1,4)**	(0,3)
Goodwill amortisation	**74,6**	48,9	**37,6**	24,7
Headline earnings	**634,2**	480,0	**318,8**	242,4
Diluted attributable and diluted headline earnings per share				
The calculation of diluted attributable and diluted headline earnings per share is based on a weighted-average of 206 244 459 (2003: 203 762 636) ordinary shares.				
The calculations are reconciled as follows:				
Net profit attributable to ordinary shareholders	**562,3**	429,3	**282,6**	216,8
Adjustment for impact of issuing ordinary shares	**–**	–	**(10,0)**	(6,1)
Diluted attributable earnings	**562,3**	429,3	**272,6**	210,7
Headline earnings	**634,2**	480,0	**318,8**	242,4
Adjustment for impact of issuing ordinary shares	**–**	–	**(11,3)**	(6,8)
Diluted headline earnings	**634,2**	480,0	**307,5**	235,6

	Group		
	Cost/ carrying value Rm	Accumu-lated depreciation Rm	Net book value Rm
9. Property, plant and equipment			
2004			
Owned assets			
Freehold land and buildings	**73,6**	**1,6**	**72,0**
Fixtures, fittings, plant and equipment	**699,7**	**416,2**	**283,5**
Computer equipment	**224,7**	**119,9**	**104,8**
Leasehold improvements	**94,0**	**24,4**	**69,6**
Motor vehicles	**24,2**	**8,6**	**15,6**
	1 116,2	**570,7**	**545,5**
Capitalised leased assets			
Freehold land and buildings	**18,3**	**3,7**	**14,6**
Fixtures, fittings, plant and equipment	**3,0**	**0,7**	**2,3**
Computer equipment	**4,9**	**3,7**	**1,2**
Motor vehicles	**15,0**	**8,5**	**6,5**
	41,2	**16,6**	**24,6**
Total	**1 157,4**	**587,3**	**570,1**
2003			
Owned assets			
Freehold land and buildings	110,2	2,6	107,6
Fixtures, fittings, plant and equipment	602,1	334,1	268,0
Computer equipment	145,6	91,0	54,6
Leasehold improvements	53,7	21,8	31,9
Motor vehicles	22,4	10,0	12,4
	934,0	459,5	474,5
Capitalised leased assets			
Freehold land and buildings	57,8	1,6	56,2
Fixtures, fittings, plant and equipment	3,0	0,2	2,8
Computer equipment	4,6	1,9	2,7
Motor vehicles	13,7	3,7	10,0
	79,1	7,4	71,7
Total	1 013,1	466,9	546,2

A register of land and buildings as required by the Companies Act is available for inspection by members at the registered offices of the companies in the Group.

Certain capitalised leased property, plant and equipment is encumbered as per note 20 (page 82).

9. Property, plant and equipment continued

Reconciliation of property, plant and equipment

	Group								
	Opening net book value Rm	Additions Rm	Additions through acquisitions Rm	Disposals Rm	Depreciation Rm	Foreign exchange gain/(loss) Rm	Reclassifications Rm	Write-offs Rm	Closing net book value Rm
2004									
Owned assets									
Freehold land and buildings	107,6	6,9	2,0	(33,2)	(2,5)	(0,3)	(8,5)	–	72,0
Fixtures, fittings, plant and equipment	268,0	106,6	3,5	(3,0)	(76,0)	(2,2)	–	(13,4)	283,5
Computer equipment	54,6	84,2	1,6	(3,0)	(33,0)	0,7	0,5	(0,8)	104,8
Leasehold improvements	31,9	33,2	0,4	(0,1)	(5,6)	1,5	8,5	(0,2)	69,6
Motor vehicles	12,4	7,4	4,7	(2,6)	(4,8)	(1,5)	–	–	15,6
	474,5	238,3	12,2	(41,9)	(121,9)	(1,8)	0,5	(14,4)	545,5
Capitalised leased assets									
Freehold land and buildings	56,2	4,8	–	–	(2,1)	–	–	(44,3)	14,6
Fixtures, fittings, plant and equipment	2,8	–	–	–	(0,5)	–	–	–	2,3
Computer equipment	2,7	0,4	–	–	(1,9)	–	–	–	1,2
Motor vehicles	10,0	4,3	–	(0,7)	(7,1)	–	–	–	6,5
	71,7	9,5	–	(0,7)	(11,6)	–	–	(44,3)	24,6
Total	546,2	247,8	12,2	(42,6)	(133,5)	(1,8)	0,5	(58,7)	570,1
2003									
Owned assets									
Freehold land and buildings	78,2	50,5	–	(18,7)	(2,4)	–			107,6
Fixtures, fittings, plant and equipment	216,8	105,5	9,7	(2,7)	(66,6)	5,3			268,0
Computer equipment	48,7	37,2	2,0	(0,7)	(26,1)	(6,5)			54,6
Leasehold improvements	18,1	15,4	1,4	–	(3,8)	0,8			31,9
Motor vehicles	8,2	6,7	2,0	(1,1)	(3,4)	–			12,4
	370,0	215,3	15,1	(23,2)	(102,3)	(0,4)			474,5
Capitalised leased assets									
Freehold land and buildings	–	57,8		–	(1,6)	–			56,2
Fixtures, fittings, plant and equipment	–	3,0		–	(0,2)	–			2,8
Computer equipment	1,5	2,9		–	(1,7)	–			2,7
Motor vehicles	9,2	4,0		(1,1)	(2,0)	(0,1)			10,0
	10,7	67,7		(1,1)	(5,5)	(0,1)			71,7
Total	380,7	283,0	15,1	(24,3)	(107,8)	(0,5)			546,2

10. Goodwill

	Group		
	Cost Rm	Accumulated amortisation Rm	Net carrying value Rm
2004			
Goodwill	**786,9**	**172,9**	**614,0**
2003			
Goodwill	598,0	98,3	499,7

	2004 Rm	2003 Rm
Reconciliation of goodwill:		
Opening carrying value	**499,7**	383,7
Additions	**192,9**	165,5
Amortisation charge (written off over ten years)	**(74,6)**	(49,5)
Exchange differences	**(3,5)**	–
Reclassification to property, plant and equipment	**(0,5)**	–
Closing carrying value	**614,0**	499,7

11. Other investments

	Group	
	2004 Rm	2003 Rm
Unlisted investments		
Available for sale		
Investment opening balance	**25,1**	34,5
Fair value adjustments taken to income statement	**–**	(9,4)
Disposals	**(25,1)**	–
	–	25,1
Held for trading		
Investment opening balance	**28,1**	18,0
Fair value adjustments taken to income statement	**31,9**	10,1
	60,0	28,1
Originated loans and receivables		
Opening balance	**13,1**	12,0
Impairment taken to income statement	**(0,6)**	1,1
	12,5	13,1
Held to maturity		
Preference share investment	**315,5**	273,2
Offset of related long-term liability	**(269,2)**	(225,1)
Other investments	**0,3**	0,3
	46,6	48,4
	119,1	114,7

The directors' value the unlisted investments, net of the offset of the related long-term liability, at R119,1 million (2003: R114,7 million).

The preference share investment represents cumulative preference shares in Fullimput 65 (Proprietary) Limited. A long-term liability of the Group is secured by a cession of the preference shares and legal offset is permitted.

In September 2003, the 11,8% investment in Affinity Logic Holdings (Proprietary) Limited, which included shareholder's loan repayments, was sold to UCS Holding Limited for R25,1 million. This was shown as an "Available for sale" investment.

For AC133 accounting treatment of these investments, see note 33, "Financial risk management".

	Group	
	2004	2003
	Rm	Rm
12. Loans		
Housing loans to Massmart Holdings Limited directors:		
Balance at the beginning of the year	**1,2**	1,5
Repayments	**(0,1)**	(0,3)
Balance at the end of the year	**1,1**	1,2
Other housing and staff loans	**4,0**	5,2
Employee share trust participants	**99,4**	125,6
Finance lease deposit	**26,1**	22,8
Other	**–**	8,3
	129,5	161,9
	130,6	163,1

These loans are classified as “Originating loans and receivables” for AC133 purposes. See note 33, “Financial risk management”, for AC133 accounting treatment.

All housing and staff loans, including loans to directors, bear interest at various rates below the prime interest rate. The loans to the employee share trust participants, including directors, are interest-free and are secured by the underlying shares. The finance lease deposit bears interest at 13,6%.

	2004	2003
	Rm	Rm
13. Deferred taxation		
The major movements during the period are analysed as follows:		
Net asset at the beginning of the year	**131,4**	225,1
Written off to income for the year	**1,5**	(95,4)
Net adjustment to equity arising on changes to tax value of trademarks	**(82,6)**	(5,5)
Net realisation of prior year assessed loss	**31,3**	–
Arising from acquisitions	**–**	7,2
Net asset at the end of the year	**81,6**	131,4
The major components of deferred taxation are analysed as follows:		
Trademarks	**63,8**	81,1
Assessed loss unutilised	**48,2**	42,2
Export partnerships	**(9,1)**	(4,5)
Debtors provisions	**7,8**	9,5
Prepayments	**(44,3)**	(32,0)
Creditors provisions	**41,9**	34,5
Property, plant and equipment	**(25,2)**	(6,7)
Finance leases	**20,0**	1,2
Long-term provisions	**10,4**	13,5
Deferred income	**1,1**	6,8
Other temporary differences	**(33,0)**	(14,2)
	81,6	131,4
The net deferred tax position is reconciled as follows:		
Deferred taxation assets	**146,5**	157,1
Deferred taxation liabilities	**(64,9)**	(25,7)
	81,6	131,4

	Group	
	2004	2003
	Rm	Rm

14. Inventories

Merchandise	**2 356,5**	2 236,7
Inventories are carried at the lower of cost or net realisable value		
Inventories carried at net realisable value included above	**14,6**	231,3

15. Accounts receivable and prepayments

Net trade accounts receivable	**991,2**	712,9
Net consumer accounts receivable	**264,5**	237,2
Prepayments	**173,2**	134,4
Other accounts receivable	**565,6**	466,9
	1 994,5	1 551,4

Accounts receivables and prepayments are classified as “Originated loans and receivables” for AC133 purposes. See note 33, “Financial risk management” for AC133 accounting treatment.

In the prior year, R87,3 million, originally offset against accounts payable, has been reclassified to other accounts receivable.

16. Share capital

Authorised		
500 000 000 (2003: 500 000 000) ordinary shares of 1 cent each	**5,0**	5,0
Issued		
199 190 697 (2003: 198 587 492) ordinary shares of 1 cent each	**2,0**	2,0

Except for the issue of 603 205 shares for the purchase of the minorities in CCW Wholesalers (Proprietary) Limited, there were no other movements in the share capital of the Company during the current reporting period.

In terms of the share buyback authority granted by shareholders, Massmart acquired a total of 2 413 711 shares during the year, representing 1,2% of the shares in issue at June 2004. The shares were acquired at an average price of R26,76 for a total consideration of R64,6 million by a wholly-owned subsidiary of Massmart. Shares not utilised by the Massmart Share Trust during the year have been treated as treasury shares at the year-end.

The directors have the authority, until the next annual general meeting, to issue ordinary shares of the Company up to a maximum of 5% of the shares already issued.

	Group	
	2004	2003
	Rm	Rm

17. Share premium

Opening balance	**494,5**	479,6
Premium on shares issued during the year (net of costs)	**12,8**	14,9
Distribution to shareholders	**(121,4)**	–
Treasury shares	**(29,5)**	–
	356,4	494,5

	Group 2004 Rm	Group 2003 Rm
18. Non-distributable reserves		
Foreign currency translation reserve	**(1,0)**	6,8
Capital redemption reserve fund	**0,2**	0,2
Deferred taxation on trademarks	**23,9**	74,3
Amortisation of trademarks	**77,9**	77,9
Change in minority interests	**0,5**	0,5
	101,5	159,7
19. Minority interests		
At the beginning of the year	**22,4**	12,7
Changes in minority interests	**0,4**	(0,3)
Share of net profit of subsidiaries	**8,9**	10,0
At the end of the year	**31,7**	22,4
20. Non-current liabilities		
Unsecured		
Minority shareholders' loans	**30,8**	3,4
Less: Included in current borrowings	**(11,0)**	–
Secured		
Medium-term bank loans	**173,2**	228,7
Less: Included in current borrowings	**(64,4)**	(54,9)
Foreign bank loan	**48,4**	–
Less: Related cash deposit	**(48,4)**	–
	128,6	177,2
For AC133 classification of these loans see note 33, "Financial risk management".		
Capitalised finance leases	**77,1**	75,3
Less: Included in current borrowings	**(3,6)**	(4,0)
	73,5	71,3
Total non-current liabilities	**202,1**	248,5

The minority shareholders' loans are interest-bearing at market-related rates and are repayable within two years.

Two medium-term bank loans, raised in 2002, are repayable in ten equal instalments over five years.
One loan bears interest at a fixed rate of 6,6% and the other bears interest at a floating rate linked to the ninety-day JIBAR. The loans are secured by intra-group cross-suretyships. The foreign bank loan relates to a US dollar denominated loan in one of Massdiscounter's foreign operations which has a legal right of offset with a US Dollar denominated cash deposit.

Capitalised finance leases include vehicle and property leases, repayable in monthly instalments varying from one to five years at varying interest rates, some linked to the prime overdraft rate and one fixed at 13,8%.

The capitalised finance leases are secured by moveable assets of R6,5 million (2003: R10,0 million) and the property lease by the value of the underlying land.

20. Non-current liabilities continued

The maturity profile of amounts payable under finance leases and the medium-term bank loans is as follows:

	Repayable within 1 year* Rm	Repayable in 2 – 5 years Rm	Repayable after 5 years Rm	Total Rm
Bank loans				
Amount owing	**79,7**	**119,4**	**–**	**199,1**
Less: Future finance charges	**(15,3)**	**(10,6)**	**–**	**(25,9)**
Present value of obligations	**64,4**	**108,8**	**–**	**173,2**
Minority shareholder loans				
Amount owing	**14,0**	**22,2**	**–**	**36,2**
Less: Future finance changes	**(3,0)**	**(2,4)**	**–**	**(5,4)**
Present value of obligations	**11,0**	**19,8**	**–**	**30,8**
Capitalised finance leases				
Amount owing	**12,5**	**39,2**	**96,6**	**148,3**
Less: Future finance charges	**(8,9)**	**(26,0)**	**(36,3)**	**(71,2)**
Present value of obligations	**3,6**	**13,2**	**60,3**	**77,1**

** Included in current borrowings on the balance sheet.*

For AC133 accounting treatment, see note 33, "Financial risk management".

	Group	
	2004 Rm	2003 Rm

21. Non-current provisions

	2004 Rm	2003 Rm
Onerous lease provision	**5,2**	6,0
Less: Payable within one year included in current provisions	**(0,8)**	(0,9)
Provision for post-retirement medical aid contributions and other medical aid provisions	**29,6**	29,3
Less: Included in current provisions	**–**	(2,9)
	34,0	31,5

	Repayable within 1 year* Rm	Repayable in 2 – 5 years Rm	Repayable after 5 years Rm	Total Rm
Non-current provisions	**0,8**	**3,0**	**31,0**	**34,8**

** Included in current provisions in note 22.*

Certain Group companies provide post-retirement healthcare benefits to their retirees. The method of accounting for and the frequency of valuing this potential liability is the projected unit credit method. This liability is unfunded. The main assumption used in calculating the costs and provisions is an "interest rate – medical inflation rate" gap of 2%. This is consistent with the assumptions applied in the prior year.

	Group	
	2004	2003
	Rm	Rm

21. Non-current provisions continued

The last valuation of the liability for post-retirement medical aid contributions was performed as at June 2004. The current year costs have been assessed in accordance with the advice of independent actuaries.

	Group 2004 Rm	Group 2003 Rm
The net expense recognised in the income statement is:		
Net (expense)/release recognised as part of employment costs	**(0,3)**	1,3

22. Provisions

	Group 2004 Rm	Group 2003 Rm
Restructuring costs raised on acquisition	**6,8**	18,1
Property refinancing costs	**–**	2,7
Medical aid under-funding	**–**	2,9
Onerous lease provision	**0,8**	0,9
	7,6	24,6

Provisions raised against specific assets, for example inventories and accounts receivable, are offset against those assets.

	Group			
	Opening balance Rm	Amounts provided Rm	Amounts utilised Rm	Closing balance Rm
Reconciliation of provisions				
2004				
Restructuring costs raised on acquisition	**18,1**	**–**	**(11,3)**	**6,8**
Property refinancing costs	**2,7**	**–**	**(2,7)**	**–**
Post-retirement medical aid	**2,9**	**–**	**(2,9)**	**–**
Onerous lease provision	**0,9**	**0,8**	**(0,9)**	**0,8**
	24,6	**0,8**	**(17,8)**	**7,6**
2003				
Restructuring costs raised on acquisition	20,8	13,2	(15,9)	18,1
Property refinancing costs	–	2,7	–	2,7
Post-retirement medical aid	–	2,9	–	2,9
Onerous lease provision	–	1,6	(0,7)	0,9
Provision for profit warranty	13,5	–	(13,5)	–
	34,3	20,4	(30,1)	24,6

	Group 2004 000s	Group 2003 000s

23. Employee share incentive scheme

	2004 000s	2003 000s
Total shares and options available to the scheme	**39 500**	39 500
Opening balance of shares and options	**29 203**	28 621
New shares and options offered to employees and executive directors	**2 853**	4 025
Shares sold by employees and directors	**(5 981)**	(2 662)
Shares repurchased from/forfeited by employees and options lapsed/forfeited	**(1 324)**	(781)
Closing balance of shares and options	**24 751**	29 203

The closing balance includes 10 311 419 (2003: 13 469 365) shares and 14 439 403 (2003: 15 733 617) options. Shares and options previously issued to employees who subsequently left the Massmart Group are excluded from the figures above. This has the effect of enabling these shares and options to be re-issued in terms of the employee share incentive scheme.

The following options granted to employees and directors in terms of the employee share incentive scheme have not yet been exercised:

	Exercise price (R)	Number of options 2004	Number of options 2003
Offer date			
1 October 1998	4,29	**10 959**	147 575
22 September 1999	12,37	**886 092**	1 445 340
10 March 2000	14,61	**822 411**	1 014 324
13 November 2000	12,25	**956 695**	1 354 695
12 April 2001	8,00	**202 500**	232 500
27 August 2001	10,95	**4 744 906**	6 465 398
16 January 2002	12,03	**433 600**	450 000
11 March 2002	11,00	**–**	300 000
22 May 2002	13,88	**1 370 855**	1 862 412
31 October 2002	15,23	**41 137**	41 137
15 November 2002	17,30	**51 324**	51 324
19 November 2002	17,43	**150 000**	150 000
1 December 2002	17,80	**49 000**	49 000
1 January 2003	18,30	**57 231**	57 231
1 February 2003	18,90	**117 987**	117 987
1 March 2003	18,80	**24 913**	24 913
1 April 2003	17,82	**543 386**	597 141
1 May 2003	18,06	**151 453**	111 453
27 May 2003	18,98	**1 173 599**	1 261 187
31 May 2003	19,14	**472 286**	
1 September 2003	24,59	**167 971**	
1 November 2003	28,20	**60 000**	
26 February 2004	27,63	**183 119**	
1 March 2004	27,90	**9 904**	
1 April 2004	30,22	**25 996**	
15 April 2004	32,55	**19 454**	
26 May 2004	29,87	**1 006 294**	
31 May 2004	30,20	**706 331**	
		14 439 403	15 733 617

23. Employee share incentive scheme continued

Options may be exercised at any time but shares arising out of options may only be sold when they have vested with the participant. Vesting occurs over a five-year period as follows:
25% two years after the offer date,
50% three years after the offer date,
75% four years after the offer date, and
100% five years after the offer date.

In terms of the scheme rules, all share loans on offers made prior to 22 May 2002 must be repaid or options exercised no later than ten years from the offer date. For subsequent offers, share loans must be repaid or option exercised no later than six years from the offer date.

24. Retirement benefit information

All full-time permanent Massmart staff are members of the Massmart pension fund, the Massmart provident fund or the SACCAWU National provident fund. These funds are defined contribution funds and are subject to the Pension Funds Act, 1956. The Massmart pension fund and the Massmart provident fund require an actuarial valuation every three years. These funds came into existence on 1 March 2001 as a result of the rationalisation of the Massmart Group retirement fund with various funds taken over in the acquisition of Game. The valuator certified that the funds were financially sound at 29 February 2004 and that the assets were suitable in nature, in terms of the liabilities as at the valuation date. The next actuarial valuation will be at 28 February 2005.

Contributions received by the funds for the year ended 30 June 2004 amounted to R102 million (2003: R86 million). The Company contribution of R62 million (2003: R52 million) was included in the income statement for the year.

25. Commitments

	Group	
	2004 Rm	2003 Rm
Commitments in respect of capital expenditure approved by directors:		
Contracted for	**41,3**	103,1
Not contracted for	**168,3**	47,5
	209,6	150,6

This expenditure includes the planned expenditure on the Makro Wonderboom store. The expenditure which will become payable in the following year will be financed from Group resources, and if required, additional borrowings.

Massmart has options to purchase the minority shareholdings in various CBW stores. Historically, Massmart has exercised these options. The amount to be paid in future, should the options be exercised, totals R74 million.

	Group	
	2004	2003
	Rm	Rm

26. Operating lease commitments

	2004 Rm	2003 Rm
Land and buildings		
Year 1	**436,9**	411,6
Years 2 to 5	**2 073,3**	1 820,6
Subsequent to year 5	**1 769,7**	1 946,0
	4 279,9	4 178,2
Plant and equipment		
Year 1	**20,1**	7,5
Years 2 to 5	**29,3**	14,1
Subsequent to year 5	**–**	–
	49,4	21,6
Other		
Year 1	**9,3**	11,8
Years 2 to 5	**15,6**	11,9
Subsequent to year 5	**1,7**	–
	26,6	23,7

Promissory notes that represent commitments under non-cancellable operating leases of R1 368 million (2003: R1 452 million) entered into by Masstores (Proprietary) Limited on behalf of Makro are included in operating lease commitments in land and buildings. These leases terminate in December 2020 and have a discounted present value of R767 million (2003: R697 million). In accordance with AC105, the rentals paid are amortised over the entire remaining lease period.

	Group	
	2004	2003
	Rm	Rm

27. Contingent liabilities

	2004 Rm	2003 Rm
Guarantees in respect of creditors of subsidiary company	**2,2**	0,8

There are no legal or arbitration proceedings, of which the Group is aware, which would have a material effect on the Group's financial position.

	Group	
	2004	2003
	Rm	Rm
28. Related-party transactions		
On 21 January 2004, the Netherlands-based SHV sold its 30,9% shareholding in Massmart. For details of major shareholders at 30 June 2004 see page 104.		
Trading transactions		
During the year, Group companies entered into the following trading related transactions.		
Fees paid		
Affinity Logic Holdings (Proprietary) Limited*	**58,1**	86,7
Fees received		
Affinity Logic Holdings (Proprietary) Limited	**1,0**	3,3
The above transactions were carried out at market-related prices.		

** These are outsourcing fees for information technology services.*

During the year, Massmart Holdings Limited bought out the minority shareholders in CCW Wholesalers (Proprietary) Limited for approximately R68,4 million. Included was R37,8 million paid to Mr R Wright, a member of the Massmart Executive Committee, by way of cash and Massmart shares. The Massmart Group now owns 100% of this subsidiary company.

In August 2003, Mr R Wright's minority shareholding in certain subsidiary property companies was bought by CBW Holdings (Proprietary) Limited. These property companies lease stores, on an arm's length basis and at market-related rates to CCW Wholesalers (Proprietary) Limited and its subsidiaries.

In October 2003, an additional amount of R9,3 million was paid to Mr D Brouze, a then director of Furnex Stores (Proprietary) Limited, arising from the January 2002 Furnex acquisition.

29. Directors' emoluments

	Services as directors of Massmart Holdings Ltd R000	Salary and allow-ances R000	Bonuses and perfor-mance related pay-ments[8] R000	Other benefits R000	Retire-ment and related benefits R000	Other-wise in connec-tion with the affairs of Massmart Holdings Ltd R000	Sub-total R000	Fringe benefit of interest-free loans used to finance shares[9] R000	Gains on exercise of share options[9] R000	Total R000
For the year ended 30 June 2004										
Executive directors										
Lamberti, MJ[1]		2 400	3 550	391	195	–	6 536	3 471	–	10 007
Lamberti, MJ[2]		–	–	–	–	–	–	1 865	–	1 865
Barrett, DG[3]		850	850	75	91	–	1 866	205	–	2 071
Hayward, GRC		1 380	1 466	190	149	–	3 185	281	1 766	5 232
Total	**–**	**4 630**	**5 866**	**656**	**435**	**–**	**11 587**	**5 822**	**1 766**	**19 175**
Non-executive directors										
Seabrooke, CS[4]	600						600			600
Barrett, DG[3]	108						108	98	1 589	1 795
Brand, MD[5]	215						215			215
Combi, ZL	145						145			145
Kirsh, W[6]	145						145	–	501	646
Leggatt, S[6]	215						215	503	–	718
Matthews, IN	590					30	620			620
Maw, P	285						285			285
Mokhobo, DNM	215						215			215
Msimang, M[7]	73						73			73
Rubin, MJ	145						145	116	–	261
Schukken, F[7]	143						143	–	–	143
Total	**2 879**	**–**	**–**	**–**	**–**	**30**	**2 909**	**717**	**2 090**	**5 716**
Total	**2 879**	**4 630**	**5 866**	**656**	**435**	**30**	**14 496**	**6 539**	**3 856**	**24 891**
For the year ended 30 June 2003										
Executive directors										
Lamberti, MJ		2 400	2 850	390	194	–	5 834	4 772	–	10 606
Lamberti, MJ[2]		–	–	–	–	–	–	746	–	746
Barrett, DG		1 600	1 594	152	171	–	3 517	661	429	4 607
Hayward, GRC		1 210	1 349	195	130	–	2 884	404	–	3 288
Leggatt, S		962	–	132	37	–	1 131	721	–	1 852
Total	**–**	**6 172**	**5 793**	**869**	**532**	**–**	**13 366**	**7 304**	**429**	**21 099**
Non-executive directors										
Seabrooke, CS	600						600			600
Brand, MD	65						65			65
Combi, ZL	45						45			45
Kirsh, W	200						200		640	840
Leggatt, S	67					4 700	4 767			4 767
Matthews, IN	485						485			485
Maw, P	67						67			67
Mokhobo, DNM	200						200			200
Msimang, M	135						135			135
Rubin, MJ	135						135	141		276
Schukken, F	265						265			265
Total	**2 264**	**–**	**–**	**–**	**–**	**4 700**	**6 964**	**141**	**640**	**7 745**
Total	**2 264**	**6 172**	**5 793**	**869**	**532**	**4 700**	**20 330**	**7 445**	**1 069**	**28 844**

1 At his request MJ Lamberti's salary will not be increased for the duration of his contract
2 Relates to the 1 000 000 shares issued pursuant to the signing in March 2003 of a four-year service contract. For information regarding MJ Lamberti's service contract see page 63 of the Directors' report
3 Appointed as non-executive director 1 January 2004
4 Appointed Chairman 1 July 2003
5 Individual not recipient of fees – fees paid to company
6 Resigned 30 June 2004
7 Resigned 19 January 2004
8 In order to match incentive awards with the performance to which they relate, bonuses above reflect the amounts accrued in respect of each year and not the amounts paid in that year
9 Held in terms of the rules of the Company's share scheme

30. Interests of directors in the Company's share scheme

Options allocated to purchase shares/shares issued

	Number of shares/options issued	Issue date	Issue price (R)	Expiry date	Shares/ options opening balance	Shares/ options closing balance
For the year ended 30 June 2004						
Executive directors						
Lamberti, MJ					**4 849 805**	**3 632 791**
Lamberti, MJ[1]					**1 000 000**	**1 000 000**
Hayward, GRC	**43 881**	**26 May 2004**	**29,87**	**26 May 2010**	**1 158 643**	**1 027 524**
Non-executive directors						
Barrett, DG					**842 500**	**467 500**
Kirsh, W					**19 500**	**–**
Leggatt, S					**1 194 500**	**944 500**
Rubin, MJ					**80 925**	**80 925**
Seabrooke, CS					**118 300**	**118 300**
For the year ended 30 June 2003						
Executive directors						
Lamberti, MJ	1 000 000	13 March 2003	17,42	13 March 2009	4 120 641	4 849 805
Lamberti, MJ[1]					1 000 000	1 000 000
Barrett, DG	100 000	19 November 2002	17,43	19 November 2008	1 272 500	842 500
Hayward, GRC	50 000	19 November 2002	17,43	19 November 2008	1 108 643	1 158 643
Non-executive directors						
Kirsh, W					78 000	19 500
Leggatt, S					1 194 500	1 194 500
Rubin, MJ					80 925	80 925
Seabrooke, CS					118 300	118 300

Gains on the exercise of share options or sale of shares

	Number of shares/options	Issue date	Issue price (R)	Exercise/ Sale date	Exercise/ Sale price (R)	Gain R000
For the year ended 30 June 2004						
Lamberti, MJ	**1 217 014**	**12 October 1990**	**4,29**	**21 November 2003**	**30,20**	**31 533**
Barrett, DG	**72 500**	**27 August 2001**	**10,95**	**10 September 2003**	**25,50**	**1 055**
Barrett, DG	**227 500**	**1 October 2001**	**4,29**	**6 October 2003**	**25,50**	**4 825**
Barrett, DG	**75 000**	**13 November 2001**	**12,25**	**6 April 2004**	**33,43**	**1 589**
Hayward, GRC	**125 000**	**27 August 2001**	**10,95**	**2 September 2003**	**25,08**	**1 766**
Hayward, GRC	**50 000**	**10 March 2000**	**12,25**	**27 November 2003**	**30,00**	**888**
Kirsh, W	**19 500**	**1 October 2001**	**4,29**	**28 November 2003**	**30,00**	**501**
Leggatt, S	**50 000**	**15 August 1997**	**2,42**	**8 – 9 October 2003**	**25,70**	**1 164**
Leggatt, S	**50 000**	**15 August 1997**	**2,42**	**10 October 2003**	**27,00**	**1 229**
Leggatt, S	**100 000**	**15 August 1997**	**2,42**	**26 November 2003**	**30,00**	**2 758**
Leggatt, S	**50 000**	**15 August 1997**	**2,42**	**15 March 2004**	**28,70**	**1 314**
For the year ended 30 June 2003						
Lamberti, MJ	270 836	17 February 1997	4,62	3 October 2002	15,10	2 840
Barrett, DG	250 000	1 October 1998	4,29	28 October 2002	16,15	2 965
Barrett, DG	205 000	1 October 1998	4,29	8 April 2003	17,97	2 804
Barrett, DG	75 000	13 November 2000	12,25	8 April 2003	17,97	429
Kirsh, W	58 500	1 October 1998	4,29	1 October 2002	15,23	640

1 Applicable to the issue of 1 000 000 shares pursuant to the signing of a four-year service contract in March 2003.

	Number of shares in issue 000s	Effective holding %	Shares at book value Rm	Indebtedness Rm

31. Principal subsidiaries

Details of Massmart's material subsidiary companies are are as follows:

Name of company	Number of shares in issue 000s	Effective holding %	Shares at book value Rm	Indebtedness Rm
CBW Holdings (Proprietary) Limited	–	100	1,0	120,3
Furnex Stores 2002 (Proprietary) Limited	1	100	–	68,9
Jumbo Cash & Carry (Proprietary) Limited	–	100	74,5	281,0
Massmart Management & Finance Company (Proprietary) Limited	–	100	–	47,8
Masstores (Proprietary) Limited	5 218	100	–	(460,4)
Shield Buying & Distribution (Proprietary) Limited	4 443	100	30,4	(28,5)
Massmart International Holdings Limited	–	100	–	60,3
			105,9	89,4

	2004 Rm	2003 Rm
Aggregate trading profits	**579,8**	409,7
Aggregate trading losses	**(1,6)**	(28,4)

All subsidiaries listed above are incorporated in South Africa, with the exception of Massmart International Holdings Limited which is incorporated in Mauritius.

Given the long-term currency restrictions due to the situation in Zimbabwe, the results and financial position of Makro's two stores in that country remain unconsolidated.

32. Notes to the cash flow statement

32.1 Cash flow from trading

	Group 2004 Rm	Group 2003 Rm
Net profit before taxation	**846,7**	654,5
Adjustment for:		
Depreciation and amortisation	**208,1**	157,3
Net (gain)/loss on disposal of property, plant and equipment	**(18,9)**	0,5
Exceptional items not relating to trading activities (note 32.4)	**–**	2,3
Interest income	**(48,3)**	(28,1)
Interest expense	**53,8**	78,5
Investment income	**(19,0)**	(11,0)
Other non-cash movements	**(7,2)**	(5,1)
	1 015,2	848,9

	Group 2004 Rm	Group 2003 Rm
32. Notes to the cash flow statement continued		
32.2 Working capital movements		
Increase in inventories	**(73,3)**	(190,1)
Increase in accounts receivable and prepayments	**(416,7)**	(317,9)
Increase in accounts payable	**767,6**	474,2
Decrease in provisions	**(22,3)**	(29,8)
	255,3	(63,6)
32.3 Taxation paid		
Normal taxation:		
Amounts owing at the beginning of the year	**68,5**	26,2
Amounts owing at the end of the year	**(264,8)**	(68,5)
Deferred taxation:		
Amounts charged to the income statement	**1,5**	(95,4)
Utilisation of prior year assessed loss recognised	**43,5**	–
Taxation charged to the income statement	**275,5**	215,2
	124,2	77,5
32.4 Exceptional items not relating to trading activities		
Write-down of an investment	**–**	2,3
	–	2,3
32.5 Investment to maintain operations		
Land and buildings/leasehold improvements	**14,6**	12,2
Vehicles	**8,4**	5,0
Plant and equipment	**40,9**	54,6
Computer equipment	**72,4**	11,8
	136,3	83,6
32.6 Investment to expand operations		
Land and buildings/leasehold improvements	**30,3**	111,5
Vehicles	**3,3**	5,7
Plant and equipment	**65,6**	52,4
Computer equipment	**12,3**	29,8
Goodwill	**151,8**	17,2
	263,3	216,6

	Group	
	2004	2003
	Rm	Rm

32. Notes to the cash flow statement continued

32.7 Proceeds on disposal of property, plant and equipment

	2004 Rm	2003 Rm
Land and buildings/leasehold improvements	**57,6**	21,4
Vehicles	**3,2**	1,5
Plant and equipment	**0,6**	0,7
Computer equipment	**0,1**	0,2
	61,5	23,8

32.8 Investment in businesses/subsidiaries

	2004 Rm	2003 Rm
Fair value of assets and liabilities acquired in businesses/subsidiaries:		
Cash and cash equivalents	**–**	(0,7)
Inventories	**53,2**	65,7
Accounts receivable and prepayments	**37,9**	45,6
Property, plant and equipment	**12,2**	15,1
Deferred tax	**–**	5,1
Trade payables	**(34,3)**	(75,7)
Provisions	**–**	(16,4)
Loans	**–**	(8,4)
Goodwill	**41,1**	142,6
Minorities	**(20,2)**	–
Total purchase price	**89,9**	172,9
Less: Cash and cash equivalents of subsidiary	**–**	0,7
Cash impact of acquisition, net of cash and cash equivalents acquired	**89,9**	173,6

32.9 Cash and cash equivalents at the end of the year

	2004 Rm	2003 Rm
Cash on hand and balances with banks	**1 105,8**	612,1
Bank overdrafts	**(80,6)**	(48,7)
Cash and cash equivalents at the end of the year	**1 025,2**	563,4

32.10 In June 2004 Furnex Dealers Indemnity (Pty) Limited, a subsidiary of Furnex Stores, was disposed of for a net loss of R43 000.

33. Financial risk management

Interest rate management

The funding requirements/investment of surplus funds are managed by Massmart through its own commercial bank facilities.

Liquidity risk management

The Group's liquidity requirements are assessed on an ongoing basis as part of the Group's treasury function. No significant risk exists as the Group is conservatively structured and the operations generate positive cash flows.

	Group	
	2004	2003
	Rm	Rm
33. Financial risk management continued		
Total banking and loan facilities	**2 659,2**	1 847,3
Actual interest-bearing debt	**(410,1)**	(352,7)
Unutilised banking facilities	**2 249,1**	1 494,6

Banking facilities incorporate, amongst others, letters of credit, forward exchange contracts and electronic fund transfers. These facilities have been secured by cross-suretyships between Group companies.

Credit risk management

Credit risk is proactively managed throughout the Group. Adequate resources are allocated to control this risk and, where necessary, third-party insurance is obtained.

Potential areas of credit risk include trade and consumer accounts receivable and short-term cash investments.

Trade accounts receivable consist primarily of a large, widespread customer base. Group companies regularly monitor the financial position of their customers. Where considered appropriate, credit guarantee insurance is used. The granting of credit is controlled by application and account limits. Provision is made for both specific and general bad debts, and at the year-end management did not consider there to be any material credit risk exposure that was not already covered by credit guarantee insurance or bad debt provision.

The following table shows the split of credit exposure:

	2004	2003
	%	%
Trade accounts receivable	**79**	75
Consumer accounts receivable	**21**	25
	100	100

Currency risk management

All foreign denominated trading liabilities are covered by forward exchange contracts. Foreign denominated assets are not covered by forward exchange contracts.

Fair values of financial instruments

All financial instruments have been classified according to the relevant AC133 category. There is no difference between their fair value and carrying value and they are accounted for as follows:

Financial assets

Available for sale investments

These are held at fair value and any adjustment to fair value is taken to equity. The total value taken to equity in the year was R nil.

Held to maturity investments

These are held at amortised cost less any impairment losses recognised to reflect irrecoverable amounts.

Held for trading

These are held at fair value and any adjustment to fair value taken to the income statement. Listed investments are carried at market value by reference to stock exchange quoted selling prices.

33. Financial risk management continued

Financial assets continued

Originated loans

These are held at cost less any impairment losses recognised to reflect irrecoverable amounts.

Financial liabilities

All financial liabilities are held as non-trading liabilities and are shown at amortised cost.

The cash flows expected from the Group's participation in export partnerships over the next ten to fifteen years cannot, in the opinion of the directors be accurately fair valued and therefore have not been discounted. For fair presentation purposes, it is noted that any fair value impairment in the amounts due to the Group by virtue of its participation in such partnerships would result in a corresponding reduction in the fair value of the related deferred tax liability. Consequently such fair value impairment would have no impact on either cash flow statement or income statement of the Group.

Forward foreign exchange contracts

Forward exchange contracts are entered into to manage exposure to fluctuations in foreign currency exchange rates on specific transactions. The Group's policy is to enter into forward contracts for all committed foreign currency purchases.

In the current year, forward foreign exchange contracts have been accounted for according to AC133. Fair value has been determined using money market derivative rates at 30 June 2004 and the net gain or exposure on the contracts has been reflected in the financial statements.

At year-end, the open forward foreign exchange contracts were as follows:

	Foreign currency (millions)	Fair value adjustment Rm	Contract equivalent Rm	Average rate
2004				
USD	**51,2**	**(10,0)**	**348,3**	**6,81**
GBP	**0,5**	**(0,3)**	**6,4**	**12,17**
Euro	**1,6**	**(1,0)**	**13,6**	**8,35**
		(11,3)	**368,3**	
2003				
USD	36,3	(7,7)	298,2	8,21
GBP	0,2	–	2,6	12,67
Euro	1,1	0,1	9,7	9,08
CHF	0,1	–	0,5	6,47
		(7,6)	311,0	

The latest maturity date on open forward foreign exchange contracts is 15 March 2005.

34. Segmental reporting

The Group is organised into four divisions for operational and management purposes, being Massdiscounters, Masswarehouse, Masscash and Masstrade. Massmart reports its primary business segment information on this basis.

Group	Total 2004 Rm	Corporate 2004 Rm	Mass-discounters 2004 Rm	Massware-house 2004 Rm	Masscash* 2004 Rm	Masstrade 2004 Rm
Primary business segments						
Sales	**23 787,7**	**–**	**6 783,4**	**7 068,2**	**6 647, 7**	**3 288,4**
EBITA	**928,5**		**356,6**	**258,6**	**251,9**	**61,4**
Net interest (paid)/received	**(7,2)**	**(28,0)**	**(16,3)**	**26,0**	**15,4**	**(4,3)**
Total assets	**7 040,4**	**375,2**	**2 144,7**	**1 806,3**	**1 693,8**	**1 020,4**
Total liabilities	**5 158,5**	**(1 053,6)**	**2 046,8**	**1 749,2**	**1 487,7**	**928,4**
Net capital expenditure	**338,1**	**5,7**	**84,6**	**114,8**	**97,3**	**35,7**
Depreciation and amortisation	**208,1**	**34,2**	**62,4**	**54,9**	**43,6**	**13,0**
Non-cash items other than depreciation	**(6,7)**	**12,7**	**(0,2)**	**(19,2)**	**–**	**–**
Cash flow from operating activities	**941,1**	**297,6**	**361,0**	**150,8**	**83,8**	**47,9**
Cash flow from investing activities	**(435,3)**	**(217,5)**	**(70,6)**	**(0,5)**	**(120,2)**	**(26,5)**
Cash flow from financing activities	**(39,8)**	**(170,6)**	**53,6**	**(39,4)**	**109,6**	**7,0**

The Corporate column includes certain consolidation entries.

** Includes Trident Holdings for the nine months from 1 October 2003 to 30 June 2004.*

Group	Total 2003 Rm	Corporate 2003 Rm	Mass-discounters 2003 Rm	Massware-house* 2003 Rm	Masscash 2003 Rm	Masstrade 2003 Rm
Primary business segments						
Sales	20 369,5	–	6 229,3	5 704,7	5 740,1	2 695,4
EBITA	747,7	–	297,4	160,1	208,8	81,4
Net interest (paid)/received	(50,4)	(14,6)	(70,4)	13,0	25,2	(3,6)
Exceptional items	6,7	(2,3)	–	–	–	9,0
Total assets	5 881,3	238,3	1 933,3	1 510,5	1 358,6	840,6
Total liabilities	4 192,8	(1 178,3)	1 886,0	1 501,8	1 270,9	712,4
Net capital expenditure	276,2	28,7	83,0	101,3	34,7	28,5
Depreciation and amortisation	157,3	33,1	57,3	30,3	26,8	9,8
Impairment losses	(2,3)	(2,3)	–	–	–	–
Non-cash items other than depreciation	(4,6)	(5,0)	3,7	–	(3,0)	(0,3)
Cash flow from operating activities	501,8	92,3	144,0	136,6	169,5	(40,6)
Cash flow from investing activities	(509,0)	(233,5)	(79,1)	(134,2)	(34,5)	(27,7)
Cash flow from financing activities	30,8	(119,5)	(39,6)	266,2	(62,7)	(13,6)

The Corporate column includes certain consolidation entries.

** Includes Builders and Tile Warehouse for the four months from 1 March 2003 to 30 June 2003.*

Group	Total 2004 Rm	South Africa 2004 Rm	Rest of Africa 2004 Rm	Total 2003 Rm	South Africa 2003 Rm	Rest of Africa 2003 Rm
Geographic segments						
Sales	**23 787,7**	**22 322,2**	**1 465,5**	20 369,5	18 961,1	1 408,4
Segment assets	**7 040,4**	**6 687,9**	**352,5**	5 881,3	5 544,5	249,5
Net capital expenditure	**338,1**	**254,0**	**84,1**	276,2	243,3	32,9

Massmart Holdings Limited

Company income statement

for the year ended 30 June 2004

		Company	
	Notes	**2004 Rm**	2003 Rm
Revenue	1	**222,4**	269,6
Management and administration fees received		**23,4**	12,0
Dividends received		**197,2**	257,3
Other costs		**(16,1)**	(8,4)
Operating profit		**204,5**	260,9
Net interest received	2	**1,8**	0,3
Exceptional items	3	**–**	(2,3)
Net profit before taxation		**206,3**	258,9
Taxation	4	**(13,2)**	(16,2)
Net profit attributable to shareholders		**193,1**	242,7
Dividends/distribution per share (cents)			
Interim		**61,0**	48,0
Final* (see note 7 on page 76 of the Group accounts)		**98,0**	49,0

** Declared and paid after the financial year-end.*

Massmart Holdings Limited

Company balance sheet

as at 30 June 2004

		Company	
	Notes	**2004 Rm**	2003 Rm
Assets			
Non-current assets		**582,2**	639,7
Interest in subsidiaries	5	**258,7**	335,6
Other investments and loans	6	**323,5**	304,1
Current assets		**10,5**	2,2
Accounts receivable and prepayments		**10,2**	2,2
Bank balance and cash		**0,3**	–
Total assets		**592,7**	641,9
Equity and liabilities			
Capital and reserves		**581,8**	634,4
Share capital	7	**2,0**	2,0
Share premium	8	**385,9**	494,5
Retained profit		**193,9**	137,9
Total equity		**581,8**	634,4
Current liabilities		**10,9**	7,5
Accounts payable		**7,3**	7,5
Taxation		**3,6**	–
Total equity and liabilities		**592,7**	641,9

Company cash flow statement

for the year ended 30 June 2004

		Company	
	Notes	**2004 Rm**	2003 Rm
Cash flow from operating activities			
Cash flow from trading	10.1	**(35,2)**	3,6
Working capital movements	10.2	**(8,2)**	20,3
Cash generated from operations		**(43,4)**	23,9
Interest received		**1,8**	0,3
Investment income		**197,2**	220,8
Taxation paid		**(9,6)**	(16,3)
Dividends/distribution paid		**(218,4)**	(166,6)
Net cash (outflow)/inflow from operating activities		**(72,4)**	62,1
Change in subsidiary shareholding		**–**	(0,5)
Loans and other investments		**59,9**	(76,5)
Net cash inflow/(outflow) from investing activities		**59,9**	(77,0)
Shares issued (net of costs)		**12,8**	14,9
Net cash inflow from financing activities		**12,8**	14,9
Net increase in cash and cash equivalents		**0,3**	–
Cash and cash equivalents at the beginning of the year		**–**	–
Cash and cash equivalents at the end of the year		**0,3**	–

Statement of changes in equity

for the year ended 30 June 2004

	Company			
	Share capital Rm	Share premium Rm	Retained profit Rm	**Total Rm**
Balance as at 30 June 2002	**2,0**	**479,6**	**65,2**	**546,8**
Net profit for the year	–	–	242,7	**242,7**
Share trust loss	–	–	(3,4)	**(3,4)**
Issue of shares (net of costs)	–	14,9	–	**14,9**
Dividends paid	–	–	(166,6)	**(166,6)**
Balance as at 30 June 2003	**2,0**	**494,5**	**137,9**	**634,4**
Net profit for the year	–	–	193,1	**193,1**
Share trust loss	–	–	(40,1)	**(40,1)**
Issue of shares (net of costs)	–	12,8	–	**12,8**
Dividends paid	–	–	(97,0)	**(97,0)**
Share premium distribution to shareholders	–	(121,4)	–	**(121,4)**
Balance as at 30 June 2004	**2,0**	**385,9**	**193,9**	**581,8**

Notes to the annual financial statements

	Company	
	2004	2003
	Rm	Rm
1. Revenue		
Dividends received	**197,2**	257,3
Interest received	**1,8**	0,3
Management and administration fees	**23,4**	12,0
	222,4	269,6
2. Net interest received		
Interest received	**1,8**	0,3
	1,8	0,3
3. Exceptional items		
Impairment of investment in Affinity Logic Holdings Limited	**–**	(2,3)
	–	(2,3)
4. Taxation		
South African normal tax		
Current tax	**3,6**	–
Secondary tax on companies	**9,6**	16,2
Total	**13,2**	16,2
5. Interest in subsidiaries		
Shares at cost, less amounts written off	**105,9**	105,9
Amounts owing by subsidiaries	**152,8**	229,7
	258,7	335,6

		Company	
		2004	2003
		Rm	Rm

6. Other investments and loans

		2004 Rm	2003 Rm
Unlisted investments			
Preference shares – Fullimput 65 (Pty) Ltd[1]		**315,6**	273,2
Investment in Imagegate Limited (UK)[2]		**3,8**	4,1
Affinity Logic Holdings (Proprietary) Limited	– Shares at carrying value[3]	**–**	4,1
	– Amounts owing[3]	**–**	21,0
Loan to Massmart share purchase trust[2]		**4,1**	1,7
		323,5	304,1

The directors' valuation of the unlisted investments at 30 June 2004 is R323,5 million (2003: R304,1 million). The preference share investment represents cumulative preference shares in Fullimput 65 (Proprietary) Limited. A long-term liability of the Group is secured by a cession of the preference shares.

In September 2003, the 11,8% investment in Affinity Logic Holdings (Proprietary) Limited was sold to UCS Holdings Limited for R25 million including shareholders loan repayments.

Notes

1 Classified as a "held to maturity" financial asset for AC133 purposes.

2 Classified as a "originated loan and receivable" financial asset for AC133 purposes.

3 Classified as a "available for sale" financial asset for AC133 purposes.

For AC133 accounting treatment of these financial assets, see note 33 in the Group accounts.

	Company	
	2004	2003
	Rm	Rm

7. Share capital

	2004 Rm	2003 Rm
Authorised		
500 000 000 (2003: 500 000 000) ordinary shares of 1 cent each	**5,0**	5,0
Issued		
199 190 697 (2003: 198 587 492) ordinary shares of 1 cent each	**2,0**	2,0

Except for the issue of 603 205 shares for the purchase of the minorities in CCW Wholesalers (Proprietary) Limited, there were no other movements in the share capital of the Company during the current reporting period.

The directors have the authority, until the next annual general meeting, to issue the unissued ordinary shares of the Company up to a maximum of 5% of the shares already issued.

The following options granted to employees in terms of the employee share incentive scheme have not yet been exercised: 14 439 403 (2003: 15 733 617) Massmart ordinary shares at considerations ranging from R4,29 to R32,55 (2003: R2,42 to R19,98). Details are shown in note 23 under the Group accounts.

	Company 2004 Rm	2003 Rm
8. Share premium		
Opening balance	**494,5**	479,6
Premium on shares issued during the year net of costs	**12,8**	14,9
Distribution to shareholders	**(121,4)**	–
	385,9	494,5
9. Contingent liabilities		
Cross-suretyships under banking and other financial facilities	**3 426,6**	2 544,3
	3 426,6	2 544,3
10. Notes to the cash flow statement		
10.1 Cash flow from trading		
Net profit before taxation	**206,3**	258,9
Adjustment for:		
Interest income	**(1,8)**	(0,3)
Investment income	**(197,2)**	(220,8)
Exceptional items not relating to trading activity (note 10.3)	**–**	2,3
Other non-cash movements	**(42,5)**	(36,5)
	(35,2)	3,6
10.2 Working capital movements		
(Increase)/decrease in accounts receivable	**(8,0)**	19,5
(Decrease)/increase in accounts payable	**(0,2)**	0,8
	(8,2)	20,3
10.3 Exceptional items not relating to trading activities		
Write-down of investment	**–**	(2,3)
	–	(2,3)

Shareholder analysis

The following analysis of shareholders was extracted from the shareholders register as at June 2004:

	Number	%	Number of shares	%
Shareholder spread				
1 – 1 000 shares	4 544	65,04	1 350 225	0,68
1 001 – 10 000 shares	1 688	24,16	5 464 210	2,74
10 001 – 100 000 shares	496	7,10	17 509 480	8,79
100 001 – 1 000 000 shares	226	3,23	69 404 633	34,84
1 000 001 shares and over	33	0,47	105 462 149	52,95
	6 987	100,00	199 190 697	100,00

	Number	%	Number of shares	%
Distribution of shareholders				
Banks	137	1,96	55 671 022	27,95
Close corporations	72	1,03	75 130	0,04
Endowment funds	40	0,57	789 371	0,4
Individuals	4 710	67,41	4 915 958	2,47
Insurance companies	46	0,66	23 014 940	11,55
Investment companies	25	0,36	12 206 497	6,13
Medical aid schemes	16	0,23	494 979	0,25
Mutual funds	228	3,26	37 126 380	18,64
Nominees and trusts	987	14,13	4 328 888	2,17
Other corporations	93	1,33	963 311	0,48
Pension funds	351	5,02	44 923 420	22,55
Private companies	243	3,48	4 254 327	2,14
Public companies	37	0,53	239 126	0,12
Share trusts	2	0,03	10 187 348	5,11
	6 987	100,00	199 190 697	100,00

	Number	%	Number of shares	%
Public/non-public shareholders				
Non-public shareholders:				
Directors of the Company	6	0,09	8 203 581	4,12
Own holdings	1	0,01	976 082	0,49
Share trust	2	0,03	4 233 179	2,06
Public shareholders	6 978	99,87	185 777 855	93,33
	6 987	100,00	199 190 697	100,00

	Number of shares	%
Beneficial shareholders holding 5% or more		
The following shareholders held beneficially, directly or indirectly, more than 5% of the Company's shares:		
Old Mutual Group	28 324 372	14,22
Public Investment Commission	10 792 332	5,42
Participants of the Massmart Holdings Share Trust	10 311 419	5,18

For details of directors' shareholdings see page 62 of the Directors' report.

Notice of annual general meeting

for the year ended 30 June 2004

Notice is hereby given that the annual general meeting of the company will be held at 09:00 at Massmart House, 16 Peltier Drive, Sunninghill Ext 6, Sandton on Tuesday, 7 December 2004, for purposes of:

1. Transacting the following business:

1.1 to receive and adopt the annual financial statements of the company and the Group for the year ended 30 June 2004;

1.2 to elect directors in the place of those retiring in accordance with the company's articles of association; and

1.3 to transact such other business as may be transacted at an annual general meeting.

2. Considering and, if deemed fit, passing, with or without modification, the following ordinary and special resolutions:

Ordinary resolutions:

1. "Resolved that the annual financial statements of the company and the Group for the year ended 30 June 2004, circulated together with this notice, be and are hereby adopted."

2. "Resolved that Mr JC Hodkinson, who was elected to the Board of directors of the company with effect from 25 August 2004 and who resigns by rotation and has offered himself for re-election, be and is hereby re-elected to the Board of directors of the company."

3. "Resolved that Ms P Langeni, who was elected to the Board of directors of the company with effect from 25 August 2004 and who now resigns by rotation and has offered herself for re-election, be and is hereby re-elected to the Board of directors of the company."

4. "Resolved that the non-executive directors' annual remuneration, for the 2005 financial year be set as follows:

Chairman	R400 000
Directors	R160 000
Committee chairmen	R160 000
Committee members	R75 000"

5. "Resolved that Messrs Deloitte & Touche be and are hereby re-elected as the company's auditors for the ensuing financial year."

6. "Resolved that all the ordinary shares in the authorised but unissued share capital of the company be and are hereby placed under the control of the directors in terms of section 221(2) of the Companies Act, 1973 (Act 61 of 1973), as amended ("the Act"), who shall be authorised to allot and issue such ordinary shares to such person or persons on such terms and conditions as they may deem fit but not exceeding 5% of the number of shares already in issue. Such allotment will be in accordance with the Act and the Listings Requirements of the JSE Securities Exchange South Africa ("JSE")".

7. "Resolved that, subject to the JSE Listings Requirements, the directors be and are hereby authorised to issue the ordinary shares in the authorised but unissued share capital of the company for cash to such person or persons on such terms and conditions as they may deem fit, subject to the following:

7.1 the shares shall be of a class already in issue;

7.2 the shares shall be issued to public shareholders (as defined in the JSE Listings Requirements) and not to related parties (as defined in the JSE Listings Requirements);

7.3 the issues in the aggregate in any one financial year shall not exceed 5% (five percent) of the number of shares already in issue;

7.4 the maximum discount at which the shares may be issued shall be 10% (ten percent) of the weighted average traded price of the shares over the 30 (thirty) business days prior to the date that the price of the issue is determined or agreed by the directors;

7.5 the authority hereby granted will be valid until the company's next annual general meeting, provided that it will not extend to beyond 15 (fifteen) months;

7.6 once the securities have been issued the company shall publish an announcement in accordance with paragraph 11.22 if the JSE Listings Requirements."

for the year ended 30 June 2004

The approval of a 75% (seventy-five percent) majority of the votes cast by shareholders present or represented by proxy at the annual general meeting is required for this resolution to become effective:

Special resolution:

1. "Resolved that the company and its subsidiaries be and are hereby authorised in terms of sections 85(2) and 85(3) of the Act, and the JSE Listings Requirements, from time to time to acquire ordinary shares in the issued share capital of the company from such shareholder/s, at such price, in such manner and subject to such terms and conditions as the directors may deem fit, but subject to the articles of association of the company, the Act and the JSE Listings Requirements, and provided that:

1.1 the authority hereby granted will be valid until the company's next annual general meeting, provided that it will not extend to beyond 15 (fifteen) months from the date of registration of this special resolution;

1.2 acquisitions may not be made at a price greater than 10% (ten percent) above the weighted average of the market value for the shares determined over the 5 (five) business days prior to the date that the price for the acquisition is effected;

1.3 acquisitions in the aggregate in any one financial year shall not exceed 15% (fifteen percent) of that class of the company's issued ordinary share capital;

1.4 the repurchase of securities will be effected through the order book operated by the JSE trading system and will be done without any prior understanding or arrangement between the company and the counter party;

1.5 the company will only appoint one agent to effect the repurchases on the company's behalf;

1.6 the company will only undertake a repurchase of securities if, after such repurchases, the company complies with the JSE listing shareholder spread requirements;

1.7 neither the company nor its subsidiaries will repurchase securities during a prohibited period (as defined in the JSE Listing Requirements);

1.8 an announcement complying with 11.27 of the JSE Listings Requirements will be published by the company when the company and/or its subsidiaries have cumulatively repurchased 3% (three percent) of the company's issued ordinary share capital and for each 3% (three percent) in aggregate thereafter."

Although the JSE Listings Requirements provide that acquisitions by a company of its own shares in the aggregate in any one financial year pursuant to a general authority may not exceed 20% (twenty percent) of the company's issued ordinary share capital, the directors are only seeking an authority to acquire up to 15% (fifteen percent) of the company's issued ordinary share capital.

Statement by the Board of directors

In accordance with the JSE Listings Requirements, the directors state that:

a) the intention of the directors is to utilise the authority at a future date, provided that the cash resources of the company are in excess of its requirements. In this regard, the directors will take into account, inter alia, an appropriate capitalisation structure for the company and the long-term cash needs of the company, and will ensure that any such utilisation is in the interests of the shareholders;

b) having considered the effect of the maximum number of ordinary shares that may be acquired pursuant to the authority and the date upon which such acquisition/s will take place:
   - the company and its subsidiaries will be able in the ordinary course of business to pay their debts for a period of twelve months after the date of this notice of annual general meeting;
   - the assets of the company and its subsidiaries will be in excess of the liabilities of the company and its subsidiaries for a period of twelve months after the date of this notice of annual general meeting, such assets and liabilities being fairly valued in accordance with South African Statements of Generally Accepted Accounting Practice and in accordance with the accounting policies used in the company and the Group annual financial statements for the year ended 30 June 2004;
   - the issued share capital and reserves of the company and its subsidiaries will be adequate for purposes of the business of the company and its subsidiaries for a period of twelve months after the date of this notice of annual general meeting;

– the working capital available to the company and its subsidiaries will be adequate for purposes of the business of the company and its subsidiaries for a period of twelve months after the date of this notice of annual general meeting.

The company will ensure that its sponsor provides the necessary sponsor letter on the adequacy of the working capital in terms of the JSE Listings Requirements, prior to the commencement of any purchase of the company shares on the open market.

Reason and effect

The reason for special resolution number 1 is to give a mandate to the directors to repurchase ordinary shares in the company.

The effect of special resolution number 1 will be that the company and its subsidiaries will be authorised to acquire ordinary shares in the company.

Voting and proxies

All holders of ordinary shares in the company will be entitled to attend and vote at the annual general meeting. Subject to any rights or restrictions for the time being attached to any ordinary shares, on a show of hands, every shareholder who is present in person, or in the case of a company, the representative appointed in terms of section 188 of the Act, shall have one vote. On a poll, each shareholder shall have so many votes for each share as is determined in accordance with section 195 of the Act, read with the company's articles of association.

If you hold certificated shares (i.e have not dematerialised your shares in the company) or are registered as an own name dematerialised shareholder, then:

- you may attend and vote at the annual general meeting; alternatively
- you may appoint a proxy to represent you at the annual general meeting by completing the attached form of proxy and returning it to the registered office of the company to be received by no later than 48 hours prior to the time appointed for the holding of the meeting (excluding Saturdays, Sundays, and public holidays).

If you own dematerialised shares (i.e. have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE's electronic settlement system, STRATE Limited ("STRATE")) and are not registered as an "own name dematerialised shareholder" (i.e specifically instructed your Central Security Depository Participant ("CSDP") to hold your shares in your own name on the Company's sub-register), then subject to the mandate between yourself and your CSDP or broker:

- if you wish to attend the annual general meeting you must contact your CSDP or broker, as the case may be, and obtain the relevant letter of representation from it; alternatively

- if you are unable to attend the annual general meeting but wish to be represented at the meeting, you must contact your CSDP or broker, as the case may be, and furnish it with your voting instructions in respect of the annual general meeting. You must not complete the attached from of proxy. The instructions must be provided in accordance with the mandate between yourself and your CSDP or broker, as the case may be, within the time period required by your CSDP or broker, as the case may be.

CSDPs, brokers or their nominees, as the case may be, recorded in the company's sub-register should, when authorised in terms of their mandate or instructed to do so by the owner on behalf of whom they hold dematerialised shares in the company, vote by either appointing a duly authorised representative to attend and vote at the annual general meeting or by completing the attached form of proxy in accordance with the instructions thereon and returning it to the registered office of the company to be received not less than 48 hours prior to the time appointed for the holding of the meeting.

In terms of the JSE Listing Requirements for special resolution 1, general information is included in the annual report attached, including:

(i) Directors and management (pages 16 – 18);
(ii) Major shareholders (page 104);
(iii) Material changes (page 63);

for the year ended 30 June 2004

(iv) Directors interest in securities (page 62);

(v) Share capital of the company (page 81); and

(vi) Litigation (page 87)

The directors whose names appear on pages 16 and 17 of the annual report collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which, would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the circular (the notice to the annual general meeting) contains all information required by law and the JSE Listings Requirements.

By order of the Board

Aubrey Cimring

Company Secretary

Johannesburg

26 October 2004

Form of proxy

For use by certificated and own name dematerialised shareholders only

Massmart Holdings Limited

Registration number 1940/014066/06
JSE share code MSM
ISDN Code ZAE000029534

I/We

of

being a member/members of the abovementioned company and holding ______ shares in the company hereby appoint:

or failing him/her,

or failing him/her, the chairman of the annual general meeting as my/our proxy to vote for me/us on my/our behalf at the annual general meeting of the company to be held at 09:00 on Tuesday, 7 December 2004 at Massmart House, 16 Peltier Drive, Sunninghill Ext 6, Sandton and at every adjournment of that meeting.

Signed at this day of 2004

Signature

Please indicate with an "X" in the appropriate space below how you wish your vote to be cast. If you return this form duly signed, without any specific directions, the proxy shall be entitled to vote as he/she thinks fit.

	in favour of resolution	against resolution	abstain from voting
Ordinary resolutions 1. Adoption of the annual financial statements			
2. Re-election of Mr JC Hodkinson to the Board of Directors			
3. Re-election of Ms P Langeni to the Board of Directors			
4. Approval of the non-executive directors' annual remuneration			
5. Re-election of Messrs Deloitte & Touche as the company's auditors			
6. Placement of the unissued share capital under the control of the directors			
7. Authorisation for the directors to issue shares for cash, limited to 5% of the shares in issue			
Special resolution 1. Authority for the company to buy back its own shares			

A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the company. Proxies must be lodged at the registered office of the company not less than 48 (forty-eight) hours before the time for holding the meeting.

Notes to the proxy

for the year ended 30 June 2004

1. A form of proxy is only to be completed by those ordinary shareholders who are:

   1.1 holding ordinary shares in certified form; or

   1.2 recorded on sub-register electronic form in "own name".

2. If you have already dematerialised your ordinary shares through a Central Securities Depository Participant ("CSDP") or broker and wish to attend the annual general meeting, you must request your CSDP or broker to provide you with a letter of representation or you must instruct your CSDP or broker to vote by proxy on your behalf in terms of the agreement entered into between yourself and your CSDP or broker.

3. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space provided. The person whose name stands first on the form of proxy and who is present at the annual general meeting of shareholders will be entitled to act as proxy to the exclusion of those whose names follow.

4. A member's instructions to the proxy must be indicated by the insertion of the relevant numbers of votes exercisable by the member in the space provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the member's votes exercisable thereat. A member or the proxy is not obliged to use all the votes exercisable by the member or by the proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the member or by the proxy.

5. Forms of proxy must be lodged with or posted to the company's registered office, Massmart House, 16 Peltier Drive, Sunninghill, Ext 16, Sandton, 2196 (Private Bag X4, Sunninghill, 2157), to be received no later than 09:00 on Friday, 3 December 2004.

6. The completion and lodging of this form of proxy will not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.

7. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity or other legal capacity must be attached to this form of proxy, unless previously recorded by the transfer secretaries or waived by the chairman of the annual general meeting.

8. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.

9. Notwithstanding the aforegoing, the chairman of the annual general meeting may waive any formalities that would otherwise be a prerequisite for a valid proxy.

10. If any shares are jointly held, the first name appearing in the register shall, in the event of any dispute, be taken as a member.

Administration

Company Secretary	A Cimring, CA (SA)
Registered office	Massmart House, 16 Peltier Drive, Sunninghill Ext 6 Sandton, 2196
Postal address	Private Bag X4, Sunninghill, 2157
Telephone number	+ 27 (0) 11 517 0000
Fax number	+ 27 (0) 11 517 0020
Website	http://www.massmart.co.za
Company registration number	1940/014066/06
JSE share code	MSM
ISIN code	ZAE000029534
Transfer secretaries	Computershare Limited, Investor Services Division, 70 Marshall Street Johannesburg, 2000
Principal bankers	Nedcor Limited, ABSA Bank Limited
Auditors	Deloitte & Touche
Corporate law advisers	Edward Nathan & Friedland (Pty) Limited

Financial calendar

Financial year-end		June
Annual report		October
Annual general meeting		November
Interim report		February
Dividends:		
Declared	interim	February
	final	August
Payable	interim	March
	final	September

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