

MASSMART

Dedicated to Value

REVIEWED CONSOLIDATED RESULTS FOR THE 52 WEEKS ENDED 27 JUNE 2010

Massmart is a managed portfolio of four divisions, each focused on high-volume, low-margin, low-cost distribution of mainly branded consumer goods for cash, in 14 countries in sub-Saharan Africa comprising 288 stores.

The Group is the third largest distributor of consumer goods in Africa, the leading retailer of general merchandise, liquor and home improvement equipment and supplies, and the leading wholesaler of basic foods.

Directorate

MJ Lamberti (Chairman),
CS Seabrooke (Deputy Chairman),
GM Pattison* (Chief Executive Officer),
MD Brand, KD Dlamini, NN Gwagwa,
GRC Hayward* (Chief Financial Officer),
JC Hodgkinson**, P Langeni, IN Matthews,
P Maw, DNM Mokhobo, MJ Rubin

*Executive **United Kingdom

Massmart Holdings Limited
("the Company" or "the Group")

JSE code
MSM

ISIN
ZAE000029534

Company registration number
1940/014066/06

Registered office
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Company secretary
I Zwarenstein

Sponsor
Deutsche Securities (SA) (Proprietary) Limited

Transfer secretaries
Computershare Investor Services (Proprietary)
Limited

Registered auditors
Deloitte & Touche

For more information
www.massmart.co.za

OVERVIEW

The South African consumer economy appears to have emerged in early 2010 from the recession that dominated 2009. This is confirmed by our second-half results, being the six months to June 2010, where the Group increased sales by 14.4%, operating profit before foreign exchange losses by 9.7% and headline earnings by 29.0%.

The Group's full-year financial performance, however, bears the scars of the challenging first half with sales increasing by 10.0%, operating profit before foreign exchange losses increasing by 0.1% and headline earnings decreasing by 5.7%.

With Group comparable-store sales growth of 2.6% and product deflation of 0.4%, we saw volume growth across all categories. With this level of comparable sales growth however, it was critical that we closely managed expenses and so comparable expenses increased by only 2.8% for the year.

The large difference between total sales growth of 10.0% and comparable sales growth is indicative of the Group's continued investment in growth with store space increasing by 8.5%, of which 3.1% is in new stores and 5.4% through acquisition.

In addition to the investment in growth, excellent control of expenses, margin and stock protected the income statement, enabling us to grow operating profit before foreign exchange losses by 0.1%.

After adjusting for foreign exchange losses operating profit reduced by 4.3%.

Independent data sources indicate the Group has been trading well relative to our competitors in all major categories and has gained market share, particularly in large ticket items such as Multimedia, Technology and Appliances.

ENVIRONMENT

The South African economy has technically been out of recession for almost four quarters but real retail sales growth lagged by six months and job creation is still in decline.

The effect of the strengthening Rand dominated trading conditions and kept inflation low in all our product categories with Food and Liquor inflation at 1.4%, General Merchandise deflation at 5.3% and Home Improvement inflation at 1.8%. Historically, Food and Liquor volumes do not respond significantly to lower prices and did not do so over the past year. General Merchandise and Home Improvement volumes however, usually do respond and this was particularly evident in the latter part of the financial year.

The 2010 FIFA World Cup was an exciting, once in a lifetime experience for the country and we could certainly see the increased spend in our stores over that four-week period. We estimate this to have been R200 million – R300 million of additional turnover, not significant in the year but welcome nevertheless.

Labour relations were strained in Massdiscounters as management sought more labour flexibility from SACCAWU in order to extract productivity improvement from our investment in supply chain. Unfortunately, we were unable to reach resolution and had to resort to retrenchment, which was devastating for those employees. We have provided and continue to provide those retrenched employees with as much support as possible. As a result of these labour disputes, there were some isolated labour-related disruptions to trading. More significantly however, the Game Lakeside Mall in Benoni was deliberately destroyed by fire. We continue to co-operate with the police as they progress their investigations and the store will re-open in November 2010.

DIVISIONAL OPERATIONAL REVIEW

Rm	June 2010 (Reviewed)	% of sales	June 2009 (Audited)	% of sales	Year % growth	Comparable % sales growth	Estimated % sales inflation
Sales	47,451.0		43,128.7		10.0	2.6	(0.4)
Massdiscounters	12,164.9		11,206.0		8.6	3.2	(4.2)
Masswarehouse	11,501.2		11,102.4		3.6	3.6	2.8
Massbuild	6,366.9		5,604.6		13.6	3.4	1.8
Masscash	17,418.0		15,215.7		14.5	1.1	(0.6)
Trading profit before interest and tax	2,104.4	4.4	2,097.5	4.9	0.3		
Massdiscounters	642.7	5.3	680.0	6.1	(5.5)		
Masswarehouse	700.8	6.1	713.0	6.4	(1.7)		
Massbuild	277.3	4.4	222.6	4.0	24.6		
Masscash	483.6	2.8	481.9	3.2	0.4		
Trading profit before tax	2,267.5	4.8	2,348.9	5.4	(3.5)		
Massdiscounters	690.3	5.7	746.6	6.7	(7.5)		
Masswarehouse	758.6	6.6	802.6	7.2	(5.5)		
Massbuild	308.5	4.8	270.1	4.8	14.2		
Masscash	510.1	2.9	529.6	3.5	(3.7)		

Trading profit excludes foreign exchange movements. A detailed reconciliation between trading and operating profit can be found below the 'Additional information' table over the page.

Massdiscounters – comprises the 91-store General Merchandise retail discounter Game, which trades in South Africa, Botswana, Ghana, Malawi, Mauritius, Mozambique, Namibia, Nigeria, Tanzania, Uganda and Zambia; and the 11-store Hi-tech retailer DionWired which trades in South Africa.

Divisional comparable store sales increased by 3.2% with estimated deflation of 4.2%. Total sales increased by 8.6% and trading profit before interest and tax decreased by 5.5%. Game SA performed well with comparable sales growth of 10.9% and it increased profits ahead of sales growth. Trading profit from Game Africa is down 29% as we suffered from African currency weakness and struggling domestic economies, but still maintained good levels of profitability. DionWired's rapid store expansion and solid trading saw sales increase by 52.8%.

With seven Game stores and five DionWired stores opening and three Game stores closed, space increased by 4.0%. The new Gauteng Regional Distribution Centre (RDC) opened and several small warehouses closed.

Masswarehouse – comprises the 13-store Makro warehouse club trading in Food, General Merchandise and Liquor in South Africa (and two Zimbabwean stores, not consolidated in the Group results).

Divisional store sales increased by 3.6% with estimated inflation of 2.8% and trading profit before interest and tax decreased by 1.7%. Declining food inflation and intense retail competition adversely affected Makro's sales and margins. Liquor sales were good throughout the year while General Merchandise sales began recovering late in the year.

No new stores were opened, although construction began on a new Makro store in Vanderbijlpark, to open in October 2010, and good progress is being made in securing several other sites. The re-engineering of the supply chain continues to gain momentum.

Massbuild – comprises 76 outlets, trading in DIY, Home Improvement and Builders Hardware, under the Builders Warehouse, Builders Express and Builders Trade Depot brands in South Africa.

Divisional comparable store sales increased by 3.4% with estimated inflation of 1.8%. Boosted by new stores and acquisitions, total sales increased by 13.6% and trading profit before interest and tax increased by 24.6%.

In the current negative residential building market, this is a very good trading performance that reflects the intensive management focus over the past few years. Homeowners' efforts to maintain and improve their homes managed to compensate for the decline in new homes built. We completed the integration of all the formats under one management team and made several strategic and opportunistic acquisitions. The largest of these is Pupkewitz in Namibia, which we expected to have completed by June 2010 but remains yet to be fully approved by the Namibian authorities.

With two Builders Warehouse stores, four Builders Express stores and two Builders Trade Depot stores opened or acquired, and three closed, net trading space increased by 7.6%.

Masscash – comprises 77 Wholesale and 20 Retail Cash and Carry stores trading in South Africa, Botswana, Lesotho, Mozambique and Namibia, and Shield, a voluntary buying association.

Divisional comparable store sales increased by 1.1% with estimated deflation of 0.6%. Through acquisitions, total sales increased by 14.5% and trading profit before interest and tax increased by 0.4%.

Food deflation dominated trading, putting pressure on sales and gross margins. Despite the difficult environment, management maintained its focus on transforming the Division to position itself to compete nationally in both the wholesale and retail markets. Cambridge Food has been chosen as the national corporate-owned retail brand and Saverite the franchise brand.

Retail sales totalled R1.8 billion for the financial year.

Eight new wholesale cash and carry stores and ten new retail cash and carry stores were opened or acquired. Net trading space increased by 18.8%.

FINANCIAL REVIEW

Statement of comprehensive income

Total sales growth for the year to June 2010 was 10.0% with comparable sales growth of 2.6%. Excluding sales from our African businesses, total Group sales grew by 11.4% and comparable sales by 4.5%.

Selling price inflation declined significantly in all categories and the Group recorded deflation of 0.4% for the financial year.

During the year, six stores were closed or sold, 18 opened, and 20 stores acquired, resulting in a total of 288 stores at the end of June 2010. Net trading space increased by 8.5% to a total of 1,179,466m².

The Group's gross margin of 18.1% was slightly higher than the prior year, despite gross margins declining in all divisions apart from Massbuild. Declining inflation and, eventually, deflation in Food adversely affected gross margins in Makro and Masscash. Gross margin was lower in Massdiscounters due mainly to lower reported Rand profits from Game Africa.

Due to acquisitions, total expenses (excluding the foreign exchange loss) increased by 13.5%. Comparable expenses however, increased by only 2.8%.

Included in operating profit are net realised and unrealised foreign exchange losses of R164.3 million (2009: R78.4 million loss). The translation of Massdiscounters' African balance sheets accounted for R64.2 million of this (2009: R106.6 million loss), there was a net loss from other foreign monetary balances of R51.1 million (2009: R24.0 million gain) and the balance came mostly from unrealised losses on landed forward foreign exchange contracts of R49.0 million (2009: R4.2 million gain).

Net interest paid decreased slightly as commercial interest rates softened, although at R584 million the Group's average net borrowings were higher than the prior year. Despite better working capital performances, interest received in the Divisions declined due to the lower interest rates.

The non-cash IFRS *Share-based Payments* charge associated with the Group's Staff Empowerment scheme and the Black Scarce Skills Trust was R69.7 million (2009: R66.9 million). Including the preference dividend paid to participants however, the total cost of the scheme was R116.2 million (2009: R104.9 million) and has increased because 100% of the ordinary dividend now accrues to scheme participants (see note 6).

The Group's effective tax rate is 33.4% (2009: 32.6%) and this is higher because of the effect of STC of 4.6% (2009: 3.8%).

The minority interests comprise those from certain acquisitions and store managers' holdings in certain Masscash stores. The Cambridge Food 49% minority interest was acquired with effect from April 2010.

Headline earnings declined by 5.7% while headline EPS declined by 6.2%. Excluding the foreign exchange losses from both years however, headline earnings declined by 0.5% while headline EPS declined by 1.1%.

Statement of financial position

Group inventory levels were well controlled and, including acquisitions and new stores, were 14.5% higher than June 2009. Historical days in stock at June 2010 are 52.6 (2009: 50.5 days) and are higher only in Massdiscounters and Builders Warehouse as those businesses invested in inventory to meet accelerating sales growth.

Acquisitions continue to increase the amount of goodwill. During the period 13 businesses representing 20 stores and properties were acquired for a net cash consideration of R369.9 million.

Average interest-bearing debt for the period, using net interest paid as a proxy, was R584 million (2009: R360 million) representing gearing of 17.9% (2009: 12.4%).

Due to the decline in Group profitability and the ongoing investment in the business and acquisitions, the annual rolling return on equity of 34.9% at June 2010 is lower than the equivalent 2009 figure of 41.7%.

Statement of cash flows

Cash flow from operations grew 7.2% due to the improvement in net working capital levels. Total capital expenditure of R623.9 million (2009: R685.6 million) comprises R277.8 million on replacement and R346.1 million on expansionary expenditure. A further net amount of R369.9 million was spent on business acquisitions, some of which included properties.

STRATEGIC VISION 2013

Our Strategic Agenda has been reviewed and updated, focusing on Leadership and Transformation, Growth of the Core Business through investment in Supply Chain, Private Label and Financial Services, Organic Growth, New Formats and Categories, and Sustainability.

We continue to focus on format renewal across the Group. All stores opened this year took significant steps forward in their look and feel, and this will continue for several years.

One new Strategic Agenda item has been added under the heading of Customer 2.0 which represents our desire to ensure all our trading formats are positioned to respond to continually changing customer demands and the trading opportunities created by the adoption of internet-based technologies.

In terms of delivery against the Strategic Agenda, we are proud to have recruited an additional 39 graduates, hosted more than 231 senior leaders through our Corporate University, complied with all aspects of the Employment Equity Act and BEE Acts, achieved Level 4 BBBEE status, achieved fourth place in the external rating of our 2009 annual report, opened our 70,000m² Gauteng RDC, and generally made significant progress on our Strategic Agenda.

DIRECTORATE

With effect from 1 May 2010, following his appointment as chairman of a major supplier, Mr ZL "KK" Combi resigned from the board after seven years of service. We thank him for his contribution to the Group and wish him well.

PROSPECTS

For the eight weeks to 22 August 2010, total sales increased by 15.0% and comparable sales increased by 9.2%, continuing the trends experienced for most of the second half of the 2010 financial year, specifically with strong General Merchandise and Home Improvement trading performances.

In the short-term, we expect the Food and African businesses to underperform due to food deflation and the strong Rand respectively, but expect gradual improvement in both of these throughout the coming financial year.

Acknowledging the concerns and uncertainty permeating the global economy, if current South African economic and trading trends continue for the financial year, Massmart should achieve profit growth, before any foreign exchange translation adjustments, ahead of sales growth for the full year.

The financial information on which this outlook statement is based has not been reviewed or reported on by the Company's external auditors.

CONCLUSION

The environment has been very difficult for the past 24 months, but we have a growing sense of confidence that the worst is behind us. Whilst net margins declined, we are satisfied that the Group has demonstrated a relative level of resilience despite the cyclical characteristics of some of our businesses.

Our decision to continue to invest through the economic cycle should bear fruit in the years ahead.

DISTRIBUTION AND DIVIDEND POLICY

Massmart's dividend policy is to declare and pay an interim and final cash dividend representing a 1.7 times dividend cover unless circumstances dictate otherwise. Despite the slightly lower headline earnings and this policy, the Board has decided to maintain this year's dividend at the same level as the past two years.

Notice is hereby given that a final cash dividend of 134 cents per share in respect of the period ended 27 June 2010 has been declared payable to the holders of ordinary shares recorded in the share register of the Company on Friday, 17 September 2010. The last day to trade *cum-dividend* will therefore be Friday, 10 September 2010 and Massmart shares will trade *ex-dividend* from Monday, 13 September 2010. Payment of the cash dividend will be made on Monday, 20 September 2010. Share certificates may not be dematerialised or rematerialised between Monday, 13 September 2010 and Friday, 17 September 2010, both days inclusive.

A Thuthukani dividend equivalent to 100% of the Massmart ordinary dividend per share (134 cents) will be paid to the Massmart Thuthukani Empowerment Trust on Monday, 20 September 2010.

On behalf of the Board

Grant Pattison
Chief Executive Officer
25 August 2010

Guy Hayward
Chief Financial Officer

