MASSMART

Dedicated to Value

Reviewed consolidated results for the 52 weeks ended June 2004

Simply unique

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

Sales increase	Trading profit increase	Headline earnings increase	Headline earnings before acquisitions increase	Headline EPS increase	Cash flow from operations increase	Distribution to shareholders increase
17%	24%	32%	22%	32%	62%	64%
to R23 788 million	to R929 million	to R634 million	to R579 million	to 318,8 cents	to R1 271 million	to 159 cents

Overview

Aided by a buoyant middle to upper income consumer market, but depressed by average deflation of 1,2% across all product categories and the impact of a stronger Rand on foreign sales, revenue grew by 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 compound growth above 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 has now grown consistently for the past 13 half-year reporting periods, increasing by 316% since the Group's listing on the Johannesburg Securities Exchange on 4 July 2000.

The highlights of the year were:

- Sales approaching R24 billion
- Real comparable store and comparable member growth of 10,7%
- Stronger sales and profit growth in the second half
- Average sales per store up 2% to R126,5 million
- Average sales per trading square metre up 5% to R32 000
- Average sales per employee up 11% to R1,4 million
- Record pre- and post-interest operating profit margins of 3,90% and 3,87% respectively
- Full year cash flow from operations exceeding R1 billion for the first time
- An improvement in rolling twelve-month return on equity from 31,2% to 36,1%
- 43% of the year's growth was organic, increasing the proportion of organic growth since 1988 to 29%
- Extending the store network to 157 with the acquisition and opening of 17 new stores with estimated annualised sales of R1,5 billion
- Foreign operations contributing 6,2% of sales.

Strategy and implementation

Since 1990, Massmart's growth and profitability have been reliant on the achievement of an appropriate balance between two major objectives. The first is strategically aligned, organic and acquisitive growth, through trading divisions constituted on the basis of similar target markets and business models. The second, collaboration between these divisions, which results in profitability and returns greater than could otherwise be achieved.

Notwithstanding economic volatility and heightened competition in recent years, 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 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, 17 new stores were opened or acquired during the past year, enhancing the quality of the portfolio and improving the Group's presence in 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 square metres.

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 employees in nine countries, Massmart's performance and growth would be unsustainable. We are deeply indebted to each of them for their contribution to these results.

Environment

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 16 years 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 – 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 is 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.

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. 2 313 people were caught and charged for shoplifting. Less obvious, but more detrimental to the sustainability of legitimate businesses and the jobs 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 or morality to compete legitimately.

Performance

Massmart's real sales growth accelerated throughout the year. Sales growth before acquisitions was 12%. Acquisitions, comprising Trident (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 -1,2% average inflation on selling prices was the weighted average of -5,3% inflation in general merchandise, 1,2% in food and 9,7% in liquor.

Trading profit before interest and acquisitions grew 12% to R837 million. Headline earnings per share before acquisitions grew 22% to 291 cents per share.

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

Massdiscounters – comprises retail general merchandise discounters Game (56 stores), which trades in South Africa, Namibia, Botswana, Zambia, Uganda, and Mauritius, and Dion (11 stores), which trades in the Gauteng province of South Africa.

Aggressive merchandising and marketing enabled Game South Africa and Dion to sustain a high rate of comparable store growth, despite deflation for the period of 4,2%. Although Game's foreign sales in Rands fell below the previous year, Massdiscounter's comparable store sales grew 9,5%. Game enjoyed the benefit of a buoyant durables market and Dion produced profits well in excess of those produced by both Dion and Game at the time of the Game acquisition in 1998. Notwithstanding a foreign exchange loss of R23,8 million, exceptional control of expenses and working capital resulted in Massdiscounters achieving its medium term annual profit before tax return on sales target of 5%. In the light of this performance and with reference to our 7,4% international benchmark, this target has been increased to 6%.

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

In Makro, good general merchandise and liquor growth, the successful recruitment of new cardholders, and innovative marketing were underpinned by sound control of margin, expenses and working capital to produce profit growth almost three times that of sales. The highly successful Strubens Valley outlet, totally destroyed by a fire started by subcontractors working on an extension to the store in May, will reopen on an enlarged footprint towards the end of October 2004. The only consolation of this event was that 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.

Significant progress was made with the growth and integration of the Builders Warehouse and Tile Warehouse chains. Each chain opened two new stores (the most recent with a new design), the head office was relocated to the Makro campus, the calibre of management was improved as was the quality of procurement and promotional activity, and a start was made to the upgrade of systems. These initiatives enhanced profitability and established a firmer foundation for future growth, exemplified by the post year-end acquisition of the Mica Edenvale and Rivonia stores.

The division exceeded its 4% medium term profit before tax margin target, which has now been increased to 5%, the result of a weighted application of international benchmarks.

Masscash – comprises 57 CBW and six Jumbo wholesale cash and carry outlets trading in South Africa, Lesotho, Namibia, and Botswana. Comparable store sales grew 5,1%.

Inflation of 1,2% exerted pressure on CBW's sales and margin. This was most evident in the chains dominant category of maize meal, where price reductions resulted in a sales decline of R200 million. This together with a R6,6 million currency loss on foreign operations, and six new outlets that have yet to achieve their targeted profitability, undermined the profitability that should have resulted from a higher second half sales growth. After interest profits were depressed by a capital outflow of R61 million comprising payments for acquisitions, a first time dividend payment to Massmart and a cash inflow from sale of land and buildings. Despite these factors, profit growth exceeded that of sales.

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.

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

Masstrade – comprises voluntary buying organisations Shield (serving 740 independent food outlets) and Furnex (serving 856 independent furniture and appliance outlets). Comparable member growth was 25,2%.

Masstrade experienced the contrary market dynamics described above, as upper income consumers patronised independent furniture, appliance and home electronics retailers through Furnex and lower income consumers bought from wholesalers and retailers who are Shield members.

A satisfactory trading performance was undermined by a non-cash 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 system in Shield and the subsequent merger of Shield and Furnex. Pursuant to this, the directorate of the division has been substantially restructured and action has been taken to reinstate accounting and control standards acceptable to the Group.

Adjusting for the write-off, Masstrade achieved a profit before tax return on sales of 2,49% relative to the division's target of 3%.

	June 2004 (Reviewed) Rm	June 2003 (Audited) Rm	*% Change*
Trading profit before tax*	**949,2**	711,9	*33,3*
As a % of sales	**4,0**	*3,5*	
Massdiscounters	**340,2**	227,0	*49,9*
Masswarehouse (note 1)	**284,6**	173,1	*64,4*
Masscash (note 1)	**267,3**	234,0	*14,2*
Masstrade	**57,1**	77,8	*(26,6)*

** Trading profit before tax is before corporate interest paid of R27,9 million (2003: R14,6 million), goodwill amortisation and exceptional items.*

Board changes

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.

Game trademark

Settlement has been reached with the South African Revenue Services (SARS) concerning the disputed valuation of the Game trademark. The terms of the settlement have no income statement impact on the current or prior financial years. Masstores' assessed loss is now utilised and it will commence paying cash tax during the 2005 financial year.

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 exposure to the United States Dollar.

Strategy is however not about predicting the future but rather about configuring resources and capabilities to ensure relatively superior performance through all reasonable scenarios. 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.

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 square metres, in support of a budgeted sales growth approaching R4 billion.

For the eight weeks to 22 August 2004, total sales grew 11,6%, sales before acquisitions grew 8,7% and comparable store sales grew 7,0%.

Distribution and dividend policy

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

In terms of the authority granted by shareholders in the annual general meeting, notice is hereby given that the company will distribute out of share premium, in lieu of dividends, an amount of 98,0 cents per share. This amount will be payable to the holders of ordinary shares recorded in the books of the company on 17 September 2004. The last date to trade "cum" the distribution will be 10 September 2004 and Massmart shares will trade "ex" the distribution from 13 September 2004. Payment of the distribution will be made on 20 September 2004. Share certificates may not be dematerialised or rematerialised between 13 September 2004 and 17 September 2004, both days inclusive.

In terms of the requirements of the Companies Act, the directors confirm that after the payment of the distribution, Massmart will be able to pay its debts as they become due in the ordinary course of the business, and its consolidated assets, fairly valued, will exceed its consolidated liabilities.

On behalf of the board

Mark J Lamberti
Deputy Chairman and
Chief Executive Officer

Guy Hayward
Chief Financial Officer

25 August 2004

Income statement

	Year ended June 2004 (Reviewed) Rm	Year ended June 2003 (Audited) Rm	% Change
Sales	**23 787,7**	20 369,5	*16,8*
Massdiscounters	**6 783,5**	6 229,3	*8,9*
Masswarehouse	**7 066,5**	5 704,7	*23,9*
Masscash	**6 649,3**	5 740,1	*15,8*
Masstrade	**3 288,4**	2 695,4	*22,0*
Trading profit before interest	**928,5**	747,7	*24,2*
As a % of sales	***3,9***	*3,7*	
Massdiscounters	**356,6**	297,4	*19,9*
Masswarehouse (note 1)	**258,6**	160,1	*61,5*
Masscash (note 1)	**251,9**	208,8	*20,6*
Masstrade	**61,4**	81,4	*(24,6)*
Goodwill amortisation	**(74,6)**	(49,5)	
Exceptional items (note 2)	**–**	6,7	
Net interest paid	**(7,2)**	(50,4)	
Profit before taxation	**846,7**	654,5	*29,4*
Taxation	**(275,5)**	(215,2)	*28,0*
Profit after taxation	**571,2**	439,3	*30,0*
Minorities	**(8,9)**	(10,0)	
Net profit for the year	**562,3**	429,3	*31,0*
Reconciliation of net profit for the year to headline earnings			
Net profit for the year	**562,3**	429,3	
Exceptional items	**–**	2,3	
Goodwill amortisation	**74,6**	48,9	
Net profit on realisation of fixed assets (note 1)	**(2,7)**	(0,5)	
Headline earnings	**634,2**	480,0	*32,1*
Headline EPS (cents)	**318,8**	242,4	*31,5*
Diluted headline EPS (cents)	**307,5**	235,6	*30,5*
Attributable EPS (cents)	**282,6**	216,8	*30,4*
Diluted attributable EPS (cents)	**272,6**	210,7	*29,4*
Dividend (cents):			
– Interim	**61,0**	48,0	*27,1*
– Final (declared and paid after the financial year-end)	**98,0**	49,0	*100,0*
Ordinary shares (000's):			
– In issue	**199 191**	198 587	
– Weighted-average	**198 951**	198 050	
– Diluted weighted-average	**206 244**	203 763	

Balance sheet

	June 2004 (Reviewed) Rm	June 2003 (Audited) Rm	% Change
Assets			
Property, plant and equipment	**570,1**	546,2	
Goodwill	**614,0**	499,7	
Investments and loans	**249,7**	277,8	
Deferred tax	**146,5**	157,1	
Inventories	**2 356,5**	2 236,7	
Accounts receivable and prepayments	**1 997,8**	1 551,4	
Cash and bank balances	**1 154,2**	612,1	
Total	**7 088,8**	5 881,0	
Equity and liabilities			
Shareholders' equity	**1 850,2**	1 666,1	
Minority interests	**31,7**	22,4	
Long-term liabilities – interest bearing	**250,5**	247,8	
Other long-term liabilities and provisions	**34,0**	32,2	
Deferred tax	**64,9**	25,7	
Accounts payable and accruals	**4 697,9**	3 779,2	
Bank overdraft and short-term borrowings	**159,6**	107,6	
Total	**7 088,8**	5 881,0	
Net asset value per share (cents)	**928,9**	839,0	*10,7*

Cash flow statement

	Year ended June 2004 (Reviewed) Rm	Year ended June 2003 (Audited) Rm	% Change
Cash inflow from trading	**1 015,2**	848,9	*19,6*
Working capital movement	**255,3**	(63,6)	
Cash flow from operations	**1 270,5**	785,3	*61,8*
Taxation paid	**(124,2)**	(77,5)	
Net interest paid	**(5,5)**	(50,4)	
Investment income	**19,0**	11,0	
Dividends paid	**(218,8)**	(166,6)	*31,3*
Net replacement of fixed assets	**(74,8)**	(59,8)	
Investment in fixed assets	**(263,3)**	(216,6)	
Businesses acquired	**(110,1)**	(173,6)	
Other investing activities	**(7,3)**	(59,0)	
Net financing activities	**28,9**	30,8	
Foreign exchange losses taken to statement of changes in equity	**(4,2)**	(10,5)	
Opening cash and cash equivalents	**563,4**	550,3	
Closing cash and cash equivalents	**1 073,6**	563,4	*90,6*

Statement of changes in equity

	Year ended June 2004 (Reviewed) Rm	Year ended June 2003 (Audited) Rm	% Change
Opening balance	**1 666,1**	1 414,0	*17,8*
Prior year adjustment	**–**	(6,1)	
Exchange differences	**(7,9)**	(10,5)	
Dividend paid and share premium distribution	**(218,8)**	(166,6)	
Net profit for the year	**562,3**	429,3	
Shares issued	**12,8**	14,9	
Treasury shares	**(29,4)**	–	
Reduction of deferred tax asset	**(94,8)**	(5,5)	
Share trust loss and other	**(40,1)**	(3,4)	
Closing balance	**1 850,2**	1 666,1	*11,1*
Additional information			
Depreciation	**(133,5)**	(107,8)	
Capital expenditure:			
– Authorised and committed	**41,3**	103,1	
– Authorised not committed	**168,3**	47,5	
Contingent liabilities	**2,2**	13,3	
Operating lease commitments (2004 – 2013)	**4 355,8**	4 223,6	
US dollar exchange rates – period end	**6,34**	7,55	
– average	**6,84**	8,96	

Notes

1. Included in the trading profit of Masscash is a R24,2 million profit on sale of land and buildings, and in Masswarehouse, a net R19,2 million loss on building due to destruction by fire. These amounts have been included with other profits on sale of fixed assets that are excluded from headline earnings.
2. Exceptional items in the prior year comprise a bad debt recovery relating to the 2002 VAT fraud settlement (R9,0 million gain) and an impairment on the investment in Affinity Logic (R2,3 million loss).
3. Deducted from trading profit is R19,9 million (2003: R27,3 million) in net realised and unrealised foreign exchange translation losses and a translation loss on open forward exchange contracts at June 2004 of R18,8 million (2003: R6,0 million).
4. These financial statements have been prepared in accordance with AC127 (Interim Financial Reporting), using accounting policies that are in line with South African Statements of Generally Accepted Accounting Practice and on a basis consistent with prior periods, except for the consolidation of the Massmart Share Trust. The trust has been consolidated in line with the ruling of the JSE's GAAP Monitoring Panel. Comparatives have been restated accordingly and there is no earnings impact.
5. Due to Christmas trading, Massmart's earnings are weighted towards the six months to December.
6. In terms of the authority granted by shareholders, a subsidiary of Massmart acquired 2 413 711 shares during the period under review, representing 1,2% of the shares now in issue. The shares were acquired at an average price of R26,76 for a consideration of R64,6 million. Shares on hand at June 2004 have been treated as treasury shares.
7. These results have been reviewed by auditors Deloitte & Touche and their unqualified review opinion is available for inspection at the registered office.

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

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For more information: www.massmart.co.za

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