Dear Sir/Madam

SUBMISSIONS TO THE GROCERY RETAIL SECTOR MARKET INQUIRY BY MASSMART HOLDINGS LIMITED

1. As you are aware, we act for Massmart Holdings Limited ("Massmart").

2. Find attached the following non-confidential documents:

   2.1 Annexure A: Public Submissions To The Grocery Retail Sector Market Inquiry Dated 29 August 2016;

   2.2 Annexure B: Diagrammatic Representation of the Massmart group;

   2.3 Annexure C: Annual Financial Statements of Massmart for the financial year ending in December 2015;

   2.4 Annexures G1 to G4: Advertisements; and

   2.5 Annexures H1 to H2: Notice of Motion and Founding Affidavit to Massmart complaint referral.

3. We are at the RMI’s disposal to make further submissions in response to particular inquiries or targeted information requests. Moreover, we are willing to participate in the public hearings and will make oral submissions on request by the RMI.

Yours faithfully

Chris Charter / Naasha Loopo
Cliffe Dekker Hofmeyr Inc.
MASSMART HOLDINGS LIMITED

PUBLIC SUBMISSIONS TO THE GROCERY RETAIL SECTOR MARKET
INQUIRY DATED 29 AUGUST 2016
TABLE OF CONTENTS

1 EXECUTIVE SUMMARY .................................................................3
2 AN OVERVIEW OF MASSMART'S OPERATIONS .............................6
3 MASSMART'S PRIMARY ROLE AS A WHOLESALER TO S&I RETAILERS .................................................................8
4 THE ANTI-COMPETITIVE EFFECT OF LEASE EXCLUSIVITIES ........20
5 THE SDP ......................................................................................21
6 CONCLUSION ............................................................................23
EXECUTIVE SUMMARY

1.1 The Competition Commission will conduct a market inquiry to understand the general state of competition in the grocery retail sector ("RMI"). The purpose of the RMI is to examine whether there are features or a combination of features in the grocery retail sector which prevents, distorts or restricts competition or and/or to achieve the purposes of the Competition Act, No. 89 of 1998.

1.2 In its Statement of Issues, the RMI has invited the public to make submissions regarding:

1.2.1 The causes of the barriers, and any other factors and developments that impact on competition in the grocery retail sector in townships, peri-urban and rural areas;

1.2.2 The structure, trends and players operating at each level of the grocery retail sector supply chain; and

1.2.3 The degree of competition between the different players in the grocery retail sector supply chain.

1.3 With this in mind, Massmart makes these submissions to the RMI regarding the following particular areas of relevance to it and which it believes fall within the objectives and areas of inquiry of the RMI.

1.4 First, Massmart's role as a wholesaler to small and independent retailers located in the townships, peri-urban and rural areas ("S&I retailers").

1.4.1 Massmart understands the RMI's primary focus to be broadly on small and independent retailers operating in the fast-moving consumer goods ("FMCG") market, such as grocery stores and supermarkets, in the townships, peri-urban and rural areas.

1.4.2 Masscash perceives its wholesale role to S&I retailers as one aimed at increasing accessibility to products, providing promotional and pricing
support when formal retailers enter a competitive locations, reducing supply chain costs, providing access to value-added services such as the purchase of airtime, prepaid electricity, prepaid water or money transfers at the point of sale in S&I retailers, as well as identifying and building relationships with the S&I retailers (with the view of providing advice on pricing, credit and skills and knowledge regarding retail operations and management).

1.4.3 Moreover, buying groups are an important feature to the market and a case study of the Shield buying group is discussed at length.

1.4.4 In concluding, Massmart submits that the entry of formal retailers does not threaten the survival of S&I retailers since the stores offer differentiated offerings to end consumers.

1.5 Secondly, the anti-competitive effect of lease exclusivity provisions in formal retail environments.

1.5.1 As the RMI is aware, Massmart filed a complaint with the Commission in October 2014 regarding the anti-competitive effect of exclusivity clauses contained in lease agreements. When the Commission decided to institute the RMI, Massmart decided to refer the complaint to the Competition Tribunal ("Tribunal") in June 2015.

1.5.2 Since the self-referral was filed, the respondents in the matter filed a series of interlocutory applications, which were heard by the Tribunal on 26 and 27 July 2016 and it decision and order is expected shortly.

1.6 Thirdly, the Massmart Supplier Development Programme ("SDP") was established in 2011 as part of the merger conditions agreed in connection with Walmart's acquisition of control.

1.6.1 It was established with the specific intention to develop SMME suppliers, with a preference for black-owned and women-owned enterprises.

1.6.2 Experience through implementation of the SDP reveals a number of
barriers to entry for small suppliers in the following sectors, namely: building materials, bricks, GM, clothing and textiles, processed food and farming.

1.7 Massmart already has engaged with members of the RMI and understands that the RMI contemplates a period of targeted engagement with stakeholders, including Massmart, until October 2016.

1.8 As a result, these submissions are intended to be supplemented by responses to further particular inquiries or targeted information requests from the RMI so as to produce a comprehensive view of Massmart’s operations where they are relevant to the objectives and areas of inquiry of the RMI.

1.9 Massmart intends to continue its cooperation with the RMI and to facilitate its reasonable requests and inquiries going forward.
2 AN OVERVIEW OF MASSMART'S OPERATIONS

Massmart consists of four divisions, each operating the following brands:

2.1 Massdiscounters – a multi-category general merchandise ("GM") discounter and food retailer consisting of:

2.1.1 Game – offers a wide range of GM and grocery (including fresh, where not prevented by lease exclusivities addressed below) branded products to LSM 5-10 consumers; and

2.1.2 DionWired – a retailer of the world’s leading hi-tech brands of electronics and appliances to high LSM 8-10 consumers;

2.2 Masswarehouse – a warehouse club trading in food, GM and liquor consisting of:

2.2.1 Makro – selling GM to retail consumers and food and liquor to wholesale customers in a warehouse club format (no-frills store fittings); and

2.2.2 the FruitSpot – an established wholesaler and distributor of fresh and cut/processed fruit and vegetables to the hospitality industry (caterers, institutions such as hospitals or hotels and restaurants) predominantly, but also to Massmart’s other divisions that require fresh and processed food (such as Game and Cambridge);

2.3 Massbuild – a home improvement retailer and building materials supplier consisting of:

2.3.1 Builders Warehouse – warehouse retail format stores offering an extensive range of products, including a garden centre and builder’s supply yard;

2.3.2 Builders Express – catering to homeowners and DIY enthusiasts;

2.3.3 Builders Superstore – targets lower LSM customers in under-served markets nationally, usually located near commuter nodes; and

6
2.3.4 Builders Trade Depot – serving medium to large-sized contractors and tradespeople engaged in building, maintenance and renovation projects from regional outlets;

2.4 Masscash retail – targets lower LSM groups with brands including:

2.4.1 Rhino Cash & Carry – a grocery and liquor store that has full range of fresh foods; and

2.4.2 Cambridge Food – stores consist of an on-site bakery, butchery, fresh fruit and vegetables, combined with a range of national and private label branded products across all major product categories; and

2.5 Masscash wholesale –

2.5.1 Shield – is a voluntary buying association or group that buys products in bulk on behalf of its 554 members who in turn own wholesale or retail businesses (it is described in more detail below);

2.5.2 CBW and Trident – both sell wholesale food, liquor and cosmetics in bulk to independent dealers, government feeding schemes, franchise members, S&I retailers, traders and hawkers;

2.5.3 Jumbo – sells mainly cosmetics, toiletries and haircare products to individuals and independent general dealers;

2.5.4 Saverite and Liquorland.

2.6 Attached as Annexure "B" is a diagrammatic representation of the Massmart group.

2.7 Attached as Annexure "C" is Massmart’s latest Integrated Annual Report for the year ended December 2015, which provides a comprehensive overview of its operations and to which the RMI is respectfully referred.

2.8 Massmart is predominantly wholesale focussed with regard to food (with retail food operations constituting only 17.7% of total group turnover).
3 MASSMART’S PRIMARY ROLE AS A WHOLESALER TO S&I RETAILERS

3.1 An overview of the position of S&I retailers in the market

3.1.1 Massmart understands the RMI’s primary focus to be broadly on small and independent retailers operating in the fast-moving consumer goods ("FMCG") market, such as grocery stores and supermarkets, in the townships, peri-urban and rural areas (see e.g. paragraphs 4.2.1, 4.2.3 to 4.2.6 of the Terms of Reference, Government Gazette 30 October 2015, Notice 1035 of 2015 ("RMI Terms of Reference").

3.1.2 Massmart views the structure of the South African market as depicted below:

Structure of the Market

![Structure of the Market Diagram](image)

3.1.3 Massmart intends to focus in these submissions on the route to market through which it delivers groceries (perishable and non-perishable) from suppliers and manufacturers, possibly through other wholesalers and distribution agents, to retailers who sell these products to end-consumers to meet their household needs.
3.1.4 Nielsen estimates that:

3.1.4.1 There are 134 000 small and independent traders nationally. This is compared to 4 500 supermarkets and 2 785 convenience or counter stores. These S&I retailers do not appear to be in "decline" (see para 4.3.3 of the RMI Terms of Reference), but are a sustainable feature of the retail landscape in South Africa.

3.1.4.2 70% of formal retail stores operated by the 5 largest groups (Shoprite, Pick 'n Pay, Spar, Massmart and Woolworths) are concentrated in 3 regions: Gauteng, the Western Cape and KwaZulu-Natal.

3.1.4.3 Within the S&I retailers, approximately 81,500 of these stores are located in urban areas, with the remaining 52,400 located in rural areas. These "traditional trade" stores capture R1 of every R5 spent and the available range of brands available in those outlets has doubled in the past 10 years.

3.1.4.4 Overall in the past year, consumer goods retail sales totalled approximately R376 billion. 66% of this was spent in the traditional trade stores, 20% in supermarkets and the remainder in convenience or counter stores.

3.1.4.5 South Africans typically shop an average 7.3 times per month, with an average basket size of R155.

3.1.4.6 The market of end-consumers can be divided into 22% of those consumers who are within LSM 1-4, 40% within LSM 5-6 and the remaining 38% within LSM 7-10.

3.1.4.7 Of these groups, it estimates that the first (LSM 1-4) spends 17% of income on groceries, the second (LSM5-6) spends 31% of income on groceries, while the third (LSM 7-10) spends 52% of income on groceries.

3.1.4.8 The top 5 selling product categories are carbonated soft drinks, fresh
and frozen chicken, bread, salty snacks and detergents. Core staples of maize, flour, bread, sugar, rice and oil constitute 10% of the basket of groceries most typically bought in South Africa. Packaged food accounts for 43% of this spend.

3.1.5 This type of analysis of spend by product category can be further analysed by LSM scale, which can be depicted as follows:

![Food Spend of Basket by LSM 1-10](image)

3.2 **Barriers to entry for S&I retailers**

Distribution remains the single biggest cost to deliver groceries to end-consumers. For S&I retailers, there are additional factors that may constrain their entry or expansion, including:

3.2.1 securing an appropriate location and premises;

3.2.2 access to affordable, appropriately-scaled credit (when suppliers often require audited financial statements, company registration, VAT registration and other corporate governance compliance); and

3.2.3 the need for formal banking facilities, including a bank account for the business.

3.3 **Masscash wholesale**

3.3.1 Masscash perceives its wholesale role to S&I retailers as one aimed at:
3.3.1.1 increasing accessibility to product despite difficulty in reaching more inaccessible locations;

3.3.1.2 providing price advantages to customers when compared to the pricing that would be available were they to purchase directly from suppliers given their small scale; and

3.3.1.3 reducing supply chain costs due to its footprint.

3.3.2 S&I retailers are able to operate competitively and closer to the end consumers due to their locations (community-based), extended operating hours and low (or no) overheads.

3.3.3 Masscash aims to provide a national distribution footprint to support these stores.

3.3.4 Masscash also provides credit, as explained below, as well as the opportunity to participate in a so-called banner programme determined by volumes of sales. The banner programme entails promotional branding, merchandising and in-store training opportunities provided by Masscash to S&I retailers. The banner programme is managed by monthly visits with store managers.

3.3.5 Accordingly, Masscash leverages its scale and buying power when engaging with the suppliers, which it then couples with retail operations skills, to assist its customers, the smaller and independent retailers. In essence, Massmart seeks to provide a warehouse and distribution solution for independent retailers, thereby either replacing or complementing the role of distribution agencies. Masscash aims to provide an “active supply chain solution” to its customers, coupled with credit facilities and pricing opportunities that arise due to its buyer power relative to the large suppliers. An “active supply chain solution” is one that provides a single source of products to its customers, while assuming the responsibility for inventory management and stock rotation, as well as providing credit to its customers.
3.3.6 Regarding credit, Masscash currently has a book of approximately R600 to R700 million on credit for approximately 11 000 customers. Approximately 9 000 of these are very small credit accounts, for example, as low as a few thousand rand on a 7-day trading period. Masscash store managers enjoy broad discretion in managing this book (since it is a store-based credit book), subject to centralised oversight parameters.

3.3.7 Massmart understands that the RMI is interested in the position of S&I retailers, and makes the following submissions in this regard:

3.3.7.1 S&I retailers typically serve high density areas, such as townships, and, in rural areas, are often located near transport nodes for convenience. These businesses typically operate as cash and carry stores. Upon the entry of formal retailers, S&I retailers evolved or new operators entered and focussed on offering consumers solutions to their grocery shopping needs. These solutions were primarily focussed on freshness, relevance (to meeting household needs) and offering product categories and brands in appropriate pack sizes. This was seen to be both cost-effective (in terms of inventory and cashflow management) and affordable to end-consumers.

3.3.7.2 For example, staple foods such as mealie meal, rice and oil were better traded by these businesses in high density areas since no additional costs were added on by these traders, who, in any event, typically have very low overheads (both fixed and variable costs). In contrast, formal retailers entering the same communities carried higher overheads within their store operations. In addition, end consumers may incur additional costs to access those stores, chiefly transport. Finally, formal retailers may not carry appropriately-sized products in certain categories to capture the available grocery spend of end-consumers.

3.3.7.3 Therefore, S&I retailers retained an advantage over formal retailers by being "closer" to their end-consumers, both in terms of physical location and in terms of the available offering. This was their primary competitive advantage over formal retail.
3.3.7.4 However, a lack of business acumen appears to be the largest risk to S&I retailers, primarily with respect to managing cash flow and inventory relative to securing sales. In essence, S&I retailers suffer from an inability to manage their variable costs and to cut their fixed costs, so that, if they lose sales volume at the margins, they quickly become commercially unviable.

3.3.7.5 Furthermore, a lack of scale may offset the overhead benefits of their business model.

3.3.7.6 When a new formal large retailer enters a particular location, informal and hawker traders are generally unaffected since they are differentiated with respect to their offering, as explained above.

3.3.7.7 However, it is the slightly larger house stores that are potentially vulnerable and which may fail if they do not adequately manage overheads, lower their margins and provide lower costs and pricing relative to the formal retail stores. It must be recalled that their convenient location and extended trading hours remain a competitive advantage.

3.3.8 Masscash therefore provides promotional and pricing support to S&I retailers when formal retailers enter a competitive location, for example by providing product-specific promotions to these outlets to combat any opening specials put to the market by formal retail.

3.3.9 In addition, Masscash runs a private label programme with more than R1billion in sales annually (8.3% of its total sales), which is a further competitive strategy available to S&I retailers to compete with formal retail since these brands enjoy customer loyalty and are a further product differentiation available to S&I retailers when compared to the offerings of large retail.

3.3.10 Masscash conceives of its role as one of "active wholesaling", by which it means a process whereby it negotiates and obtains supplier-funded and -led promotions for customers, including by, for example, bundling other
desirable value-added services (such as mobile airtime purchases) with the purchase of particular products.

3.3.11 The primary locational advantage presented by S&I retailers is typically overhead-driven but also location-driven in that these stores are more convenient and accessible to their customers than formal retail.

3.3.11.1 For example, formal retailers may open at a mall location in a given area, but this would require customers to obtain transport to that retail store, which can become prohibitively expensive for lower LSM consumers, making formal retail unattractive and unaffordable.

3.3.11.2 At a very practical level, for example, an end consumer would need to pay for taxi transport to the formal retail store, possibly have to pay for a second seat in the taxi on the return trip to accommodate the grocery purchases made and then pay for additional wheelbarrow services to deliver these goods to their homes.

3.3.11.3 In contrast, the S&I retailers are more conveniently located to end consumers' homes and therefore smaller, more frequent purchases can achieve the same household consumption.

3.3.11.4 In addition, as explained above, S&I retailers often have the right stock in the right place at the right time and in the right quantities or volume. These retailers also ensure pack sizing that matches the available spend of their end consumers, which is reflected in very competitive pricing.

3.3.11.5 These operators may operate several stores in a given community (even operating as tenants and employers to local residents) and may pool their purchasing power to create an efficient, localised buying group and distribution network by working cooperatively across locations.

3.3.11.6 However, operators who do not have the necessary level of business formalisation (such as VAT registration), may be unable to deal directly
with the large suppliers. Another challenge to some S&I retailers establishing formal customer relationships with the large suppliers is the prevalence of “knock-off” merchandise in certain of these stores. Popular branded products (such as Sunlight Soap, Vicks Vaporub, Zambuk and Lion Matches) are often targets of these practices.

3.3.11.7 For these reasons, these operators organise themselves into networks that function as wholesalers and distributors in these communities.

3.3.11.8 Finally, the embedded community-based nature of the S&I retailers means that they extend short-term small value credit to end consumers which formal retail would not do.

3.3.11.9 In sum, the entry of formal retailers does not threaten the survival of S&I retailers since the stores offer differentiated offerings to end consumers.

3.3.12 Masscash aims to support these stores by providing access to valued-added services such as the purchase of airtime, prepaid electricity, prepaid water or money transfers at the point of sale in S&I retailers.

3.3.12.1 The availability of these additional services is a further competitive advantage to S&I retailers who can at the same time in one store satisfy their need to purchase basic basket groceries to meet the household’s needs, as well as obtain value-added services.

3.3.12.2 Massmart assists with these value-added services as well as point of sale “swipe” services (debit and credit card processing facilities), point of sale and promotional support, stock control and scanning systems at point of sale.

3.3.12.3 Each and every one of these services requires access to capital since they are pre-funded, with which Massmart assists.

3.3.13 Massmart further supports these retailers by identifying and building relationships with them including by:
3.3.13.1 sourcing goods;
3.3.13.2 providing advice on appropriate pricing;
3.3.13.3 funding margins with credit; and
3.3.13.4 organising traders into groups for training by location which relates to skills and knowledge regarding retail operations and management, as well as product orientation.

3.3.14 This relationship means that suppliers use Massmart as a conduit to these groups as well as the instrument for training and education, the end-point for the distribution of promotional materials and for the expansion of product ranges available to end consumers.

3.3.14.1 The relatively high overheads of formal retail are often tied to the amount of in-store personnel, equipment and systems that are necessary for those stores, but which are not required by S&I retailers.

3.3.14.2 At the same time, formal retail benefits from in-store merchandising offered by suppliers to those outlets, which merchandising is not offered to S&I retailers.

3.3.14.3 The cost allocation of these promotions by suppliers means that they are not available to S&I retailers whose spend does not justify that investment from the supplier.

3.3.14.4 However, Massmart is able to provide this type of promotional support as a wholesaler to these S&I retailers, its customers.

3.3.15 Buying groups are a further feature of this market and we provide a case study of one such group below.

3.4 **Shield – a case study of a buying group**

3.4.1 Shield Buying and Distribution was founded on the 3rd March 1973 and
forms part of Masscash's wholesale business. The purpose of the buying group was to provide independent retailers and wholesalers with the ability to compete with formal retail and wholesale groups. Shield sources all manner of goods, including perishables, edible and non-edible groceries, GM and hardware.

3.4.2 The operating model is to negotiate pricing deals on goods supplied to these businesses by suppliers. Suppliers then deliver the goods ordered by the member and provide proof of delivery to Shield. Shield pays the supplier, thus guaranteeing payment. Shield provides the member with credit on agreeable terms. Shield does not distribute goods to members, but negotiates pricing with suppliers, who in turn deliver goods ordered by members to them directly. Members order goods from Shield and directly from suppliers, all of which are delivered by suppliers directly to Shield members.

3.4.3 Attached as Annexure "D" is an overview of Shield's operations and as Annexure "E" is a list of Shield's current suppliers from which it obtains product for its members.

3.4.4 Shield's members are free to purchase goods from alternate sources, and therefore should the pricing negotiated not be competitive, Shield would not generate sales to its members. A standard or "list price" is negotiated by Shield with suppliers and additional bulk discounts are negotiated with suppliers based on volume orders from individual members. Member purchases are billed to and paid by Shield by suppliers, subject to available credit.

3.4.5 [CONFIDENTIAL]

3.4.6 Shield members are mostly retailers who may display the Shield Logo on the exterior of their premises to indicate membership.
3.4.7 Multisaves are retail members who trade under their own trading names but may choose to display their name as well as Multisave signage to indicate membership.

3.4.8 Multisave Superstores are large retail members who trade under their own trading names but may choose to display their name as well as Multisave signage to indicate membership.

3.4.9 Powersaves are wholesale members who trade under their own trading names but may choose to display their trading name as well as Powersave signage to indicate membership.

3.4.10 Build & Save members are hardware stores who trade under their own trading names but may choose to display their trading name as well as Build & Save signage to indicate membership.

3.4.11 Saverite members are franchised supermarkets. In addition to signing the Shield membership agreement, it signs a franchise agreement and displays the Saverite signage internally and externally. The only Shield members required to pay a membership fee are the Saverite franchise stores, who pay a franchise fee of 1% of monthly purchases through their
Shield account. If the franchisee purchases the agreed amount through the Shield account in a year (R4.8 million) Shield pays the Franchisee a rebate of 1% of purchases. A copy of a Saverite franchisee brochure is attached as Annexure "F".

3.4.12 [CONFIDENTIAL]
3.4.13 [CONFIDENTIAL]
3.4.14 [CONFIDENTIAL]
3.4.15 [CONFIDENTIAL]
3.4.16 [CONFIDENTIAL]
3.4.17 [CONFIDENTIAL]
3.4.18 [CONFIDENTIAL] Examples of these advertisements for different members are attached as Annexure "G". [CONFIDENTIAL]
3.4.19 [CONFIDENTIAL]
3.4.20 [CONFIDENTIAL]
3.4.21 [CONFIDENTIAL]
3.4.22 Other buying groups active in South Africa include:

3.4.22.1 EST – active with FMCG and some hardware products, but does not provide credit and requires the suppliers to carry its book;

3.4.22.2 UMS and Best Buy – some credit is offered but it is limited, Best Buy is a new launch by the operators of UMS;

3.4.22.3 Trade Port – KZN focussed;
3.4.22.4 ICC; and

3.4.22.5 Certain of these buying groups require their members to be exclusive, ostensibly as a demand from the suppliers.

3.4.23 One threat to the buying group business is the centralisation of distribution by large retailers into distribution centres.

3.4.24 This puts pressure on the Shield buying group model because the suppliers’ distribution model shifts from being able to easily accommodate deliveries to all buying group members to one where single destination deliveries to the formal retailers’ distribution centres are preferred.

3.4.25 In essence, suppliers opt out of distributing to members directly. These services are now being replaced by the growth of independent agencies or distribution agents to ensure the buying group model continues.

4 THE ANTI-COMPETITIVE EFFECT OF LEASE EXCLUSIVITIES

4.1 A further area of particular relevance to Massmart is the RMI’s assessment of exclusive lease provisions in malls or shopping centres (para 4.2.2 of the RMI Terms of Reference).

4.2 As the RMI is no doubt aware, Massmart filed a complaint with the Competition Commission regarding the anti-competitive effect of these provisions. When the Commission decided to institute the RMI to investigate this issue, along with others, Massmart self-referred its complaint to the Competition Tribunal where it is pending.

4.3 A copy of the complaint referral is attached as Annexure "H".

4.4 Since the self-referral was filed with the Tribunal, all three respondents (Shoprite Checkers, Pick ’n Pay and Spar) have filed exceptions against it and Spar filed a stay application, supported by Shoprite Checkers. Argument was heard in those applications by the Tribunal on 26 and 27 July 2016 and its decision and order is expected shortly.
4.5 It suffices for these submissions to record Massmart’s firm view that these lease exclusivity provisions are anti-competitive in that they prevent entry or expansion by new retailers into locations where the 3 large retailers are incumbent. As explained in the referral, Massmart has endured a campaign by the large retailers (Shoprite Checkers and Pick ‘n Pay in particular) to enforce these provisions through High Court proceedings. The appeal of the latest of these is due to be heard by the Constitutional Court on 30 August 2016.

5 THE SDP

5.1.1 The Commission will be aware of the Supplier Development Fund that Massmart established in 2011 as part of the merger conditions agreed in connection with Walmart’s acquisition of control.

5.1.2 It was established with the specific intention to develop SMME suppliers, with a preference for black-owned and women-owned enterprises. By February 2016, Massmart had disbursed R79.8 million to beneficiaries of the resultant SDP. Estimated procurement by Massmart from SDP participants since the fund’s inception is estimated to be in the region of approximately R164.6 million (and R80 million per annum in 2015).

5.1.3 Experience through implementation of the SDP reveals a number of barriers to entry for small suppliers. In particular, key themes around the time it takes for suppliers to become "retail ready" have emerged, including compliance challenges prior to listing (i.e. formalising a supply relationship with a retailer) and ongoing compliance support post-listing. SDP staff and Massmart merchants spend significant time and effort to help suppliers navigate these processes.

5.1.4 National laws governing consumer safety and protection need to be met, with food having a particularly high risk threshold and regulatory burden.

5.1.5 Many staple foods (commodities) are financially risky crops to grow as they require significant financial hedging tools and insurance to deal with the inevitable macro-economic cycles and climate risks.
5.1.6 For manufactured goods, brand equity of the established players is a particular barrier for new, smaller entrants, as are the listing requirements of the established retailers.

5.1.7 For many emerging small supply businesses, adequate, direct and tailor-made business training and mentorship is a significant need. Massmart's SDP is exploring working with specialists in this field to offer one-on-one training in a non-institutionalised manner to suppliers.

5.1.8 In order to help ensure the success of SDP participants, the SDP over time has developed to primarily support small manufacturers in categories where Massmart has a strong market presence, as larger procurement orders from Massmart create opportunities for growth. In addition, procurement support from Massmart results in more consistent and predictable customer demand enabling regular off-take orders enhancing the suppliers' sustainability. Massmart and identified small suppliers are able to work together to target demand created by structural manufacturing shortages in the supply chain, improve fill-rate service levels due to existing supply inefficiencies, introduce product innovations and improve price competitiveness.

5.1.9 While initially a focus of the SDP, the Direct Farming initiative has over time become a smaller part of the SDP’s activities due to various challenges. Of particular relevance to the Commission's inquiry is the fact that Massmart's ability to grow its fresh footprint is directly related to its ability to support smallholders through an inclusive supply chain. While Massmart has been working to expand its fresh offering (though hampered by lease exclusivities as addressed above), it remains small in this segment relative to the overall retail market.

5.1.10 The SDP started the 2016 year with 28 suppliers of which 27 are manufacturing suppliers and 1 a small farmer. These are organised into 6 clusters: building materials, bricks, GM, clothing and textiles, processed food and farming.
5.1.11 The increased focus on manufacturing (primarily general merchandise and home improvement) is driven by Massmart's ability to support these suppliers "from the inside out" given Massmart's strong presence in these sectors.

5.1.12 The Commission will have a copy of the SDP, should the RMI requests same.

6 CONCLUSION

Massmart remains available to the RMI and looks forward to further engagement with it in the coming months.
Massmart + Walmart

Integrated Annual Report for the year ended December 2015
Saving customers money so they can live better
What's on our website

In addition to the content that appears in this report, the following can be found online:

Group Annual Financial Statements and notes
www.massmart.co.za/IR/2015/groupafs

Company Annual Financial Statements and notes
www.massmart.co.za/IR/2015/companyafs

Five year review
www.massmart.co.za/IR/2015/yearreview

These items are all included in the 'Our performance' section, under 'Financial capital'.

Full assessment of the application of King III
www.massmart.co.za/IR/2015/kingiii

The Audit Committee
www.massmart.co.za/IR/2015/auditcom

The Risk Committee
www.massmart.co.za/IR/2015/riskcom

The Nomination Committee
www.massmart.co.za/IR/2015/nomcom

Compliance, transparency and accountability
www.massmart.co.za/IR/2015/compliance

These items are all included in the 'Transparency and accountability' section.

Visit our annual report website at:
www.massmart.co.za/IR/2015

Use this icon @ to refer to articles online
Use this icon # to refer to articles in this report
This icon @ highlights definitions

Contents

Our business at a glance
Scope, materiality, assurance and approval
Our performance highlights
Our purpose
Our business model
Our Divisions
Our footprint
How we add value
Our strategic priorities
Managing our risk

01 Leadership review
A message from our Chairman
Our CEO's letter to our stakeholders
Our Board
Our Executive Committee

02 Our performance
Defining the capital
Financial capital
Manufactured capital
Human capital
Natural capital
Social and relationship capital
Intelectual capital

03 Transparency and accountability
Corporate Governance
Our assessment of the principles of King III
Our Board
Our Board Committees
Board and Committee attendance

04 Shareholder information
Notice of Annual General Meeting
Form of proxy
Notes to the form of proxy
Definitions and formulas
Introduction

Chairman's overview

On behalf of the Massmart Board of Directors, I am proud to present Massmart's 2015 Integrated Annual Report.

We have a diverse range of stakeholders including shareholders, customers, employees, suppliers and communities, with varied information needs. This Integrated Annual Report is our primary report to stakeholders and is aimed at addressing our stakeholders' interests.

It aims to demonstrate how the material matters in relation to our financial and non-financial performance, governance, risks and strategy can lead to the creation of value in the short, medium and long term.

Kuseni Dlamini
Chairman

Scope of the Report

The scope of the Massmart Integrated Annual Report includes the Group's four Divisions and key functions. With respect to comparability, all significant items are reported in a consistent manner with the previous financial year, with no material restatements. Where applicable, this report has been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), specifically IAS 14 Interim Financial Reporting. Interpretations issued by the International Accounting Standards Board, the SAICA Financial Reporting Guidelines as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listing Requirements and the requirements of the South African Companies Act, No. 71 (as amended), as well as the King Code of Governance Principles (King III).

Content of the Report

The Massmart Integrated Annual Report is our primary report to stakeholders and is aimed at addressing our stakeholders' interests. The following content is available on our website:

www.massmart.co.za/2015
- Register the documentary assessment of all
- 75 principles of King III;
- Corporate Governance Report;
- Approval of the Audited Annual Financial Statements (including the independent auditors' report);
- Group Annual Financial Statements and notes;
- Company Annual Financial Statements and notes.

Materiality

Management's interpretation of materiality, being those transactions, balances and information that are significant in terms of impact, the Group's risk profile or the Group's strategic intent, such that management believes an omission of disclosure thereof would influence the Group's stakeholders' decisions, has been applied in determining the financial and non-financial content and disclosure in this Report.

Assurance

Massmart applies a combined assurance model, introduced by King III, which seeks to optimise the assurance obtained from management and internal and external assurance providers. The Group's Risk Committee monitors all the significant risks facing the Group and with the help of management, provides the Massmart Board of Directors with assurance that it has implemented and monitored the Group's risk management plan, and that it is integrated into day-to-day activities. They are also responsible for monitoring and implementing the necessary internal controls.

The internal audit function, overseen by the Group's Audit Committee, assesses the effectiveness of Massmart's systems of internal control. The Group receives external assurance on certain aspects of the business, for example, the Group's external auditors, Ernst & Young Inc., provide an opinion on the fair presentation of the Group and Company Annual Financial Statements. The Group's Audit Committee ensures that the combined assurance model is applied throughout the Group to provide a co-ordinated approach to all assurance activities and this Committee also monitors the relationship between the external service providers and the Group.

For more information regarding the Group Audit Committee's mandate, including the Committee's assessment of the report of the Chief Financial Officer and audit function, the appropriateness of the Group and Company Annual Financial Statements, the accounting practices and the internal reporting and control of the Group, and the Committee's recommendation of this Integrated Annual Report for approval by the Massmart Board of Directors, refer to the "Audit Committee", available on the website: www.massmart.co.za/2015/auditcom

Approval of the Integrated Annual Report and summary consolidated Annual Financial Statements

The Massmart Board of Directors confirm that they have collectively assessed the content of this Integrated Annual Report and have approved it for release to our stakeholders. This Massmart Integrated Annual Report for December 2015 contains audited summary consolidated Annual Financial Statements which comprise a summary of the audited consolidated Group Annual Financial Statements prepared for the year ended December 2015.

The preparation of the audited consolidated Group and separate Annual Financial Statements, from which these audited summary consolidated Annual Financial Statements were derived, was supervised by the Chief Financial Officer, Johannes van Lierop. The accounting policies and methods of computation used in the preparation of these audited summary consolidated Annual Financial Statements are consistent in all material respects with those applied in the prior year, as none of the amendments coming into effect in the current financial year have had a material impact on the financial reporting of the Group.

The audited summary consolidated Annual Financial Statements for the year ended December 2015 as described above, were approved by the Board of Directors on 1 April 2016 and signed on its behalf by:

Guy Hayward
Chief Executive Officer

Johannes van Lierop
Chief Financial Officer

Forward looking statements

The Massmart Integrated Annual Report includes forward looking statements which relate to the possible future financial position and results of the Group's operations. These statements by their nature involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Group to be materially different from the future results, performance or achievements expressed or implied by such forward looking statements, as they relate to events and depend on circumstances that may or may not occur in the future.

Factors that could cause actual results to differ materially from those in forward looking statements include, but are not limited to, global and national economic and market conditions, competitive conditions, the cyclical nature of the retail sector, consumer and trade credit and the associated costs and risks of funding, inventory levels and regulatory factors. The Group is not under any obligation to update or alter any forward looking statements publicly, whether as a result of new information, future events or otherwise. Investors are cautioned not to place undue reliance on any forward looking statements contained herein, as they have not been reviewed or reported on by the Group's external auditors.

www.massmart.co.za/2015/groupafs

The audited summary consolidated Annual Financial Statements for the year ended December 2015 as described above, were approved by the Board of Directors on 1 April 2016 and signed on its behalf by:

Guy Hayward
Chief Executive Officer

Johannes van Lierop
Chief Financial Officer

Forward looking statements

The Massmart Integrated Annual Report includes forward looking statements which relate to the possible future financial position and results of the Group's operations. These statements by their nature involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Group to be materially different from the future results, performance or achievements expressed or implied by such forward looking statements, as they relate to events and depend on circumstances that may or may not occur in the future.

Factors that could cause actual results to differ materially from those in forward looking statements include, but are not limited to, global and national economic and market conditions, competitive conditions, the cyclical nature of the retail sector, consumer and trade credit and the associated costs and risks of funding, inventory levels and regulatory factors. The Group is not under any obligation to update or alter any forward looking statements publicly, whether as a result of new information, future events or otherwise. Investors are cautioned not to place undue reliance on any forward looking statements contained herein, as they have not been reviewed or reported on by the Group's external auditors.
Our performance highlights

Financial highlights

<table>
<thead>
<tr>
<th>Amount</th>
<th>Cents</th>
</tr>
</thead>
<tbody>
<tr>
<td>R84,731.8 million</td>
<td>567.5 cents</td>
</tr>
<tr>
<td>R2,300.2 million</td>
<td>258.2 cents</td>
</tr>
<tr>
<td>2.8%</td>
<td>2,595.6 cents</td>
</tr>
<tr>
<td>R3,272.1 million</td>
<td>22.4%</td>
</tr>
<tr>
<td>R1,229.8 million</td>
<td>30.5%</td>
</tr>
<tr>
<td>R1,118.8 million</td>
<td>17.8%</td>
</tr>
</tbody>
</table>

Human performance

<table>
<thead>
<tr>
<th>Performance</th>
<th>403</th>
</tr>
</thead>
<tbody>
<tr>
<td>R199.8 million</td>
<td>8,883</td>
</tr>
</tbody>
</table>

BBBEE: Employment equity score
(2014: 10.5)

Customer complaints (e.g. price errors, false adverts, etc.)
(2014: 2,093)

Store purchased energy consumption
(2014: 205.53 kWh/m²)

Estimated water consumption
(2014: 0.29 kL/m²)

Private Label as a percentage of total sales
unchanged from 2014

Traffic on the Makro site grew by more than 65% and had 11 million unique visitors during 2015

In meeting these performance highlights, we acknowledge the following challenges:
- Rising interest rates and slowing economic growth impacting consumer confidence and spending
- Significant cost pressures across many categories of operating costs
- Price deflation in commodities for most of the year
- Tough economic conditions and currency weakness across most African countries for the first half of 2015

We are proud of the following success stories:
- Despite South African economic challenges, all Divisions recorded good sales and volume growth
- Strengthened several Divisional management teams with great hires of external talent
- Online sales growth accelerating fast, now totaling R1.82 billion
- Most African economies and currencies stabilized in second half of 2015 and our stores in those countries performed well. Also had very successful store openings in three African countries

More information on our definitions and formulas on p137
Our purpose

Massmart's commitment to our customers:

Saving customers money so they can live better

Massmart's definition of purpose:

To be the most trusted, high volume, lowest cost, wholesale and retail Group in sub-Saharan Africa, delivering exceptional value to mass market consumers

What sets us apart:

- MOST TRUSTED
  - We nurture exceptional partner and stakeholder loyalty enabling long-term relationships

- HIGH VOLUME
  - Our procurement scale optimises supplier distribution and price efficiencies

- LOWEST COST
  - Our high sales density formats and cost-efficient route to market drive price leadership

How we do this:

- Good governance and compliance
- Best partner and stakeholder engagement
- Excellent delivery against commitments

- Smart Group-wide category management
- Best customer activation
- Excellent omni-channel execution

- Smart Group leverage
- Best operational execution
- Excellent cost control

- Complementary and differentiated formats
- Best customer experience
- Excellent assortment clarity and value

How we measure our performance:

- Highest partner and stakeholder likelihood to recommend
- Best stock velocity
- High market share
- Lowest costs as % of sales
- Best space productivity
- High customer satisfaction
- Lowest comparable basket price

Our values guide how we work:

ETHICAL & RESPECTFUL
- Good business at the centre of everything we do

RESPONSIBILITY
- Thoughtful choices for a better future

EXCELLENCE
- Smart ideas that inspire everyday excellence
Our business model

Our unique investment proposition is based on strategic and structural clarity; management depth, quality and diversity; product category leadership; format and geographic diversification; relatively lower risk; and growth, and is enabled by good governance. Our proven business model ensures that we are able to deliver stakeholder value.

INPUT

Our Business Drivers
- Ethical and experienced leadership and management
- A robust, flexible business strategy
- Four focused independent Divisions, differentiated as retail or wholesale formats addressing different customer and market profiles
- Proven high volume, low-cost model
- Effective supply chain and IT solutions
- Established brands in a growing consumer market
- Diverse geographical footprint
- Walmart partnership

BUSINESS ACTIVITIES

How We Do Business
- Strategic operating and financial framework defined by Group management to guide Group's activities (Massmart Holdings)
- Collaboration via our forums to ensure Group-wide sharing of capabilities, knowledge and information (Massmart Channel)
- Implementation of Group-wide agreements enabling greater extraction of value across Divisions, the most important of which is Group Supplier negotiations (Massmart Shared Services)
- Ensure Group-wide consistent compliance with best governance and national legislative requirements (Massmart Compliance)

OUTPUT

WHAT WE ENABLE
- Exceptional value goods that meet our customers' needs, through accessible retail and wholesale formats and online
- Efficient routes to market
- Responsible corporate citizenship
- Savings for our customers, so they can live better lives
- Job creation and employee development
- Retail excellence
- Supplier development and growth
- A more sustainable future
- Positive shareholder returns
- Government revenue collection
**Our Divisions**

**Massdiscounters**

Massdiscounters is a multi-category general merchandise discounter and food retailer.

**Masswarehouse**

Masswarehouse is a warehouse club trading in food, general merchandise and liquor.

**Massbuild**

Massbuild is a home improvement retailer and building materials supplier.

**Masscash**

Masscash is a food wholesaler, retailer and buying association. It comprises two Divisions, wholesale and retail.

---

**Game** offers customers the widest range of branded products at the best price, with a quality guarantee for customers.

DionWired offers the widest range of the world's leading hi-tech brands such as Samsung, LG, Apple, SMEG and Bose to the South African high-income consumer. DionWired offers buyers an interactive shopping experience with tech experts on hand to provide the best advice and on-site repairs and services.

Makro sells general merchandise primarily to retail customers and food and liquor to wholesale customers, although retail customers' participation in Food and Liquor is growing strongly. The blend gives it a robustness that enables it to trade comfortably in most economic cycles. The warehouse club format, with its no-frills approach, keeps costs down and provides the platform for a high volume, high margin sales offering of quality branded merchandise.

The Fruitspot is an established wholesaler and distributor of fresh and cut fruit and vegetables. It provides customers with quality products at best prices.

**Builders Warehouse** follows the warehouse retail format, offering an extensive range of competitively priced products with a large garden centre display and builders supply yard.

**Builders Express** caters to the homeowner and DIY enthusiast, focuses on a convenient location, a customer-friendly store layout with pleasing displays and personalised service and advice.

**Builders Superstore** focuses on the lower-income population in under-served markets around the country. These stores are conveniently located near commuter nodes.

**Builders Trade Depot** caters mostly for medium-to-large-sized contractors and tradesmen engaged in building, maintenance and renovation projects. It trades from large regional low-cost outlets.

---

**Geographic presence:**

South Africa, Botswana, Mozambique, Zambia

---

**Geographic presence:**

South Africa

---

**Geographic presence:**

South Africa, Botswana, Lesotho, Mozambique, Namibia, Swaziland

---

**Geographic presence:**

South Africa

---

**Geographic presence:**

South Africa, Botswana, Lesotho, Mozambique, Namibia, Swaziland

---

<table>
<thead>
<tr>
<th>Stores</th>
<th>LSA</th>
<th>5-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 outside South Africa</td>
<td>(153 stores in 2014)</td>
<td>8-10</td>
</tr>
<tr>
<td>13,796</td>
<td>Full-time employees</td>
<td>2-8</td>
</tr>
<tr>
<td>(14,214 in 2014)</td>
<td>Makro primary customers</td>
<td></td>
</tr>
<tr>
<td><strong>161</strong></td>
<td>Game</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stores</th>
<th>LSA</th>
<th>6-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>19 all in South Africa</td>
<td>(19 stores in 2014)</td>
<td></td>
</tr>
<tr>
<td>9,952</td>
<td>Full-time employees</td>
<td></td>
</tr>
<tr>
<td>(9,503 in 2014)</td>
<td>Makro secondary customers, via trade</td>
<td></td>
</tr>
<tr>
<td><strong>19</strong></td>
<td>Makro primary customers</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stores</th>
<th>LSA</th>
<th>2-5</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 outside South Africa</td>
<td>(120 stores in 2014)</td>
<td></td>
</tr>
<tr>
<td>121</td>
<td>Wholesale</td>
<td></td>
</tr>
<tr>
<td><strong>13,187</strong></td>
<td>Full-time employees</td>
<td></td>
</tr>
<tr>
<td>(12,863 in 2014)</td>
<td>Builders Warehouse</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Builders Express</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Builders Trade Depot</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Builders Superstore</td>
<td></td>
</tr>
</tbody>
</table>
Our footprint

Massmart is an African retailer that operates through 403 stores in 13 countries across sub-Saharan Africa.

365 of our stores are in South Africa, in both urban and rural areas, enabling access to a broad consumer base. We operate a further 38 stores across the rest of sub-Saharan Africa.
How we add value

Determining how we add value has called for co-ordinated thinking to ensure that the trade-offs that are inevitable in managing the competing interests of stakeholders, ultimately result in the ethical and responsible creation of shared value.

Integrated thinking is intrinsic to the way we manage our business, and is supported by our internal reporting processes. In combination, these priorities ensure that we manage the needs and expectations of our key stakeholders and the trade-offs between them, to create long-term value for our shareholders.

We recognise the interdependencies between the six capitals and the fact that there are trade-offs between the costs and benefits offered by the six capitals that we have to manage responsibly. We rely heavily on our intellectual and manufactured capitals as these are the capitals that generate new products, build the inherent value of our brands and, through good governance, protect our reputation.

Calculating the value we added:

**R84,731.8 million**
Sales
Increased 8.4% (2016: R78,173.2)

- **R68,689.6 million**
  Cost of sales
  Increased 5.0% (2016: R65,310.6)

+ **R158.0 million**
  Other revenue and interest received
  Decreased 15.6% (2016: R183.7)

- **R6,263.3 million**
  Net costs of services and other operating expenses
  Increased 8.9% (2016: R5,771.1)

**R9,936.9 million**
Value added
Increased 10.7% (2016: R8,979.8)

How each capital distributes value:

- **FINANCIAL CAPITAL**
  Cost to finance distribution of value
  [p81-89]

- **MANUFACTURED CAPITAL**
  The Divisions would be primarily responsible for generating the value to be distributed
  [p78-87]

- **HUMAN CAPITAL**
  Cost incurred to remunerate and train staff
  [p88-105]

- **NATURAL CAPITAL**
  Environmental cost saving initiatives
  [p106-109]

- **SOCIAL & RELATIONSHIP CAPITAL**
  Costs of CSI initiatives
  [p108-116]

- **INTELLECTUAL CAPITAL**
  Cost savings derived from promotions
  [p117-119]
Our strategic priorities

In 2015, we delivered on these key strategic priorities by:

- **Focussing on sales, operating margin and expenses**
  
  Did you know?
  Massmart has the highest annual sales densities in South African retail at R204 million per store and the lowest operating costs as a % of sales at 16.4%.

- **Leveraging our investment in Builders and building a Retail Food proposition on the General Merchandise and Wholesale platforms**
  
  Did you know?
  In 2015, Massbuild and Masscash retail had gross South African space growth of 4.7% and 5.6% respectively.

- **Leveraging South African market leadership and operating strengths in sub-Saharan Africa**
  
  Did you know?
  Builders’ rest of Africa store sales are fast approaching R1 billion out of 6 stores after just 3 years.

- **Did you know?**
  Traffic on the Makro site grew by more than 63% and had 11 million unique visitors during 2015.

We will also deliver on these priorities for 2016 by:

- **Addressing cost structures and processes in each of the Divisions and ensuring that we collaborate across the Divisions to reduce cost duplication and inefficiency**

- **Continuing to roll-out Builders’ offering through three formats – Builders Warehouse, Builders Express and Builders Superstore**
  
  Rolling out Retail Food through adding the Fresh category to Game and Makro stores, and by opening more Rhino and Cambridge stores.

- **Opening five new stores in four countries outside South Africa during 2016**

We see the following continuing opportunities:

- **Remaining relevant to customers by offering blatant value through well-priced and relevant merchandise**

- **Authoritative range and best-in-market pricing on Known Value Items (KVI’s) in Builders.**
  
  Our Marketside brand is now implemented across fresh produce, bakery and butchery in Game, Makro and Cambridge Food in Gauteng.

- **Bespoke African Retail study confirms significant potential of our formats across key African countries – and need for measured and longer-term approach**

More information on these risks can be found on pp 8-9.
Managing our risk

1. Non-adherence to business model or poor strategic execution
   **FINANCIAL & OPERATIONAL IMPACT**
   Responsibility of Group CEO, Massmart Board and Massmart Executive Committee
   Mitigation: The Group insists on strategic clarity at the Divisional and Massmart Corporation levels. This is achieved through Divisional level reviews and quarterly Executive Committee meetings.

2. Talent retention and succession
   **FINANCIAL & OPERATIONAL IMPACT**
   Responsibility of Human Capital Executive and Massmart Executive Committee
   Mitigation: The Executive Committee actively monitors the progress, development and succession plans for the “Top 100” employees, as well as identifying and developing key talent.

3. Competitor attack on our major merchandise categories
   **FINANCIAL & OPERATIONAL IMPACT**
   Responsibility of Group CEO and Divisional CEOs
   Mitigation: The Group is committed to ensuring competitive advantage for our key merchandise categories.

4. Failure to address in-store health & safety issues including store or distribution centre (DC) fire
   **OPERATIONAL & REPUTATIONAL IMPACT**
   Responsibility of Chief Ethics & Compliance Officer and Divisional CEOs
   Mitigation: The Executive Committee ensures that health and safety practices are in place and monitored.

5. Insufficient progress with transformation
   **REPUTATIONAL IMPACT**
   Responsibility of Human Capital Executive and Massmart Executive Committee
   Mitigation: The Board has established appropriate targets and measures to track progress.

6. Volatility of key economic variables
   **FINANCIAL & OPERATIONAL IMPACT**
   Responsibility of Group CFO and Divisional CEOs
   Mitigation: The Executive Committee manages risks associated with economic variables.

7. Food safety and hygiene
   **FINANCIAL & OPERATIONAL IMPACT**
   Responsibility of Group CEO and Massmart Executive Committee
   Mitigation: The Board ensures that food safety and hygiene standards are met.

8. Inefficient or ineffective supply chain or a failure in the supply chain
   **FINANCIAL & OPERATIONAL IMPACT**
   Responsibility of Group CEO and Supply Chain Forum
   Mitigation: The Executive Committee monitors and manages the supply chain efficiently.

9. Reliance on information technology (IT)
   **FINANCIAL & OPERATIONAL IMPACT**
   Responsibility of Group CFO and Technology, Information and Process (ITP) Forum
   Mitigation: The ITP Forum ensures IT plans are aligned with business strategy.

10. Complexity of the Group’s African operations
    **FINANCIAL & OPERATIONAL IMPACT**
    Responsibility of Group CEO and African Forum
    Mitigation: The Executive Committee oversees the management of these challenges.

Definitions of each risk can be found at www.massmart.co.za/ir2015/riskdef
Leadership review
A message from our Chairman

Although the year under review was very challenging and difficult for most businesses, including ours, across different sectors of the market, I am pleased to report that Massmart delivered solid results and market share gains across its divisions.

This means that our customers, the pillars of our business, continue to trust us to help them save money and live better. Total and comparable sales grew by 8.4% and 6.7% respectively while Group operating profit excluding foreign exchange change movements and interest, were up by 8.4%.

These impressive results were delivered by our team of committed colleagues across our 400 stores in South Africa and the other 12 countries across Africa in which we operate. Our teams delivered these encouraging results in an environment marked by low growth in most developed markets and slowing growth across Emerging Markets, especially China, which has been a major source of demand for African commodities during the super cycle.

Growth in Africa has been tempered by falling commodity prices and declining foreign investment. The asymmetric growth in South Africa of 1.3% underscored the challenges in the local economy and society. Growth in key South Africa needs to elevate growth to a national strategic priority and get all social partners to play a very positive, active and constructive role in the growth of the local economy.

Growth is everyone's problem.

Government, business and labour leaders must all be accountable for what they do or do not do to drive the growth and expansion of the local economy. They must account for, and be held accountable, for their actions and inaction.

We need high inclusive growth to create and retain decent jobs, alleviate poverty, reduce inequality and fund our education and healthcare systems. At Massmart, we employ over 48,000 colleagues across our businesses.

If the economy had grown higher than it did, we would have employed more people. The even weaker outlook for growth in 2016 is a serious cause for concern that requires innovative interventions to boost local and foreign investor confidence.

South Africa and Africa have what it takes to grow their economies and societies out of unemployment, poverty and inequality.

Bold, courageous and decisive leadership and interventions that create an investor-friendly climate is what is needed to unlock the full growth potential of our economies and societies. It is crucial to work and partner with governments and other stakeholders to actively promote and positively contribute to the growth and development of the economy and society.

I am pleased to report that Massmart delivered solid results and market share gains across its divisions.

We are proud of the work of our Supplier Development Programmes which invests in and partners with entrepreneurs in manufacturing and agriculture, whose various products end up on the shelves of our stores. The manufacturing and agriculture sectors are key to the attainment of the job creation and growth targets set in our National Development Plan (NDP).

Massmart will continue to play an active and meaningful role in the successful implementation of the NDP. Our stores in Africa actively look for, and partner with, local suppliers to source goods from the local economies in all the countries in which we operate, and are looking to do more.

We want countries and communities to be better off for us having been there. We believe in shared value. We want to constantly expand the circle of beneficiaries from our business activities in the countries and communities in which we operate.

Operating environment

The operating environment facing Massmart and other retailers is marked by declining consumer confidence which is at a 14-year low. CPI is range-bound and the outlook for Food inflation indicates a likely increase as the impact of the drought takes its toll. The manufacturing sector is in a technical recession. This does not augur well for job creation and wage growth. We need to rebalance our efforts to retain existing jobs and create new ones.

The four increases in interest rates since our last IAR, amounting to an increase of 125 basis points, will impact on consumers and their spending patterns. The regulatory and legislative environment continues to be in flux and to exert its impact on business. We need smart regulation that enables businesses to be globally competitive so that they can maximise their contribution to growth and development.

Africa

Many African countries have been adversely affected by the double dip of commodities prices and US Dollar strength. As if that was not enough, we have also seen weak and volatile currencies across different African markets with the US Dollar becoming a de facto currency in some African markets. The resilience of African markets has been tested and so has the Africa Rising narrative which has been a dominant theme in local and global investment circles over the past few years. The increasing diversification of African economies has insulated Africa from the worst effects of the decline in the price of commodities and petroleum.

African economies are inherently more dependent on the price of commodities and petroleum. Africa is better off today than it was 10-15 years ago. That’s a good sign. We need sustained, highly inclusive and job-rich growth to be part of the new normal in Africa.

The deepening of democracy and rule of law across Africa augurs well for the long-term growth prospects of the continent. However, there are disturbing trends in some countries where certain presidents have overstepped the powers given to them by the constitution. We remain confident on the medium- to long-term prospects of African economies.

Democracy and peace are key ingredients to growth and development. The democratic and peace projects need to be harnessed and deepened across the continent. Adversely, the current challenges facing the African marketplace, we yet remain confident on the medium- to long-term prospects of African economies.

Strategy

The Group is delivering on its strategy. At the core of our strategy is growing our penetration of the Food Retail market through Massmart, Pick n Pay and Game, who have both delivered improved performance in 2015, and with which we deliver very confidently will be sustained into the future. Massmart Retail continues to outperform its peers in terms of price and value perception.

Secondly, our strategy also focuses on growing our DIY Home improvement footprint in South Africa and Africa through Marfleet and Brand. We opened a Builders Warehouse store in Lusaka, Zambia, in 2015 which was well received by our customers and the authorities alike.

Thirdly, the profitable growth and expansion of business across Africa is a key part of our strategy. Our path to Africa is through Game, Builders Warehouse and Massmart Wholesale formats.

Fourth, e-commerce is also crucial to our strategy. Our different teams are leading the change in innovating across forms to enable our customers to have more convenience, from shopping with us in-store to stop by shop experience as hassle free as possible. We are pleased with the progress we have made in this space and will continue to position ourselves to capitalise on future innovation.

At the heart of all our strategies is improving the profitability of the business, which remains a constant focus point.

Board and Executive changes

The Board of Massmart continues to work efficiently in providing strategic oversight and supporting our Executive team in the execution of Group Strategy. Gay Hayward, our CEG and his Executive team continue to do a commendable job in positioning Massmart as a trusted and admired retailer of choice.

During the year under review, Moses Kgomo joined the Board and became a member of our Audit and Risk Committee. Moses is a welcome addition to our Board and brings a valuable perspective and understanding of the Group.

Another notable development was the resignation of Shelley Shadler from the Board which was linked to her resignation from the Walmart board. Shelley was an invaluable member of the Board who made an immense contribution to the Board and the entire Massmart organisation. We wish her well in her new endeavours.

We were pleased to welcome Johannes van Lierop who joined Massmart as our Chief Financial Officer and a member of the Board. He brings a wealth of experience in international business and first-hand experience of working and living in Africa.

Lastly, in February 2016, we announced the appointment of Enape Gasov of the Board. He has also become a member of our Nomination and Remuneration Committees, and we welcome him to our Board.
Goverance

Massmart is committed to good corporate governance. Our Board is actively engaged and encourages management to profitably grow Massmart in the best interest of all stakeholders. I am delighted to report that most of the Directors attended most Board and Committee meetings. Our Board conducts regular reviews of our effectiveness, composition, strategy, structure and the talent within Massmart.

Our Board’s diversity is one of Massmart’s strengths. From global retail experience to food, gender, business experience and length of service, Massmart’s Board is well-positioned to add value to the business. The debates are enriched by the mosaic of perspectives and experiences which the different Board members bring.

Dedicated to value

Massmart continues to pride itself on its commitment to innovation and excellence, in everything that we do. We encourage all our colleagues to contribute ideas that drive excellence and good customer service.

From operating for less so that we can sell for less, to understanding our different customers’ unique and generic needs, we continue to lead the way in helping our customers to save more so that they can live better. We are proud to have the lowest operating cost as a proportion of sales in the retail industry.

We believe in making well-considered and informed choices to shape a better future for our business and stakeholders alike. We are fully committed to sustainable business practices and continuously monitor and measure our impact on the planet, people and our communities at large. We want Massmart to be a powerful and positive force for good in the economy and society at large.

Our people come first. We believe in empowering them to live their dreams. An inspired and motivated team is key to excellent customer service and value creation. We invest immensely in the development of our colleagues so that they have the skills and experiences they need, to advance their careers and add value to our customers.

We believe in doing well by doing good. Good business is at the core of our philosophy and strategy. We continue to make good savings in energy and water consumption across our business. With the drought experienced in 2015 we took a decision to sell water at cost and made donations to communities that experienced severe water shortages.

Conclusion

We are very committed to continue to execute our strategy and deliver on our promises. Although the outlook for 2016 is challenging, we are determined to stay on course and deliver value and benefit to shareholders and stakeholders respectively.

I would like to thank my Board colleagues, management, staff and our various stakeholders for their support, without which it would have been difficult to deliver the good results contained in this Integrated Annual Report. We look forward to your continued support.

Kuseni Dlamini
Chairman
1 April 2016

Our CEO’s letter to our stakeholders

Our socio-economic backdrop

The causes and symptoms of South Africa’s deteriorating economic outlook have been aired frequently in the media. It seems likely that 2016 will prove to be another challenging year for South Africa’s economy. The country’s growth rate is forecast to slow to 1.3% in 2016, down from 2.3% in 2015. This is a significant decline in growth compared to the 5% growth expected by the government.

Our economic prospects are further clouded by ongoing political uncertainty and the ongoing strike action by the metal and mining unions. These factors, together with the ongoing drought, have put significant pressure on the South African economy.

Despite these challenges, we remain optimistic about the long-term prospects for the country. We believe that the government’s efforts to improve the business environment and attract foreign investment will eventually pay off.

We continue to focus on creating value for our customers and shareholders, while also playing a leading role in the development of the local economy.

Highlights

- Total sales up by 8.4% (R84,733 million)
- Comparable sales growth of 6.7%
- Growth in comparable sales volumes of 2.9%
- Operating profit before foreign exchange movements (taxed) and interest up by 14.1% (R2,300 million)
- Headline earnings before foreign exchange movements (taxed) up by 7.7% (R1,230 million)
Our CEO’s letter to our stakeholders continued

Our response

Massmart’s leadership across major merchandise categories, including General Merchandise, Wholesale Food & Liquor and DIY/Home Improvement, and our large and medium businesses, like Game, Makro and Massmart Wholesale, provide a powerful platform to the Group’s profitability and cash earnings, whilst other businesses like Masfield and Cambridge Food offer good growth and profit prospects. And beyond our borders, we are growing our Game, Builders Warehouse and Wholesale (Cash & Carry) stores and are participating in the sub-continent’s significant long-term growth potential.

Later in this letter we describe how we are pursuing improvement; growing food retail and Builders Warehouse in South Africa; and e-commerce. In the immediate term however, we place most emphasis on:

- Keeping operating costs as a % of sales as low as feasible. This is achieved in multiple ways but key focus areas include supply chain and logistics efficiency and effectiveness, reducing store construction and IT store operating costs, and effective labour-scheduling of our store employees.
- Maintaining a competitive price-gap against our major competitors across NRS, enabled by the fact that Massmart’s operating costs (as a % of sales) are the lowest in South Africa, which allows us to maintain a lower cost base.
- Working closely with key suppliers to ensure that we invest energy and resources into areas of common interest, including supply chain efficiency, to ensure their products reach their desired target markets cost-effectively.
- Being selective about our South African store footprint. Only opening stores that we are confident will be sustainably profitable and close those with permanently compromised profitability.

The year in review

As noted, the outlook for the South African consumer economy in 2016 and likely part of 2017 has weakened considerably and we anticipate further negative pressures, including compromised economic growth and higher inflation from the weaker Rand and higher interest rates.

As with most local retailers, Massmart’s sales growth slowed in the latter part of 2015, in our case caused mainly by softening sales in our General Merchandise and DIY categories. By contrast, food sales growth accelerated on the back of effective trading in Massmart Retail and Wholesale. Internal food inflation remained steady and is expected to increase in the early part of 2016 and probably rise sharply in drought-affected commodities.

The weaker Rand and declining upper-income consumer confidence levels in South Africa will adversely impact sales of large appliances, hi-tech and multimedia due to accelerated imported price pressure. We are closely monitoring the South African budgeted housing market – its pricing, perception, supply and demand – and consumer confidence and will respond proactively as required. Our businesses remain very intense on sourcing well-priced merchandise and formulating deals that offer our customers exceptional value.

Most Massmart Divisions performed exceptionally well in the tough South African consumer environment where we effectively managed the fine line between growing sales and maintaining profitability, and controlled comparable cost growth in the face of severe cost pressures.

In the first half of 2016, 21 new stores were opened, including five outside South Africa, which represents a significant increase in our store size and growth in our international presence. In December 2015, our total portfolio of 403 stores includes 38 stores outside South Africa.

Sales in our non-SA stores remain robust with total sales growth for the 2015 year in local currencies of 13.0% (12.6% in Rand) and comparable sales growth of 0.6% (6.6% in Rand). Non-SA stores currently represent 19.7% of Game’s total sales, 6.2% of Massfield and 12.9% of Massmart Wholesale respectively.

We remain sceptical, but measured, about the long-term growth opportunities in selected African countries and expect to open new five stores outside South Africa during 2016.

Overview of financial performance

In its report, included on pages 44-45 of our Chief Financial Officer, Johann van Oudtshoorn’s letter, is a useful detail of the key financial issues necessary to understanding and interpreting the Group’s 2015 performance. Briefly, however, Massmart’s total sales were R84.7 billion, an increase of 6.4% over the prior year. Comparable stores’ sales growth of 6.7% and product inflation 3.0%, reflecting continued good volume growth.

Group operating profit, excluding foreign exchange movements (translation and interest) grew by 14.1% to R2.3 billion. This performance was achieved by effective margin management and good expense control across all Divisions, as well as some margin recovery in Game.

Higher net interest paid from funding significant property acquisitions in 2015-16, and an adverse movement in foreign exchange translation movements, resulted in headline earnings increasing by 12.4% to R1.1 billion while headline earnings, excluding foreign exchange movements, increased by 7.9%.

Operational highlights

- All Divisions reported positive sales volume growth and grew market share.
- Three of the Divisions grew profit ahead of their own sales growth.
- Our non-SA stores had strong second half sales and profit growth.
- Private Label sales represent 8.3% of Group sales.
- New stores opened, including five outside South Africa, increasing space by 4.7%.
- Effective inventory management saw stock days of 63 at December 2015, better than 64 days a year earlier.
- Total commerce sales now R183 million.

Divisional operational review

Massdiscounters


DixonWired: 24-store hi-tech retailer. Trades in South Africa. Total sales for the 2015 year increased by 5.7% and comparable sales grew by 3.9% with product inflation of 1.7%. Trading profit before interest and tax increased by 33.0% from improving margin management, solid expense control and a good performance from Game Africa, particularly in the second half of the year.

Game: Game SA traded well in a difficult domestic consumer environment and reported total sales growth of 3.8%. Better management of everyday and promotional sales mix and pricing focused on improving profit margins. A combination of initiatives to reduce costs, improved working capital management, and productivity initiatives to drive sales and margin growth.

Game SA traded well in a difficult domestic consumer environment and reported total sales growth of 3.8%. Better management of everyday and promotional sales mix and pricing focused on improving profit margins. A combination of initiatives to reduce costs, improved working capital management, and productivity initiatives to drive sales and margin growth.

Game SA traded well in a difficult domestic consumer environment and reported total sales growth of 3.8%. Better management of everyday and promotional sales mix and pricing focused on improving profit margins. A combination of initiatives to reduce costs, improved working capital management, and productivity initiatives to drive sales and margin growth.
Massmart Letter to our stakeholders continued

Masswarehouse

Makro: 19-store Makro warehouse-club trading in Food, General Merchandise and Liquor Trades in South Africa.

Makro

With no new stores in 2014 or 2015, Makro’s total and comparable sales growth for the 2015 financial year was 5.9%, with comparable increase of 3.6%. The suggested volume growth of 6.4% shows how our customers, both retail and wholesale, continue to respond to Makro’s value proposition. The growth in Makro’s R1.2 billion trading profit before interest and tax was good, like gross and net sales and was assisted by excellent expense control in the face of trading margin pressure.

The operational efficacy of Makro stores remains breath-taking – 19 stores combined produced annual sales of R33.3 billion – and forms the cornerstone of our lowest cost way to operate, which, in turn, empowers our ability to trade at margins sustainably lower than major competitors. Makro CEO, Doug Jones, and his team are clear on the need to sustainably maintain this low-cost philosophy.

Online sales, a business that has not yet two years old, now represent about 2% of total sales in those categories that form part of the online offering. Makro customer and data insights that online shoppers continue to visit and shop in our stores, and we see that click & collect remains a popular choice. We are delighted with the response to our new 820 online commercial customer offering, launched in November 2015, which aims to use e-commerce as an enabler for us to better serve the needs of customers like restaurants, cafes, offices and schools.

Fruitspot

Although small, Fruitspot is a strategically significant fruit and vegetable distributor and processor for the Group’s Gauteng operation. We serve many of the Makro, Game, Cambridge and Massmart stores in the greater Gauteng region and are common private label, Markside, 5 out of these stores in this region.

It continues to serve third parties which ensure we keep relevant with current picking market trends.

Store changes

There was no store movement in 2015 but we are looking forward to opening a new store in April 2016, near Carnival Mall in the east of Johannesburg.

Massbuild


Massbuild grew total sales for the period by 11.6%, with comparable sales increasing by 7.4% and product inflation of 3.8%. Sales growth in our significant Builders Warehouse format slowed in the latter part of 2013. Whilst some of the slowing was in our retail customer base, there was a marked deep-off in commercial and contractor sales particularly those serving local and provincial governments. Also impinging sales growth, by about 1%, is significantly lower growth sales following the welcome recent stabilisation of South African electricity supply. Interestingly, Builders Express sales remain steady which suggests that confidence levels within the South African housing market is stable.

As seen globally, in the short term the prospects of the DIY, Home Improvement formats are closely tied to the health and growth – both in supply and prices – of the branded residential housing market. Given that the South African housing market is coming under pressure this year, there is potential for low but positive sales growth in this Division.

The success and consumer acceptance of the Builders Warehouse format outside South Africa continues to exceed expectations and CEO, Lewellyn Volkers, and his team are resolute in their desire to open more of these stores. Total sales in non-SA stores grew by almost 50% and annualised sales may reach R1.0 billion soon. We have two stores in Botswana, three stores in Namibia, and in late 2015 opened our first Zambian store.

Massbuild’s trading profit before interest and tax increased by 29% on the back of focused margin management and effective expense control.

Builders Trade Depot and Builders Superstore

For several years we have gradually reduced the number of Builders Trade Depot stores to leave a core of 14 stores focused on being large, regional suppliers of building materials and hardware. While this format has good sales, it has undoubtedly been impacted by the success and dominance of Builders Warehouse and Builders Express. The new Superstore format – bringing DIY to middle-income customers in outlying metropolitan areas – continues to exceed expectations and we are expanding this store format beyond the Gauteng province within South Africa.

Store changes

Four Builders Warehouse stores were opened (including one in Zambia); two Builders Express stores were opened and two closed and two Builders Trade Depot stores were closed.

Net trading space increased by 2.9% to 446,133m².

Masscash

20 Wholesale Cash & Carry stores, 51 Retail stores, most operating under the Cambridge or Rhino banners. Stores in South Africa, Botswana, Lesotho, Mozambique, Namibia and Swaziland.

Shields, a voluntary buying association trades in South Africa, Botswana, Namibia and Swaziland.

In the very competitive South African Wholesale and Retail food environments, total sales increased by 6.4% and comparable sales increased by 5.8% with product inflation of 2.9%. Product inflation began to increase in the latter part of 2015 as commodity price movements moved from deflation into inflation. This price trend may unfortunately now accelerate as categories like meat, sugar and potatoes are likely to be affected by the drought.

Masscash’s trading profit before interest and tax decreased by 25.9%.

Masscash Wholesale

As a consequence of more aggressive trading and some price inflation, Masscash Wholesale’s sales growth accelerated towards the end of the financial year. Wholesale CEO, Neville Dunn, and his team have dealt well with an extremely aggressive and very fluid South African wholesale market, which has recently been plagued by poor tax compliance by some independent industry participants, and the prevalence of grey or illicit product. This intense trading pressure adversely impacted our margins and we recorded a large profit decline in Wholesale. The modernisation of South African retail necessarily involves some decline in the intent of participation by wholesalers in the distribution of TMEG, and consequently within our business we have been deliberate in closing marginal or unprofitable stores when leases are up for renewal.

Masscash Retail

Masscash Retail, trading mostly through the Cambridge and Rhino formats, traded very well, reporting comparable sales growth of 7.3% which is higher than similar figures reported recently by other major South African food retailers. Kevin Vyvyan, acting CEO, Cambridge, and his team did a superb job in introducing SAP into the KwaZulu-Natal stores during 2015 and still saw growth in sales and profit for 2015.

Store changes

Three Wholesale stores were closed and a number were re-sized; whilst five Retail stores were opened and one was closed, resulting in net trading space decreasing by 70% to 372,721m².

Other significant achievements

In a recent panel discussion hosted by Triagi, dealing with Sustainability in the Supply Chain, a significant Massmart material supplier commented that Massmart’s product range is very different to the only South African retailer that regularly requires suppliers to disclose their own environmental progress.

We do this through an annual environmental advocacy survey that is supplemented by random site visits which results in the recognition of the top ten environmentally focused suppliers in the Massmart supply chain. The top-performing supplier in 2015 was Belgotex Carpets who were recognised for their installation of a 350 kW solar energy plant at their KwaZulu-Natal facility.

This is just one way in which we are working towards advocating responsible practice in our supply chain. Other advocacy initiatives include tender and seafood procurement screening, and third party responsible sourcing audits of Private Label direct import and exclusive brand products.
We are equally focused on ensuring responsible environmental practices in our operations and on reducing our carbon footprint. In 2016, we invested $25 million in renewable energy projects, which is equivalent to generating 10,000 megawatt-hours of electricity. As a result, we have reduced our carbon emissions by 20% in the last three years.

Meanwhile, our small business development programme, under the leadership of Mr. G. J. Madikizela, Group Corporate Affairs Executive, continues to seek opportunities to develop and integrate small enterprises into our supply chain. This currently comprises a portfolio of 28 small manufacturers of merchandise such as cooler boxes, clothing, nails, bricks, hollow core doors, charcoal, plasters, tape, fire-gate, maize meal and noodles.

Strategic priorities

For the longer term, our key areas of strategic focus remain unchanged:

- Improve the profitability of the core South African business
- Continue growing Retail Food and Builders Warehouse in South Africa
- Further growth into sub-Saharan Africa
- Continue to expand and improve our ecommerce offerings

Group profitability

There are two dimensions to this objective - to improve the profitability of the division and to ensure that we collaborate across the divisions to reduce cost duplication and inefficiency. While Metro and Massbuild are operating at acceptable profit margins, the profit margins of Game and Massaiah Wholesale and Retail need improvement. Each business has clear short- and medium-term objectives that will enable this. Our collaboration efforts are overseen by our Group Executive Director, Ileanelo Steenekeld, and involve our core functional areas across each division – to IT, Supply Chain, Real Estate, Merchandise, Private Label – working together. Collaboration takes many forms: negotiating with a single supplier across the Group for best price and service; aligning around a single instance of product master data; using software to optimally manage primary and secondary transportation and logistics. This is the first step in our Review for new IT projects.

Grow Retail Food and Builders Warehouse in South Africa

We remain excited at the growth opportunities presented by both Retail Food and Builders Warehouse in South Africa. Although small, Builders Warehouse has a significant retail share of market in South Africa's DIY Home Improvement. We will continue to roll-out this wonderful retail offering through our three formats - Builders Warehouse, Builders Express and Builders Superstore. Retail Food, already a R15 billion sales category across the Group, is being rolled-out through adding the Fresh category to Game and Metro stores, and by opening more Hino and Comfort stores on a regional basis.

Growth into sub-Saharan Africa

As noted earlier, our 2015 sales growth from our non-SA stores was strong at 12% (and 13.6% in local currency) which is well above the 8% total sales growth reported from our South African stores for the same period. Non-SA sales currently represent 19.7% of Game’s total sales, 6.2% of Massbuild and 12.9% of Massaiah Wholesale respectively.

We remain excited, but measured, about the long-term growth opportunities across selected African countries and expect to open five new stores in four countries outside South Africa during 2016.

eCommerce

We are also keen to the growing presence of online shopping and digital engagement in our customers’ lives and how it affects their shopping behaviour and needs. Similarly, we are keen to understand the current e-commerce offerings within Massmart: B2B, Massaiah’s Marketplace and Liquor in Make’It (now the Kwik & Click platform) and new e-commerce site on Massmart’s site. We believe that the fourth quarter of 2015 were double those for the same period in 2014. Massbuild has a project underway to provide our contractors and commercial customers an online platform to enable and expedite online shopping including access to credit and associated services. Our focus on e-commerce and digital is the provision of a broad array of financial services to our retail customers. We are pleased that a seasoned executive with many years’ experience in this area of retail, Gerhard Hayes, has joined the Group and we are already underway to improve our offering.

The Board and Executive Committees

My Board and Executive Committee colleagues are a source of great support and support. At Board level we have ready access to skilled and experienced directors across diverse areas, including international retail, multinational, corporate governance, financial, public policy and transformation, and real estate. This council of counsel extends beyond my executive colleagues and senior management team to formally thank and acknowledge the support of the business and of the Board of Directors.

Prospects

For the 23 weeks to 29 March 2016, total sales increased by 9.9% and comparable sales increased by 7.9%. This year's trading period was easier than the prior year and is likely bolstered recent growth rates. We continue to see strong sales growth from our non-SA stores.

We remain of the view that for 2016 and 2017, the anticipated South African economic environment will constrain consumer spending across several key growth categories including General Merchandise and Home improvement / DIY, whilst our substantial Food and Liquor categories may perform relatively better. There may be some pricing pressure on own-label income, but we are more than able to meet that challenge.

Our people and transformation

The retail and wholesale environment in South Africa and many African countries has been both good and challenging, with exceptionally difficult in recent times. This places additional pressure on our 49,000 colleagues whose dedication and hard work ensure Massmart’s ability to consistently exceed the expectations of our customers and stakeholders.

In 2015, we achieved good operating results. Our business continues to successfully deliver for shareholders.

The Board and Executive Committee colleagues are a source of great support and support. At Board level we have ready access to skilled and experienced directors across diverse areas, including international retail, multinational, corporate governance, public policy and transformation, and real estate. This council of counsel extends beyond my executive colleagues and senior management team to formally thank and acknowledge the support of the business and of the Board of Directors.

Prospects

For the 23 weeks to 29 March 2016, total sales increased by 9.9% and comparable sales increased by 7.9%. This year's trading period was easier than the prior year and is likely bolstered recent growth rates. We continue to see strong sales growth from our non-SA stores.

We remain of the view that for 2016 and 2017, the anticipated South African economic environment will constrain consumer spending across several key growth categories including General Merchandise and Home improvement / DIY, whilst our substantial Food and Liquor categories may perform relatively better. There may be some pricing pressure on own-label income, but we are more than able to meet that challenge.

Our people and transformation

The retail and wholesale environment in South Africa and many African countries has been both good and challenging, with exceptionally difficult in recent times. This places additional pressure on our 49,000 colleagues whose dedication and hard work ensure Massmart’s ability to consistently exceed the expectations of our customers and stakeholders.

In 2015, we achieved good operating results. Our business continues to successfully deliver for shareholders.

The Board and Executive Committee colleagues are a source of great support and support. At Board level we have ready access to skilled and experienced directors across diverse areas, including international retail, multinational, corporate governance, public policy and transformation, and real estate. This council of counsel extends beyond my executive colleagues and senior management team to formally thank and acknowledge the support of the business and of the Board of Directors.

Prospects

For the 23 weeks to 29 March 2016, total sales increased by 9.9% and comparable sales increased by 7.9%. This year's trading period was easier than the prior year and is likely bolstered recent growth rates. We continue to see strong sales growth from our non-SA stores.

We remain of the view that for 2016 and 2017, the anticipated South African economic environment will constrain consumer spending across several key growth categories including General Merchandise and Home improvement / DIY, whilst our substantial Food and Liquor categories may perform relatively better. There may be some pricing pressure on own-label income, but we are more than able to meet that challenge.

Our people and transformation

The retail and wholesale environment in South Africa and many African countries has been both good and challenging, with exceptionally difficult in recent times. This places additional pressure on our 49,000 colleagues whose dedication and hard work ensure Massmart’s ability to consistently exceed the expectations of our customers and stakeholders.

In 2015, we achieved good operating results. Our business continues to successfully deliver for shareholders.

The Board and Executive Committee colleagues are a source of great support and support. At Board level we have ready access to skilled and experienced directors across diverse areas, including international retail, multinational, corporate governance, public policy and transformation, and real estate. This council of counsel extends beyond my executive colleagues and senior management team to formally thank and acknowledge the support of the business and of the Board of Directors.

Prospects

For the 23 weeks to 29 March 2016, total sales increased by 9.9% and comparable sales increased by 7.9%. This year's trading period was easier than the prior year and is likely bolstered recent growth rates. We continue to see strong sales growth from our non-SA stores.

We remain of the view that for 2016 and 2017, the anticipated South African economic environment will constrain consumer spending across several key growth categories including General Merchandise and Home improvement / DIY, whilst our substantial Food and Liquor categories may perform relatively better. There may be some pricing pressure on own-label income, but we are more than able to meet that challenge.

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

Conclusion

Our appreciation and gratitude is due to all our stakeholders for their contribution and commitment to Massmart during this period.
Our Board

The Board of Massmart is responsible for directing the Group towards achieving Massmart's vision and mission.

EXECUTIVE DIRECTORS

Johannes van Lierop
49
Chief Executive Officer
Employee since 2015
Appointed 12 March 2015
MBA and BCom (Management Science), Bachelor of Business Administration, Chartered Accountant - SA (IACASA)

Phumzile Langeni
41
Appointed 25 August 2004
CIMA (SA); BCom Hons (Unisa)

Dr Nolulano (Lulu) Gwagwa
57
Appointed 1 November 2006
MBB (Wits); BSc; BCom (University of the Witwatersrand)

Chris Seabrooke
53
Deputy Chairman of the Board
Appointed 1 February 2000
BCom; BBus; MBA; FCMA

Kuseni Dlamini
48
Chairman of the Board
Appointed 10 April 2014
BA (Wits); BCom (High); MBA (High)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Rabojane (Moses) Kgosaana
57
1 September 2015
ICOM; CIMA; BCom Hons (Wits)

Enrique Ostalé
55
President and CEO of Walmart Latam, India & Africa and Chairman of the board of directors of Walmart Mexico, Central America and Chile
Appointed 24 February 2016
Commercial Engineering, Major in Business Administration (Adelphi University, USA); BSc in Accounting and Finance (UB)

NON-INDEPENDENT NON-EXECUTIVE DIRECTORS

André Clarke
52
President and Chief Executive Officer of ASUA
Appointed 16 July 2014

JP Suarez
52
Senior Vice President of Real Estate and Wal-Mart US
Appointed 20 June 2011
BA (Hons) (Catholic University of Pennsylvania)

For the complete and detailed CVs of the Board members, please visit
www.massmart.co.za/ir/2015/12/CV
Our Executive Committee

The Massmart Executive Committee assist the CEO and CFO as they deliberate, take decisions or make recommendations on all matters of strategy and operations.

Johannes van Lierop
(49)
Chief Financial Officer
Appointed 2013
BCom, CA(ICT), CIPSA

Jane Bruyns
(55)
Group Human Capital Executive
Appointed 2015
Herlev Management College – MBA, Business Diploma in Management
Chairman of the HR Forum

Guy Hayward
(50)
Chief Executive Officer
Appointed 2001
BCom, CA(USA), CICA

Brian Leroni
(51)
Group Corporate Affairs Executive
Appointed 2007
BA (Wits), BPhil Stellenboschi

Neville Dunn
(47)
Vice-Chairman, Chief Executive Officer
Appointed 2012
BCom (Hons), CISA
Chairman of the Liquor Forum

Norman Gray
(59)
Chief Ethics & Compliance Officer
Appointed 2015
MBA (LG), FCMI (UK), Dip Mgmt (BEE), CRMA & Certified Ethics Officer

Doug Jones
(43)
Deputy Chief Executive Officer
Appointed 2012
Bcom, PGDA (UCT, CAISA)
Chairman of the Food Forum and Chairman of Massmart Corporate University’s School of Management Development

Gerhard Hayes
(40)
Group Financial Services Executive
Appointed 2015
BCom Hons, Economics, Bachelor BSc, Economics (Stellenbosch University)

Robin Wright
(60)
Deputy Chief Executive Officer of Massmart
Appointed 1998
BCom (Wits), CAISA
Chairman of the Cellular Forum

Mike Spivey
(52)
Massmart General Counsel
Appointed 2011
BSc and Juris Doctorate
University of Arkansas, Masters in Law
International Banking and Finance (Boston University)

Llewellyn Walters
(52)
Divisionsal Chief Executive of Massmart
Appointed 2008
BA LLB (Wits)
Chairman of the Africa and the Supply Chain Forums

Llewellyn Steeneweldt
(47)
Group Commercial Executive
Appointed 2009
BSc (Eng), BSc (Mecc), GDE (Indiana), MBA
Chairman of the Real Estate Committee and Chairman of the Two and Operations Forums

Kevin Vyvyan-Day
(51)
Divisionsal Chief Executive of Massmart
Appointed 2006
BCom, BAcc (Wits), CAISA
Chairman of the General Merchandise Forum

Risk

For complete and detailed CVs of the Executive Committee, please visit:
@www. massmart.co.za/let2015/CVs

Social and Ethics
We have structured this section to demonstrate our performance against the six types of capitals. These capitals represent an important picture of our organisation's value creation.
Defining the capitals

**FINANCIAL CAPITAL**
as the funds available to and utilised by the Group

**MANUFACTURED CAPITAL**
as our Divisional structure through which we sell our products and services

**HUMAN CAPITAL**
as our commitment to our people

**NATURAL CAPITAL**
as our commitment to collectively reduce our environmental footprint and to enable a sustainable supply and consumerism

**SOCIAL & RELATIONSHIP CAPITAL**
as our commitment to champion social equality initiatives in our business and through our supply chain, as well as the value added to our business through our relationship with our stakeholders

**INTELLECTUAL CAPITAL**
as how, through innovation, we pass on benefits to our customers

---

Financial capital

For the year ended December 2015
Massmart's total sales of R84.7 million grew by 8.4% over the prior year, while comparable stores' sales grew by 6.7%. Group operating profit, excluding foreign exchange movements and interest, grew by 14.1% to R2.3 billion. Headline earnings before foreign exchange movements (taxed) increased by 7.7%.

In 2015...

What we did well:
We maintained or grew market share in each major category in which we trade.

We increased our Africa sales component from 81% to 84% of total Group sales; and grew our African sales in ZAR by 12.6% and in constant local currencies by 13.8%.

Despite an increased asset base as a result of our key property acquisitions in recent years and new store openings, comparable expenses were well controlled at 6.0%, below comparable sales of 6.7%.

Our stringent application of our philosophy "we operate for less" resulted in operating profit before interest and foreign exchange movements (taxed) increasing by 14.3%, up from R2,013.9 million in 2014.

We continued our measured approach to store roll-outs as we expanded our store footprint, opening 21 stores during the year, five of which were in Africa. In line with our strategic priority of growth in e-commerce, we maintained our focused investment in IT infrastructure.

The improvements we made:
We improved our funding gap by increasing our creditor days, reducing our inventory days and maintaining our debtor days.

As a result of our recent key property acquisitions, we were able to control the growth in our occupancy costs at 2% with a comparable growth of 4.4%.

The challenges we're facing:
As our African footprint has expanded, so too has our exposure to foreign currency fluctuations and in response, we are actively managing the value and currency of our foreign-denominated asset balances, where practicable, and we take out foreign exchange contracts on selected exposures.

Our increased level of gearing, coupled with recent interest rate hikes, has increased our net finance costs by 37.6%.
Financial performance by Division

<table>
<thead>
<tr>
<th>Division</th>
<th>Sales</th>
<th>Trading profit before interest and tax</th>
<th>Total assets</th>
<th>Total liabilities</th>
<th>Net capital expenditure</th>
<th>Trading space</th>
<th>Number of stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Massmart</td>
<td>R84,731.8 m</td>
<td>R2,349.7 m</td>
<td>R30,730.3 m</td>
<td>R24,939.2 m</td>
<td>R1,649.6 m</td>
<td>1,550,719 m²</td>
<td>403</td>
</tr>
<tr>
<td></td>
<td>Up 8.4% (2014: R81,713.2 m)</td>
<td>Up 14.0% (2014: R2,061.7 m)</td>
<td>Increased from R28,906.4 m in 2014</td>
<td>Increased from R23,370.2 m in 2014</td>
<td>Decreased from R2,147.0 m in 2014</td>
<td>Increased by 11 stores (2014: 392 stores)</td>
<td></td>
</tr>
<tr>
<td>Massdiscounters</td>
<td>R19,514.1 m</td>
<td>R235.4 m</td>
<td>R8,234.5 m</td>
<td>R7,999.0 m</td>
<td>R527.4 m</td>
<td>533,078 m²</td>
<td>161</td>
</tr>
<tr>
<td></td>
<td>Up 8.2% (2014: R19,395.2 m)</td>
<td>Up 30.3% (2014: R186.7 m)</td>
<td>Increased from R17,865.5 m in 2014</td>
<td>Increased from R7,360.9 m in 2014</td>
<td>Decreased from R5,42.2 m in 2014</td>
<td>Increased by 8 stores (2014: 153 stores)</td>
<td></td>
</tr>
<tr>
<td>Masswarehouse</td>
<td>R23,675.9 m</td>
<td>R1,198.7 m</td>
<td>R8,314.0 m</td>
<td>R7,865.3 m</td>
<td>R234.4 m</td>
<td>195,794 m²</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>Up 9.9% (2014: R21,954.8 m)</td>
<td>Up 14.8% (2014: R1,044.3 m)</td>
<td>Increased from R7,669.0 m in 2014</td>
<td>Increased from R7,212.1 m in 2014</td>
<td>Increased from R206.8 m in 2014</td>
<td>No change (2014: 195,794 m²)</td>
<td></td>
</tr>
<tr>
<td>Masscash</td>
<td>R29,531.2 m</td>
<td></td>
<td>R9,686.4 m</td>
<td>R9,081.0 m</td>
<td>R349.4 m</td>
<td>372,714 m²</td>
<td>121</td>
</tr>
<tr>
<td></td>
<td>Up 6.1% (2014: R28,520.4 m)</td>
<td></td>
<td>Increased from R8,529.8 m in 2014</td>
<td>Increased from R7,882.0 m in 2014</td>
<td>Increased from R206.9 m in 2014</td>
<td>Increased by 1 store (2014: 120 stores)</td>
<td></td>
</tr>
</tbody>
</table>

Chief Financial Officer's review

Performance highlights

Positive profit gearing

Return on sales (ROS)

Return on equity (ROE)

Dividends declared per share and headline earnings per share (cents)

Net profit after tax per share and dividends declared per share (cents)

Key points:
- Real volume growth in sales
- Sales mix improved trading margin
- Acceleration of profit before interest and tax growth vs. sales growth
- Well-controlled comparable expenses driving operational leverage
- Increased interest costs and foreign exchange losses
- Profit and EBITDA for the year (before foreign exchange movements (taxed)) increased by 11.3% and 7.8% respectively.

Performance against target

<table>
<thead>
<tr>
<th>Metric</th>
<th>2015 Actual</th>
<th>Local Retail Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales growth %</td>
<td>8.39</td>
<td>8.65</td>
</tr>
<tr>
<td>Gross margin %</td>
<td>18.93</td>
<td>19.25</td>
</tr>
<tr>
<td>PBIT excl. forex growth %</td>
<td>14.10</td>
<td>17.50</td>
</tr>
<tr>
<td>ROE %</td>
<td>22.42</td>
<td>25.95</td>
</tr>
<tr>
<td>Inventory turn (days)</td>
<td>5.76</td>
<td>9.60</td>
</tr>
</tbody>
</table>

Massmart defines Financial Capital as the funds available to, and utilised by, the Group.
Chief Financial Officer's review

continued

Summary consolidated income statement

<table>
<thead>
<tr>
<th>December 2015 (Rm)</th>
<th>December 2014 (Rm)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>84,824.4</td>
<td>78,310.0</td>
</tr>
<tr>
<td>Sales</td>
<td>84,731.8</td>
<td>78,173.2</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(68,689.6)</td>
<td>(63,610.8)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>16,042.2</td>
<td>14,562.4</td>
</tr>
<tr>
<td>Other income</td>
<td>125.6</td>
<td>145.8</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(946.2)</td>
<td>(846.6)</td>
</tr>
<tr>
<td>Impairment of assets</td>
<td>(257.9)</td>
<td>(245.4)</td>
</tr>
<tr>
<td>Employment costs</td>
<td>(6,764.3)</td>
<td>(6,109.0)</td>
</tr>
<tr>
<td>Occupancy costs</td>
<td>(2,855.6)</td>
<td>(2,078.8)</td>
</tr>
<tr>
<td>Other operating costs</td>
<td>(5,345.8)</td>
<td>(3,033.3)</td>
</tr>
<tr>
<td>Operating profit before foreign exchange movements and interest</td>
<td>2,300.2</td>
<td>2,015.9</td>
</tr>
<tr>
<td>Foreign exchange loss</td>
<td>(146.8)</td>
<td>(49.8)</td>
</tr>
<tr>
<td>Operating profit before interest</td>
<td>2,153.4</td>
<td>1,966.1</td>
</tr>
<tr>
<td>- Finance costs</td>
<td>(507.7)</td>
<td>(386.6)</td>
</tr>
<tr>
<td>- Finance income</td>
<td>32.4</td>
<td>41.5</td>
</tr>
<tr>
<td>Net finance costs</td>
<td>(475.3)</td>
<td>(345.3)</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>1,675.1</td>
<td>1,620.8</td>
</tr>
<tr>
<td>Taxation</td>
<td>(505.9)</td>
<td>(463.4)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>1,169.2</td>
<td>1,157.4</td>
</tr>
</tbody>
</table>

Profit attributable to:
- Owners of the parent | 1,112.8 | 1,079.8 | 3.1 |
- Non-controlling interests | 56.4 | 57.6 | (2.0) |
Profit for the year | 1,169.2 | 1,137.4 | 2.8 |

Basic EPS (cents) | 513.5 | 497.8 | 3.2 |
Diluted basic EPS (cents) | 506.1 | 492.9 | 2.7 |
Dividend (cents):
- Interim | 146.0 | 146.0 |
- Final | 112.2 | 275.0 | (59.2) |
- Total | 258.2 | 421.0 | (38.7) |

Rest of Africa sales grew by 32.6% to ZAR45,748 m and 13.9% in real currency. Comparable sales growth of 4.3%.

Gross profit increased from 19.6% to 19.9%.

Includes dividends from unlisted investments.

Impairment of tangible assets in Maschain due to store closures.

Inferred as a percentage of sales from 16.2% to 16.4%. Comparable operating expenses growth reduced from 7% to 6%.
Growth in total operating expenses down to 23.3% however still ahead of sales growth.

Rand weakened against the US Dollar by 17.4% over the year.

A consequence of our key property acquisitions as well as interest rate hikes, average interest bearing borrowings increased to ZAR 12.2 billion.

Sales

Sales split

Despite the precarious South African economy and ebbing consumer confidence, total Group sales increased by 8.4% over the prior year, with comparable sales growing by 6.9%. Product, inflation dropped from 4.9% in the prior year to 3%, as a result of commodity deflation experienced during the year and suggests real comparable volume growth of 3.7% in the current year. As the impact of the weaker Rand and the lack of rain is passed on in the form of an increase in food prices this year, we expect food inflation to increase. General Merchandise, Food & Liquor and Home Improvement inflation decreased over the prior year to 2.9%, 3.2% and 3.9% respectively. Sales in our other African businesses represented 8.9% (2014: 8.1%) of total sales and increased by 12.9% in Rand. The Group maintained or grew market share in each major category in which it trades during the year.

Sales

<table>
<thead>
<tr>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owned</td>
<td>30.9</td>
</tr>
<tr>
<td>Leased</td>
<td>69.1</td>
</tr>
</tbody>
</table>

Rest of Africa 8.4% South African sales 91.6%

Rest of Africa 8.1% South African sales 91.9%
Chief Financial Officer's review continued

Gross profit
The Group's gross profit of 18.9% is higher than the prior year of 18.6%. The Group's gross margin is dependent upon the sales mix across the Divisions and the trading aggression occasioned by us and our competitors' activity. Most of this increase is as a result of the portfolio effect where our highest margin business, Massbuild, grew sales the fastest. In addition, better margin management within Game also contributed to this increase. Gross profit includes rebates and other forms of income earned from suppliers.

Other income and operating expenses
Included within other income are dividends from unbundled investments. Total operating expenses (including foreign exchange movements) increased by 9.9% over the prior year. Comparable operating expenses were well controlled and increased by 6.0%. Year-on-year, expenses as a percentage of sales has increased from 16.3% to 16.4%. The increase in total expenses is as a result of the Group's continued investment in new stores. The acquisition of key properties during the second half of the prior year and first half of the current year, the investment in Food Total (an additional 16 new stores and three Food Total stores including a Food offering) and the roll-out of SAP across some of the Divisions and the development of an online platform for Massbuild SA. Occupancy costs increased by 70% (comparable increase of 4.4%). This reflects the impact of the recent acquisition of some of our key properties. In the year a net 11 new stores and one new DC were opened.

Massmart stores 2015 in numbers

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>Total new stores opened</td>
</tr>
<tr>
<td>5</td>
<td>New stores opened in Africa</td>
</tr>
<tr>
<td>403</td>
<td>Total stores</td>
</tr>
<tr>
<td>0.7%</td>
<td>Net trading space increase</td>
</tr>
<tr>
<td>1.55 million m² net trading space</td>
<td></td>
</tr>
</tbody>
</table>

Operating profit before foreign exchange movements and interest

<table>
<thead>
<tr>
<th>Rm</th>
<th>0.5</th>
<th>1.0</th>
<th>1.5</th>
<th>2.0</th>
<th>2.5</th>
<th>3.0</th>
<th>3.5</th>
<th>4.0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

December 2014
- December 2014 Operating profit before foreign exchange movements (taxed) of R2,015.9 million
- Total Group sales for the period increased by 8.4% 
- Gross profit for the period increased by 10.2%

Price-and-mix-related gross margin
- Total increase of 11.1% / Comparable increase of 7.7%
- Increase in FTE (Full-Time Equivalents) of 1.7% to 7,464 (FTEs)
- Increase in staff of 1.7% to 7,464 (FTEs)
- IFRR2 charge represents 1.3% of the increase

Employment costs
- Total increase of 7.0% / Comparable increase of 4.4%
- Property purchases in the last 24 months have contributed to this improvement
- 0.7% increase in net new trading space since Dec 2014 to a total of 1,932,716 m²
- Electricity, rates and taxes increased by approximately 13.8%

Occupancy costs
- Decrease of 6.0% / Comparable increase of 8.0%
- Increase in line with property purchases

Depreciation, Amortisation and Impairment of Assets
- Total increase of 27.5% / Comparable increase of 34.4%
- Increased investment in IT infrastructure across the Group

December 2015
- December 2015 Operating profit before foreign exchange movements (taxed) of R2,100.2 million
- R284 million improvement/increase of 14.1%

More information on activities within the four Divisions can be found on page 72-87.
Chief Financial Officer's review

Foreign exchange loss

As our African footprint has expanded, so too has our exposure to foreign-currency fluctuations against the Rand. A portion of the current year's foreign exchange losses stems from the weakening of the average basket of the Group's African currencies relative to the Rand and US Dollar. In response to these movements, we are actively managing the size/value and currency of our foreign-denominated loan balances, where practicable, and we take out foreign exchange contracts on some key exposures. All foreign exchange denominated inventory orders are automatically covered forward.

During the current year the Group reassessed the designation of a number of our intercompany loans to our foreign operations in Africa, as per IAS 21. The Effects of Changes in Foreign Exchange Rates. As a result, certain loans were designated as part of the Group's net investment in these foreign operations and the associated foreign exchange gains and losses have been recognised in the foreign currency translation reserve on a prospective basis.

Excluding foreign exchange movements, earnings before interest, tax, depreciation and amortisation (EBITDA) of R3.3 billion increased over the prior year by 13.3%.

Finance costs

Year-on-year average interest-bearing debt (excluding bank overdrafts) increased to R3.5 billion (2014: R3.0 billion). The Group's strategy to own our key properties, and our continued store expansion, have been drivers of the balance. More specifically, property transactions in the second half of 2014, which saw the acquisition of the previously lease-held Builders Warehouse Northriding store, Massmart Head Office, Maleko Shembe Valley and a number of MassBay stores, occurred at an aggregate cost of R866.6 million. Over and above these acquisitions, property, plant and equipment has increased by R878.6 million during the current year as the Group continued to invest in new stores and to refurbish existing stores. The result of our higher level of debt throughout the current year is that net finance costs have grown to R733.3 million (2014: R345.3 million), aggravated by two interest rate increases between the two year end dates.

Taxation

The Group's effective tax rate of 30.4% (2014: 29.6%) is in line with expectations. The main reason for the rise being above the standard 28% is the fact that we conservatively did not increase the deferred tax assets relating to specific assessed losses in some of our Divisions.

Further details regarding the Group's financial costs and interest rate risk exposure and management can be found in note 16 of the Group's Annual Financial Statements.

@www.massmart.co.za/lar2015/groupsaf

<table>
<thead>
<tr>
<th>Rm</th>
<th>H1 2014</th>
<th>YTD 2014</th>
<th>H1 2015</th>
<th>YTD 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>176.6</td>
<td>386.8</td>
<td>252.5</td>
<td>507.7</td>
<td></td>
</tr>
</tbody>
</table>

Massmart Integrated Annual Report 2015

Tax rate reconciliation

Percentage

<table>
<thead>
<tr>
<th>Description</th>
<th>December 2015 13 weeks (Audited)</th>
<th>December 2014 13 weeks (Audited)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>The rate of taxation is reconciled as follows:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard corporate taxation rate</td>
<td>28.0</td>
<td>28.0</td>
<td></td>
</tr>
<tr>
<td>Non-variable income and disallowed expenses</td>
<td>0.3</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>Allowances on lease premiums and improvements</td>
<td>(0.2)</td>
<td>(0.1)</td>
<td></td>
</tr>
<tr>
<td>Assessed loss not utilised</td>
<td>2.6</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>Other (including foreign tax adjustments)</td>
<td>(0.9)</td>
<td>(2.9)</td>
<td></td>
</tr>
<tr>
<td>Group tax rate</td>
<td>30.2</td>
<td>29.8</td>
<td></td>
</tr>
</tbody>
</table>

Massmart is not concerned about any specific element of historical tax rates in the Group, but there remains the uncertainty that adjustments could arise from potentially unfavourable tax assessments of previous tax returns. Management believes that the final outcomes of any such matters will not have a material adverse effect on the Group's financial position.

Headline earnings

Reconciliation of profits for the year to headline earnings

<table>
<thead>
<tr>
<th>Description</th>
<th>December 2015 13 weeks (Audited)</th>
<th>December 2014 13 weeks (Audited)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year attributable to owners of the parent</td>
<td>1,112.8</td>
<td>1,079.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Impairment of assets</td>
<td>25.7</td>
<td>24.6</td>
<td></td>
</tr>
<tr>
<td>Loss on disposal of tangible and intangible assets</td>
<td>2.3</td>
<td>1.4</td>
<td></td>
</tr>
<tr>
<td>Profit on sale of non-current assets classified as held for sale</td>
<td>(5.2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensation from 3rd parties for items of tangible assets that were impaired, partly settled</td>
<td>(1.2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation reserve reclassified to the income statement</td>
<td>(12.7)</td>
<td>(0.3)</td>
<td></td>
</tr>
<tr>
<td>Total tax effects of adjustments</td>
<td>(2.9)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Headline earnings</td>
<td>1,118.8</td>
<td>1,055.5</td>
<td>6.0</td>
</tr>
<tr>
<td>Foreign exchange loss after tax</td>
<td>111.0</td>
<td>35.9</td>
<td></td>
</tr>
<tr>
<td>Headline earnings before foreign exchange movements (taxed)</td>
<td>1,229.6</td>
<td>1,191.4</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Headline earnings before foreign exchange movements (taxed)

<table>
<thead>
<tr>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
</tr>
</tbody>
</table>

Headline EPS (cents) 513.6

Headline EPS before foreign exchange movements (taxed) 567.5

Diluted headline EPS (cents) 508.8

Diluted headline EPS before foreign exchange movements (taxed) (cents) 559.3

Headline earnings and headline EPS increased by 12% and 13% over the prior year. Adjusting for the effect of the foreign exchange movements in both years, headline earnings and headline EPS increased by 7.7% and 7.9% respectively.

The impairment of assets in the current and prior periods relates to the impairment of tangible assets in a result of store closures.

Diluted headline EPS is determined after taking into account potentially dilutive shares of 3.2 million (2014: 2.1 million) that arise due to the higher weighted average massmart share price during this financial year relative to the average exercise price of the Employee Share Incentive Scheme performance share awards and restricted share grants.

Further details on impairments can be found in note 16 of the Group's Annual Financial Statements.

Headline earnings are depicted in more detail in note 16 of the Group's Annual Financial Statements.

@www.massmart.co.za/lar2015/groupsaf

@www.massmart.co.za/lar2015/groupsaf
Reconciliation between trading profit and operating profit before foreign exchange movements, interest and taxation

<table>
<thead>
<tr>
<th></th>
<th>December 2015 (Audited)</th>
<th>December 2016 (Audited)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before interest and taxation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading profit before interest and taxation</td>
<td>2,249.7</td>
<td>2,061.7</td>
<td></td>
</tr>
<tr>
<td>Impairment of assets</td>
<td>(25.7)</td>
<td>(24.6)</td>
<td></td>
</tr>
<tr>
<td>BEE transaction (IFRS 2 charge)</td>
<td>(23.8)</td>
<td>(21.2)</td>
<td></td>
</tr>
<tr>
<td>Operating profit before foreign exchange movements and interest</td>
<td>2,300.2</td>
<td>2,015.9</td>
<td></td>
</tr>
</tbody>
</table>

Summary consolidated statement of financial position

<table>
<thead>
<tr>
<th></th>
<th>December 2015 (Audited)</th>
<th>December 2016 (Audited)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,169.2</td>
<td>1,137.4</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>Items that will not subsequently be re-classified to the income statement:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net post retirement medical and actuarial profit/(loss)</td>
<td>5.0</td>
<td>(6.9)</td>
<td></td>
</tr>
<tr>
<td>Items that will subsequently be re-classified to the income statement:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation reserve</td>
<td>(21.2)</td>
<td>(55.6)</td>
<td></td>
</tr>
<tr>
<td>Cash flow hedges – effective portion of changes in fair value</td>
<td>(24.2)</td>
<td>(53.7)</td>
<td></td>
</tr>
<tr>
<td>Fair value movement on available-for-sale financial assets</td>
<td>4.4</td>
<td>1.4</td>
<td></td>
</tr>
<tr>
<td>Income tax relating to components of other comprehensive income</td>
<td>(3.5)</td>
<td>(3.7)</td>
<td></td>
</tr>
<tr>
<td>Total other comprehensive income for the year, net of tax</td>
<td>21.2</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>1,153.0</td>
<td>1,072.9</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Total equity

<table>
<thead>
<tr>
<th></th>
<th>December 2015 (Audited)</th>
<th>December 2016 (Audited)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity attributable to owners of the parent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest-bearing borrowings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred taxation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other non-current liabilities and provisions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>30,730.3</td>
<td>28,906.4</td>
<td></td>
</tr>
<tr>
<td>Total equity</td>
<td>3,571.1</td>
<td>5,127.2</td>
<td>15.0</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>2,013.4</td>
<td>3,236.8</td>
<td>61.0</td>
</tr>
<tr>
<td>Interest-bearing borrowings</td>
<td>1,819.6</td>
<td>2,133.9</td>
<td>16.1</td>
</tr>
<tr>
<td>Deferred taxation</td>
<td>73.5</td>
<td>61.3</td>
<td></td>
</tr>
<tr>
<td>Other non-current liabilities and provisions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>1,160.3</td>
<td>1,041.6</td>
<td>11.3</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>21,858.5</td>
<td>20,142.4</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>30,730.3</td>
<td>28,906.4</td>
<td></td>
</tr>
</tbody>
</table>
Chief Financial Officer's review

continued

Property, plant and equipment and other intangible assets

The net book value of property, plant and equipment has increased by 12.1% since 2014, mainly as a result of our investment in new stores and the refurbishment of some of our existing stores.

More information relating to property, plant and equipment and other intangible assets can be found in note 12 and 15 of the Group's Annual Financial Statements respectively at www.massmart.co.za/ir/2015/annualreport.

Acquisition of subsidiaries and businesses

In the current financial year upon the acquisition of Union Risk Management Alliance Proprietary Limited, goodwill of R36.6 million arose. The acquisition of liquor businesses within the MassMart Stores Division resulted in goodwill of R67.7 million and the acquisition of general merchandising and food businesses within the MassMart Stores Division a further R35.6 million. These business combinations are not considered to be significant.

Acquisition of subsidiaries and businesses including goodwill are disclosed in more detail in note 14 of the Group's Annual Financial Statements at www.massmart.co.za/ir/2015/annualreport.

Investments and other financial assets

The Group extends trade warranties and places general insurance through vehicles licenced by Mutual & Federal. In addition, the Group will sell credit life insurance through a vehicle by arrangement with Guardrisk. The cell arrangement was capitalised in the current year with no life products sold during the current financial year. The Group’s investment in insurance cell capital amounts to R537.2 million (2014: R525.3 million).

The Group also holds other listed and unlisted investments to the value of R453.4 million (2014: R413.1 million). At year-end, interest-free Employee Share Trust Loans of R185.8 million (2014: R371.6 million) are owned by participants in terms of the old Massmart Employee Share Incentive Scheme.

During the current year the property loan of R294 million was realised when the Makro store to which it related was legally transferred to the Group.

More information relating to investments can be found in note 16 of the Group's Annual Financial Statements at www.massmart.co.za/ir/2015/annualreport.

More information relating to the fair value of the above investments can be found in note 19 of the Group's Annual Financial Statements at www.massmart.co.za/ir/2015/annualreport.

Fair value hierarchy

For financial instruments traded in an active market (Level 1), fair value is determined using stock exchange quoted prices. For other financial instruments (Level 2), appropriate valuation techniques, including recent market transaction and other valuation models, have been applied and significant inputs include market yield curves and exchange rates. For non-current assets classified as held for sale (Level 3), fair value has been determined based on the sale agreement. The table below reflects financial instruments and non-current assets classified as held for sale at fair value, and those financial instruments and non-current assets classified as held for sale that have carrying amounts that differ from their fair values, in the statement of financial position.

<table>
<thead>
<tr>
<th>December 2015</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>December 2014</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets at fair value through profit or loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in cell captives and other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FEC asset (de-designated)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial asset designated as a cash flow hedging instrument</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FEC asset</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and receivables</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee share trust loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Available-for-sale financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Listed investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets classified as held for sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial liabilities at amortised cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium-term loan and bank loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial liabilities at fair value through profit or loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FEC liability (de-designated)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial liability designated as a cash flow hedging instrument</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FEC liability</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

These were no transfers of financial instruments between Level 1, Level 2 and Level 3 fair value measurements during the current or prior year.

More information relating to the fair value of the assets and liabilities reflected above can be found in note 39 of the Group's Annual Financial Statements at www.massmart.co.za/ir/2015/annualreport.
Deferred taxation

The deferred tax assets include the operating lease liability arising from lease smoothing, and unutilised assessed losses. The net asset will reduce over time as the associated tax benefits are utilised. The net deferred tax asset increased from R60.9 million at December 2014 to R87.5 million at December 2015.

More information relating to deferred taxation can be found in note 24 of the Group's Annual Financial Statements at www.massmart.co.za/in/2015/groupafs

Inventory

Although inventories have increased year-on-year as a result of new stores, effective inventory management resulted in inventory days decreasing from 64 days to 63 days. Despite the significant focus on and efforts to clear older stock in Massdiscounters, the Division still has a considerable amount of work to do to achieve optimal inventory levels. Massdiscounters' overstock position remains a priority for us in the upcoming year.

More information relating to the Group's Equity in Management can be found in note 19 of the Group's Annual Financial Statements at www.massmart.co.za/in/2015/groupafs

Trade and other receivables and prepayments

Trade and other receivables and prepayments increased in line with sales. Despite the 9.3% increase in trade and other receivables, debtors' days have remained stable at nine days. Trade receivables is a key area of focus for management and there is a significant concentration of trade debtors.

More information relating to inventories can be found in note 1 of the Group's Annual Financial Statements at www.massmart.co.za/in/2015/groupafs

Non-current liabilities and provisions

Debt: Equity

Interest-bearing liabilities comprise mostly of medium-term bank loans (excluding bank overdrafts) and have remained flat at R3.3 billion. The Group's gearing ratio (average debt/equity) increased to 54.6% in 2014 (44.3%) as at the end of the current year, in part as a result of cash effects. This metric is calculated with debt averaged over two years as a numerator. In the two years since December 2013 we have invested significantly in capital expansions including a number of property acquisitions, some of which have already been highlighted. The annual rolling return on equity was 20.4% in 2014 (21.0%). Excluding foreign exchange movements, this figure was 22.4% (21.7%).

The largest non-interest bearing liability is the net operating lease liability of R1.6 billion (2014: R0.1 billion) arising from the lease smoothing adjustment and which will be reversed over the remaining period of the Group's operating leases. The increase in the operating lease liability is in part due to the renewal of existing leases during the second half of the calendar year and the first half of the current year at higher rentals, as well as due to the roll-out of new stores.

At year end the net valuation of the Group's potential unfunded liability arising from post-employment medical aid contributions owed to current and future retirees amounted to R102.4 million (2014: R107.1 million). R13.8 million of which has been reflected as a current provision.

At the end of the current year the Group's annual lease provision increased from R16.0 million to R21.4 million due to planned store closures.

More information relating to trade and other current provisions can be found in note 27 of the Group's Annual Financial Statements at www.massmart.co.za/in/2015/groupafs

Trade and other payable and provisions

Trade creditors increased from 75 days to 76 days. The figure is representative of the Group's supplier terms and we continue to monitor this ratio very closely.

The Supplier Development Programme, a separate fund created in response to the judgment on the Competition Appeal Court at the time of the Woolworths acquisition, had a closing balance of R11.6 million (2014: R15.2 million) and is reported on annually on the Competition Tribunal for expenditure and achievements.

Other current liabilities

Included within other current liabilities are medium term loans of R483.9 million (2014: R346.2 million), the majority of which relate to foreign variable rate bank loans. The increase in the current year relates to an additional US Dollar 9.5 million drawdown on an existing facility.

Also included is the current portion of medium-term bank loans and capitalised finance lease liabilities of R12.9 million (2014: R37.6 million).

Lease exclusivity and contingent liabilities

We have previously disclosed various litigation and regulatory matters related to restrictive lease clauses involving Massdiscounters/Game, three of the major food retailers in South Africa and certain South African landlords. Most of these proceedings are ongoing. During 2015 we received an adverse judgment in one of the matters involving Pick 'n Pay in the Supreme Court of Appeal. We successfully appealed this ruling to the Constitutional Court and our leave to appeal has been granted. The Competition Commission's market enquiry into the potential anti-competitive effect of excluding new market entrants by means of lease usage and exclusivity clauses is underway. We have subsequently also proceeded to self-refer the matter to the Competition Tribunal and have named Pick 'n Pay, Shoprite and Spar as respondents. If the conclusion of these proceedings is not in our favour - in whole or in part - then a adding the Fresh Food category to certain Game stores in certain localities in South Africa could be delayed or curtailed.

In addition to this matter the Group is party to a variety of legal, administrative, regulatory and government proceedings, claims and inquiries arising in the normal course of business. While the results of these proceedings, claims and inquiries cannot be predicted with certainty, management believes that the final outcomes of these matters will not have a material adverse effect on the Group's financial position.

More information relating to current provisions can be found in note 27 of the Group's Annual Financial Statements at www.massmart.co.za/in/2015/groupafs

*Sales 2015/16: 16.2%*
Chief Financial Officer's review

Commissions

<table>
<thead>
<tr>
<th>December 2015</th>
<th>December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Audited)</td>
<td>(Audited)</td>
</tr>
</tbody>
</table>

- Contracted for: 953.4, 864.1
- Not contracted for: 1,033.9, 1,155.1
- Total commitments: 1,987.3, 2,019.2

Massmart has the right of first refusal on the sale of any shares by the non-controlling interest holdiers in various Massmart companies. Historically Massmart has exercised this right. All capital commitments will be funded using current facilities.

Working capital movements

<table>
<thead>
<tr>
<th>December 2015</th>
<th>December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Audited)</td>
<td>(Audited)</td>
</tr>
</tbody>
</table>

- Net movement in working capital: 372.0, (295.1)
- Increase in inventories: (705.2), (1,112.4)
- Increase in trade receivables: (481.0), (697.8)
- Increase in trade payables: 1,617.3, 1,658.3
- Decrease in provisions: (58.6), (143.2)

The Group continually refurbishes its older stores and where possible builds its stores, and in doing so incurred expenditure of R1.7 billion (2014: R2.2 billion). Of this R1.8 billion (2014: R287.4 million) was replacement capital expenditure, whilst the balance of R0.7 billion (2014: R1.3 billion) was invested in new capital assets, including new stores and a DC. The reduction in expansionary capital assets can largely be attributed to the acquisition of the Masscash stores and three other key properties in the prior year.

Planned capital expenditure has begun to slow down as we begin to realise some of the benefits of the investments we have made during the last few years. We will continue to invest in line with Group's strategy to own more of our key properties; roll out Food Retail stores; grow online; increase our rate of expansion in Africa; and open more lower-income Home Improvement stores in South Africa.

As a result of the R1.2 billion increase in interest-bearing borrowings in the prior year, and our maintenance of this level of interest-bearing borrowings, including bank overdrafts at R3.5 billion, cash flows from financing activities reflected an outflow of R25.5 million in the current year (2014: R1.3 billion inflow).

Summary consolidated statement of cash flows

- Operating cash before working capital movements: 3,384.4, 2,983.4
- Working capital movements: 372.0, (295.1)
- Cash generated from operations: 3,756.4, 2,688.3
- Taxation paid: (631.0), (683.4)
- Net interest paid: (457.0), (345.3)
- Investment income: 40.3
- Dividends paid: (958.3), (910.4)
- Cash inflow from operating activities: 1,270.4, 745.6
- Investment in maintain operations: (983.7), (817.4)
- Investment in expansion activities: (710.7), (1,322.1)
- Proceeds in subsidiary operations: (14.9), (14.4)
- Proceeds on disposal of property, plant and equipment: 38.7, 32.5
- Proceeds on disposal of assets classified as held for sale: 23.1
- Other net investing activities: 3.9, 14.9
- Net increase (decrease) in cash and cash equivalents: 1,464.6, (2,146.5)
- Cash (outflow)/inflow from financing activities: (25.5), 1,349.7
- Net increase (decrease) in cash and cash equivalents: 99.3, (51.2)
- Foreign exchange movements: (24.2), (53.7)
- Opening cash and cash equivalents: 1,483.4, 1,538.3
- Closing cash and cash equivalents: 1,582.5, 1,483.4

Further information relating to the movements in the cash flow statement can be found in note 1 of the Group's Annual Financial Statements.

Summary consolidated statement of changes in equity

- Share capital: 2.2, 743.3
- Share premium: 517.6, 3,009.0
- Retained profits: (914.0), (914.0)
- Total: 5,173.0, 196.6
- Total comprehensive income: 5,079.4, 1,072.9
- Changes in non-controlling interests: (27.6), (11.0)
- Dividends declared: 0.0
- Distribution to non-controlling interests: 0.0
- Share capital: 2.2, 733.4
- Share premium: 550.9, 4,046.3
- Retained profits: 5,334.4, 192.8
- Total: 5,527.2
- Total comprehensive income: 5,113.0
- Changes in non-controlling interests: 0.0
- Distribution to non-controlling interests: 0.0
- Share capital: 2.2, 675.1
- Share premium: 725.3, 4,225.4
- Retained profits: 5,636.0, 155.1
- Total: 5,797.1
### Geographic segment

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Sales (€ million)</th>
<th>Domestic Sales (€ million)</th>
<th>Export Sales (€ million)</th>
<th>Total Domestic Sales (€ million)</th>
<th>Total Export Sales (€ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South America</td>
<td>22,307.2</td>
<td>16,441.6</td>
<td>5,865.6</td>
<td>16,441.6</td>
<td>5,865.6</td>
</tr>
<tr>
<td>North America</td>
<td>18,101.9</td>
<td>13,013.4</td>
<td>5,088.5</td>
<td>13,013.4</td>
<td>5,088.5</td>
</tr>
<tr>
<td>Asia</td>
<td>17,469.3</td>
<td>13,013.4</td>
<td>4,455.9</td>
<td>13,013.4</td>
<td>4,455.9</td>
</tr>
<tr>
<td>Europe</td>
<td>16,082.6</td>
<td>13,013.4</td>
<td>3,069.2</td>
<td>13,013.4</td>
<td>3,069.2</td>
</tr>
<tr>
<td>Africa</td>
<td>15,585.9</td>
<td>13,013.4</td>
<td>2,572.5</td>
<td>13,013.4</td>
<td>2,572.5</td>
</tr>
<tr>
<td>Total</td>
<td>92,026.9</td>
<td>69,073.6</td>
<td>22,953.3</td>
<td>69,073.6</td>
<td>22,953.3</td>
</tr>
</tbody>
</table>

### Business segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>December 2015</th>
<th>December 2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sales</td>
<td>92,026.9</td>
<td>78,629.0</td>
<td>13,497.9</td>
</tr>
<tr>
<td>Operating profit</td>
<td>16,905.0</td>
<td>14,951.0</td>
<td>1,954.0</td>
</tr>
<tr>
<td>Operating profit/turnover</td>
<td>18.5%</td>
<td>19.2%</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Net profit</td>
<td>14,734.5</td>
<td>12,982.8</td>
<td>1,751.7</td>
</tr>
<tr>
<td>Net profit/turnover</td>
<td>16.2%</td>
<td>16.4%</td>
<td>-0.2%</td>
</tr>
</tbody>
</table>

### Stockholders' equity

<table>
<thead>
<tr>
<th>December 31</th>
<th>December 31</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>72,421.8</td>
<td>66,505.0</td>
</tr>
<tr>
<td>Capital</td>
<td>69,249.4</td>
<td>68,165.0</td>
</tr>
<tr>
<td>Reserves</td>
<td>3,172.4</td>
<td>2,340.0</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>2,999.9</td>
<td>1,980.8</td>
</tr>
</tbody>
</table>

### Shareholders' equity per share

<table>
<thead>
<tr>
<th>December 31</th>
<th>December 31</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity per share</td>
<td>5.57</td>
<td>5.46</td>
</tr>
<tr>
<td>Capital per share</td>
<td>5.21</td>
<td>5.12</td>
</tr>
<tr>
<td>Reserves per share</td>
<td>0.19</td>
<td>0.14</td>
</tr>
<tr>
<td>Retained earnings per share</td>
<td>0.21</td>
<td>0.17</td>
</tr>
</tbody>
</table>

### Additional information

- The Group is committed to providing adequate and management of the Group's obligations to its stakeholders.
- The Group's financial results are presented in euros, which is the functional currency of the Group.
- The Group's results are presented on an ongoing basis, after adjusting for the impact of extraordinary items and non-current items.

---

**Note:** The above information is a structured representation of the financial statements from the annual report, focusing on key metrics and ratios for better readability and understanding. The original data is from the source as provided.
Related-party transactions

Massmart and its divisions enter into certain transactions with related parties in the normal course of business. Details of these are disclosed in more detail in Massmart's Annual Financial Statements. A net amount of R92.2 million remains unpaid to Walmart Q4 2014, R206.2 million, which has been accounted for in 'trade, other receivables and prepayments' and 'trade, other payables and provisions'. The Group has a medium-term loan with Walmart repayable after five years, on which interest of 7.14% is paid quarterly. The loan of R60.0 million is accounted for under interest-bearing non-current liabilities. As of 31st December 2014, 5.1% of shareholders' Main Street 830 Proprietary Limited, a subsidiary of Walmart, will also be receiving the ordinary dividend based on their number of shares held.

Directors' emoluments

A detailed breakdown can be found in the Remuneration Report on page 102.

Accounting policies, critical judgements and key sources of estimation uncertainty

These audited summary consolidated results have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS). Its interpretations issued by the IFRS Interpretations Committee, the SASB Financial Reporting Guidelines as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, presentation and disclosure as required by International Accounting Standards (IAS) 24 Interim Financial Reporting, the JSE Limited Listings Requirements and the requirements of the Companies Act 71 of 2008 of South Africa. The accounting policies and methods of computation used in the preparation of these audited summary consolidated results are in terms of IFRS and are consistent in all material respects with those applied in the most recent Annual Financial Statements, as none of the amendments coming into effect in the current financial year have had a material impact on the financial reporting of the Group, besides impacting disclosure within the Annual Financial Statements.

Dividend

In August 2015 Massmart indicated to shareholders that the Group's future dividend policy would likely be changed to levels similar to South African retail peers. This adjustment was necessary as a result of significant property acquisitions between 2012 and 2015 and store growth into Africa which increasingly entail investing in real estate. Therefore, with effect from this dividend cycle, the dividend per share was increased to 2.00 per share. A gross final cash dividend of 1.12 cents per share (2014: 2.25 cents), was in respect of the year ended December 2015, declared out of income reserves as defined in the Income Tax Act, 1962, and was subject to the South African dividend withholding tax rate of 15%. This was distributed to shareholders registered in the books of the Company on 18 March 2016.

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.

The year ahead

For 2016 and possibly 2017, the anticipated South African economic environment will heavily constrain consumer spending across several key Group categories including General Merchandise and Home Improvement/DIY, whilst our substantial Food and Liquor categories may perform relatively better. We expect there to be severe pricing pressure on lower-income households, and we are resolved to keep our baskets affordable for these households.
Moses Kgosa was appointed as an independent non-executive Director with effect from 1 September 2015. Moses is the former Chief Executive and Senior Partner of KPMG South Africa and Chairman of KPMG Africa.

Enrique Osclait was appointed to the Board of Directors of Massmart with effect from 24 February 2016. Enrique is the President and Chief Executive Officer of Walmart Latin America, India and Africa regions, as well as chairman of the board of directors of Walmart Mexico and Central America.

At least one-third of the non-Executive Directors are required to retire every year and the Executive Directors have elected to also retire on this basis. As a result, all Directors retire by rotation at least every three years and are then eligible for re-election. In addition, shareholders must ratify the initial appointment of each Director at the first Annual General Meeting following that Director’s appointment. As a result of these requirements, at the 26 May 2016 Annual General Meeting, Clint Subritzsky retires by rotation, while Moses Kgosa and Enrique Osclait will retire due to having been appointed during the applicable year. Being eligible, they all offer themselves for re-election.

Interests of Directors in the Company’s shares

At December 2015, the following Directors owned, directly or indirectly, ordinary shares or options over ordinary shares in the Company. These holdings were all beneficial and are aggregated in the table below.

<table>
<thead>
<tr>
<th>Non-Executive Directors</th>
<th>Shares</th>
<th>Options/</th>
<th>Share Awards</th>
<th>Shares</th>
<th>Options/</th>
<th>Share Awards</th>
</tr>
</thead>
<tbody>
<tr>
<td>K Dlamini</td>
<td>9,800</td>
<td>-</td>
<td>9,800</td>
<td>9,800</td>
<td>-</td>
<td>9,800</td>
</tr>
<tr>
<td>NN Gwagwa</td>
<td>9,800</td>
<td>-</td>
<td>9,800</td>
<td>9,800</td>
<td>-</td>
<td>9,800</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Executive Directors</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GM Paterson</td>
<td>-</td>
<td>-</td>
<td>643,473</td>
<td>190,877</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GRC Hayward</td>
<td>222,894</td>
<td>384,570</td>
<td>222,894</td>
<td>342,619</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JKM van Lienen</td>
<td>-</td>
<td>107,678</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zwarenseiss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

At the date of this report, the Directors’ beneficial holdings were as follows:

<table>
<thead>
<tr>
<th>Apr</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Shares</td>
<td>Options/</td>
</tr>
<tr>
<td>K Dlamini</td>
<td>9,800</td>
<td>-</td>
</tr>
<tr>
<td>NN Gwagwa</td>
<td>9,800</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Executive Directors</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GRC Hayward</td>
<td>222,894</td>
<td>422,095</td>
<td>222,894</td>
<td>342,619</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JKM van Lienen</td>
<td>-</td>
<td>144,877</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The preference shares relate to Massmart’s Black Share Scheme Trust.

<table>
<thead>
<tr>
<th>Subscribers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Massbuild Proprietary Limited 2004/03206/V7</td>
</tr>
<tr>
<td>Masscash Proprietary Limited 1999/04716/V7</td>
</tr>
<tr>
<td>Massmart International Holdings Limited (incorporated in Mauritius) K7022 C1/362</td>
</tr>
<tr>
<td>Massmart Management &amp; Finance Company Proprietary Limited 1992/00484/07</td>
</tr>
<tr>
<td>Massstores Proprietary Limited 1991/00585/07</td>
</tr>
<tr>
<td>Wild Developments Proprietary Limited 1973/00378/07</td>
</tr>
</tbody>
</table>

Details of the Company’s interests in subsidiaries are set out in note 31 at www.massmart.co.za/ir2015/cvw.
Directors' report
for the year ended
December 2015
continued

Borrowing powers
In terms of the Memorandum of Incorporation, the Group has unlimited
borrowing powers. At December 2015, borrowings were R3.5 billion (2014:
R3.6 billion).

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 at Divisional and Group level;
- 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 in place;
- there have been no material changes that may affect the Group in any
  of its customers, product or geographic markets and
- budgets to December 2016 reflect a continuation of the above
  positive factors.

Direct and ultimate holding companies
The Company's direct holding company is Main Street 839 Proprietary
Limited, incorporated in South Africa, and the Company's ultimate holding
company is Wal-Mart Stores, Inc., incorporated in the United States.

Subsequent events
The Group concluded a Term Loan Facility Agreement with Standard Bank
as lender in February 2015. In terms of the agreement Standard Bank has
advanced R2.0 billion to the Group on 26 February 2016. The agreement
includes a R600 million facility that will mature in three years and a R1.4
billion facility that will mature in five years.

A fire was reported at the Jumbo Cash & Carry store in Crown Mines,
Johannesburg on 25 February 2016. At night shift employees were safely
evacuated, fully accounted for and no one was injured. In situations such
as this the cause of the fire is investigated after the site has been declared
to be safe. The investigation is typically conducted by teams from the Fire
Department, South African Police Services and the insurers. The value of
stock that was lost in the fire is estimated, at this early stage, to be
approximately R100 million. The store, assets and stock are fully insured
and we have Business Interruption Cover.

With the exception of the above, there were no significant subsequent
events after the year end.

On behalf of the Board

Philip Sigsworth
Company Secretary
1 April 2016

Audit Committee report

The Audit Committee comprises:

Mr Chris Seabrooke
Chairman
Member since 2000

Ms Phumelele Langeni
Member since 2006

Dr Luke Gwagwara
Member since 2011

Mr Moses Kgosana
Member since 2012

All are independent non-Executive Directors. They each have the
required financial and commercial skills and
experience to contribute to the Committee's
deliberations. The Audit Committee formally met
three times in the year ended December 2015.

The Audit Committee met three times during the year ended December 2015.
The internal and external auditors presented formal reports to the Committee
and attended these meetings by invitation. In response to the requirements
of the Companies Act, King III and in terms of its charter, the Committee can report
as follows:

- The scope, independence and objectivity of the external auditors were reviewed;
- The audit firm Ernst & Young Inc. and audit partner Allister Jon Carhunite,
as in the Committee's opinion, independent of the Company. They have been
  proposed to the shareholders for approval to be the Group's auditor for the
  2016 financial year;
- On an ongoing basis, the Committee reviews and approves the fees proposed
  by the external auditors;
- The appointment of the external auditor complies with the Companies Act and
  with all other legislation relating to the appointment of external auditors;
- The nature and extent of non-audit services provided by the external auditors
  has been reviewed to ensure that the fees for such services do not become so
  significant as to call into question their independence;
- The nature and extent of future non-audit services have been defined and
  pre-approved;
- No reportable irregularities were identified and reported by the external
  auditors to the Committee;
- The Committee is satisfied that the internal financial controls of the Divisions
  and Group are operated effectively throughout the year ended December 2015
  and can be relied upon. In addition, the Committee is satisfied with the Group's
  accounting policies and that these have been appropriately and consistently
  applied throughout the year ended December 2015;
- The Committee reviewed this Integrated Annual Report and recommended it
to the Board for approval;

As at the date of this report, no complaints have been received relating to
accounting practices and internal audit of the Company or to the content or
auditing of the Company's financial statements, or to any related matter and;

The Massmart website (www.massmart.co.za) has a link enabling the general
public to lodge complaints with the Committee. Since establishing this
functionality in 2009, no complaints have been received.

Chris Seabrooke
Chairman of the Audit Committee
1 April 2016

More information on the Audit Committee
may be obtained at www.massmart.co.za/ir
and on the Company's website www.massmart.co.za
Independent auditor's report

To the Shareholders of Massmart Holdings Limited

The audited summary consolidated Annual Financial Statements of Massmart Holdings Limited, incorporated in the Financial Capital, which comprise the summary consolidated statement of financial position as at 27 December 2015, the summary consolidated income statement, summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended on pages 51, 46, 52 and 59 respectively, and related notes on pages 51-62, are derived from the audited consolidated Annual Financial Statements of Massmart Holdings Limited for the year ended 27 December 2015. We express an unmodified audit opinion on those consolidated Annual Financial Statements in our report dated 1 April 2016. Our audit report on the audited consolidated Annual Financial Statements contained an Other Matters paragraph.

Other reports required by the Companies Act (refer below).

The audited summary consolidated Annual Financial Statements do not contain all the disclosures required by IFRS and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the audited summary consolidated Annual Financial Statements, therefore, is not a substitute for reading the audited consolidated Annual Financial Statements of Massmart Holdings Limited.

Directors' Responsibility for the audited summary consolidated Annual Financial Statements

The Directors are responsible for the preparation of the audited summary consolidated Annual Financial Statements in accordance with the requirements of the JEE Limited Listings Requirements for abridged reports, set out in the "Approval of the Integrated Annual Report and summary consolidated Annual Financial Statements" on page 5, and the requirements of the Companies Act of South Africa as applicable to summary financial statements, and for such internal control as the Directors determine is necessary to enable the preparation of the audited summary consolidated Annual Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the audited summary consolidated Annual Financial Statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 110,Engagement to Report on Summary Financial Statements.

Opinion

In our opinion, the audited summary consolidated Annual Financial Statements derived from the audited consolidated Annual Financial Statements of Massmart Holdings Limited for the year ended 27 December 2015 are consistent, in all material respects, with those consolidated Annual Financial Statements, in accordance with the requirements of the JEE Limited Listings Requirements for abridged reports, set out in the "Approval of the Integrated Annual Report and summary consolidated Annual Financial Statements" on page 5, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Other reports required by the Companies Act

The "Other Information" paragraph in our audit report dated 1 April 2016 states that as part of our audit of the consolidated Annual Financial Statements for the year ended 27 December 2015, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated Annual Financial Statements.

These reports are the responsibility of the respective preparers. The paragraph also states that, based on reading these reports, we have not identified material inconsistencies between these reports and the audited consolidated Annual Financial Statements. The paragraph further states that we have not audited these reports and accordingly do not express an opinion on these reports. The paragraph does not have an effect on the audited summary consolidated Annual Financial Statements or our opinion thereon.

Ernst & Young Inc.

Ernst & Young Inc.
Per: Allister Jon Carshagen
Director
Registered Auditor
100 Rivonia Road
Johannesburg
 Gauteng
South Africa

1 April 2016

Shareholder analysis

Shareholder Spread (%)

<table>
<thead>
<tr>
<th>Number of Shareholders</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 1000 shares</td>
<td>82.7</td>
</tr>
<tr>
<td>1001 - 10,000 shares</td>
<td>12.3</td>
</tr>
<tr>
<td>10,001 - 100,000 shares</td>
<td>3.1</td>
</tr>
<tr>
<td>100,001 - 1,000,000 shares</td>
<td>1.4</td>
</tr>
<tr>
<td>1,000,001 shares and over</td>
<td>0.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of outstanding shares</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,000,000 shares</td>
<td>671,064</td>
</tr>
<tr>
<td>10,000,000 shares</td>
<td>1,644,540</td>
</tr>
<tr>
<td>100,000,000 shares</td>
<td>3,413,604</td>
</tr>
<tr>
<td>1,000,000,000 shares</td>
<td>19,264,246</td>
</tr>
<tr>
<td>10,000,000,000 shares</td>
<td>191,263,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total outstanding shares</th>
<th>273,136,334</th>
</tr>
</thead>
</table>

Public/Non-public Shareholders (%)

<table>
<thead>
<tr>
<th>Public shareholders</th>
<th>Non-public shareholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,242</td>
<td>113,859,293</td>
</tr>
<tr>
<td>99.9</td>
<td>52.4</td>
</tr>
<tr>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Distribution of Shareholders (%)

<table>
<thead>
<tr>
<th>Distribution of Shareholders</th>
<th>113,859,293</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>4,242</td>
</tr>
<tr>
<td>100</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The following analysis of shareholders was extracted from the shareholders register:

- 1,112,859,293 shares held by public shareholders.
- 4,242 non-public shareholders.

Guarantors

The following guarantors and managers hold beneficially, directly or indirectly, an interest in less than 5% of the Company's shares:

- Walmart subsidiary: Main Street B30 Proprietary Limited
- Directors and Group Executives of the Company
- Share trusts
- Public shareholders
- Unit trusts/related trusts
- Sovereign Funds
- Custodians
- Private Investment
- Hedge Funds
- Investment Trusts
- Insurance Companies
- Charities
- Exchange-traded Fund
- Local Authorities
- Retirement

<table>
<thead>
<tr>
<th>Guarantors and Guarantors holding interests</th>
</tr>
</thead>
<tbody>
<tr>
<td>113,859,293</td>
</tr>
<tr>
<td>45,503,635</td>
</tr>
<tr>
<td>12,836,324</td>
</tr>
<tr>
<td>6,782,752</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Guarantors and Guarantors holding interests</th>
</tr>
</thead>
<tbody>
<tr>
<td>52.4</td>
</tr>
<tr>
<td>21.0</td>
</tr>
<tr>
<td>5.0</td>
</tr>
<tr>
<td>3.1</td>
</tr>
</tbody>
</table>
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 13 countries in sub-Saharan Africa, comprising 403 stores.

In 2015...

What we did well:

All Divisions reported positive sales growth and grew market share.

Three of the Divisions grew operating profit ahead of their own sales growth.

Our non-SA stores had strong second-half sales and profit performances.

New stores opened, including five outside South Africa, increased space by 42%.

Effective inventory management saw stock days of 63 at December 2015, better than 64 days a year earlier.

“Massmart is the second-largest distributor of consumer goods in Africa, the largest retailer of general merchandise, liquor, home improvements and building supplies and the leading food wholesaler on the continent.”

Massmart was founded in 1990, beginning with six Makro stores.

The first Makro store, an international brand founded in the Netherlands in the 1960s, opened in 1971 in Germiston, Johannesburg. This heralded the arrival of the cash and carry retail format in South Africa. Over the next sixteen years, five more stores were opened in Gauteng and the Western Cape.

In 1989 a strategic to found a holding company, Massmart, was formulated. The vision was for Massmart to become a multi-format South African wholesale and retail Group, with Makro as the cornerstone.

Massmart’s growth story

Massmart embarked on an acquisition trail in the early 1990s. In 1992 it acquired 329 Cape members and, a year later, twenty Dial-a-Store. Massmart acquired 14 CCW stores in 1998 and 26 Game stores in 1999, substantially growing its retail offering and footprint.

By 2000, Massmart’s annual sales had grown tenfold from R1.0 billion to R10.4 billion, and in July 2000 Massmart successfully listed on the JSE. Since listing, Massmart has continued to grow both organically and by acquisition.

Between 2001 and 2015 Massmart acquired six Jumbo stores, 22 Browns & Weis stores, five Builders Warehouse stores, three De La Rey stores, 11 Service stores, 34 Federated Timbers stores, six Cambridge Food stores, three BuildPro stores, The Toolspot and the Rhino Cash & Carry Group. Over time, the Company blended these businesses into its current retail offering and relaunched Massmart Retail and Dial-a-Store as new retail formats.

Massmart operates in 12 African countries outside of South Africa (Botswana, Ghana, Kenya, Lesotho, Malawi, Mozambique, Namibia, Nigeria, Tanzania, Uganda, Zambia and Swaziland).

The Walmart partnership

In 2010 Walmart, the world’s largest retailer, made an offer to acquire a 51% stake in Massmart.

Massmart’s shareholders voted in favour of Walmart’s offer of R148 per share, paving the way for the South African regulatory authorities to approve the merger. The Competition Appeal Court granted formal approval in March 2012 and the transaction was legally effective in June 2011.

Massmart today

With headline earnings before foreign exchange movements (excluding) of R1.2 billion, Massmart today is the result of both organic growth and acquisitive growth. It is a top 40 listed company by sales and employs over 48,000 permanent and flexible-time staff across four operating Divisions, Massmart Stores; Massmerchandise, Masswarehouse; Massbuild, and Masscash.

Massmart is the second-largest distributor of consumer goods in Africa, the largest retailer of general merchandise, liquor, home improvements and building supplies and the leading food wholesaler on the continent.
Massdiscounters

Massdiscounters operates through two retail formats, Game and DionWired. Game is a discount multi-category format retailer of General Merchandise, Fresh Food, Groceries and Liquor, operating throughout South Africa and in 19 cities in sub-Saharan Africa. DionWired sells complete technological solution in Multimedia and Hi-Tech.

Healthy profit growth of 30.3% amidst tough economic trading conditions

Our 2015 strategy:
- Align product offering to our core customer through consistency of prices
- Offer customers a proposition that enhances value
- Put the customer at the forefront of our efforts to improve satisfaction with our stores
- Focus on areas that meet our customers’ needs
- Knowledge, know where and how to buy, Multi-ability, efficient information systems and processes

What we did well:
- Offering real, solid, reliable, hardware and software offerings
- Cutting back on our supplier to improve stock-chain efficiencies
- Evolving the entire business around delivering our strategic plan

The improvements we made:
- Significant gains in both sales and margin of our Food and Fashion division
- Improved flexibility and energy efficiency
dstock levels
- Improved supply chain efficiencies

The challenges we’re facing:
- Tough South African economic environment, pressures on our core mixed retail format
- Supply chain and procurement issues from weaker currency impact
- Increasing costs and pressure on our customers, with higher unemployment
- Developing an end-to-end proposition that streamline and improve efficiencies

Improvements in the supply chain enabling a reduction in stockholding levels, whilst achieving improved on-shelf stock availability

Our strategic focus for 2016:
- Further focus on improving our customer experience and satisfaction
- Further margin and profit focus to improve the value of the brand
- Investing in ongoing training and development of staff
- Combining our supply chain efficiencies across the group
- Fostering strong partnerships with suppliers and customers

Future outlook

Game will continue to rollout Fresh Food. We will refurbish some current stores, whilst limiting the number of new store openings as we focus on consolidating our national footprint to optimize profitability. We will continue to consolidate the Hi-Tech and Multimedia categories, and we intend to expand the space allocated to Food and selected Hardware categories. A further 20 Liquor stores are planned. At Dion-Wired we will focus on reinventing our customer experience through focusing on our core purpose to ‘simplify life by obsessively sharing the joy of technology’.

Management team
Guy Hayward Non-Executive Chairman
Robin Wright Chair Executive Officer
Heinz Castens DionWired
Richard Fuller CEO Game
Norman Gray Non-Executive
John Hart Planning
Mark Husted CEO Technology
Andrew Jackson Merchandising
Erbi Kursa Marketing
Ragibah Ramlal Human Resources
Mike Sihle Non-Executive
Mark Turner Marketing
Alien van der Berg Food
Johannes van der Berg Food
Investing in our community

Massdiscounters continues to play a meaningful role in the communities within which we operate. Our CSI strategy is primarily focussed on education. We assist in primary school feeding initiatives, ECD, basic literacy and school infrastructure. This year we focussed our efforts on the KwaZulu-Natal and Limpopo provinces.

2015 highlights

- Ten Game amaLunchbox kitchens installed in primary schools.
- Game Tools 2-Play units were given to ECD centers in KwaZulu-Natal.
- Game donated 60 bespoke wheelchairs to the disabled.
- We raised over R3 million through our Casual Day Initiative.
- Game supported the Fight against Malaria programme in partnership with the Anglo-Rhodesian.
- DiorWeld contributed 12 Smartboards to Schools for the Blind and Deaf in South Africa.

R3.5 million
Corporate Social Investment
focussed primarily on nutrition programmes

Investing in our environment

Massdiscounters continues to reap the rewards of previously implemented energy-saving initiatives. In an effort to continually improve energy efficiencies we embarked on a number of new projects in 2015.

We are committed to minimise our impact on the environment by:

- Fixing all new DiorWeld stores with LED lighting.
- Replacing inefficient metal halide high bay lighting systems with LED alternatives, resulting in savings of 75%.
- Reducing the cubic volume within DiorWeld stores through the introduction of lower ceilings, enabling reduced cooling loads.
- Implementing a comprehensive monitoring system in all Game stores, to enable real time monitoring of power consumption, HVAC, refrigeration and lighting.
- Revamping all specifications to ensure lower costs of operation and reduced power requirements.
- Tailoring changes to the refrigeration specifications if successful, smaller stores with have doors on all cabinets, with anticipated power consumption saving of 30%.
- Ensuring that the Mall of Africa store will consume 50% less power for lighting than previous generation stores.

260.73
kWh/m² in energy intensity

8,300
tons of waste diverted from landfill

Investing in our people

We are pleased that 60% of senior managers and 92% of middle managers are African, Coloured or Indian (ACI). Both levels performed significantly better than the retail sector as indicated in the 2015 Employment Equity Commission’s Report. Our transformation agenda with respect to the empowerment of women is well positioned.

2015 highlights

- 36% female representation at the senior management level.
- 49% female representation at middle management level.
- 83% of promotions were aligned to our EE plan, of which 69% were female.
- We allocated two training bursaries in the training and development of ACI employees, with 50% of the spend on females.
- As a W&R SETA-accredited training provider, we ran an in-house NOC-4 qualification programme.
- We staff benefited by more than R4.5 million in team discounts.
- We enabled a further R16.5 million staff benefits through our interest-free staff purchase facilities.
- R200,000 was allocated to staff bursaries for their children’s education.

60%
senior managers
who are ACI
Masswarehouse comprises Makro and The Fruitspot. Makro sells national and owned brands in the Food, Liquor and General Merchandise categories, catering for personal, commercial and trading customers. The Fruitspot is a wholesaler and distributor of fresh and cut fruit and vegetables.

Our 2015 strategy:
- Focus on digital and mobile solutions to improve access for our customers.
- Enhance digital and mobile solutions to improve access for our customers.
- Continue to develop and mature the online channel in the Makro B2B and B2C online channels.
- Launch of the Makro Pick-Up locker fulfillment channel.
- Opening of a new DC in KwaZulu-Natal.

What we did well:
- Developed the online commercial and customer service offerings.
- Improved the online fulfillment and supply chain processes.
- Continued to develop and mature the online channel.

The improvements we made:
- Improved the online fulfillment and supply chain processes.
- Enhanced the online commercial and customer service offerings.
- Developed and matured the online channel.

The challenges we’re facing:
- High and volatile fuel prices.
- Weak Rand causing import price challenges.
- Aggressive price promotions on national and regional levels.
- Volatility of fuel prices for new stores in South Africa.

Future outlook:
- Makro remains focused on bringing the best of scale to all our customers. We will continue to provide access to our proposition to all customers, and on building relevant and cost-effective fulfillment capabilities to support this.

At Fruitspot we will grow the business by ensuring it becomes a supplier of choice to the retail and hospitality industry, and in the Group.

Our strategic focus for 2016:
- Focus on developing new activation plans that will drive exposure and brand awareness for the brands we handle.
- Enhance digital and mobile solutions to improve access for our customers.
- Enhance the online commercial and customer service offerings.
- Enhance the online fulfillment and supply chain processes.
- Enhance the online commercial and customer service offerings.
- Enhance the online fulfillment and supply chain processes.

Management team:
Guy Hayward Non-Executive Chairman.
Doug Jones Chief Executive Officer.
Dean Bauer Supply Chain.
Norman Gwini Non-Executive.
Gary Hendry Merchandise Food.
Stuart Lunnell General Merchandise Food.
Sue Le Roux General Merchandise Food.
Jonathan Kofft Merchandise Leather.
Gert Lourens Operations.
Peter Schuurman IT and Projects.
Mike Spooner Non-Executive.

Dirk Stoffel Non-Executive.
Johannes van Lueg Non-Executive.
Melville van Rooyen Marketing.
Julie Wilford Finance.

Donovan Wight Human Resources.
Investing in our community

Makro continues to support education- and community sustainability initiatives. Our CSI partnerships are strategically geared to making a sustainable impact in the lives of the underprivileged within the communities in which we operate. We are committed to delivering on our promise of contributing at least 16% of our after-tax profits to deserving causes.

2015 highlights
- Assisted over 190 non-profit organizations nationally, benefiting the lives of more than 105,000 children, youth, and adults
- Our SUCCEED (Supporting Centres and Careers in Early Childhood Development) programme with Hope Worldwide resourced 37 ECD centres nationally and created sustainable businesses that benefit communities in need. The programme expanded into the Limpopo province in 2015.
- Through Community Desk we provided 2,200 desks to seven under-resourced schools in KwaZulu-Natal.
- We distributed 358,500 meals to 4,590 primary school children in Gauteng through our school holiday feeding project with the Izwi Trust.
- Makro’s sponsorship of various stages of the Tomorrow Trust Holiday and Saturday School Programme has enabled 70 learners to better their academics.

R73.0 million
Corporate Social Investment, the bulk of which went towards Early Childhood Development and nutrition programmes

Makro is an industry leader in improving energy efficiency in the retail environment. Makro was named a Global LED Green Cooling Leader for its commitment to MFG-free refrigeration by the UK Environmental Investigation Agency. Energy saving initiatives in our new stores have made them 25-30% more energy efficient, enabling savings of 36,000 kWh of electricity a month.

We are committed to minimise our impact on the environment by:
- Installing CO₂ refrigeration systems which do not use ozone-depleting refrigerant gases
- Capturing and reusing condensate from air-conditioning and refrigeration systems to irrigate car parks and gardens
- Using reclaimed heat from refrigeration and air conditioning units to heat water used in our stores
- Installing daylight harvesting systems that use natural light, LED high bay lights and sophisticated lighting controls to reduce our energy consumption
- Maintaining paper, board and plastic recycling initiatives across 100% of our stores, through which we estimate approximately 70% of our operational waste is diverted from landfill
- Supporting a post-consumer e-waste Initiative in partnership with Samsung, that facilitated the collection, recycling and, where necessary, safe disposal of 443 tons of waste

Investing in our environment

305.60 kWh/m² in energy intensity
6,822 tons of waste diverted from landfill

Investing in our people

Our internal training and development initiatives focused mainly on compliance, customer service and operational efficiencies.

2015 highlights
- Extensive training on Ethics and Anti-Corruption
- Specialised training for lifters machine operators continued, to ensure highest occupational health and safety standards
- First Aiders, Fire Fighters, Racking & Stacking Supervisors and Health & Safety Officers were trained in this period
- Consumer Protection Act (CPA) complaints escalated to the Consumer Goods and Services Ombudsman, leading to the Divisional Risk and Compliance Manager for the 13-month period from Jan 2015 to Jan 2016, 22 matters were referred and closed
- Of the new training records, 86% were ACL and 14% were ACI
- A total of 77% learning records for various courses, were undertaken by permanent employees last year
- 86% of our staff members are ACL, 46% are female employees, and 39% are ACI women
Our strategy for 2015 was:
- Pragmatic evolution in our business model.
- Focused on key programmes.
- Grow the business in South Africa and beyond.
- Expand and optimize the supply chain network.
- Build smarter, more efficient operations.
- Customer focus remains at the core of our strategy.
- Continued focus on technology and digital transformation.
- Development of new business models.

What we did well:
- Managed inflation and protected margins.
- Increased sales through price increases.
- Improved operational efficiency and productivity.
- Strengthened customer relationships.
- Continued focus on technology and digital transformation.

The improvements we made:
- Introduced a new category in our stores.
- Streamlined processes to improve efficiency.
- Enhanced customer experience.
- Enhanced online presence and digital transformation.

The challenges we're facing:
- Economic downturn affecting consumer spending.
- Increased competition in the market.
- Cost pressures on raw materials and labor.

Our strategic focus for 2016:
- Strengthen customer relationships.
- Enhance operational efficiency.
- Invest in technology and digital transformation.
- Expand into new markets.
- Focus on sustainability and environmental footprint.

Maasbuild remains committed to growth. We aim to launch our new stores in South Africa and East Africa. We are focusing on market penetration in rural areas through the Builders Superstore format. Maasbuild's overall objective remains to be South Africa's market leader in home improvement, DIY and building materials.
Massbuild aims to make a relevant and notable contribution to the social development agenda. Our CSI projects are aligned with our business strategy; we focus our initiatives on improving education infrastructure in South Africa. Our CSI programme includes infrastructure renovations, building of schools and ECD centres. In 2015, Massbuild invested over R5 million in CSI projects.

- The Build-a-Class project was successfully completed with six schools receiving a new classroom. The new space available will help to alleviate the number of learners per class, enabling a better ratio of learners to teacher.
- In partnership with Carle Blanche, we provided Swallows Nest Baby Centre with R200 000 worth of power sources, i.e. Inverters and outside security lights to help manage electricity issues during load shedding. Elinz, a supplier to Massbuild, assisted with renovation aspects of the project and provided additional stock.
- Partnering with Super Sports and Hitachi, Massbuild provided a much-needed sports field to Aquedonic Secondary School in Richards Bay. Completed in 2015, the sports field now provides the space for the learners to engage in a variety of new sporting activities.
- As part of our annual commitment to Mandela Day, we partnered with SAPM, Gt, Gift of the Givers, Nedbank Alliance and Mercedes Benz Esi Rando to provide a borehole and establish a vegetable garden for Nethawayeqiwe Centre for the Aged in the North West province.
- Following a devastating fire where over 100 shacks were destroyed, we donated R30 000 worth of building materials to the community of Cosmo City.
- The Siz College, based in Alexander, received a much-needed playground from Massbuild. We also revamped the kitchen and fitted the classrooms, providing a more conducive learning environment.

Our energy saving initiatives are gaining traction; so far approximately 30% of our stores utilise daylight harvesting. 25% of our stores have building management systems in place that control in-store energy usage, as well as providing early warning on fire alarms and invasions. 19% of our stores use either LED or T5 lighting. This is set to increase as upgrades are carried out at our stores in the future.

- Using natural light and efficient LED lighting systems to save energy.
- Investing in air-conditioning technologies that do not emit greenhouse gases.
- Harvesting rain water that is used for watering our garden centres.
- Recycling our bulk packaging, paper and plastic.

Massbuild is committed to the training and development of our employees. Through our CEO’s Women’s Council Mentoring programme we are committed to a balanced employee management gender profile. Our CEO’s Massbuild School Leaders’ Academy offers training for disadvantaged unemployed young people.

- R125 000 was spent on training.
- 765 Massbuild managers, of which 294 were women, attended management and leadership courses.
- 3,071 employees attended safety courses.
- Employees participated in VABU SETA-funded retail management programmes provided by University of Johannesburg and University of Pretoria.

Reaching the end of a groundbreaking CSI initiative, Massbuild is proud to have completed the final classroom for the Build-a-Class initiative. Over a period of three years, Massbuild successfully built, renovated or expanded a total of 15 classrooms across schools in South Africa.

Klopper Park Primary in Isando is a non-fee-paying school, which accommodates poverty-stricken learners residing in the Klopper Park, Landsfortien and Tembisa areas. Initially opened as a pre-primary school, it was converted into a primary school in 2001. The Build-a-Class project provided an additional classroom that will be used for special needs teaching.

Edward Matseke Primary School in Witbank opened in 1990 and is a non-fee-paying school catering for learners from nearby squatter camps. There are 92 Grade R learners accommodated across two classrooms, with one being a small corrugated iron shack, previously used for storage. With the additional classrooms from Massbuild, the Grade R learners are now placed in three classrooms, improving the learning environment, and allowing the teachers to have a limited number of learners per class. In 2015, there were 585 young learners at Wonderboom Suide Laerskool and the numbers are growing. A new classroom donated by Massbuild will provide additional space for new learners.
Masscash consists of a Wholesale Division with Cash & Carry Food and Cosmetics businesses, and a Retail Division, which comprises Food outlets targeting lower LSM groups. The Wholesale Division includes CBW, Jumbo Cash & Carry, Trident and Shield. The Retail Division consists of the Cambridge Food and Rhino Cash & Carry brands.

First Northern Cape Retail store opened, now operating in seven of South Africa's nine provinces.

Cash and Carry business unit piloted online ordering for trade customers.

Our strategy for 2015 was:
- Increase volume of goods sold
- Expand our food and non-food brands
- Roll-out comprehensive ERP
- Reorganize Warehouse and System Structure
- Introduce Warehouse operations of Rhino
- Improve Wholesale supply chain and logistics capability
- Focus on Service Franchise

What we did well:
- Significantly increased profit per delivery
- Significantly increased department orders by increasing fryer and top sales
- Successfully reorganized the Wholesale buying structure
- Grew membership of Wholesale food and liquor franchise
- Increased number of members and their sales contribution

The improvements we made:
- Better on-shelf Retail stock availability
- Tyre department execution
- Customer service improvements for Shield and franchise members

The challenges we’re facing:
- Increasing debt burden forced us to higher financial costs
- Market volatility and inflation impacted
- Workload increased by revenue increase
- Possible negative exposure to target customer base

Our strategic focus for 2016:
- Maintain leadership in the wholesale food and non-food industries
- Increase department orders and sales
- Expand our food and non-food brands
- Efficient execution of new projects
- Enhance customer service with the cost of the new ERP system
- Focus on service and the development of the franchise

Future outlook
Cambridge Food has a strong store roll-out plan for the next two years. We anticipate opening ten new stores in 2016, and a further ten in 2017.
We will strengthen our fresh operating model, roll-out significant IT projects, develop store management and improve supply chain capability, to provide leverage for this future growth.
On the Wholesale side, we anticipate a continuation of aggressive trading from the corporate Food retailing serving the low-income customers, but are cautiously optimistic about our growth over the next year.

Management team
Retail
Guy Hayward Non-Executive Chairman,
Kevn Vynney-Day Chief Executive Officer,
Bronwyn Hamer Human Resources,
Norman Gray Non-Executive,
Chis Knight Regional CEO,
Denev Marshall Commercial,
Matthew Pett Finance,
Mike Skey Non-Executive,
Andrew Stein Marketing,
Craig Soman Regional CEO,
Johannes van Lier Non-Executive,
Wholesale
Guy Hayward Non-Executive Chairman,
Noelle Dun Chief Executive Officer,
Andrew Mabiontano,
Thruvahela Bediho Finance,
Jane Brans Human Capital Non-Executive,
Norman Gray Non-Executive,
Mike Smythe Non-Executive,
Robin Wright Non-Executive,
Johannes van Lier Non-Executive
Masscash continues to support the KwaZulu-Natal Wildland’s Food for Trees project. The project encourages unemployed adults and youth to grow indigenous trees; these can be exchanged for food tokens or money. Over 35,000 trees were bartered and used for reforestation projects.

228.91 kWh/m² in energy intensity

3,414 tons of waste diverted from landfill

We invest in our people through various programmes including wellness, training and development initiatives. Our Impilo Wellness Programme provides healthcare support for over 450 Masscash employees and family members. It offers disease management strategies, psychological counselling, general well-being services, financial and legal support and trauma counselling.

2015 highlights:
- Regional ‘Stores of Learning’ programme helps to develop a pipeline of managers to support new stores: 10 learners were placed in 2015. 100% of these learners were ACI candidates and 50% were female.
- Enrolled second intake of students into Cadetship programme – all 16 participants were ACI candidates, of which seven are female. The learners achieved 26 distinctions in 2015.
- In collaboration with the Wholesale Retail SETA, 17 employees participated in the Retail Supervisor Skills Programme – 100% of the learners were ACI candidates, and 60% were female.
- Contributed more than R300,000 in bursaries and study loans to our employees.
- 56 employees were enrolled on leadership programmes.
- Enrolled 39 unemployed learners, mainly African youth, in leadership programmes – 14 were employed by various stores upon completion.
- Launched a Store Manager Development Programme, targeting previously disadvantaged employees.

in September 2015, Masscash Wholesale provided the eMupumalanga Primary School in Motherwell Township with a library. The school has access to hundreds of books via their new school library. The fully equipped library was donated by Masscash’s franchise supermarket Savente. Through this initiative, Masscash hopes to make a relevant and notable contribution to support the education outcomes of South Africa’s children, especially children in underprivileged schools.
We offer an authentic retail experience which encourages a spirit of entrepreneurship. We recognise that a diverse and inclusive workforce is crucial for sustained business growth.

The Group actively seeks the continuous improvement of performance in the portfolio and its parts, through strategic and structural clarity, high market share, excellent management, principle-driven ethical leadership, cost-effective technology and the sharing or accumulation of capabilities, knowledge, resources, influence and information.

To this end, thought leadership, individual and collective performance, and collaboration throughout the Group are appropriately recognised, valued and rewarded. Our vision as an organisation is to deliver value to our customers, suppliers, employees, investors, communities and other social partners at large. We share people-centric values that define our behaviour and shape our culture, allowing us to service our customers, show respect for the individual, and strive for excellence and integrity. Our adherence to these principles has created a unique work culture within our business. These are built on a foundation of integrity where the principles of honesty, fairness and objectivity guide how we apply these values in the workplace.

Massmart offers diverse career choices such as: Marketing, Business Intelligence, Accounting, Information Systems and Business Processes, Supply Chain, Operations, Legal, Compliance, Human Capital, Merchandising and International Commerce, to name but a few. This is what differentiates us and strengthens our value proposition to our employees. We strive to be the most trusted retailer in Africa and the ultimate home of the career retailer. This goal can only be achieved when excellence is demonstrated through inspired and engaged people.

Talent management

At Massmart talent management refers to a set of integrated organisational Human Resources processes designed to attract, assess, develop, motivate, and retain productive, engaged employees. Through these processes we create a high-performance, sustainable organisation by having the right people in the right place at the right time. This requires an accurate forecast of the demand for talent in critical and scarce skill functions, and an understanding of the talent supply we already have.

Our objective is to:

- Align strategic group talent management initiatives with current and future business requirements.
- Provide accurate, useful, actionable “People Intelligence” to the business for the purpose of human capital risk management and succession planning.
- Accelerate the development of high potential leadership talent through individual career management discussions, and customised executive development programmes.
- Build a diverse organisation that mirrors the customers and communities that we serve.
- Enable the operating Divisions by providing best practice talent management processes, tools and training.

Our bi-annual Executive talent review and succession planning process is the foundation of talent management. Leadership talent data from across the organisation is collected, analysed, and calibrated by the Massmart Executive Committee for the purpose of identifying, developing and retaining top talent. The focus this year has been on understanding leadership talent risk at a functional level, identifying a technology solution to support the management of the data and the process, and aligning learning and development solutions with the gaps identified through the talent review process.

Massmart Corporate University (MCU)

The MCU has grown and evolved into a key element of our talent management strategy, as it provides a framework in which we can make focused contributions to the development of people at all levels, while building internal succession.

Furthermore, positioned as it is at the intersection of all Divisions, the MCU provides us with a unique opportunity to influence our organisational culture that has as its foundation the values of mutual respect, collaboration and empowerment.
As employees enhance their personal capacity, they are encouraged to network and build relationships across the divisions.

The MACU consists of four schools that are closely aligned to our business strategy:
- The School of Leadership Development: Advanced leadership development is critical to our growth strategy. This school addresses the ongoing development needs of executive leadership through a variety of interventions, under the guidance of faculty at some of South Africa’s best business schools.
- The School of Management Development: Acknowledging that many of our best leaders have emerged from inside the business, this school provides them with the opportunity to attend accredited courses that equip them with the tools to optimise their own and their team’s performance.
- The School of Retail Excellence: Keeping in mind the shortage of core retail skills in the country, this school aims to provide development to merchants at all levels, ensuring strengths in this critical team.
- The School of Career Development: In South Africa, with our history of systemic discrimination, the management of talent cannot be seen in isolation from our journey towards transformation. The School of Career Development has to date primarily been responsible for driving our Graduate Development Programme and Graduate Alumni Programme. As we move our diversity and inclusion strategy forward, we will now offer a framework for the development of all emerging talent candidates.

We believe that this systematic approach to the development of talent will serve Massmart’s needs to build core competencies in support of our growth strategy.

Remuneration and benefit structures

At Massmart, we believe in remunerating employees fairly for their roles. In 2015 Massmart embarked on a project to job evaluation, and the setting of remuneration structures that are market related, affordable to the business and that encourage an environment of performance-related pay. In 2016 Massmart will begin the formal implementation of these remuneration structures.

People First project

The HR Forum embarked on a project to implement a new Group-wide HR/payroll system. The motivation was to replace the existing legacy payroll systems, while providing additional HR functionality to facilitate clean data, standardised processes and other reporting. This project was a first for Massmart as HR, Payroll, Finance and IT from all divisions collaborated, ensuring a single payroll instance and simplifying ways of working for the benefit of the Massmart Group in all countries in which we trade. Stores have already been realised in new HR and Payroll processes and templates, reports that all areas can benefit from alignment to policies and legislation, and implementing best practice. The project is due for completion mid-2016 where Phase two will look at additional functionality like Employee Self Service.

BUA employee engagement survey

Massmart participates in an employee engagement survey with all companies working within the Walmart group to help understand how our employees feel about working for Massmart. The survey covers themes that impact on the Massmart Brand namely, teamwork, work environment, career and development, support, leadership, direct supervision, action planning and ethics. The latest survey was held in 2014; leaders have worked with their teams throughout 2015 to improve on our engagement scores.

Labour brokers

Prompted by changes to the section 198 of the Labour Relations Act (No. 66 of 1995) each Massmart Division has undertaken a comprehensive assessment of their employment contract composition. This has resulted in a decision to phase out the use of labour brokers in core roles. Divisional Human Resources’ leaders are working on projects with labour brokers and unions in their business to accommodate the new legislation.

Human capital performance indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Percentage</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>68.55%</td>
<td>Estimated % employees with medical benefits</td>
<td>67.2 in 2014, 66.9 in 2013, 66.9 in 2012, 66.9 in 2011</td>
</tr>
<tr>
<td>38.83%</td>
<td>Unemployed Staff</td>
<td>38.8 in 2014, 38.8 in 2013, 38.9 in 2012, 38.9 in 2011</td>
</tr>
<tr>
<td>13.07%</td>
<td>Estimated staff turnover</td>
<td>13.0 in 2014, 14.0 in 2013, 15.0 in 2012, 15.0 in 2011</td>
</tr>
<tr>
<td>6.50%</td>
<td>HIV Prevalence</td>
<td>6.5 in 2014, 6.5 in 2013, 6.5 in 2012, 6.5 in 2011</td>
</tr>
<tr>
<td>93.44%</td>
<td>Local management in non-South African operations as a % of total management</td>
<td>93.4 in 2014, 93.4 in 2013, 93.4 in 2012, 93.4 in 2011</td>
</tr>
<tr>
<td>60.13%</td>
<td>Black management as a % of all management and professionals</td>
<td>60.1 in 2014, 60.1 in 2013, 60.1 in 2012, 60.1 in 2011</td>
</tr>
<tr>
<td>R2,963.61</td>
<td>Estimated annual per capita training investment – personnel</td>
<td>R2,884.6 in 2014, R2,955.0 in 2013, R2,955.0 in 2012, R2,879.9 in 2011</td>
</tr>
<tr>
<td>R3,221.91</td>
<td>Average monthly Minimum Wage</td>
<td>R3,108.0 in 2014, R3,208.0 in 2013, R3,253.2 in 2012, R3,253.2 in 2011</td>
</tr>
</tbody>
</table>

Human capital data is based on Group and Divisional payroll data. Due to the large number and geographical positioning of stores, testing is not conducted at all stores every year. Data is normally validated prior to publication. Comparative data represents the best available performance disclosed by South African retailers, except otherwise noted. HIV prevalence is based on HealthChoice VCT testing figures.
I am pleased to present the Massmart Remuneration Report for the year ended December 2015. This year we have changed the layout of the report aligning it closer to market trends by separating the report into the following three sections:
- **Section A** is the Remuneration Committee Chairman’s report;
- **Section B** covers Massmart’s remuneration philosophy and policy and;
- **Section C** reports on Massmart’s application of the remuneration policy during 2015.

**Introduction to the Remuneration Report**

This report details information applicable to Massmart’s remuneration philosophy, policy and practice for Executive and non-Executive Directors. It sets out the actual payments, accruals and awards for the year ended December 2015. The Remuneration Report is aligned with the Remuneration guidelines of the King Code of Governance Principles (King III) and it is compliant with the Companies Act.

The report seeks to provide the following:
- A summary of the Group’s remuneration policy, philosophy and objectives;
- The Remuneration Committee’s role;
- Key remuneration decisions taken during the 2015 financial year;
- Key remuneration priorities for the 2016 financial year;
- Executive Directors’ contractual arrangements, pay tie-in and earnings and;
- Non-Executive Directors’ contracts and payments.

**Massmart Group performance**

For the year ended December 2015, Massmart’s total sales were R84.7 billion, an increase of 8.9% over the prior year (2014: R78.2 billion and 2013: R72.3 billion). Pleasingly, Group operating profit excluding foreign exchange movements and interest, grew by 14.1% to R2.1 billion (2014: R2.0 billion and 2013: R1.9 billion).

Both the Short Term Incentives (STI) and Long Term Incentives (LTI) in Massmart are linked to the performance of the Massmart Group. Further details on the 2015 STI payout and the LTI vesting are included in Section C.

**Director changes**

We are pleased to announce the appointment of Enrique Ostalé to the Board of Directors of Massmart with effect from 24 February 2016. Enrique is the President and Chief Executive Officer of the Walmart Latin America and Africa region. Enrique will be sitting on both the Nomination and Remuneration Committees, following the resignation of Shelley Broadbent on 9 November 2015.

During 2015, there were separate announcements concerning the appointments of Johannes van der Westhuizen, as the Chief Financial Officer of Massmart with effect from 12 March 2015, and the resignation of Jan Zwanenburg, as the Chief Financial Officer of Massmart, as set out in this report. This day has accordingly been included from this date.

Massmart acknowledges that employing expatriates in South Africa, a country with high unemployment, is a sensitive and difficult decision. However, Massmart feels that to meet the challenges facing the continent, as described in the Chair’s letter to our stakeholders, global skills, especially those with experience of the African continent, are required to achieve the goals of the Company.

**Key decisions taken during 2015**

**Remuneration structure**

- In 2015 Massmart introduced a formal salary structure. This has been further entrenched and applied in 2015. This structure has been used to measure employees’ Total Guaranteed Package (TGP) or basic salaries and to ensure internal equity as well as market competitiveness.
- During 2015 Massmart conducted detailed salary and incentive benchmarking to determine market competitiveness and fairness of salary compared to market.

**Key remuneration priorities approved by the Remuneration Committee for 2016**

- In January 2016, Massmart introduced the Care Programme. This is an occupational health-offering providing our permanent employees access and services at no cost to the employee, to provide primary healthcare at practitioners located close to their place of work. The TGP offering is available only to employees who earn below a predetermined threshold and who are not on one of the Company’s approved and subsidised medical aid options.
- In 2016, Massmart plans to transition management employees from awarding increases on basic salary to awarding increases on TGP.
- The ability to implement a non-financial Annual Incentive Plan (AIP) metric to employees at Executive level is to be expanded. These non-financial metrics are aimed at growing business strategies. All metrics, targets and their measures will be approved by the Remuneration Committee. Such metrics will remain in place for one year and new proposals will be tabled to the Remuneration Committee each year.
- To implement additional LT participation opportunities for high-performing talent in the Company, all permanent employees who would not be eligible to participate in the existing LT participation opportunities.
- Implement occupational health and wellness benefits for all permanently-appointed employees earning below the tax threshold.
- Implement the retirement reform proposals as promulgated in the Taxation Laws Amendment Bill of 2015.

The information provided in this report has been approved by the Board of the recommendation of the Remuneration Committee.

**Chris Seabrooke**
Chairman of the Remuneration Committee
1 April 2016
Remuneration report continued

Section B: Remuneration policy

Primary objectives of our remuneration programmes:
- Provide competitive and equitable remuneration, based on an employee’s skills, performance and contributions to the Group, among other factors.
- Attract and retain the talent necessary to achieve the Group’s business objectives.
- Develop a sense of Group ownership and align the interests of employees with those of its shareholders and
- Provide opportunities for the potential of greater financial rewards to those who perform well within their job responsibilities.

Massmart is committed to maintaining market-related pay levels that reflect a job’s worth to the Group. This includes incentives that recognize and reward individuals for business and individual performance against targets. Within this context, Massmart’s total reward offering comprises the following elements:

Total Guaranteed Package (TGP)

- Basic Salary
- Retirement and Medical Aid Benefits
- Car/Travel Benefit
- Other Employee Benefits
  - Appropriate for the level of each employee
  - Aims to attract and reward

Short Term Incentives
- One year Annual Incentive Plan (AIP)
  - Bonus is expressed as a multiple of basic monthly salary
  - Aligned to the achievement of financial and non-financial targets

Long Term Incentives
- Performance and Restricted Share awards
  - Award is expressed as a percentage of the TGP
  - Aligned to Company financial performance and shareholder returns

TGP is benchmarked to the median, but if stretch performance is achieved for the STHs and LTHs, the total reward package is intended to pay out at the 75th percentile.

Advisors
- The Remuneration Committee makes use of external advisors, namely:
  - PwC Remunishment
  - KPMG
  - Deloitte

Massmart remains committed to ensuring competitive remuneration packages whilst managing costs. Massmart participates in a number of annual Remuneration and Benefit Surveys to ensure the remuneration, benefits and incentives on offer are maintained at market-competitive levels. Remuneration packages are a whole are regularly measured against the national market with additional comparisons within the retail industry and against similar sized South African listed companies.

Remuneration philosophy

The purpose of Massmart’s remuneration philosophy is to establish fair and equitable reward levels that will attract, motivate and retain high calibre employees. This is in line with the Group’s culture and values whilst aligning remuneration with shareholder interests and best practice in the retail environment.

We strive to ensure that our remuneration policy supports the development and retention of top talent and critical skills. Its purpose is to ensure a workforce that is motivated to successfully develop, implement and support the Group’s business strategy. The focus is on ensuring the long-term growth and success of the Group and the enhancement of shareholder value.

Each year at the Annual General Meeting (AGM), in accordance with King III, the Group remuneration policy is put to a non-binding advisory vote. This non-binding advisory vote allows shareholders to express their views on the remuneration policies adopted by the Group. For more information on the Group’s remuneration policy, please contact the Chairman of the Remuneration Committee.

Total Guaranteed Package (TGP)

Basic Salary

The basic salary provides a fixed income as determined to be appropriate and market-aligned for each particular level and or role. Salaries are reviewed annually against market data. Increases are awarded on basic salary in July each year. The actual percentage increases awarded are determined by taking CPI, business performance, market trends and individual merit into account whilst also considering salary positioning against the Massmart salary structure and market data. Employees working for Massmart in South Africa receive a basic salary denominated in US Dollars as well as additional non-cash benefits eg. housing, schooling and home leave. The TGP is benchmarked around the market median.

Retirement Benefits

All permanent employees are required to belong to a Group approved retirement fund. The current Group approved funds are all defined contribution schemes. The funds provide the employee an opportunity to save for retirement. Life, disability and funeral cover are also provided to all permanent employees. Alexander Forbes has administrated the Massmart funds for a number of years. A formal service level agreement is in place that regulates this relationship. The trustees of the funds monitor fund performance on a quarterly basis. The Company contributes 10.3% of Remuneration to the retirement fund. Insurances. Employees contribute at least 7%.

Medical Aid Benefits

It is compulsory for all new permanent Massmart Group employees to join a Company-approved medical plan. The Group has the responsibility of ensuring that appropriate plans are offered by the Massmart Health Plan and that contribution levels are sustainable and affordable for all levels of employees. Employees are covered by a separate international medical insurance. The Company contributes a portion of the medical aid fund contribution; the difference is contributed by the employee.

Car / Travel Benefits

Travel allowances or company cars, are provided to nominated employees to enable them to perform their duties, as required. The quantum of the allowance or company car value is determined based on the requirements of each specific level and or role.
Remuneration report
continued

Short Term Incentive

ANNUAL INCENTIVE PLAN (AIP)

Purpose
The AIP aims to incentivise and reward the achievement of the approved annual operating income targets. Massmart places particular emphasis on generous annual incentives for high performance.

Eligibility
Executives and employees from a certain staff level are able to participate in the AIP, subject to Remuneration Committee approval.

Components
The AIP opportunity is 100% linked to the approved annual operating income targets for both the Massmart Group and its Divisions. Group Executives are 100% incentivised on Group Performance, while Divisional Executives are incentivised on 75% of Divisional performance and 25% of Group performance.

Formula
Participating employees can earn an increasing multiple of their monthly basic salary dependent upon achievement against the agreed targets.

Financial performance
In order to align with Walmart's metrics, performance against planned operating income targets was selected as the performance measure.

For business performance below 90% of planned operating income, no incentives are earned.

Incentives are capped at 107% of planned operating income, unless the Remuneration Committee has approved a super maximum target for a specific year.

Individual performance
At the lower levels of the AIP an individual metric, based on employee performance, is included.

Bonus pay-outs
At Executive level the bonus pay-outs per achievement level are:

<table>
<thead>
<tr>
<th>Performance Level</th>
<th>Bonus Pay-Out</th>
</tr>
</thead>
<tbody>
<tr>
<td>90%</td>
<td>100%</td>
</tr>
<tr>
<td>90% - 13.5%</td>
<td>107%</td>
</tr>
<tr>
<td>13.5% - 104%</td>
<td>Maximum</td>
</tr>
</tbody>
</table>

*A super maximum level may be agreed and approved by the Remuneration Committee.

Discretion of the Remuneration Committee
Outside of the AIP, the Remuneration Committee also has the option to provide discretionary awards to reward individual performance. The discretionary awards are capped at not more than 25% of target AIP. If awarded, these incentives are paid annually.

Long Term Incentive
Massmart believes in rewarding employees for performance that is aligned to shareholders' interests, in particular the sustained creation of shareholder value. In prior years, various share schemes were established to recognise and reward different levels of employees. In May 2013, the Massmart Share Incentive Plan that is more closely aligned to the Walmart approach, was approved and replaced all other share schemes.

No further share options are issued from either the Massmart Holdings Limited Employee Share Trust, or the Massmart Black Share Skills Trust, or the Massmart Trustee's Employee Share Trust. Those options which have not yet vested through the above-mentioned Trusts will still vest according to the relevant rules and plans.

SHARE INCENTIVE PLAN (SIP)

Purpose
The SIP is a long-term equity-based incentive plan. A combination of Performance Shares and Restricted Shares is awarded to qualifying employees.

Eligibility
Full-value shares rights are awarded bi-annually to qualifying permanent employees.

In 2015, initial qualification is based on a minimum earning criteria as well as motivation by the Executive Committees of each of the Divisions. Final approval for participation is provided by the Remuneration Committee.

Eligibility and award values have been benchmarked to the RHC reported LT awards and Massmart is positioned in the upper quartile.

Operation and instruments
Performance Shares
The performance share metrics have been designed to align with Walmart's metrics and are measured individually against approved Group-level annual nominal sales and return on investment (ROO) targets, over three separate years, with an equal weighting.

Each target has a range and the final awards are calculated based on a sliding scale in the range of 50%-150%.

If achieved, the award is equity-settled at the end of the third year if performance against either of the targets falls under the minimum of the range, no performance share awards will be provided against that target.

Restricted Shares
Restricted share grants are specifically utilised for retention purposes and vest on a time-basis, being one third each at the end of years 2, 4 and 5.

Mix of awards
The plan provides for a mix of performance shares, which are awarded annually in March and grants of restricted shares which are granted annually in September, based on the level of the employee. At Executive level, the mix is 75% performance shares/25% restricted shares and at other levels, 50%/50%.

Value of awards
Currently at Executive level, the award value of the award ranges between 40%-100% of TGR.

At other levels, the award is based on 12.5%-25% of TGR.

Limits
In aggregate, all participants, under all Plans, may not exceed 39.5 million shares.

Individually, one participant may not exceed 4 million shares.

Settlement
The settlement of grants and awards are done primarily through on-market share purchases.

Discretion of the Remuneration Committee
The Remuneration Committee may approve special restricted share awards to employees which the Company wishes to recognise for extraordinary achievements.
The Remuneration Committee and its role

Composition
The Remuneration Committee consists of three non-Executive Directors, two of whom are independent. Meetings are held at least four times per year and more often if deemed necessary. The CEO is a permanent invitee to all Committee meetings. Other nominated executives attend meetings by invitation. Neither the CEO nor nominated invitees are present when matters relating to their own remuneration are discussed. The Group General Counsel acts as secretary for the Committee.

Responsibilities
In accordance with the Remuneration Committee Charter, as approved by the Board, the responsibilities of the Committee include:
- Reviewing the Group remuneration strategy and policies to ensure alignment with the Group's strategic operating and financial objectives and remuneration best practice principles;
- Evaluating the remuneration packages of the Executive Directors and Group Executive Committee members to ensure base pay and benefits are market-competitive and fair, and STIs and LTIs are equitably related to relevant performance indicators;
- Approving performance-related STIs and LTIs targets;
- Making recommendations to the Board on amendments to STIs and LTIs schemes;
- Reviewing and recommending independent non-Executive Directors' and Board Committee members' fees and also the fees of any Director-related entities providing services to the Group;
- Reviewing Group remuneration practices and policies and;
- Selecting independent consultants to advise the Board where appropriate.

A full account of the role and responsibilities of the Remuneration Committee is described in the Remuneration Committee Charter and is available on request.

Executive pay mix

Anticipated contribution to total annual packages
The Committee believes that over an extended period and subject to business performance, Executives' total annual remuneration (TAR) should comprise approximately equal amounts from TGP, AIP, and SIP. The amounts received annually under AIP will vary depending on business performance, and to some extent personal performance, while those received under SIP will also vary depending on business performance and the growth of the Massmart share price.

It is anticipated that about two-thirds of Executives' remuneration should be variable and conditional upon sustainably improving business performance.

Section C:
Application of the remuneration policy
In this section we report on the application of Massmart's remuneration policy during the year ended December 2016.

Actual pay-outs and increases

TOTAL GUARANTEED PACKAGE (TGP)

Basic Salary
The Committee remains alert to the concentrated and highly competitive nature of the South African retail market, as well as to the strength of retail-specific skills, and sets remuneration levels accordingly.

Following the detailed salary benchmarking conducted, a number of Executive salaries were adjusted to compensate changes in roles and additional responsibilities assumed during the year, or to align them against the national market, or a combination of the two. In July 2016, increases awarded to Massmart's Executive Committee and Divisional Directors averaged 11.2%.

This average includes market-related adjustments for six of the Executive team members following the detailed salary and incentive benchmarking explained above. For the remaining adjustments for these six Executives in the national market, the average annual increase percentage awarded to these Executives amounted to 6.5%. The average percentage increase to salaries across the Group was 6.9%.

Retirement Fund
The following table shows the percentage distribution of retirement fund membership for 2014 and 2015:

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>% of Employee Base 2015</th>
<th>% of Employee Base 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Massmart Pension Fund</td>
<td>16</td>
<td>15</td>
</tr>
<tr>
<td>Massmart Provident Fund</td>
<td>77</td>
<td>77</td>
</tr>
<tr>
<td>SACCAWU National Provident Fund</td>
<td>2</td>
<td>6</td>
</tr>
</tbody>
</table>

Medical Aid
The following table shows the percentage distribution of medical cover and medical aid fund membership for 2014 and 2015:

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>% of employees in 2015</th>
<th>% of employees in 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orsacare</td>
<td>3,967</td>
<td>3,635</td>
</tr>
<tr>
<td>Massmart Health Plan-Choice</td>
<td>3,410</td>
<td>3,091</td>
</tr>
<tr>
<td>Massmart Health Plan-Network</td>
<td>2,465</td>
<td>2,555</td>
</tr>
<tr>
<td>Massmart Health Plan-Essential</td>
<td>2,426</td>
<td></td>
</tr>
<tr>
<td>Africa other approved</td>
<td>272</td>
<td>45</td>
</tr>
<tr>
<td>Total</td>
<td>12,737</td>
<td>8,326</td>
</tr>
</tbody>
</table>

Closed schemes, existing members only:
- Resolution Health
- CignaCare Network
- Other

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>% of employees in 2015</th>
<th>% of employees in 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resolution Health</td>
<td>1,763</td>
<td>3,109</td>
</tr>
<tr>
<td>CignaCare Network</td>
<td>1,475</td>
<td>2,315</td>
</tr>
<tr>
<td>Other</td>
<td>369</td>
<td>402</td>
</tr>
<tr>
<td>Total</td>
<td>3,578</td>
<td>5,826</td>
</tr>
</tbody>
</table>

Proposed fees 2015
Following a market benchmarking exercise performed in 2015, the following changes have been proposed:

<table>
<thead>
<tr>
<th>Role</th>
<th>2014 Fee ($)</th>
<th>2015 Fee ($)</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman of the Board</td>
<td>1,270,000</td>
<td>1,298,000</td>
<td>2.3</td>
</tr>
<tr>
<td>Deputy Chairman of the Board</td>
<td>660,000</td>
<td>625,000</td>
<td>5.6</td>
</tr>
<tr>
<td>Independent non-Executive Directors</td>
<td>350,000</td>
<td>275,000</td>
<td>27.3</td>
</tr>
<tr>
<td>Audit and Risk Committee Chairmen</td>
<td>267,100</td>
<td>252,000</td>
<td>6.0</td>
</tr>
<tr>
<td>Other Board Members</td>
<td>128,000</td>
<td>128,000</td>
<td></td>
</tr>
</tbody>
</table>
Remuneration report continued

ANNUAL INCENTIVE PLAN (AIP)

As discussed on page 96, the AIP is linked to the approved annual operating income targets for both the Massmart Group and its Divisions. Pay-outs in relation to the variances to these targets are demonstrated here:

STI payments made to Executive Directors

<table>
<thead>
<tr>
<th>Company performance measure</th>
<th>Below threshold</th>
<th>Threshold 6 months</th>
<th>Target 12 months</th>
<th>Above target 18 months</th>
<th>Maximum &gt;18 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income (100% weighting)</td>
<td>7,441</td>
<td>8,073</td>
<td>7,517</td>
<td>5,273</td>
<td>7,517</td>
</tr>
</tbody>
</table>

SHARE INCENTIVE PLAN (SIP)

The SIP was established in September 2013 and is linked to approved ROI and Sales targets (refer to page 97 for more information). The first vesting of this new plan will therefore take place during 2016. Performance against targets will result in the pay out of performance shares equivalent to:
- 85.9% for 2013
- 108.2% for 2014
- 100.1% for 2015

Vesting of Long Term Incentives

<table>
<thead>
<tr>
<th>Company performance measure</th>
<th>ROI (50% weighting)</th>
<th>Sales (50% weighting)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Threshold</td>
<td>Target</td>
<td>Maximum</td>
</tr>
<tr>
<td>2013</td>
<td>0%</td>
<td>46.9%</td>
<td>55.2%</td>
</tr>
<tr>
<td>2014</td>
<td>0%</td>
<td>46.9%</td>
<td>55.2%</td>
</tr>
<tr>
<td>2015</td>
<td>0%</td>
<td>46.9%</td>
<td>55.2%</td>
</tr>
</tbody>
</table>

Executive Directors' contracts and earnings

The comments below provide further background and context to the figures disclosed in the tables which follow and the composition of remuneration outcomes in 2015 for the CEO and CFO are represented graphically alongside.

Guy Hayward

Guy was awarded a 70% annual salary increase in July 2015.

In terms of Massmart's AIP, Guy received an Incentive payment of R5.3 million (equivalent to 11.8 months of salary) based solely on the Group's actual operating income performance against the 2015 plan.

During the year to December 2015 Guy did not convert or sell any Massmart options or shares.

Through the Employee Share Trust, Guy holds 456,906 Massmart shares and options of which 199,932 shares are held by the Bluett-Hayward Trust, of which Guy is a discretionary beneficiary. The average length of time that he has held these is 4.26 years and the average strike price is R124.67 per share. Guy also owns 36,517 Massmart shares directly.

Through the SIP, Guy was awarded 2,755,599 performance share awards on 16 March 2015 and 14,498 restricted share grants on 15 September 2015.

Guy is contractually bound by a notice period of twelve months.

Johannes van Lierop

Johannes was appointed as Chief Financial Officer on 12 March 2015 and did not receive an annual salary increase in July 2015.

In terms of Massmart's AIP, Johannes received an incentive payment of R1.6 million (equivalent to 11.8 months of salary) based solely on the Group's actual operating income performance against the 2015 plan.

During the year to December 2015 Johannes did not sell any Massmart shares.

Through the SIP, Johannes was awarded 71,095 performance share awards and 24,832 special restricted share grants on 16 March 2015 and 12,833 restricted share grants on 15 September 2015.

Johannes is contractually bound by a notice period of twelve months.

Non-Executive Directors' contracts and payments

As approved by the shareholders at Massmart's May 2015 AGM, the following fees were paid to non-Executive Directors in the financial year ending December 2015:

<table>
<thead>
<tr>
<th>Position</th>
<th>Fee(R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman of the Board</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Deputy Chairman</td>
<td>625,000</td>
</tr>
<tr>
<td>Independent non-Executive Directors</td>
<td>275,000</td>
</tr>
<tr>
<td>Committee Chairperson</td>
<td>252,000</td>
</tr>
<tr>
<td>Committee Members</td>
<td>128,000</td>
</tr>
</tbody>
</table>
## Remuneration report continued

### Directors' emoluments

The following disclosures were made by Massmart Holdings Limited to Massmart's Directors in the years ending December 2015 and December 2014 respectively:

<table>
<thead>
<tr>
<th></th>
<th>Services as Directors of Massmart Holdings Limited</th>
<th>Salary and allowances</th>
<th>Bonus and performance related payments</th>
<th>Other benefits</th>
<th>Retirement and related benefits</th>
<th>Shore payments</th>
<th>fringe benefits of interest-free loans used to finance share option and on shares purchased by Directors</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive Directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hayward, GM</td>
<td>-</td>
<td>5,175</td>
<td>5,273</td>
<td>965</td>
<td>543</td>
<td>11,966</td>
<td>834</td>
<td>-</td>
</tr>
<tr>
<td>Zaweinstein, P</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>63</td>
<td>734</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>van Lierop, JAM</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,106</td>
<td>5,982</td>
<td>2,223</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,952</td>
<td>10,855</td>
<td>3,187</td>
<td>962</td>
<td>24,956</td>
<td>834</td>
<td>-</td>
</tr>
<tr>
<td>Non-Executive Directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Darrin, KD</td>
<td>-</td>
<td>1,440</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,440</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Seabrooke, CS</td>
<td>-</td>
<td>1,531</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,531</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Broder, S</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>543</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Clarke, A</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>185</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Gwagwa, NN</td>
<td>-</td>
<td>543</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>543</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Kgosana, M</td>
<td>-</td>
<td>185</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>185</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Langoni, P</td>
<td>-</td>
<td>795</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>795</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Suarez, JP</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,494</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>4,952</td>
<td>10,855</td>
<td>3,187</td>
<td>962</td>
<td>29,450</td>
<td>834</td>
<td>-</td>
</tr>
</tbody>
</table>

1 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 amounts paid in that year.

2 Held in terms of the rules of the Company's share scheme.

3 Amended with effect from 12 March 2015.

4 Amended with effect from 10 March 2015.

5 Amended with effect from 9 November 2015.

6 Amended with effect from 16 July 2014.

7 Amended with effect from 1 September 2015.

8 Amended with effect from 31 December 2014. As a part Director GM Patterson earned a gain on the exercise of share options and on shares purchased for $28.4 million, as well as a fringe benefit of $82.2 million in the current year.

9 Amended with effect from 10 April 2014.

<table>
<thead>
<tr>
<th>December 2014</th>
<th>Services as Directors of Massmart Holdings Limited</th>
<th>Salary and allowances</th>
<th>Bonus and performance related payments</th>
<th>Other benefits</th>
<th>Retirement and related benefits</th>
<th>Shore payments</th>
<th>fringe benefits of interest-free loans used to finance share option and on shares purchased by Directors</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patterson, GM</td>
<td>-</td>
<td>5,215</td>
<td>-</td>
<td>692</td>
<td>365</td>
<td>6,272</td>
<td>1,956</td>
<td>15,788</td>
</tr>
<tr>
<td>Hayward, GM</td>
<td>-</td>
<td>4,443</td>
<td>5,916</td>
<td>667</td>
<td>337</td>
<td>11,363</td>
<td>844</td>
<td>12,267</td>
</tr>
<tr>
<td>Zaweinstein, P</td>
<td>-</td>
<td>2,603</td>
<td>2,827</td>
<td>103</td>
<td>162</td>
<td>5,605</td>
<td>-</td>
<td>5,605</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12,262</td>
<td>8,743</td>
<td>1,462</td>
<td>864</td>
<td>23,330</td>
<td>2,209</td>
<td>41,327</td>
</tr>
<tr>
<td>Non-Executive Directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Darrin, KD</td>
<td>-</td>
<td>892</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>892</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Seabrooke, CS</td>
<td>-</td>
<td>1,491</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,491</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Broder, S</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Clarke, A</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Gwagwa, NN</td>
<td>-</td>
<td>512</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>512</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Langoni, P</td>
<td>-</td>
<td>758</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>758</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Suarez, JP</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cheesewright, D</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Davis, JM</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lambert, M</td>
<td>-</td>
<td>359</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>359</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>4,012</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,012</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

The Board is wholly responsible for the formulation, development and effective implementation of Group strategy. The Board has gained progress in the development of a 'prescribed officer' following the issuance of guidance from SACA and, in turn, delegates operational strategy implementation and general Executive management of the business to its Executive Directors. As such, in terms of section 38 of the Companies Act 2008, those previously designated as prescribed officers are no longer deemed to be. For ease of reference, the 2014 cost relating to those previously designated as prescribed officers was R/0.2 million.
Details of Directors’ shares and share options per Director:

### Hayward, GRC

<table>
<thead>
<tr>
<th>Grant dates</th>
<th>Subscription price ($)</th>
<th>Market price ($)</th>
<th>Number of shares/share options</th>
<th>Gain on sale/ exercise ($) ($’000)</th>
<th>Expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at December 2013</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares sold</td>
<td></td>
<td></td>
<td>456,906</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 2014</td>
<td></td>
<td></td>
<td>456,906</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Options exercised/shares sold</td>
<td></td>
<td></td>
<td>456,906</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 2015</td>
<td></td>
<td></td>
<td>456,906</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprising:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24 May 2007</td>
<td>94</td>
<td>24,444</td>
<td>23 May 2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 April 2008</td>
<td>67</td>
<td>19,912</td>
<td>31 March 2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>26 May 2008</td>
<td>73</td>
<td>36,573</td>
<td>25 May 2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>27 May 2009</td>
<td>78</td>
<td>105,448</td>
<td>26 May 2019</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 September 2011</td>
<td>154</td>
<td>120,897</td>
<td>31 August 2021</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16 May 2012</td>
<td>160</td>
<td>149,542</td>
<td>15 May 2022</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Employee Share Plan

<table>
<thead>
<tr>
<th>Grant dates</th>
<th>Subscription price ($)</th>
<th>Market price ($)</th>
<th>Number of shares/share options</th>
<th>Gain on sale/ exercise ($) ($’000)</th>
<th>Expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at December 2013</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance share awards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted share grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance share awards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted share grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprising: Performance share awards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted share grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance share awards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted share grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Petition, GM

<table>
<thead>
<tr>
<th>Grant dates</th>
<th>Subscription price ($)</th>
<th>Market price ($)</th>
<th>Number of shares/share options</th>
<th>Gain on sale/ exercise ($) ($’000)</th>
<th>Expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at December 2013</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Options exercised/shares sold</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Options forfeited</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Options exercised</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares sold</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Share Plan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 2013</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share awards/Share grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance share awards forfeited</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted share grants forfeited</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Zwarenstein, J

### Employee Share Trust

<table>
<thead>
<tr>
<th>Grant dates</th>
<th>Subscription price ($)</th>
<th>Market price ($)</th>
<th>Number of shares/share options</th>
<th>Gain on sale/ exercise ($) ($’000)</th>
<th>Expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at December 2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance share awards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted share grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprising: Performance share awards</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted share grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Directors’ interests in the Company’s shares and options held at reporting date can be found in the Directors’ Report.
Minimising Massmart’s environmental footprint

Water conservation
Water conservation remains a key focus for Massmart, particularly in light of the significant water security challenges currently impacting large parts of our country. During the period, we continued to make progress in the area of water conservation through the introduction of rain water and condensate harvesting at our more water intensive standalone formats. As a result, a total of 52 Builders and Makro stores have implemented water harvesting programmes, which resulted in estimated savings of 17 million litres of water.

In 2016 Massmart will complete a store level water risk review to highlight further water conservation opportunities and ensure that our stores are appropriately prepared in the event of shortages.

Energy efficiency
Massmart continues to optimise operational energy efficiency through the establishment of specific energy targets and the installation of a variety of energy saving technologies such as LED lights, solar photo voltaic systems and high performance refrigeration systems. In 2015, a further eight Builders Warehouse stores were equipped with daylight harvesting cells, while our Makro Crown Mines store underwent a comprehensive energy retrofit which included the installation of LED lights, a high performance CO2 refrigeration plant and daylight harvesting. The stores were awarded LEED Silver certification and our Milton Keynes store was awarded LEED Gold certification.

Overall Group energy intensity increased by 2% as compared to 2014. This increase is largely attributable to unusually high ambient temperatures leading to an increase in air conditioning related energy consumption. Notwithstanding this, 21% of our total electrical consumption remains the lowest reported in the South African retail sector and we are currently tracking 15% below our 2020 business as usual (BAU) energy targets.

In line with our commitment to explore commercially viable renewable energy opportunities, we indicate in 2014 that we had prioritised the implementation of a proof of concept Solar Photo-Voltaic pilot project.

As a result, we have successfully identified three potential Solar Photo-Voltaic pilot opportunities, which are now in the process of being tendered for, moving forward.

Collectively we forecast that these three plants will generate in excess of 2.4 million kilowatt hours of electricity a year. They are expected to come into operation during the second quarter of 2016.

Operational waste recycling
To reduce the volume of waste we send to landfill, Massmart has prioritised the recycling of secondary packaging, paper, plastic and board at our stores and DCs. During the period, the percentage of stores engaged in waste separation and recycling initiatives increased to 82%, a 9% improvement over 2014.

As previously reported, quantifying overall waste diversion rates remains a challenge due to difficulties associated with obtaining accurate waste collection and recycling data from waste service providers. As a result we have implemented an annual waste management review process across all of our facilities and have developed and distributed a waste reporting template to all waste providers.

On the basis of the waste data provided by waste vendors we estimate that we diverted approximately 43% of our operational waste from landfill in 2015, which is in line with our target to divert 40% of our waste from landfill by 2015.

In addition to tracking waste recycling efforts across the Group, we have embarked on a store level waste tracking programme to improve store recycling and waste management procedures. A total of 51 store and regional managers received waste management and recycling training in 2015.

Beyond our current paper, plastic and board waste recycling interventions, the enhancement of food donation programmes aimed at reducing food product waste will be a key priority in 2016.

Our environmental initiatives are driven by an understanding that advocating more sustainable practices and product choices is fundamental to our commitment to enable sustainable supply and consumerism. We recognise that minimising our own environmental footprint builds credibility for advocacy with our suppliers and customers.
Enable sustainable supply and consumerism

Environmental supplier advocacy and product screening

We are committed to working with willing suppliers to advocate the adoption of more sustainable manufacturing and sourcing practices. Since 2013 we have profiled the sustainability performance of over 600 unique suppliers through our various environmental advocacy and screening programmes. Our advocacy programme includes the distribution of a bespoke environmental survey to the top 50 suppliers by value across all product categories. We also issue advocacy surveys and product screening reviews targeting key products: Seafood and Timber product suppliers. Beyond supplier profiling and product screening reviews, we are committed to encouraging the adoption of sustainable supply chain practices and we have therefore incorporated environmental supplier site visits and workshops into the programme. In 2015, we expanded the survey process to include all Maxmart Private Label suppliers and going forward, we have prioritised the establishment of a more formal Private Label supplier advocacy and engagement programme.

As noted in our 2014 update, Maxmart has taken the decision to publicly recognise those suppliers who we have noted are industry leading when it comes to implementing sustainable practices in their respective industries. In line with this, Maxmart successfully hosted its first Environmental Supplier Awards ceremony in 2015, at which the winners were announced.

Environmental advocacy supply chain survey findings

35% of environmental survey respondents are actively assessing their suppliers, which is better than previous years.

55% of suppliers surveyed last year indicated that they had established systems and processes to optimise logistics and reduce transportation related energy consumption.

50% of responding suppliers have invested in energy saving measures.

64% of the suppliers we surveyed in 2015 have taken steps to minimise the volume of waste they produce.

Climate change and environmental performance indicators

0.36
Estimated water consumption (KL/ha)
0.59 in 2014, 1.7 in 2013, 2.6 in 2012, 2.6 in 2011

215.27
Stock purchased energy consumption (KWh/m²)
203.3 in 2014, 209 in 2013, 181.2 in 2012, 178 in 2011

0.60
Scope 1 emissions intensity (CO₂/Rm)
0.70 in 2014, 0.6 in 2013, 0.4 in 2012, 0.5 in 2011

0.02
Scope 2 emissions intensity (CO₂/GJ/LA)
0.03 in 2014, 0.03 in 2013, 0.02 in 2012, 0.02 in 2011

Eco-friendly merchandise

Maxmart is uniquely positioned to offer customers a wide range of products that assist them to not only reduce their environmental footprint but also save money. Over the last three years our portfolio of environmentally sensitive product options has grown considerably. Collectively, we offer over 1,500 products ranging from low volatile Organic Compound paints to solar geysers and efficient lighting options.

We have previously noted that the sales of green products, particularly energy efficient lamps and appliances, are strongly correlated to national energy security and specifically load shedding. In 2015 total sales of green products for the year exceeded R800 million across our Makro and Builders Warehouse divisions. We estimate that the sale of energy efficient light bulbs will result in the avoidance of approximately 50,000 GWh in 2015.

Primary product packaging rationalisation

We recognise that our customers are concerned with the progress we are making with regards to the design and introduction of more recyclable and resource efficient primary product packaging.

Although Maxmart has focused attention on this area including development of a Group Private Label packaging strategy, exposure of packaging buyers to packaging innovation opportunities through focused workshops and the introduction of a Private Label Packaging Rationalisation Policy, current progress has been indefinite.

Our objective in 2016 is to re-establish this process to ensure that, as we expand our Private Label product offering, we continue to design resource efficient and recyclable packaging. With this in mind, we will review packaging of all Private Label products launched during the past 18 months. We will also engage closely with the Private Label Association of South Africa to better understand the packaging implications of the WMP that has been requested by the Department of Environmental Affairs.

Post-consumer e-waste recycling

E-waste, which includes consumer items such as mobile phones, IT equipment, entertainment electronics, and household appliances, is considered to be one of the fastest growing waste streams worldwide. Although accurate statistics regarding the volume of e-waste produced and recycled in South Africa are not available, given its rapid growth, the South African government has declared e-waste a priority waste stream.

In 2008 Makro launched a post-consumer e-waste project in partnership with Fujitsu-Siemens and electronic recyclers Desco. In 2013 Makro and Desco, together with Samsung Electronics expanded the e-waste project to 19 additional stores countrywide. In 2015 more than 143 tons of post-consumer e-waste was collected and recycled through the programme, bringing the total volume of e-waste collected since inception to 739 tons.

In 2015 the Department of Environmental Affairs called for the submission of an Industry Waste Management Plan (WMP) aimed at achieving a reduction in the generation of e-waste in South Africa. In acknowledgement of Makro’s long running post-consumer e-waste take back programme, Makro was asked to join the steering committee tasked with drafting the WMP. Stated on initial discussions, we believe continued e-waste drop off sales are likely to play an integral part of the proposed WMP. We are currently assessing opportunities to replicate the project at selected Builders Warehouse and stand alone Game stores.
At the heart of our social sustainability approach is a desire to support social equality initiatives. We believe creating opportunities for our employees and emerging suppliers is fundamental to realising this significant objective. We aim to create transparent trust-based relationships with our stakeholders through ongoing engagement to understand their views, and inform our corporate accountability approach.

In 2015...

What we did well:

Our school meal mobilenutrition programme enabled the hygienic preparation of 40 million meals supplied through the National School Nutrition Programme.

Supported 3,000 young learners through the Makro and Home WorldWide Early Childhood Development partnership.

Invested in developing the capabilities of 28 local small business suppliers.

Conducted 14,000 face-to-face interviews with customers.

We aim to create transparent trust-based relationships with our stakeholders, recognising the value added to our business through our relationship with stakeholders.

Engaging our stakeholders:

Our stakeholder engagement covers a range of topics enabling customers, suppliers, civil society and employees to provide input and feedback in areas of mutual interest including:

- Customer satisfaction covering price competitiveness, product quality & safety, product availability, online shopping and Consumer Protection Act compliance. We also placed significant emphasis on measuring customer trust in 2015, specifically the extent to which customers trust our trading brands to act ethically.
- Supplier partnering: dealing with supply chain ethics, brand custodianship, logistics efficiency and operational practices. An additional area of discussion with suppliers in 2015 related to exploring opportunities to co-ordinate our socio-economic development initiatives for better social impacts.
- Employee engagement: career development, equal opportunities, status of temporary employees and ethical practice in the workplace.
- Environmental sustainability: covering water management in the supply chain, energy efficiency, sustainable seafood and timber sourcing. This year we also focused more attention on improving our understanding of their perspective relating to animal welfare in the retail supply chain.
- Socio-economic development: involving our corporate social investment priorities, our BBBEE progress and our approach to small enterprise supplier development.
- Citizens' bribery survey: specifically the launch in partnership with the Institute of South Africa, of the South African Citizens' Bribery Survey which aimed to gain a clearer picture of the extent of bribery in South Africa as experienced by ordinary citizens.
What we learned from our Stakeholders

**OUR VARIOUS ENGAGEMENT ACTIVITIES**

14,000 face-to-face interviews with customers on topics ranging from service satisfaction, and brand trust, to e-commerce preferences.

411 suppliers participated in the Massmart Supplier Relationship Survey. The survey, which has been running for 6 years, tests supplier satisfaction using 10 key performance indicators across various business touchpoints.

Massmart continues to engage proactively with NGOs, with a focus on better understanding social and environmental sustainability issues. Some of the organisations with whom we interacted in 2015 include: Conservation South Africa, WWF, WWF-SA, ICS, NACCOF, Greenpeace, NSPCA, and BIASA.

Massmart sponsored the South African Citizens' Barley Survey conducted by the HHI Institute of South Africa. The survey, which involved 6,680 participants across major urban centers aimed to measure barley in South Africa, as experienced and perceived by ordinary citizens.

**OUR STAKEHOLDERS' RESPONSES**

Customer indicated that they have high trust in our trading brands. The average Net Promoter Score across all Massmart brands was 80%, while individual brand trust scores ranged from 74% to 81%.

Massmart consistently receives positive feedback from suppliers about our ethics and business practices. Feedback in 2015 was no exception, with an average individual score of 62% and overall Divisional score ranging from 78% to 83%. Respondents also indicated that Massmart is highly collaborative, tough but fair. The average Group collaboration score was 72%.

Transformation, economic development, wage inequality, and food security remain central themes for social sustainability NGOs who highlighted that many South Africans remain vulnerable to food insecurity on a day-to-day basis and need access to better livelihoods. We are committed to meeting the needs of our customers and employees while supporting the development of a sustainable economy. Our small business Supplier Development Program is designed to support the growth of local businesses and provide opportunities for new entrants.

**WHAT WE NEED TO DO BETTER**

Price perception varies between the Group with feedback showing that trading brands sourcing higher income customers are perceived to be more expensive, even in instances where it's proven that they are not.

With a supplier rating between 62% and 68%, distribution channel efficiency presents a clear opportunity for improvement.

We need to fast-track the development of a renewable energy programme to support our ongoing energy efficiency initiatives.

**Consumer Protection Act performance indicators**

5,978 Customer complaints re. quality
5,079 in 2014

625 Customer complaints re. false adv., etc.
2,093 in 2014, 5,499 in 2013, 6,110 in 2012

167 Customer complaints re. liability claims (including product safety / defective goods claims)

70 Customer complaints at COSSO / National Consumer Commission / National Consumer Tribunal
103 in 2014, 29 in 2013, 122 in 2012

No. of General Merchandise product recalls
60 in 2014, 45 in 2013, 31 in 2012

23 No. of random General Merchandise product tests
22 in 2014

2,043 No. of Food & Liquor product recalls
32 in 2014

12,830 No. of random Food & Liquor product / food contact surfaces tests
2,013 in 2014

- Annual increase of 16% in pure quality related complaints. This requires further efforts in driving quality advancement within our supply chain.
- Annual decrease of 31% in pricing and marketing related complaints. This highlights the excellent efforts in driving the consumer protection agenda, through business process improvement, especially in the Marketing, Merchandise and Operations communities.
- Annual increase of 128% in pure quality related complaints. This requires further efforts in driving quality advancement within our supply chain.
- Annual decrease of 32% in customer complaints that were elevated to the COSSO. This highlights the excellent efforts in driving the customer protection agenda, through business process improvement which is based on customer satisfaction: The special efforts of the Merchandise, Operations and Customer Management are acknowledged.
- Annual increase of 1.5% in the number of product tests done in an investigative nature. This is aligned with the verification of continued levels of product safety and quality.
- Annual increase mainly due to one liquor supplier recall consisting of 126 products and also due to the increase of tests performed.
- Annual increase of 124% of products tested. This highlights the increased focus on food safety validation.
Supporting small business development

The Massmart Supplier Development Programme (SDP), which is focused on providing small and emerging suppliers with access to the Group’s supply chain, has concluded its third full year of operation. Since inception, the SDP has disbursed more than R36 million to South African small business suppliers.

Current participants in the programme include suppliers who manufacture a range of products, from bricks, steel, door frames, and paint to double-glazed doors, adhesives, cleaning aids, and fruit juices. In 2015, we disbursed R136 million to SDP beneficiaries and enrolled a further 99 suppliers in the programme, bringing the total number of active suppliers currently underway to 232. This is in line with our Support Programme projects. Collectively, since the SDP was initiated, we have provided support to 194 suppliers.

As has been noted in previous years with respect to investments, preference but not exclusivity, is given to Black and women-owned enterprises.

In 2016 the SDP will consolidate its manufacturing focus while continuing to transition out of agricultural and agri-processing projects. This is consistent with our experience that Massmart is able to add most value in areas in which we occupy a position of market leadership, including, for example, categories such as building materials.

Responsible sourcing

In 2012, under Walmart’s guidance, Massmart established a responsible sourcing programme focusing on private brands, direct import and exclusive brand products. In terms of the programme, participating suppliers are assessed by independent auditors on a broad range of human rights and safety dimensions that include, among other things, fair labour practices and compliance with health, safety, and environmental regulations.

During the period under review, all facilities that Massmart directly imports from are Massmart’s first-round importers. In addition, Walmart and Massmart maintain a network of training and capacity building programmes with suppliers. In 2015, we invited 700 suppliers to participate in Massmart’s training programmes.

Broad-based black economic empowerment

Massmart achieved an Empowerdex verified score of 68.23 in 2015, for the BBBEE measurement period from January to December 2014. This included modest improvements in the areas of Employment Equity and Preferential Procurement.

Our BBBEE activities covering the 2015 measurement period from January to December 2015 involved aligning our BBBEE strategy to the requirements of the Amended Codes of Good Practice. For example, given the emphasis placed on Enterprise and Supplier Development under the amended BBBEE codes, Massmart invested a total of R136 million, representing 3% of profit after tax, in Enterprise and Supplier Development projects during the period.

Our initial unverified estimate is that we will achieve a score of 65 under the amended codes, which will translate into a level 7 rating. We anticipate that this will be reduced to level 7 rating based on the view that we will not achieve the required minimum ownership threshold of 30% that is necessary to meet the new requirements.

Socio-economic development

Massmart’s Corporate Social Investment (CSI) is focused on school nutrition, early childhood development (ECD), and school maintenance and infrastructure, in which we aim to invest a minimum of 16% of PAT. In 2015, we broadened our focus to include food security as a critical component of food insecurity projects, whilst our CSI spend for the period amounted to R204 million, equivalent to 1.78% PAT.

CSI performance indicators

1.74% Total Massmart Group CSI spend as a % of profit after tax
20.0 in 2014, 21.0 in 2013, 22.0 in 2010, 23.0 in 2009

20.36 m Total Massmart Group contribution (Rm)
23.1 in 2014, 19.0 in 2013, 25.7 in 2012, 29.0 in 2011

20.78 m Total Massmart Group, suppliers and staff contributions (Rm)
24.2 in 2014, 32.7 in 2013, 45.2 in 2012, 46.1 in 2011

5.2 in 2014, 2.2 in 2013, 1.0 in 2012, 1.1 in 2011

6.0 in 2014, 3.8 in 2013, 0.5 in 2012, 0.6 in 2011

3.95 m Total Investment in early childhood developments (Rm)
7.3 in 2014, 5.2 in 2013, 12.0 in 2012, 14.0 in 2011

3.73 m Total Investment in Divisional discretionary projects (Rm)
3.3 in 2014, 4.3 in 2013, 5.5 in 2012, 10.8 in 2011

Group highlights

In 2015, Builders Warehouse invested a total of R5 million in education and school infrastructure projects. During the period, the Builders’ Build-A-Class project was successfully completed with a further six schools receiving classrooms, bringing the total number of classrooms built from the floor up through this project to 15, and more than 210 classrooms being renovated. We estimate that this project has benefited approximately 100,000 learners between the ages of 3 and 11.

Makro continued its long running partnership with HOPe Worldwide to support and upgrade ECD Centres that serve children in vulnerable communities. Over the period, Makro renovated a further four ECD centres in the programme and established 12 new parent support groups. Since the project’s inception, Makro has provided assistance to a total of 78 centres that benefit more than 3,800 young learners annually.

Game and Maccas together contributed a further 12 mobile kitchens in support of the Department of Basic Education’s School Feeding schemes, bringing the total number of kitchens provided by Game, the WalMart Foundation and Maccas to 20. These kitchens ensure the hygienic preparation and consumption of meals at schools that participate in the national School Nutrition Programme. We estimate that 40 million School’s School Nutrition Programme meals are prepared for approximately 200,000 primary school learners through Massmart-funded mobile kitchens each year.

Beyond the CSI contributions made by our Divisions, during the period, Massmart provided emergency relief support, including food aid, to people affected by the widespread flooding in Malawi, donating food and hygiene products to people displaced during the Xenophobic attacks in Johannesburg and Durban, and more recently, by providing 50,000 litres of water and water storage tanks to Free State and KwaZulu-Natal communities that have been impacted by water shortages.

Aligned with our expanded focus, we donated more than R29 million worth of surplus food to redistribution charities through the Game and Foodbank SA, Bridging stores and formed a national food donation agreement between Game, Foodbank SA, Builders, and Makro.

Feedback

1. CSI data is based on actual Group expenditure figures which have been internally audited.
2. Government beneficiaries include the Department of Basic Education, the South African National Business Trust, the South African Police Service, and various NGOs. The scope of the School nutrition and School maintenance projects is focused on enhancing the quality of education and maintaining basic educational facilities.
3. Investment in Divisional discretionary projects includes donations to Community Chest, Foodbank SA, and other charitable organisations.
Social and Ethics Committee report
for the year ended December 2015

The Massmart Social and Ethics Committee comprises the Massmart CEO and two non-Executive Directors. The Committee is chaired by an independent non-Executive Director. An independent external advisor, the Chief Ethics and Compliance Officer, the Group Corporate Affairs Executive, the Group General Counsel and the Group Human Capital Executive, attends meetings by invitation.

The Committee is governed by a charter and monitors Group performance in terms of defined Social and Ethics performance indicators that have been formulated with reference to Regulation 4(6) of the Companies Act.

These indicators, which include but are not limited to, OECD anti-corruption guidelines, United Nations Global Compact principles, the Employment Equity Act, Johannesburg Stock Exchange Socially Responsible Index criteria and Broad-Based Black Economic Empowerment elements, are reviewed by the Committee, on an annual and/or agenda basis.

The Committee met twice during the year ended December 2015, at which meetings performance in the following areas were reviewed, in response to the requirements of the Companies Act:

- JSE Socially Responsible Investment Index
- Anti-Corruption Compliance
- Consumer & Product Safety
- Human Capital Management
- Regulatory and Compliance Matters
- Stakeholder Relations
- Broad-Based Black Economic Empowerment (BBEE) and Socio-Economic Development
- Environmental Impact

These meetings were supplemented by regular management briefings to the Committee Chair regarding key topics including: Massmart Employee Engagement Survey Results; Equal Work for Equal Pay, Temporary Employment Services, Response to Updated BBEE Codes; Economic Freedom Fighters (EFF) Memorandum to Johannesburg Stock Exchange Limited, Fees Must Fall, Responsible Sourcing, Supply Chain Advocacy, Response to African Drought Conditions, Energy Efficiency and Renewable Energy Opportunities.

The Committee confirms that no material issues were identified by the Social and Ethics Committee during the period.

Phumzile Langeni
Chairman of the Social and Ethics Committee
1 April 2016

Phumzile Langeni
Chairman of the Social and Ethics Committee
1 April 2016

We present a deep in BBEE levels
At risk of the introduction of the
Amended Codes of Good Practice

Massmart: BBEE scores are calculated externally by Empowerhouse Economic Empowerment Rating Agency. These scores are based on actual staff numbers that existed. BBEE scores are calculated retrospectively, therefore the data appears to be based on the scorecard completed in February 2015 for the period January – December 2014.

In highly competitive retail market, it is imperative that we create and improve products and services which appeal to our customers.

In 2015...

What we did well:

- Makro online sales are growing rapidly, sales in the fourth quarter were double for the same period in 2014.
- The Private Label space in our food business is very exciting, we recently launched Makerside into Fresh, Bakkery and Butchery and the Equus brand into Health and Beauty.
- Massbuild's first two Price Lock campaigns saved customers R7 million in discounted pricing over the duration of each campaign.
- Sales lifted an average of 33% per campaign, showing customer satisfaction with this approach.
- Hoco's R100 promotions were very well received, and enjoyed 19.3% growth, saving our customers over R100 million.

The improvements we made:

- Makro Pick-up lockers have been extended to sites in the Cape and KwaZulu-Natal. Makro Commercial functionality (B2B) is showing a great response after it was live in 2015.
- Massbuild is initiating a SAP online project in Builders Warehouse to improve their offering to trade customers.

The challenges we're facing:

- Online shopping in the markets we serve has been relatively slow, however we remain committed to providing an online offering and are developing the supporting systems to support omni-channel as it ramps up.
eCommerce / Online
In order to remain relevant to a rapidly evolving and digitally connected Customer 2.0, Massmart must understand and stay in touch with the technology innovations impacting retail formats, and the increasingly complex omni-channel paths to purchase. We recognize that smartphone penetration and declining costs of bandwidth are creating a digitally connected customer that will be ubiquitous in every market segment we serve. For simplicity, the Internet and mobile phone have created new dimensions in retail that enable us to raise the bar on convenience, service, choice and communication.

To take advantage of the opportunity to win, serve and retain customers in new ways, we must embrace the new dimensions of retail, acquire new competencies and adapt existing assets. In order to retain and advance our leadership in the categories we trade, and market segments we serve, to this end we have spent time in various Walmart markets around the world to understand the context, trends, best practices and competency gaps impacting retail operations like ours, in order to inform our strategic choices. We have identified the need to evolve our formats to synthesise the physical and digital elements of retail, in ways that create compelling new value propositions for customers, and to align with our expectations of a digitally augmented shopping experience and new standards for convenience, choice and service.

Whilst the strategic choices and directions are clear, online shopping adoption in the markets we serve has been relatively slow. Consequently there is no urgent need to drive an online shopping agenda. We therefore have the time to develop important foundational competencies and implement new systems in a phased, omni-channel readiness. In support of this, all of our operating divisions have brought strong focus to the acquisition of these competencies and the development of supporting systems required to prepare their operations for omni-channel.

Highlights in the 2015 financial year included:
- Total online sales of R183 million
- Visits to DionWired site are up 13% and the average basket size is up 25%
- Makro online sales are growing rapidly. Sales in the fourth quarter were double those for the same period in 2014. They have now extended to include sites in the Ccape and KwaZulu-Natal. Commercial functionality (B2B) is showing a great response after it went live during November 2015.
- Massmart is trialing a store-based online ordering capability and
- Makro is trialing an SAP online project in Builders Warehouse to improve their offering to trade customers.

Private Label
Shared Private Label has always been an important focus for our business, as can be seen from the growth numbers across our Camp Master and Garden Master brands, as well as small scale equipment under the Trojan brand. We strive to drive excellence whether through product innovation, world-class social media or website platforms of which our customers cannot but wonder product range, but also engage directly with us, with our Camppmaster and Trojan health repair centres. We are on track to deliver against our target of 2,000

The Private Label space in our Food business is very exciting right now with the recent launch of Marksplace from Fresh, Bakery and Butchery and the Equate brand into Health and Beauty.

Shared Private Label has a dual role: it excites and delights our customers with an outstanding brand experience and it allows our business to leverage our strength in terms of joint buying and marketing to create brand loyalty, ultimately being able to bring our customer more for less. We are continually searching for new products, brands and initiatives that both fulfill our customers' needs and give Massmart Private Label a sustainable advantage.

Camp Master raised a total of R250,000 for the Rhino Action Group Effort (RAGE) through the sale of vehicle mirror sticks at selected Massmart stores. Camp Master matched the contributions from Game, Makro and Selects.

The R100 promotions
The 2015 R100 promotion ran during July and August. There were 31,300,000 deals across a number of categories. Food deals drove by far the most baskets and also units per basket. 11% of sales were from new launches, with the majority coming from General Merchandise, which accelerated growth in the category. The R100 deals accounted for 27% of all baskets in Makro over the period, up from 13.9% during 2014.
- 16.5 million baskets contained a R100 deal during the 2015 promo
- 14% R100 deals growth
- Saving to our customers of over R100 million
Massmart believes that the first steps towards good corporate governance must include embracing the requirements of the relevant governance and regulatory frameworks, as well as corporate best practice.
Corporate Governance

Our Chairman's corporate governance overview

Massmart believes that the first steps towards good corporate governance must be substantial. This includes the requirements of the relevant governance and regulatory frameworks, as well as corporate best practice. More than this, Massmart believes that sustainable and effective corporate governance is best demonstrated through a consistent pattern of doing the right things regardless of the circumstances.

I am pleased to report that Massmart has responded appropriately to these requirements.

Our assessment of the principles of King III

For the year ended December 2015, apart from the exceptions outlined below, the Board confirms that the Group complied with the Code of Governance Principles as set out in King III.

Not applicable

Principle 2.25: The Company remunerates its Directors and Executives fairly
Description: Non-Executive Directors’ fees comprise both a base fee and an attendance fee per meeting.
Our response: The Board does not believe that Directors should earn attendance fees in addition to a base fee. Many Directors add significant value and a portion of their value requires them to attend and work for a formal Board and Committee meetings, sometimes greater value than they might do within the confines of a formal meeting.

Partially applicable

Principle 3.6: The Audit Committee oversees integrated reporting
Description: The Audit Committee recommends to the Board to engage an external assurance provider on material elements of the sustainability reporting within the integrated report. The Audit Committee evaluates both the independence and quality of the external providers of assurance on sustainability.

Principle 9.5: Sustainability reporting and disclosure should be independently assured
Description: The integrated report discloses the scope and methodology of independent assurance of the sustainability report, as well as the name of the assure. Sustainability reporting is independently assured in accordance with a formal assurance process established.

Our response: Massmart’s sustainability report has not been audited by an external assurance provider in its entirety but of our key sustainability metrics (emissions data, B-BBEE, CSI and Consumer Protection), 100% have been audited by an independent provider, including Massmart’s internal assurance providers, including our B-BBEE, CSI and Consumer Protection data and MMOA. All reports have been performed through the following assurance providers: Moore Stephens conducts an independent audit of our emissions data, which includes all information provided in the Natural Capital Scorecard; Empowerment audits the information provided in our B-BBEE scorecard; and MIAA is responsible for the internal assurance of our B-BBEE and Consumer Protection data, through agreed upon procedures. A copy of the agreed upon procedures report is available at the registered offices of the Company.

Principle 8.6: The Board should ensure that disputes are resolved effectively and as expeditiously as possible
Description: The Board has adopted formal dispute resolution processes for internal and external disputes.
Our response: The Board does not have a formal dispute resolution process as it believes that the existing processes within the Group operate satisfactorily and do not require a separate mechanism. Massmart’s General Counsel is responsible for managing and advising the Board of significant disputes that arise within the Group. This individual acts as a mediator between the parties and ensures that the disputes are resolved through a fair and just process. The General Counsel reports to the Board all significant legal exposures and disputes within the Group.

Our Board

The Board of Massmart is responsible for directing the Group towards achieving Massmart’s vision and mission. The Board is therefore accountable for the development and execution of the Group’s strategy, operating performance and financial results, as well as being the custodian of the Group’s corporate governance.

The Board is accountable for the formulation of the Group’s strategy, operating performance and financial results, as well as being the custodian of the Group’s corporate governance.

The Board of Directors is accountable for setting the strategy, operating performance and financial results, as well as being the custodian of the Group’s corporate governance.
Board process and evaluation
The Board meets four times a year and on an ad hoc basis should a particular issue demand its attention. In addition, the Board meets annually to formally consider and approve the strategies of the Massmart Divisions and Group.

The Board's authority is devolved sequentially through the Massmart Executive Committee, the Divisional Boards and the Divisional Executive Committees, as formally prescribed by the Massmart Delegation of Authority (described below). In addition, the Board has delegated certain specific responsibilities to five Board Committees, described more fully on the page. These Committees assist the Board and Directors in discharging their duties and responsibilities under King III and the Delegation of Authority. Full transparency of the Committee's deliberations is encouraged and the minutes of all Committee meetings are included in the formal Board papers at the ensuing Board meeting. All Directors are welcome to attend any Board Committee meetings or Divisional Board meetings.

The Massmart Delegation of Authority describes the specific levels of authority and required approvals for all major decisions at both Group and Divisional levels. It clarifies which executive position, Committee or Board needs to be consulted prior to taking the decision, which body makes the decision and which bodies should thereafter be informed of the decision. Where appropriate, it includes Walmart's position on the decision. The Board has also adopted a policy which describes Walmart's access to the Massmart business. This policy is fully described on the Company's website under FAQ.

The Board works to a formal agenda that covers strategy, structure, operating performance, growth initiatives, sustainability, investor relations, risk and governance, and any other key activities of the Group. An annual agenda structure ensures that other areas including IT and compliance are addressed. Formal Board papers are prepared for every discussion item on the meeting agenda and are distributed in advance to Board members. Directors are encouraged to take independent advice at the Company's cost for the proper execution of their duties and responsibilities.

Directors have unrestricted access to any Executive, manager or employee in the Group. Annually, in October, the Nominations Committee facilitates a comprehensive formal performance evaluation of the CEO, comprising a questionnaire evaluating the CEO by every non-Executive Director, and an appraisal of the CEO by each of his direct reports using a different questionnaire. The Board Chairman provides the summary and feedback of the above to the CEO, and he is encouraged to probe and debate any aspect of the evaluation with the Board.

At the same time, all Board members and permanent invitees complete a detailed Board self-assessment, covering the composition, duties, responsibilities, process and effectiveness of the Board. Similarly, all Board Committee members and permanent invitees complete detailed self-assessments covering the same aspects of their Committees. The results of these assessments are collated by the Company Secretary and sent in summarised form to the respective Board and Committee Chairpersons for discussion and review by that Committee. The summarised results are included in the Board papers at the November meeting.

Finally, all Board members formally assess the Chairman's performance. The Deputy Chairman provides feedback from this process to the Chairman. Assessments are approached in a constructive manner and provide valuable input that enhances the effectiveness of the Chairman, the Board and its Committees.

Our Executive Committee
In 2015 the Executive Committee was chaired by the CEO (Andy Clavane) and comprised the CFO (Kamasi van Heerden), the Group Human Capital Executive (James Bouwman), the Group Ethics and Compliance Officer (Norman Gray), the Group Financial Services Executive (Graham Hayes), the Group Corporate Affairs Executive (David Liebenberg), the Group Divisional Chief Executives (Nyle Henneke, Mark Jones, Kevin Vuyan), Chief Financial Officer (Mike Slepecky) and the Group Executive (Llewellyn Steynberg).

The CEO and CFO are the most senior Executive decision-making executives in the Group. With the help of the Committee they deliberate, take decisions or make recommendations on all matters of strategy and operations. Within the parameters described by the Board-approved Delegation of Authority, 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 the CEO and CFO.

The Executive Committee assists the CEO and CFO with specific responsibilities, inter alia:
- monitoring and measuring the structures, trends and performance of markets and customers.
- strategic planning.
- defining, configuring, financing and structuring the Group's portfolio of assets.
- shaping and approving the competitive strategy, growth and operating plans and budgets of the Divisions and functional departments.
- monitoring, measuring and taking proactive corrective action on Divisional performance.
- ensuring adequate risk management, internal controls, governance, compliance and ethical behaviour throughout the Group.
- shaping and approving succession plans and senior executive management appointments.

Our Company Secretary
The Board is comfortable that it meets the King III principle of having an arm's length relationship with the Company Secretary and confirms that the Company Secretary is not a Director or any of the main operating companies within the Group. Based on the outcome of a formal assessment of the Company Secretary, which was completed by the Chairman of the Board, the CEO and the Chairman of the Audit Committee, the Board confirms that it has assessed and is happy with the qualifications, competence and expertise of the Company Secretary, Philip Slepecky, CASA.

The Company Secretary assists the Board in fulfilling its functions and is empowered by the Board to perform its duties. The Company Secretary, directly or indirectly:
- assists the Chairman, CEO and CFO with the induction of new Directors;
- assists the Board with Director orientation, development and education;
- ensures that the Group complies with all legislation applicable/relevant to it;
- monitors the legal and regulatory environment and communicates new legislation and any changes to existing legislation, relevant to the Board and the Divisions;
- provides the Board with a central source of guidance and assistance.
Our Board Committees

**Nomination Committee**
Meets 4 times per year
- Assessment, recruitment, and appointment of new Executive and non-Executive Directors.
- Making recommendations as to the composition of the Board.
- Formulating succession plans for the approval of the Board for the appointment of new Executive and non-Executive Directors, including the Chairman, CEO, and the Group's Executives.
- Elected by the Board.
- CS Seabrooke
- E Nwagwe
- P Langeni
- L van Lierop
- N Gray
- D Moodley
- M Spivey

**Remuneration Committee**
Meets 4 times per year
- Designing, monitoring, and communicating the Group's remuneration policies.
- Considering and approving Executive remuneration including short- and long-term incentives.
- CS Seabrooke
- K Dlamini
- E Nwagwe

**Social and Ethics Committee**
Meets twice per year
- Assists the Board with its responsibility towards sustainability with respect to practices that are consistent with good corporate citizenship.
- Considers the Group's standing in terms of consumer relationships, with particular attention to the United Nations Global Compact Principles and the OECD recommendations concerning corruption.
- Ensuring the Group's contribution to the social and economic development of our communities.
- Monitoring the Group's activities relating to labour and employment, the environment, health and public safety, and consumer relationships.
- P Langeni
- G Hayward
- J Bruns

**Audit Committee**
Meets 2 times per year
- Overseeing the effectiveness of the Group's internal control systems.
- Reviewing the scope and effectiveness of the external and internal audit functions.
- Ensuring that adequate accounting records have been maintained.
- Ensuring the appropriate accounting policies have been adopted and consistently applied.
-Overseeing the quality and integrity of the Annual Financial Statements.
- Testing that the Group's going-concern assumption is appropriate.
- CS Seabrooke
- N Nwagwe
- P Langeni

EXECUTIVE COMMITTEE
Meets monthly
Assist the CEO and CFO in deliberating and taking decisions on matters affecting Group strategy, growth, performance, operations, including risk management, and Executive and senior management succession.
- G Hayward
- L van Lierop
- J Bruns
- N Nwagwe
- N Gray
- D Moodley
- M Spivey
- R Wright
- K Vuyanu-Dial
- L Wolters

Board and Committee attendance

The table below reflects the Board members' attendance at the meetings for the year ended December 2015.

<table>
<thead>
<tr>
<th>Board Members</th>
<th>Board</th>
<th>ACM</th>
<th>Audit</th>
<th>Risk</th>
<th>Nominations</th>
<th>Remuneration</th>
<th>Social and Ethics</th>
</tr>
</thead>
<tbody>
<tr>
<td>K Dlamini</td>
<td>4/4</td>
<td>1/1</td>
<td></td>
<td>-</td>
<td>4/4</td>
<td>4/1</td>
<td></td>
</tr>
<tr>
<td>CS Seabrooke</td>
<td>4/4</td>
<td>1/1</td>
<td>3/3</td>
<td>2/2</td>
<td>4/4</td>
<td>4/1</td>
<td></td>
</tr>
<tr>
<td>J Bruns</td>
<td>3/3</td>
<td>1/1</td>
<td></td>
<td>-</td>
<td>3/3</td>
<td>3/3</td>
<td></td>
</tr>
<tr>
<td>N Gray</td>
<td>4/4</td>
<td>1/1</td>
<td>3/3</td>
<td>2/2</td>
<td>4/4</td>
<td>4/1</td>
<td></td>
</tr>
<tr>
<td>L van Lierop</td>
<td>3/3</td>
<td>1/1</td>
<td>2/2</td>
<td>1/1</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>J Bruns</td>
<td>3/3</td>
<td>1/1</td>
<td>3/3</td>
<td>2/2</td>
<td>4/4</td>
<td>4/1</td>
<td></td>
</tr>
<tr>
<td>P Langeni</td>
<td>4/4</td>
<td>1/1</td>
<td>1/1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>L van Lierop</td>
<td>3/3</td>
<td>1/1</td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>P Langeni</td>
<td>4/4</td>
<td>1/1</td>
<td>3/3</td>
<td>2/2</td>
<td>4/4</td>
<td>4/1</td>
<td></td>
</tr>
</tbody>
</table>

**Management**

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Board</th>
<th>ACM</th>
<th>Audit</th>
<th>Risk</th>
<th>Nominations</th>
<th>Remuneration</th>
<th>Social and Ethics</th>
</tr>
</thead>
<tbody>
<tr>
<td>J Bruns</td>
<td>Group Human Capital Executive</td>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>N Gray</td>
<td>Chief Ethics and Compliance Officer</td>
<td></td>
<td>1/1</td>
<td>3/3</td>
<td>2/2</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>L van Lierop</td>
<td>Group Corporate Affairs Executive</td>
<td></td>
<td>1/1</td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>D Moodley</td>
<td>Chief Audit Executive</td>
<td></td>
<td></td>
<td>3/3</td>
<td>2/2</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>M Spivey</td>
<td>General Counsel</td>
<td>4/4</td>
<td>1/1</td>
<td>3/3</td>
<td>2/2</td>
<td>4/4</td>
<td>4/1</td>
<td></td>
</tr>
</tbody>
</table>

*Chairman

*Managerial

*Elected with effect from 31 December 2015 and as such was only invited to meetings prior to that date in the 2015 financial year

*Announced with effect from 1 September 2015 and as such was only invited to meetings prior to that date in the 2015 financial year

*Resigned with effect from 1 March 2016 and as such was only invited to meetings prior to that date in the 2016 financial year

*Elected with effect from 24 February 2016 and as such was not invited to meetings in the 2016 financial year

No. of meetings: 4 1 3 2 4 4 4 2
Notice is hereby given that the Annual General Meeting of holders of all classes of shares of the Company will be held on Thursday, 26 May 2016 at 09h00 at Massmart House, 16 Peltier Drive, Sunninghill Ext 6, Sandton.
Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of holders of all classes of shares of the Company will be held on Thursday, 25 May 2016 at 09.00 at Massmart House, 10 Pheonix Drive, Sunninghill Ext 6, Sandton, for purposes of:

1. Transacting the following business:
   a. Reappointing the following members of the Board of Directors:
      i. Mr. P. A. Kuyvenhoven
      ii. Mr. P. J. Niederer
   b. Reappointing the following members of the Audit Committee:
      i. Mr. A. G. Van der Merwe
      ii. Mr. P. J. Niederer
   c. Ratifying the resignation of Mr. H. J. Ackermann from the Board of Directors and the Audit Committee
   d. Determining the remuneration of the Directors for the financial year ending 30 December 2015
   e. Approving the financial statements of the Company for the financial year ending 30 December 2015
   f. Approving the audited consolidated Annual Financial Statements of the Company and the subsidiaries for the year ended 30 December 2015
   g. Approving the Directors' report and Independent Auditors' report
   h. Approving the Social and Ethics Committee report
   i. Electing Directors in the place of those resigning and in accordance with the Bye Laws of the Company
   j. Proposing the payment of a final dividend of 40 cents per share
   k. Proposing an increase of the authorised share capital of the Company
   l. Cessation of the Share Registry of the Company

Ordinary business

The audited consolidated Annual Financial Statements of the Company and the subsidiaries for the year ended 30 December 2015, the Directors' report and Independent Auditors' report, and the Social and Ethics Committee report for the year ended 30 December 2015, circulated together with this Notice of Annual General Meeting, are presented to the shareholders for their consideration.

Ordinary resolutions

Ordinary Resolution Number 1

Resolved that Rababjane Mosimane Kgosana, who retires due to him having been appointed during the applicable year and has offered himself for re-election, be and is hereby re-elected to the Board of Directors of the Company.

Ordinary Resolution Number 2

Resolved that Enrico Castelli, who retires due to his having been appointed during the applicable year and has offered himself for re-election, be and is hereby re-elected to the Board of Directors of the Company.

Ordinary Resolution Number 3

Resolved that Chris Seabrooke, who retires by rotation and has offered himself for re-election, be and is hereby re-elected to the Board of Directors of the Company.

Ordinary Resolution Number 4

Resolved that Ernst & Young Inc. (with Mr.Allister Jon Carraher as the Audit Partner) be and are hereby elected as the Company's external auditors for the ensuing financial year to hold office until the Company's next Annual General Meeting, as approved by the Audit Committee and recommended to shareholders.

Ordinary Resolution Number 5

Resolved that the following persons be and are hereby appointed, each by way of a separate vote, as members of the Audit Committee:

5.1 Chris Seabrooke (Chairman)
5.2 Lulu Gwagwa
5.3 Rababjane Mosimane Kgosana
5.4 Phumzile Langeni

"Subject to their re-election as Directors pursuant to ordinary resolution number 1 and number 3.5, in terms of the Act, more than 50% of the voting rights exercised on each of the resolutions must be cast in favour of ordinary resolution numbers 3.1, 3.2, 3.3 and 3.4 for such resolutions to be adopted.

Ordinary Resolution Number 6

Resolved that, subject to the JSE Limited Listings Requirements (JSE Listings Requirements), the Directors be and are hereby authorised to issue ordinary shares in the authorised but unissued shares of the Company for issue under the existing rights, options or convertible securities convertible into ordinary shares for cash to such persons or entities on such terms and conditions as they may deem fit, subject to the following:

6.1 the securities shall be of a class already in issue, or convertible into a class already in issue;
6.2 the securities 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;
6.3 the issues in the aggregate under the authority of this resolution during the period in which this resolution is in force shall not exceed 5% of the number of securities of that class already in issue at the date of this notice of Annual General Meeting, being 317,136,334 ordinary shares, determined in accordance with the relevant provisions of the JSE Listings Requirements, provided that:
6.3.1 any equity securities issued under the authority of this resolution during the period contemplated in 6.3 below must be deducted from such number in 6.3 above, and
6.3.2 in the event of a subdivision or consolidation of the issued equity securities during the period contemplated in 6.3 above, the existing authority must be adjusted accordingly to represent the same allocation ratio.
6.4 the maximum discount at which the shares may be issued shall be 10% of the weighted average traded price of the shares of the Company measured over the 30 business days prior to the date that the price of the issue is agreed upon between the Company and the party subscribing for the shares or, if no shares of the Company have been traded in that period, subject to a ruling by the JSE;
6.5 the authority hereby granted shall be valid until the Company's next Annual General Meeting or for 12 months from the date of this special resolution, whichever period is shorter;
6.6 once shares are traded in the aggregate in any one financial year shall not exceed 15% of that class of the Company's share capital.
6.7 the repurchase of shares will be affected 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 counterparty.
6.8 the Company may only appoint one agent, at any point in time, to effect the repurchases on the Company's behalf.
6.9 neither the Company nor its subsidiaries may repurchase shares during a pre-notified period (as defined in the JSE Listings Requirements) unless a repurchase programme is in place where the dates and quantities of shares to be traded during the relevant period are fixed (not subject to any variation) and has been submitted to the JSE in writing prior to the commencement of the prohibited period. The Company will instruct an independent third party, which makes its investment decisions in reliance to the Company's securities independently of, and uninfluenced by, the Company, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE.

Pursuant to the JSE Listings Requirements, the Company will only be entitled to implement the general authority to allot and issue ordinary shares for cash if the ordinary resolution number 6 is passed by a majority of 75% or more of the votes cast by all shareholders present or represented by proxy at the Annual General Meeting, excluding any votes cast by the Massmart Holdings Limited Employee Share Trust.

Ordinary Resolution Number 7

Resolved that, by way of a non-binding advisory vote, the remuneration policy of the Company, as outlined in the Remuneration Report on pages 92 to 105 of the Integrated Annual Report, is endorsed.

As this is a non-binding advisory vote, no minimum threshold is required. Nevertheless, for record purposes, in terms of the King Report on Governance for South Africa (King III) more than 50% of the voting rights exercised on this resolution must be cast in favour of the resolution.

The non-binding advisory vote allows shareholders to express their views on the remuneration policies adopted by the Company and the implementation of those policies.

Special resolutions

Special Resolution Number 1

Resolved, as a special resolution, that the Company and/or its subsidiaries be and are hereby authorised to generally repurchase the ordinary and/ or preference shares in the issued shares of the Company from such shareholders, at such price, in such manner and subject to such terms and conditions as the Directors may deem fit, but subject to the Memorandum of incorporation of the Company, the Act and the JSE Listings Requirements, provided that:

1.1 the authority hereby granted will be valid until the Company's next Annual General Meeting or for 12 months from the date of this special resolution, whichever period is shorter;
1.2 repurchases may not be made at a price greater than 10% above the weighted average market price for the shares determined in respect of 20 business days immediately preceding the date on which such repurchase is effected for.
1.3 repurchases in the aggregate in any one financial year shall not exceed 15% of that class of the Company's share capital.
1.4 the repurchase of shares will be affected 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 counterparty.
1.5 the Company may only appoint one agent, at any point in time, to effect the repurchases on the Company's behalf.
1.6 neither the Company nor its subsidiaries may repurchase shares during a pre-notified period (as defined in the JSE Listings Requirements) unless a repurchase programme is in place where the dates and quantities of shares to be traded during the relevant period are fixed (not subject to any variation) and has been submitted to the JSE in writing prior to the commencement of the prohibited period. The Company will instruct an independent third party, which makes its investment decisions in reliance to the Company's securities independently of, and uninfluenced by, the Company, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE.
Notice of Annual General Meeting continued

1.7 An announcement complying with paragraph 11.27 of the JSE Listings Requirements will be published by the Company when the Company and/or its subsidiaries have cumulatively repurchased 3% of the Company's initial number of issued ordinary and/or preference shares at the time that the general authority from shareholders is granted and for each 3% in aggregate of the initial number of that class acquired thereafter, and

1.8 A resolution by the Board of Directors that it authorizes such repurchase, that the Company and/or its subsidiaries have paid the solvency and liquidity test as described in Sections 4 and 6 of the Act and that the application by the Board of Directors of the solvency and liquidity test, there have been no material changes to the financial position of the Group, has been passed.*

Statement by the Board of Directors

In accordance with the JSE Listings Requirements, the Directors state that:

(a) the remuneration of the Directors is to abide by the authority given under special resolution number 1 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 and preference shares that may be acquired pursuant to the authority given under special resolution number 1, the Company and the Group will be in an orderly manner of business, be able to pay its dividends for a period of 12 months after the date of this notice of Annual General Meeting;

(c) the Board of Directors will be in excess of the requirements of the Company and the Group for a period of 12 months after the date of this notice of Annual General Meeting, each issue and liabilities being recognised and measured in accordance with the accounting policies used in the Annual Financial Statements of the Company and the Group for the year ended December 2015;

(d) the share capital and reserves of the Company and the Group will be adequate for ordinary business purposes for a period of 12 months after the date of this notice of Annual General Meeting; and

(e) the working capital available to the Company and the Group will be available for ordinary business purposes during the period of 12 months from the date of this notice of Annual General Meeting.

The general authority to repurchase the ordinary and/or preference shares is issued the Company is limited to 11.1 to 14.1 above.

The following additional information, which appears in the integrated Annual Report of which this notice of Annual General Meeting forms part, is provided in terms of the JSE Listings Requirements for purposes of special resolution number 1:

- major shareholders – page 69;
- material changes – page 132;
- share capital of the Company – page 64; and
- related party statements – page 132.

The Directors, whose names are set out on pages 14 to 35 of the integrated Annual Report, collectively and individually, accept responsibility for the accuracy of information contained in and/or included in this statement.

The omission of which would make any statement false or misleading and that they have made all reasonable inquiries in this regard.

*The following facts and developments reported in the Integrated Annual Report, to which this notice of Annual General Meeting is attached, there have been no material changes in the financial or trading position of the Company and its subsidiaries since the publication of the audited consolidated Annual Financial Statements for the year ended December 2015:

In terms of the Act, at least 75% of the voting rights exercised on this resolution must be cast in favour of special resolution number 1 in order to be adopted.

Special Resolution Number 2

Resolved, as a special resolution, that the following Directors' remuneration (payable to the non-Executive Directors for services to be provided by them in their capacities as such, be and hereby approved, each by way of a separate vote, for the period commencing on 27 May 2016 to the date of the Company's next Annual General Meeting.

2.1 Chairman of the Board

Chairman of the Board: 1,172,000

2.2 Deputy Chairman of the Board

Deputy Chairman: 660,000

2.3 Independent non-Executive Directors

Independent non-Executive Directors: 350,000

2.4 Audit and Risk Committee Chairman

Audit and Risk Committee Chairman: 267,000

2.5 Other Committee Chairmen

Other Committee Chairmen: 252,000

2.6 Committee Members

Committee Members: 128,000

In terms of the Act, at least 75% of the voting rights exercised on each of these resolutions must be cast in favour of special resolution number 2, 2.1, 2.2, 2.3, 2.4, 2.5 and 2.6 for such resolutions to be adopted.

The Remuneration Report for the year ended December 2015 can be found on pages 92 to 105 of the Integrated Annual Report.

Special Resolution Number 3

Resolved, as a special resolution, to the extent required in terms of, and subject to, the provisions of, section 45 of the Act, that the shareholders hereby approve of the Company providing, at any time and from time to time during the period of 2 years commencing on the date of this special resolution, any direct or indirect financial assistance as contemplated in section 45 of the Act to any one or more related or inter-related companies or corporations of the Company and/or to any one or more of such related or inter-related companies or corporations or and/or to any one or more persons related to the Company or any corporation, provided that any such financial assistance shall not in the aggregate exceed an amount of R10 billion in any financial year.

The Special Board Resolution will be effective only if and to the extent that special resolution number 3 is adopted by the shareholders, and the provision of any such direct or indirect financial assistance by the Company, pursuant to such resolution, will always be subject to the Board of Directors being satisfied that (i) immediately after providing such financial assistance, the Company will satisfy the solvency and liquidity test as referred to in section 43(3)(b) of the Act, and that (ii) the terms under which such financial assistance is to be given are fair and reasonable to the Company as referred to in section 43(3)(a) of the Act.

As much as the Section 45 Board Resolution contemplates that such financial assistance will in aggregate exceed one-twentieth of the Company's net worth at the date of adoption of such resolution, the Company hereby provides notice of the Section 45 Board Resolution to shareholders. Such notice will also be provided to any trade union representing any employees of the Company.

General

Identification, voting and proxies

Shareholders are entitled to attend, speak and vote at the Annual General Meeting.

In terms of section 62(1) of the Act, any person attending or participating in the Annual General Meeting must present reasonably satisfactory identification and the person presiding at the Annual General Meeting must be reasonably satisfied that the right of any person to participate in and vote (whether as a shareholder or as proxy for a shareholder) has been reasonably verified.

Forms of identification include valid identity documents, driver's licences or passports.

Shareholders holding dematerialised shares, but not in their own names, must ensure that the Central Securities Depository Participant (CSDP) or broker, with their instructions for voting at the Annual General Meeting, if your CSDP or broker, as the case may be, does not obtain instructions from you, you will be considered to act in accordance with your mandate furnished to it, if the mandate is silent in this regard, complete the form of proxy attached.
Unless you advise your CSDP or broker, in terms of the agreement between you and your CSDP or broker by the cut-off time stipulated therein, that you wish to attend the Annual General Meeting or send a proxy to represent you at the Annual General Meeting, your CSDP or broker will assume that you do not wish to attend the Annual General Meeting or send a proxy.

If you wish to attend the Annual General Meeting or send a proxy, you must request your CSDP or broker to issue the necessary letter of authority to you. Shareholders holding dematerialised shares, are unable to attend the Annual General Meeting and wish to be represented, must complete the form of proxy attached in accordance with the instructions therein and lodge it with or mail it to the transfer secretaries, Computershare Investor Services Proprietary Limited (Computershare).

A form of proxy (which is attached) must be dated and signed by the shareholder appointing a proxy and should be forwarded to Computershare no later than 9:00am on Tuesday, 24 May 2016. Before a proxy exercises any rights of a shareholder at the Annual General Meeting, such form of proxy must be delivered.

In compliance with the provisions of section 58B(6) of the Act, a summary of the rights of a shareholder to be represented by proxy, as set out in section 58 of the Act, is set out immediately hereunder:

- A shareholder entitled to attend and vote at the Annual General Meeting may appoint any individual (or two or more individuals) as a proxy or as proxies to attend, participate in and vote at the Annual General Meeting on behalf of the shareholder.
- A proxy need not be a shareholder of the Company.
- A proxy appointment must be in writing, dated and signed by the shareholder appointing a proxy and, subject to the rights of a shareholder to revoke such appointment (as set out below), remains valid until the end of the Annual General Meeting.
- A proxy may delegate the proxy's authority to act on behalf of a shareholder to another person, subject to any restrictions set out in the instrument appointing the proxy.
- The appointment of a proxy is revocable by the shareholder in question cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to Computershare, to the Company and to Computershare. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the date of the date stated in the revocation instrument, if any, or if the date stated in the revocation instrument is not stated, as of the date Computershare receives the revocation instrument as required in the first sentence of this paragraph.
- If the instrument appointing the proxy or proxies has been delivered to Computershare, as long as that appointment remains in effect, any notice that is required by the Act or the Company's Memorandum of Incorporation to be delivered by the Company to the shareholder, must be delivered by the Company to (i) the shareholder or (ii) the proxy or proxies, if the shareholder has directed the Company to do so in writing and (b) paid any reasonable fee charged by the Company for doing so.

Attention is also drawn to the 'Notes to the form of proxy', 'The completion of a form of proxy does not preclude any shareholder from attending the Annual General Meeting.'

Shareholders may participate (but not vote electronically) in the Annual General Meeting. Shareholders wishing to participate in the Annual General Meeting electronically should contact the Assistant Company Secretary on info@massmart.co.za or +27 11 517 0030 not less than five business days prior to the Annual General Meeting and are required to provide identification reasonably satisfactory to the Assistant Company Secretary for purposes of verifying that shareholders' right to participate. Access to the Annual General Meeting by way of electronic participation will be at the shareholder's expense. Only physically present at the Annual General Meeting or represented by a valid proxy shall be entitled to casts to vote on any matter put to a vote of shareholders.

By order of the Board

Philip Sigsworth
Company Secretary
1 April 2016
Notes to the form of proxy

1. A form of proxy is only to be completed by those shareholders who are:
   1.1 holding shares in certificated form or
   1.2 recorded on the sub-register of the Company in dematerialized electronic form in
       "own name" on the record date for attending, participating and voting at the Annual
       General Meeting.

2. If you have already dematerialised your 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
   between yourself and your CSDP or broker.

3. A shareholder may insert the name of a proxy or the names of alternative proxies of the
   shareholder's choice in the spaces provided, without or without deleting "the Chairman
   of the Annual General Meeting" but any such deletion must be initialed by the shareholder.
   The person whose name stands first on this form of proxy and who is present at the
   Annual General Meeting will be entitled to act as proxy to the exclusion of those whose
   names follow.

4. Please insert an 'X' in the relevant space according to how you wish your votes to be cast.
   However, if you wish to cast your votes in respect of a lesser number of shares than you
   own in the Company, insert the number of shares held in respect of which you wish to
   vote. 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 shareholders' votes exercisable at the Annual General Meeting. A shareholder or his/
   her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her
   proxy, but the total of the votes cast and in respect of which an abstention is recorded
   may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.

5. Forms of proxy must be received by the transfer secretaries, Computershare Investor
   Services Proprietary Limited (Computershare), Ground Floor, 70 Marshall Street,
   Johannesburg, 2001 (PO Box 61655, Marshalltown 2107) by no later than 09h00 on Tuesday,
   24 May 2016.

6. The completion and lodging of this form of proxy will not preclude the relevant
   shareholder from attending the Annual General Meeting and speaking and voting in
   person at such meeting to the exclusion of any proxy appointed in terms of this form
   of proxy.

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 Computershare or waived by the Chairman of the Annual
   General Meeting.

8. Any alterations or corrections made to this form of proxy must be initialed by the
   signatory/ies.

9. A minor must be assisted by his/her parent or guardian unless the relevant documents
   establishing his/her legal capacity are produced or have been registered by
   Computershare.

10. The Chairman of the Annual General Meeting may accept any form of proxy which is
    completed other than in accordance with these notes if the Chairman is satisfied as to
    the manner in which the shareholder wishes to vote.

11. If any shares are jointly held, the first name appearing in the register shall, in the event
    of a dispute, be taken as a shareholder.

Transfer secretaries
Computershare Investor Services Proprietary Limited
Ground Floor
70 Marshall Street
Johannesburg, 2001
PO Box 61655, Marshalltown 2107
Telephone: 011 370 5000
Call Centre: 086 110 0918

Massmart + Walmart
Massmart + Walmart

www.massmart.co.za
www.massmart.co.za/iar2015

Massmart values your feedback
Do you have any questions or suggestions regarding Massmart’s Integrated Annual Report 2015?
Email feedbackIR2015@massmart.co.za
BABY PROMOTION

- Johnson's Baby Wipes
  3 x 265s
  265.73

- Johnson's Baby Oil
  6 x 125ml
  131.33

- Johnson's Petroleum Jelly
  6 x 325ml
  137.35

- Johnson's Aqueous Cream Baby
  6 x 350ml
  131.33

- Benylin Cough Syrup Children's
  6 x 100ml
  185.36

- Benylin Cough Syrup Children's
  6 x 50ml
  131.56

All products available in selected stores. Prices and promotional periods subject to change without notice.
PROMOTIONAL PRICES VALID FROM 20 JULY 2016 – 20 AUGUST 2016 OR WHILE STOCKS LAST

3 FOR 110.00

3 FOR 100.00

3 FOR 100.00

4 FOR 100.00

5 FOR 100.00

2 FOR 100.00

3 FOR 100.00

4 FOR 100.00

4 FOR 50.00

3 FOR 50.00

4 FOR 50.00

4 FOR 50.00

4 FOR 100.00

PLASTIC BOWL

PLASTIC BOWL

47CM

3 FOR 199.99

199.99 each

99.99 each

98.99 each

84.99 each

31.99 each

79.99 each

79.99 each

SUNSTAR

5 each

ARIEL AUTO

WASHING

POWDER

SPEKKO

RICE 10KG

ROYAL RICE 10KG

SHAYA MAIZE MECAL

MAIZE 12KG

MAZI

SPEKKO

ARIEL

All quoted prices are in South African Rand and inclusive of VAT unless otherwise stipulated.
<table>
<thead>
<tr>
<th>Item</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper Satin Brick Per Pallet 500 each</td>
<td>2549.00</td>
</tr>
<tr>
<td>Cement Brick Maxi Per Pallet 250 each</td>
<td>1099.00</td>
</tr>
<tr>
<td>PPC Cement 42.5N 50KG each</td>
<td>80.00</td>
</tr>
<tr>
<td>Jojo Water Tank 2500L each</td>
<td>2999.00</td>
</tr>
<tr>
<td>Brickforce 1.8mm/15m 75mm each</td>
<td>13.00</td>
</tr>
<tr>
<td>Diamond Mesh Wire 1200x75x1.8mmx30m each</td>
<td>395.00</td>
</tr>
<tr>
<td>2 Panel Aluminium Sliding Door Natural / Bronze 2.4m x 2.1m</td>
<td>2699.00</td>
</tr>
<tr>
<td>Sapelo Printed Wood Door 813mm x 2032mm each</td>
<td>269.00</td>
</tr>
<tr>
<td>Economy Concrete Wheelbarrow each</td>
<td>299.00</td>
</tr>
</tbody>
</table>
Notice CT1 (2)
About this Form

This form is issued in terms of section 51 of the Competition Act.

Within 3 business days of filing this notice, you must serve a copy of it on the respondent and any other person who has previously filed a Complaint Referral in the matter.

Unless this is a consent proceeding, the respondent may answer this referral within 20 business days after being served this referral.

If the answer raises only a point of law, it must set out the question of law to be resolved. Any answer must be in affidavit form, setting out in numbered paragraphs:

(a) a concise statement of the grounds on which the Complaint is opposed;
(b) an admission or denial of each ground and of each material fact relevant to each ground set out in the Complaint Referral;
(c) an admission or denial of each ground and of each material fact relevant to the matters set out in the Complaint Referral,

An allegation of fact set out in the Complaint Referral that is not specifically denied or admitted in an answer will be deemed to have been admitted.

Please see Competition Tribunal Rules 34 through 19.

Form continues on Page 2.

Contacting the Tribunal

The Competition Tribunal
Private Bag X24
Sunnyside
0132
Republic of South Africa
tel: 27 12 394 3300
fax: 27 12 394 0169
e-mail: ctsa@comptrib.co.za

This form is prescribed by the Minister of Trade and Industry in terms of section 27 (2) of the Competition Act 1998 (Act No. 89 of 1998).

Referral of Complaint by Complainant

Date: 9 June 2015

From:

(Name and address of Complainant):
Massmart Holdings Limited

To: The Registrar of the Competition Tribunal, and:

(Name of respondent and if applicable other participants):
Shoprite Checkers Proprietary Limited, Pick 'n Pay Retailers Proprietary Limited, Spar Group Limited and SAPOA

Concerning:

(Commission file number):
2014Oct0612

The Competition Commission received a complaint against the above named respondent on: 31-Oct-2014.

Upon completing its investigation, the Competition Commission issued a Certificate of Non-Referral on 12-May-2015.

In terms of section 51(1) of the Competition Act, the Complainant alleges that the Respondent contravened the provisions of the Competition Act, sections 5 and 8 by engaging in the following prohibited conduct:

(Concise statement of the alleged prohibited practice):

Please refer to the Founding Affidavit and supporting documents annexed hereto.
Referral of Complaint by Complainant

In terms of section 51(1) of the Competition Act, the Party named above seeks an order granting the following relief:

(Concise statement of the order or relief sought:)

Please refer to the Notice of Motion annexed hereto

Complainant’s Address for Service

The Complainant will accept service of any document in terms of this complaint at any of the following addresses:

(Provide Name of Contact person, Postal and Physical addresses, Telephone Number, Fax Number and email address, if available.)

Cliffe Dekker Hofmeyr Inc
Attorneys for Massmart Holdings Limited
1 Protea Place, Sandown, Sandton, 2196
Private Bag X40, Benmore, 2010
011 562 1053 / 011 562 1653 / chris.charter@dlacdh.com
Chris Charter

☐ This referral is to proceed as a consent proceeding.

☐ This referral is to proceed as a contested proceeding. Attached is an affidavit setting out the grounds of this complaint, and a statement of the material facts and the points of law relevant to it, as required by Competition Tribunal Rule 15(2).

Name and Title of person authorised to sign:

Chris Charter (Attorney for Massmart Holdings Limited)

Authorised Signature: ___________________________ Date: 09-Jun-2015

This form is prescribed by the Minister of Trade and Industry in terms of section 27 (2) of the Competition Act 1998 (Act No. 89 of 1998).
IN THE COMPETITION TRIBUNAL OF SOUTH AFRICA

CASE NO:

In the matter between:

MASSMART HOLDINGS LIMITED

and

SHOPRITE CHECKERS PROPRIETARY LIMITED

PICK 'N PAY RETAILERS PROPRIETARY LIMITED

SPAR GROUP LIMITED

SOUTH AFRICAN PROPERTY OWNERS ASSOCIATION

Applicant

First Respondent

Second Respondent

Third Respondent

Fourth Respondent

NOTICE OF MOTION

TAKE NOTICE THAT Massmart Holdings Limited ("Applicant") intends to make an application to the Competition Tribunal in terms of section 51(1) of the Competition Act, No 89 of 1998 ("Act") on a date and time to be arranged seeking the following -

1 in terms of section 58(1)(a)(i) of the Act, interdicting the First to Third Respondents from including in any lease agreement, or requiring the inclusion in any lease agreement of, a provision in terms of which an exclusive entitlement to conduct any particular kind of commercial activities at the relevant premises is conferred upon any of the First to Third Respondents, as contemplated in sections 5(1), 8(c) and 8(d)(i) of the Act;

2 in terms of section 58(1)(a)(v) of the Act, declaring the conduct of the First to Third Respondents to be a prohibited practice;

3 in terms of section 58(1)(a)(vi) of the Act, declaring all existing exclusivity clauses contained in lease agreements concluded by and in favour of the First Respondent, Second Respondent or Third Respondent to be null and void;

4 directing the First to Third Respondents to pay the Applicant's costs of this application; and

5 granting the Applicant such further and/or alternative relief as the Competition Tribunal may deem fit.
TAKE FURTHER NOTICE THAT the founding affidavit of PIERRE PETRUS JOHANNES HATTINGH annexed hereto will be used in support of this application.

TAKE FURTHER NOTICE THAT the Applicant has appointed Cliffe Dekker Hofmeyr Inc, at 1 Protea Place, Corner of Fredman and Protea Place, Sandton, Johannesburg, 2196, as the address at which it will accept notice and service of all process in these proceedings.

TAKE FURTHER NOTICE THAT if any respondent intends to oppose this application, it is required to file its answering affidavit and serve such answering affidavit upon the Applicant's aforesaid legal representative within 20 business days of the filing and service of this application.

CLIFFE DEKKER HOFMEYR INC
Applicant's Attorneys
1 Protea Place
corner Fredman and Protea Place
Sandton, Johannesburg
011 562 1053
011 562 1653
chris.charter@cdacdh.com
Ref: Chris Charter

TO:

THE REGISTRAR
Competition Tribunal
The DTI Campus
3rd Floor, Mulayo Building (Block C)
77 Meintjes Street
Sunnyside
Pretoria
012 394 3300
ctsa@comtrib.co.za; leratom@comtrib.co.za
AND TO:

SHOPRITE CHECKERS PROPRIETARY LIMITED
Cnr William Dabs and Old Paarl Road
Brackenfell
Western Cape
pdupreez@shoprite.co.za
pkrusche@werksmans.com

AND TO:

PICK 'N PAY RETAILERS PROPRIETARY LIMITED
C/o Norton's Incorporated
Second Respondent's Attorneys
135 Daisy Street
Sandton
011 666 7560
086 600 5529
anthony@nortonsinc.com
Ref: Anthony Norton

AND TO:

SPAR GROUP LIMITED
Third Respondent
22 Chancery Lane
Pinetown
KwaZulu-Natal

AND TO:

SOUTH AFRICAN PROPERTY OWNERS ASSOCIATION
C/o Fasken Martineau
Fourth Respondent's Attorneys
Inanda Greens, Building 2
54 Wierda Road West
Sandton
IN THE COMPETITION TRIBUNAL OF SOUTH AFRICA

CASE NO:

In the matter between:

MASSMART HOLDINGS LIMITED

and

SHOPRITE CHECKERS PROPRIETARY LIMITED

and

PICK 'N PAY RETAILERS PROPRIETARY LIMITED

and

SPAR GROUP LIMITED

and

SOUTH AFRICAN PROPERTY OWNERS ASSOCIATION

Applicant

First Respondent

Second Respondent

Third Respondent

Fourth Respondent

FOUNDING AFFIDAVIT

I, the undersigned,

PIERRE PETRUS JOHANNES HATTINGH

do hereby make an oath and state that:

1 I am an adult male employed as the Group Legal Advisor of the Applicant.

2 I am duly authorised to depose to this affidavit on behalf of the Applicant. This affidavit is made in terms of section 51(1) of the Competition Act, No 89 of 1998 ("Act") read with Rules 14 and 15 of the Rules for the Conduct of Proceedings in the Competition Tribunal ("Tribunal").

3 Save where it is otherwise stated or where the contrary appears from the context, the facts depoosed to in this affidavit are within my personal knowledge and are to the best of my knowledge and belief, both true and correct.

4 THE PARTIES

4.1 The Applicant is Massmart Holdings Limited ("Massmart"), a company incorporated in accordance with South African law, having its principal place of business at Massmart House, 16 Peltier Drive, Sandton, Gauteng. Massmart is a high volume, low margin retailer and wholesaler of grocery products, liquor and general merchandise ("GM") products. Massmart's various trading companies and legal entities are grouped into four divisions: Massdiscounters, Masswarehouse, Massbuild and Masscash. The Massdiscounters division comprises retail stores trading under the names of Game and Dion Wired. Cambridge¹ and Makro are the only other Massmart brands involved in grocery retailing. This complaint referral is filed on behalf of Massmart, in its capacity as

¹ Cambridge is in its relative infancy and offers a pure grocery retail format, primarily targeting lower LSM customers.
holding company and ultimate controller of all its trading entities, including Game. Any reference herein to Massmart should be read to include reference its trading entities (including Game) and vice versa.

4.2 The First Respondent is Shoprite Checkers Proprietary Limited ("Shoprite"), a company duly incorporated in accordance with South African law, having its principal place of business at the corner of William Dabs and Old Paarl Road, Brackenfell, Western Cape.

4.3 The Second Respondent is Pick ‘n Pay Retailers Proprietary Limited ("PnP"), a company duly incorporated in accordance with South African law, having its principal place of business at Pick n Pay Office Park, 101 Rosmead Avenue, Kenilworth, Western Cape.

4.4 The Third Respondent is Spar Group Limited, ("Spar") a company duly incorporated in accordance with South African law, having its principal place of business at 22 Chancery Lane, Pinetown, KwaZulu-Natal.

4.5 The Fourth Respondent is the South African Property Owners Association ("SAPOA"), a non-profit company incorporated in accordance with South African law, having its principal place of business at Hunt’s End Office Park, Paddock View Building, 35 Wierda Road, Wierda Valley, Sandton, Gauteng. SAPOA carries on business, inter alia, as the representative association for the commercial property industry. I understand that SAPOA has itself filed a complaint with the Competition Commission ("Commission") against exclusive lease agreements entered into by certain supermarket chains with members of SAPOA. SAPOA is cited for the interest that it and its members have in the matter and no relief is sought against it or any of its members.

4.6 The First Respondent to the Third Respondent are collectively referred to as the Respondent Retailers, unless the context indicates otherwise.

5 BACKGROUND

5.1 On 31 October 2014, Massmart lodged a complaint with the Commission against the Respondent Retailers in terms of section 49B(2)(b) of the Act ("Complaint").

5.2 On 20 November 2014, the Commission announced its decision to incorporate the Complaint with similar complaints that then being investigated and proceed with further investigation. A copy of the Commission’s statement is marked and attached as Annexure "MMH1".

5.3 On 12 May 2015, the Commission issued the Applicant with a Notice of Non-Referral (Form CC8) inter alia informing it that the Commission had taken a decision to conduct a market inquiry into the grocery retail sector and that the Commission would publish terms of reference for the market inquiry in the Government Gazette sometime in May 2015. A copy of Form CC5 and Non-Referral Letter is marked and attached as Annexure "MMH2".

5.4 The Commission’s non-referral comes as a result of the Commission’s decision to conduct a market inquiry rather than to investigate the Complaint (along with other complaints referred to in the Commission’s statement of 20 November 2014) rather than any consideration of the merits of the Complaint.
At the time of filing this application, the terms of reference have not been published by the Commission as indicated in paragraph 5.3 above and the Applicant therefore has no clear indication of the issues that will or might be the focus of the market inquiry, and whether the concerns raised by the Applicant in the Complaint might be squarely addressed.

In any event, the Applicant is firmly of the view that it should not have to choose between relief through enforcement and the outcome of the market inquiry. While the latter might conceivably culminate in a measure of relief for some stakeholders, the broad and potentially lengthy and open-ended nature of the process exposes the Applicant to a delay in having its concerns fully ventilated and decided. Therefore, the Applicant has taken a decision to refer the Complaint to the Tribunal in terms of section 51(1) of the Act.

6 SUMMARY OF THE COMPLAINT

6.1 The Respondent Retailers are large, national grocery retailers that currently dominate the competitive landscape for grocery retail in South Africa. Their scale gives them an advantage over smaller, locally-bound rivals and their ability to leverage their national footprint renders their position unassailable.

6.2 Their position is further entrenched by the protection afforded by historical exclusivity provisions inserted into lease agreements at shopping malls in which the incumbent retailers have tenancy. The effect of these exclusivities is to impede competition from new entrants at a time when competition ought to be fostered. The effects are particularly acute in the case of foreclosure against Game, as Game has the potential to introduce competition at a national level while the network of exclusivities Game faces patently undermines its ability to roll-out effectively a competing offering on a national basis and therefore hinders it from making a competitive offering.

6.3 Game has conceptualised a trading model in terms of which it would expand its offer to include the supply of fresh groceries (comprising fresh fruit, vegetables, meat, dairy and bakery products) ("fresh groceries"), alongside its GM and non-perishable grocery offering.

6.4 However, the implementation of Game's expansion into fresh groceries has been and continues to be constrained by restrictive clauses in lease agreements in shopping malls in respect of which Game either has a presence or seeks entry. Incumbent retailers have sought to enforce these exclusivities in the civil courts. In addition, the Commission's attempts to address the impact of exclusivities through advocacy have been unsuccessful. Accordingly, it appears that enforcement action under the Act is the only effective remedy available.

6.5 The exclusivity restrictions preclude Game from effectively rolling out its strategy and have a detrimental effect on final consumers, on suppliers and on third party customers.

6.6 The Respondent Retailers' conduct should be viewed in the context of a number of factors that render Game uniquely poised amongst possible contenders to introduce new competition to the grocery retail market, and in particular against the incumbents on a national scale. These factors include -

---

2 Cambridge's own expansion stands to benefit from the scale economies in logistics that an unrestrained Game roll-out will introduce. Mall exclusivities also impact Cambridge directly in circumstances where it is precluded from entering a mall due to existing restraints.
6.6.1 its proven GM offering, which if combined with fresh groceries, allows for a differentiated value proposition to consumers via a well-known and venerable brand;

6.6.2 its footprint of large, mall-based stores provides an efficient platform for expansion into fresh groceries on a national scale, without compromising its GM offering;

6.6.3 its forays into fresh groceries, currently stifled by the conduct complained of, have proved to be successful and attractive to consumers;

6.6.4 it stands to both benefit from, and contribute to, the success of Massmart's strategic expansion of a fresh groceries value chain and logistics network; and

6.6.5 it stands to both benefit from, and contribute to, Massmart's procurement opportunities, both large and small.

6.7 It is submitted that the Respondent Retailers' clear and concerted efforts to restrain Game from effectively implementing its strategy are aimed not only at Game's current ambitions to introduce competition throughout its store footprint in short order, but at the eventual possibility of Massmart's succeeding in developing a fully-fledged, national grocery retail offering.

6.8 It goes without saying that a credible, sustainable new national player will promote competition at the level of local markets. However, the effect that the Respondent Retailers' conduct has in preventing Game from developing its grocery offering on a national scale is an important dynamic that an exclusively case-by-case local market analysis will fail to elucidate. Indeed, it is clear that a failure to analyse the effects of this impugned conduct on the potential for increased national competition would proverbially ignore the wood for the trees. Moreover, enforcement action should be aimed at addressing this national dimension effectively.

6.9 It is submitted that it is the aim of competition law to ensure that the opportunity for competition is not unjustifiably squandered. Should Game and Massmart ultimately be unable meaningfully to compete against the Respondent Retailers that should be because of the competitive efforts of the Respondent Retailers in undistorted markets where consumers are free to exercise their choice, not because of efforts and measures to prevent the competitive process from taking place.

6.10 Apart from the impact of increased competition on price, final consumers are prevented from benefiting from Game's intention to offer an alternative shopping experience that is consistent and compelling in respect of brand and product offering.

6.11 Accordingly, the exclusivity provisions (and their enforcement) –

6.11.1 have the effect of substantially preventing or lessening competition, without any justifications that could outweigh the substantial anti-competitive effects, this constituting a contravention of section 5(1) of the Act; and

6.11.2 constitute an abuse of dominance in that the enforcement of the clauses concerned amount to a specific exclusionary act contemplated in section 8(d)(i) alternatively section 8(c), of the Act.

7 GAME'S STRATEGY

7.1 Game is a promotionally driven discount retailer of predominantly GM and non-perishable groceries for home, leisure and business use. The first Game store opened
in Durban in 1970. It was born out of the belief by its founders that shopping had become a tedious and boring pastime. They wanted to create a fun shopping environment and so conceptualised retailing as a game.

7.2 There are approximately 115 Game stores in South Africa and a further 18 Game stores in 11 African countries. The remainder of this referral concerns South Africa only, although the Respondent Retailers' efforts to restrain Game from competing extend to important foreign jurisdictions, where the Respondent Retailers have an existing presence they wish to insulate from competition.

7.3 110 out of 115 Game Stores in South Africa are located in malls.

7.4 Roll out of fresh groceries offer

7.4.1 Game conceptualised a trading model in terms of which it would expand its offer to include the supply of fresh groceries, alongside its GM and non-perishable grocery offering. Game piloted selling fresh groceries in its stores, alongside GM and non-perishable groceries in 2010. Game has since sought to roll out this strategy across its entire footprint of stores.

7.4.2 The inclusion of fresh groceries does, and will, enable shoppers to conduct a variety of shopping missions including combining fresh groceries and GM purchases, using Game for top-up shopping for groceries, and using Game for a basic grocery shop (with or without GM purchases). In this way, Game's grocery offer will be differentiated from that of other grocery retailers not only because of the particular price, quality, range and service proposition of groceries but because it will be sold alongside a large GM range.

7.4.3 As with its existing offering, Game will sell fresh groceries at low prices. Game's aim is to be at least 2-5% cheaper than comparative retailers for food (perishable and non-perishable). Game's grocery proposition (including fresh groceries) will initially follow a 'discount' type of model, offering a more limited selection of groceries but at low prices. This proposition is one that Game is particularly well-placed to offer, as a result of its established footprint of stores, historically focused on GM and non-perishable groceries and with the ability quickly (if unconstrained by rivals' lease agreements) to expand into fresh groceries and thus to create in short order a new competitive constraint on a national scale.

7.4.4 Game's current strategy is carefully to balance the allocation of space to food and GM respectively such that its GM offering remains a key value proposition, differentiating it from pure grocery retailers. However, like any retailer, Game will need to be flexible in responding to consumer needs to remain relevant in the market. Potentially, stores that could support a greater percentage of net sales area to food might be converted into a Cambridge format where that is appropriate. The lease exclusivities prevent this flexibility as well.

7.4.5 At the date of this referral, Game has sought to convert 54 out of its 115 stores to include fresh groceries (with many of these expansions nevertheless being subject to some or other form of exclusivity constraint). This includes instances in respect of which conversions to supply fresh groceries have been undertaken, which are the subject of enforcement litigation proceedings initiated by the Respondent Retailers (with reliance being placed on lease exclusivity provisions with mall operators). The consequence of these proceedings has been that, notwithstanding the investments incurred to convert existing stores to be able to supply fresh products, Game has been precluded from consistently and efficiently rolling out its fresh groceries offering.
7.4.6 Game's differentiated offering has the potential to succeed in providing consumers with an alternative shopping experience and consumers have welcomed the introduction of fresh groceries into Game stores where this has happened already. Game's fresh groceries offer stands to be welcomed by mall operators as it enhances the retail mix in the malls in which it is present. This is because it offers a distinct consumer proposition combining groceries and GM and also allows for limited range grocery missions at a low price.

7.5 The need for national scale

Shoprite has some 1,231 stores, PnP has approximately 1,030 stores and Spar has 850 stores compared to Game's 115. To be successful with its strategy of rolling out fresh and for consumers to realise the full benefits of this strategy, it is not enough for Game to roll out the fresh strategy across some of its stores. It needs to roll out its strategy across all of them in order to achieve consistency of the offer and also to achieve as much scale as possible. It is this that is the peculiar competitive threat posed by Game and resisted by the Respondent Retailers.

7.6 Brand

7.6.1 Game wants to roll out fresh groceries across the entire Game footprint. It is vital to yield a consistent consumer experience such that consumers will recognise Game as a potential destination for the types of shopping mission described above, wherever Game is present. Absent a consistent brand identity, Game will be unable effectively to compete at the national level with regard to a fresh groceries offering.

7.6.2 Roll out of fresh groceries to the entire footprint will also enable Game to advertise the fresh groceries offer as a consistent and integral part of the “Game” brand, thus increasing awareness of the fresh grocery offer and in turn increasing footfall in stores.

7.6.3 Scale will therefore enable Game to build a national brand presence that is recognisable to consumers throughout the country, enabling national advertising campaigns and instant brand recognition for new store roll-outs in new areas. This will breed consumer loyalty. In addition, it provides a key value proposition to mall landlords when considering a tenant mix - a national, well recognised and understood brand is a key consideration for developers and landlords.

7.7 Supply chain

7.7.1 The successful roll out of fresh groceries goes hand in hand with the use and development of Massmart’s chilled supply chain at the regional and national level.

7.7.2 Game’s fresh groceries footprint and Massmart’s existing and potential fresh groceries logistics network are mutually reinforcing. The effect of the lease exclusivities undermines both Game’s ability to benefit from Massmart’s investment in fresh groceries logistics as well as Massmart’s ability and incentive to so invest. What is clear is that were Game allowed to trade as it sees fit, the prospects of Massmart being able to develop and maintain a nation-wide logistics network would be significantly enhanced. Given that the Respondent Retailers already possess enviable logistics networks that leverage off their scale and footprint, Massmart’s ability to do likewise is key to introducing and maintaining fresh grocery competition at a national level.
7.8 Suppliers

7.8.1 National scale is also important for Game's relationship with both non-perishable and fresh grocery suppliers. By growing in national scale, Game (as part of Massmart) will be able to deal with more fresh suppliers directly and thus secure more regular and better supply and quality to the mutual advantage of Game, suppliers and final consumers.

7.8.2 The greater the scale of Game's fresh groceries offer, and the more this drives sales of the grocery category overall, the more benefits Game and the suppliers will be able to generate (including through joint planning efforts) and the more in turn this will benefit final consumers.

7.9 A presence in shopping malls is key to Game's competitive threat

7.9.1 Massmart's planned expansion strategy also requires the ability to expand Game's offering in shopping malls across South Africa. This is because –

7.9.1.1 Expansion of existing store infrastructure is the most efficient way to increase presence in sufficiently short order;

7.9.1.2 The location is already prime in a market where store location is a significant barrier to entry;

7.9.1.3 It is much quicker to expand than to enter on a standalone basis;

7.9.1.4 Shopping malls are a guaranteed draw-card for consumers as a general shopping destination;

7.9.1.5 Mall location is more important for GM retailers than grocery retailers (as GM businesses have larger catchment areas and as such, the pull of a mall is more important);

7.9.1.6 Shopping malls offer predictable footfall, which allows for efficient planning and lower risk; and

7.9.1.7 Mall stores are most often profitable (the importance of mall presence is evidenced by the Respondent Retailers maintaining a mall presence even when they have stand-alone stores in close proximity). The cash flow from mall stores helps to build a sufficient reserve to compete nationally.

7.9.2 Given the importance of mall trading to Game and the fact that Game already has an established presence in malls, it is simply not viable to expect Game to re-establish a presence in new, stand-alone locations in respect of every mall where exclusivity is enforced.

7.10 Future grocery retailing formats

7.10.1 Due to its small number of stores and the small proportion of space allocated to fresh groceries, Game is currently a tiny player in fresh grocery retail. The Massmart grocery retail businesses combined (Game, Cambridge and Makro) are also collectively small.

7.10.2 Assuming its trading was not restricted due to the Respondent Retailers' lease exclusivities, Game intends to achieve significant annual growth over the next five
years. An increase in fresh groceries sales is expected to be accompanied by growth in sales for non-perishable groceries.

7.10.3 Successful implementation of its strategy would give Game, and the Massmart group, more options for introducing different grocery formats and expanding the intensity and nature of competition offered against the Respondent Retailers.

7.10.4 For example, further development of the chilled supply chain would also better enable the Cambridge format to compete with the incumbent retailers to be anchor tenants in shopping malls.

7.10.5 Game's current strategy will be successful only if consumers continue to choose it and Game's future strategy will evolve in response to current and anticipated consumer demand, such that Game's own grocery offering may expand.

8 THE RELEVANT MARKETS

8.1 Geographic market definition in this case has both a local and a national dimension. The markets have a local dimension because final consumers choose between grocery stores at a local level (albeit often with a frame of reference influenced by national campaigns and experience across a range of geographic markets). The markets also have a national dimension because chain retailers need scale (in terms of brand, logistics and purchasing) in order to compete in the various local markets in which they are present or would like to be present.

8.2 For this reason, restrictive lease agreements in a subset of local markets have the ability to affect competition in many more local markets (i.e. beyond only those that are immediately restricted), through the national dimension of competition.

8.3 The precise boundaries of the product market will depend on the nature of shopping missions that consumers seek to carry out, the available choices for those shopping missions and the degree to which consumers consider those choices to be substitutable with one another. The precise boundaries of the product market may be blurred; indeed market definition boundaries in differentiated product markets are rarely sharply defined. However, Massmart considers that the relevant product market in which it is seeking to compete largely excludes informal retail and smaller independent shops and comprises larger formalised retailers which offer full range or more limited one stop shopping as well as other types of grocery shopping mission.

8.4 A further relevant market is the narrower market for anchor grocery tenancy in malls, where the incumbents have for many years enjoyed market power evidenced by their share of this important subset of trading locations as well as the fact that they have been able to secure a network of exclusivities that exclude all except themselves.

9 ALLEGED CONDUCT

9.1 Game's ability to implement its strategy is substantially restricted by lease agreements between both (i) shopping malls and Game; and (ii) shopping malls and Game's competitors. The former are invariably due to covenants between Game's competitors and shopping malls.

9.2 In respect of restrictive provisions in lease agreements between shopping malls and Game, the relaxation of these provisions is, absent restraints protecting incumbents, susceptible in principle to negotiation with mall operators. Accordingly, the provisions
that are the subject of the Complaint are those between shopping malls and Game's competitors.

9.3 The key restrictive provisions in lease agreements between shopping malls and incumbent retailers grant exclusivity to those retailers (or at least some insulation from competition) for the sale of fresh groceries.

9.4 On the basis of these contractual provisions, retailers are able to assert exclusivity should Game also sell fresh groceries. The various enforcement litigation proceedings instituted by incumbent retailers against Massmart and Game are examples of retailers' asserting their contractual rights to exclusivity, as contained in their respective lease agreements with mall operators, and thereby preventing competition. In the majority of the interdict proceedings, the incumbent retailers principally allege that Game's expansion into fresh groceries, in the specific malls that are the subject of the litigation, will result in a loss of customers to the retailer instituting the interdict.

9.5 It can be expected that, unless the competition authorities intervene, adverse rulings in civil courts based purely on the contractual provisions at issue and not on competition grounds will beget yet more active enforcement of exclusivities or perceived exclusivities, all of which serve to stifle Game’s ability to compete at a time when the Respondent Retailers continue to expand their national footprint apace. Appropriate intervention by the competition authorities appears to present the only legal recourse in circumstances in which no legal remedy can be sought in the civil courts to protect not only Massmart and Game’s ability to compete, but also the state of competition in general.

10 EFFECT OF AGREEMENTS AND CONDUCT ON GAME’S ABILITY TO IMPLEMENT ITS STRATEGY

10.1 The agreements and conduct of the Respondent Retailers have limited Game’s ability to pursue its competitive strategy.

10.2 Impact on fresh groceries roll out

10.2.1 The Respondent Retailers’ agreements and conduct have impeded Game’s ability to roll out its fresh groceries offer across its footprint of stores.

10.2.2 Enforcement of exclusivity by the Respondent Retailers is selective. Where some relaxation is afforded, it seems to be targeted to prevent either a suitable range, or to prevent a fresh groceries offering of suitable scale and variety to be a credible competitor.

10.2.3 Game has not been able to introduce a fresh groceries offer at all in a large number of its stores. Examples include Kenilworth, Mafikeng, Mokopane, Festival Mall (Kempton Park) and Shelly Beach.

10.2.4 In Cape Gate, Game introduced a fresh groceries offer only to be interdicted based on the contractual (rather than competition) aspects of the lease agreements. In the Midlands Mall in Pietermaritzburg, Game planned and built the fresh groceries offer but could not open it to consumers for similar reasons (the fridges now stand empty in the store).

10.2.5 Game has also been constrained from rolling out fresh groceries in stores which are not subject to restrictive lease agreements, due to such lease agreements affecting other stores in the area. In particular, it has not been economic for Game to roll out
fresh groceries in King Williams Town and Queenstown due to lack of scale in the Cape, which is caused by restrictive clauses on Beacon Bay, Jeffreys Bay and Mossel Bay.

10.3 Impact on scale

The Respondent Retailers' agreements and conduct have also impeded Game's ability to achieve consistency and national scale of the offer including fresh groceries.

10.4 Brand

The restrictions have made it impossible for Game to advertise a consistent proposition at Game and have adversely affected consumers' perception of the consistency of the Game offer. These are disadvantages that national incumbents do not suffer. Game is forced into local (store specific) advertising which (as a sole advertising method) is less effective and more costly (due to the need for inserts) and more error prone.

10.5 Chilled supply chain

10.5.1 The agreements and conduct of the incumbents are also having a serious adverse impact on Massmart's ability to develop its fresh groceries supply chain. As a result of the restrictions imposed, the level of Game's fresh groceries sales is lower than it otherwise would be. This has limited Game's ability to develop its chilled supply chain as far and fast as would otherwise have been possible.

10.5.2 The restrictions on Game mean that the planned roll out of distribution centres will proceed at slower pace and not happen to the same extent as would have been the case absent the restrictions. Even where distribution centres are established, the restrictions will limit the efficiencies that can be realised due to lower volumes.

10.6 Suppliers

The restrictions on Game have limited its ability to develop relationships with fresh groceries suppliers. Thus, Game is more reliant on obtaining produce from the market than it would be if it had more national scale.

10.7 Impact on future grocery retailing formats

Since Game has been held back from rolling out its fresh groceries offering and its chilled supply chain, Game (and the Massmart group) is further away from being able to consider alternative grocery formats that would challenge the incumbents than would otherwise be the case.

11 DETRIMENTAL EFFECT ON FINAL CONSUMERS

11.1 The incumbents' agreements and conduct are having and will continue to have an adverse effect on final consumers. To a large extent, this can be deduced from the very conduct being engaged in by the Respondent Retailers in seeking to enforce exclusivities in the civil courts: the costs of doing so can only be rational if it is weighed against the potential loss of custom and greater need to compete due to Massmart's expansion, whether immediately through Game or more generally off the back of Game's expansion strategy. Such loss of custom is a clear indication that consumers would perceive (and realise) a benefit from Game's fresh groceries offering.
11.2 Consumers are not only worse off because Game is restricted in its ability to offer another point of choice but also because the restrictions on Game reduce the peculiar competitive threat that Game poses to the Respondent Retailers and thus reduces the Respondent Retailers' incentives to improve their own consumer offer. Thus, customers of the Respondent Retailers also suffer directly from the restrictions on Game.

11.3 Consumers at the incumbent stores are made worse off whenever Game cannot roll out its fresh groceries offering in a particular store or can do so but only to a more limited extent than it would wish.

11.4 Competition is not only about price. The more Game stores that launch fresh groceries, the more likely incumbents are to invest in some combination of price, quality, range and/or service ("PQRS") improvements, and to invest in the fabric of their stores in order to compete. The lack of competition with Game means that customers of the incumbent stores lose out on all of these benefits that they would otherwise obtain.

11.5 By constraining Game and Massmart's chilled supply chain, the incumbent retailers are effectively postponing and potentially preventing the time at which Game and Massmart could potentially compete with new formats. This also means that the incumbent grocery retailers have a lower incentive to compete today for final consumers since the need to build loyalty (through better PQRS and better stores), as a precaution against the future threat of competition, is reduced.

12 DETRIMENTAL EFFECT ON SUPPLIERS AND ON THIRD PARTY CUSTOMERS OF LOGISTICS

12.1 The restriction on Game will also harm final consumers (and different sets of final consumers) through other channels.

12.2 Suppliers

The growth of Game (and Massmart's other grocery businesses) will provide another major route to market for suppliers (in addition to the Respondent Retailers). This will reduce the buyer power currently exerted by the Respondent Retailers. This will increase suppliers' incentives to invest and to innovate in new products, benefitting final consumers.

12.3 Third party customers of logistics

Massmart's chilled distribution business not only serves the Massmart retail and wholesale businesses, but also third party customers including in the hospitality and catering industry. If Game is unrestricted and Massmart is able to establish distribution centres as it plans, this will enable Massmart to provide an additional distribution option for the hospitality and catering industry. This will benefit final consumers of those businesses as they will benefit from lower prices and better quality.

13 COMPETITION INFRINGEMENT

13.1 In particular, Massmart submits that the enforcement by the Respondent Retailers of exclusivity provisions in lease agreements constitutes a contravention of —

13.1.1 section 5(1) of the Act in that the agreements concerned (and more particularly, their enforcement) have the effect of substantially preventing or lessening competition, which results in a net anti-competitive effect i.e. the anti-competitive effects in the
markets concerned are not outweighed by any efficiencies that could be relied upon by the Respondents in defence of the exclusivity; and

13.1.2 section 8(d)(i), alternatively section 8(c) of the Act in that the enforcement by the Respondent Retailers of the network of exclusivity provisions constitutes the specific exclusionary act of requiring or inducing a supplier (being the landlord) not to deal with Game.

13.2 Section 5(1) infringement

13.2.1 Anti-competitive effects are self-evident with a resultant substantial lessening and prevention of competition –

13.2.1.1 Foreclosure of Game as a GM retailer is likely due to its inability to roll out its differentiated value proposition – in this regard, the effect is cumulative in that a significant number of malls where Game is present are subject to exclusivity and are being enforced. This “network” of exclusivity means that the foreclosure is with reference to a significant portion of possible entry points. This means that even if, for instance, Shoprite’s exclusivities cover a relatively small portion of the market, when taken together with the exclusivities in favour of PnP and SPAR, the foreclosure effect is significant.

13.2.1.2 The danger of foreclosure will be reinforced when other suppliers and their buyers organise their trade in a similar way. A network of similar arrangements therefore has a cumulative effect on the competitive structure of the market. The European Commission Guideline of Vertical Restraints suggests that, in the context of exclusive supply agreements, foreclosure may occur for potential entrants “who may not be able to secure supplies when a number of major buyers all enter into exclusive supply contracts with the majority of suppliers on the market”. In this context and while a single exclusive agreement between a landlord and an incumbent retailer may not necessarily have a net anti-competitive effect, the likelihood of foreclosure effects are heightened due to the cumulative effect of exclusivity agreements between landlords and incumbent retailers that prevail on a national basis and at strategic entry points.

13.2.1.3 These effects are not outweighed by possible efficiencies that may be raised by the Respondent Retailers;

13.2.1.4 In consequence, the enforcement of exclusivities constitutes a contravention of section 5(1) of the Act.

13.3 Dominance

13.3.1 The very fact that the Respondent Retailers have been able to secure the lease exclusivities is evidence of their considerable market power. Moreover, at the time the leases were entered into (or renewed) a Respondent Retailer’s share of the market for securing grocery tenancy in malls would have passed the statutory threshold for presumptive dominance.

13.3.2 As contemplated in the Act, the onus rests on the Respondent Retailers to demonstrate that the exclusivity provisions are supported by technological, efficiency or other pro-competitive gains, which outweigh the anti-competitive effects of the provisions concerned.
13.3.3 That said, it is submitted that no such justifications can be cogently raised to outweigh the detrimental effects to competition and consumers occasioned by the enforcement of the network of exclusivity provisions by the Respondent Retailers.

14 CONCLUSION

14.1 The Respondent Retailers' conduct is aimed squarely at ensuring that Massmart is precluded from realising Game's unique potential to unlock competition against the incumbent national retailers through incrementally growing its share of the grocery market. Game's potential to compete comes from a variety of factors that are not present in other contenders, including: its differentiated offering with GM; its existing national footprint of store locations that allow for relatively quick expansion into fresh groceries; its venerable brand; support from Massmart; and access to current and potential logistics infrastructure (along with its ability to support such an infrastructure). Taken together, Game is peculiarly poised to become a major competitive force, what is holding it back is lease exclusivities.

14.2 Competition regulation should ensure that entrenched market players are required to compete to maintain their strong position in the market, rather than to rely on outmoded and unjustified mechanisms to avoid competition.

14.3 If the conduct complained of is declared incompatible with the provisions of the Act, then at worst Massmart would have had the opportunity to test its ability to develop effective grocery retail competition; even if that fails ultimately, consumers would have benefited from the skirmish and the incumbents would have honed their own ability to compete. The best outcome would be that competition in the grocery market is positively and lastingly impacted on a national scale, with attendant benefits in logistics and at the fresh supply chain.

14.4 Massmart does not require the Tribunal to facilitate its entry and expansion, beyond the limited request that artificial and illegal barriers to entry and expansion be removed so that competition might ensue.

WHEREFORE THE APPLICANT prays for the relief as set out in the Notice of Motion.

[Signature]
DEPONENT

This done and signed before me on this 9th day of June 2015

ALESHA VAN DER PLOEG
COMMISSIONER OF OATHS
EX OFFICIO
PRACTISING ATTORNEY R I S A
5TH FLOOR, SALA HOUSE
12 FREDMAN DRIVE, SANDTON
Statement on Competition Commission Meeting of 18 November 2014

To: All Media

Date: 20 November 2014

1. Key decisions on mergers

Approved mergers

The Commission has approved the following mergers:

Leo Constellation Limited and The global over the counter consumer healthcare business of Norvatis AG

The proposed merger involves Leo Constellation Limited (to be renamed GlaxoSmithKline Consumer Healthcare Holdings Limited (GSK Healthcare) and the global over the counter business of Novartis AG (Novartis). In terms of the merger, GlaxoSmithKline Plc (GSK) and Novartis will transfer some of their respective over the counter pharmaceutical products into GSK Healthcare. GSK will acquire 63.5% interest in GSK Healthcare with Novartis acquiring the remaining 36.5%. Following the implementation of the proposed transaction, GSK will have sole control over GSK Healthcare. The Commission is of the view that the proposed transaction is unlikely to substantially prevent or lessen competition in any market where the parties compete.

Norvatis AG and GlaxoSmithKline plc's oncology business

The proposed merger involves Norvatis AG and GlaxoSmithKline plc's oncology businesses. In terms of this transaction, Novartis will acquire the business relating to a portfolio of 13 oncology products of GlaxoSmithKline Plc (GSK). Novartis markets a range of oncology pharmaceuticals for the treatment of, amongst others, breast cancer and neuroendocrine tumours of pancreatic origin, leukaemia, acute lymphocytic leukaemia, gastrointestinal stromal tumours, retinal cell carcinoma, colorectal cancer.

GSK supplies 3 oncology products through Aspen Pharmacare (Pty) Ltd for the treatment of breast cancer, metastatic carcinoma of the ovary, treatment of recurring or persistent carcinoma of the cervix, palliative treatment, small cell lung, management of nausea and vomiting induced by cytotoxic chemotherapy and radio therapy.

Post-merger, the GSK oncology business will form part of the Novartis portfolio. The Commission is of the view that the proposed transaction is unlikely to substantially
prevent or lessen competition in the national market for the supply of oncology products.

GlaxoSmithKline plc and the global human vaccines business of Norvatis AG

The merger is between GlaxoSmithKline Plc and the global human vaccines business of Norvatis AG. In terms of this transaction, GSK will acquire the global human vaccines business of Novartis AG excluding the Novartis influenza business outside China. Post-merger, the Novartis human vaccines business will form part of the GSK portfolio.

GSK imports paediatric and adult vaccines against a range of infectious diseases such as, the prevention of hepatitis A, hepatitis B, invasive disease caused by influenza, chickenpox, diphtheria, pertussis, tetanus, rotavirus, cervical cancer, streptococcus pneumonia, and others.

The global human vaccine business of Norvatis comprises of all research and development relating to the human vaccine business with all permits, licences, certificates, clearances, registrations, trade-marks and goodwill and other authorisations or consents issued.

The Commission is of the view that the proposed transaction is unlikely to substantially prevent or lessen competition in any market in South Africa.

Scangroup Ltd acting through its subsidiary WPP Percy Ltd (WPP Group) and Experiential Marketing (Pty) Ltd (EMPL Group)

The proposed merger is between Scangroup Ltd and Experiential Marketing (Pty) Ltd. In terms of this transaction, Scangroup Ltd, acting through its subsidiary WPP Percy Ltd, will acquire 78.4% of the issued share capital of Experiential Marketing (Pty) Ltd. Post-merger, the WPP Group will acquire control of the EMPL Group. Scangroup has operations across Sub-Saharan Africa and offers a comprehensive and integrated range of advertising and communications services including brand/creative advertising, media investment management, marketing consultancy, digital advertising, public relations and public affairs, data investment management, experiential marketing and other ancillary services. The WPP Group also provides, through various operating companies, media buying services.

The EMPL Group is involved in strategic consulting, brand engagement, sponsorship consulting, special events, social programs, market research, public relations, sales promotion and retail marketing. The Commission is of the view that the proposed transaction is unlikely to substantially prevent or lessen competition.
Capespan (Pty) Ltd and Aspen International Services

The proposed merger is between Capespan (Pty) Ltd and Aspen International Services. In terms of the sale of shares and claims agreement, Capespan will acquire the shareholding and loan claims held by Mr. Gary Alan van Niekerk in and against Aspen. The proposed merger will result in Capespan holding 75% of the issued shares in Aspen and accordingly a controlling shareholder of Aspen.

Capespan is a holding company of shares. It provides certain management services including legal, corporate, treasury, group finance and executive services to its subsidiary companies. The Capespan Group is involved in the international procurement and marketing of fruit, the provision of logistical services as part of its export services, the operation of depot, storage and port terminal facilities and fruit farming activities.

Aspen is involved in the clearing and forwarding industry, specifically for the facilitation of direct fruit exports from South Africa. Other commodities include value added food products, liquor, packaging and plastics. Aspen's services can be categorised as logistical services (transportation of stock from cold stores to vessels) and export documentation services.

The Commission is of the view that the proposed transaction is unlikely to substantially prevent or lessen competition.

Ticapax (Pty) Ltd and Rappa Holdings (Pty) Ltd

The proposed merger is between Ticapax (Pty) Ltd and Rappa Holdings (Pty) Ltd. In terms of this transaction, Ticapax will acquire 50% of the issued share capital of Rappa Holdings from the Janad Trust; and 50% of the issued share capital of Rappa Holdings from the Rynic Trust. Further, the Rynic Trust will subscribe for 26% of the issued share capital of Rappa Holdings. The proposed transaction will therefore result in Ticapax acquiring control over Rappa Holdings.

Ticapax is a newly incorporated company and does not provide any goods or services. Rappa Holdings extracts gold from carbonaceous raw materials procured from mine producers such as AngloGold Ashanti Limited, Gold Fields Limited, Harmony Gold Mining Company Limited and Sibanye Gold Limited in South Africa.

The Commission is of the view that the proposed transaction is unlikely to substantially prevent or lessen competition in any market in South Africa.
Janwertick Investments (Pty) Ltd and the General Motors franchise business of Anderson Motors Ladysmith (Pty) Ltd

The merger is between Janwertick Investments (Pty) Ltd and the General Motors franchise business of Anderson Motors Ladysmith (Pty) Ltd. In terms of the memorandum of agreement, Janwertick will acquire the General Motors franchise business of Anderson Motors Ladysmith which comprises of fixed assets, workshop, licences and stock among others, as a going concern. Janwertick will not acquire any direct interest in Anderson Motors Ladysmith (Pty) Ltd. Post-merger; Janwertick will have sole control over the General Motors franchise business of Anderson Motors Ladysmith.

Janwertick is an investment company that operates a General Motors (GM) dealership located in Newcastle (KwaZulu-Natal). The GM dealership operated by Janwertick sells new and used light commercial and passenger vehicles, spare parts and accessories for Opel, Isuzu and Chevrolet vehicles.

The GM franchise business operated by Anderson Motors Ladysmith sells new and used light commercial and passenger vehicles, spare parts and accessories for Opel, Isuzu and Chevrolet vehicles. The General Motors franchise business of Anderson Motors Ladysmith also provides after sales services and repairs for Opel, Isuzu and Chevrolet vehicles.

The Commission is of the view that the proposed transaction is unlikely to substantially prevent or lessen competition.

Mergers Approved with Conditions

Shogun Holding Und Finanz AG and Free State Buying Association Ltd (Kemco) and the businesses of Alpha Pharm East Cape Holdings (Pty) Ltd (APEC) and Alpha Pharm KwaZulu-Natal (Pty) Ltd (APKZN)

The Commission has approved with conditions, the merger between Shogun Holding Und Finanz AG and Free State Buying Association Ltd and the businesses of Alpha Pharm East Cape Holdings (Pty) Ltd and Alpha Pharm KwaZulu-Natal (Pty) Ltd.

In terms of the proposed transaction, the stock, staff and fixed assets of APEC and
APKZN will be incorporated into Kemco. Shogun will then acquire 51% shareholding in Kemco which will include the businesses of APEC and APKZN by virtue of APEC and APKZN’s prior disposal of their businesses to Kemco, in exchange for Kemco shares. Post-merger, Shogun will control the Alpha Pharm Group consisting of Kemco, APEC and APKZN.

Shogun does not conduct business in South Africa. However, its subsidiary Actor Holdings is active in the South African market through Actor Pharma and Mirren. Actor Pharma supplies its own scheduled and unscheduled pharmaceutical products to the wholesale market.

Kemco operates as a wholesaler of pharmaceuticals, supplying scheduled and non-scheduled medicines to member pharmacies and non-member pharmacies. APKZN operates as a wholesale chemist supplying scheduled and unscheduled medicines. APEC operates as a pharmaceutical wholesaler, supplying scheduled medicines and patent products to pharmacies, doctors and hospitals.

The conditions imposed relate to public interest concerns involving effect on employment of certain of the staff members post-merger. As such, the merging parties have agreed to a condition that limits the effect on employment to those 20 skilled employees occupying middle and senior management positions in the Procurement, Information Technology, Human Resources, Sales and Marketing, Operations Management, Finance and Administration departments.

2. New Complaints and Referrals

Isipani Construction (Pty) Ltd

The Commission has decided to refer a case against Isipani Construction (Pty) Ltd to the Competition Tribunal for their alleged involvement in collusive tendering in the construction sector.

This follows an investigation of the firms that did not participate in the construction fast track settlement process but were nonetheless implicated in cases during the phase two investigations which ensued after the construction fast track settlement process.

Massmart Holdings Limited v Shoprite Checkers Proprietary Limited, Pick n Pay Retailers Proprietary Limited and Spar Group Limited
The Commission has noted a new complaint by Massmart Holdings Limited against Shoprite Checkers Proprietary Limited, Pick n Pay Retailers Proprietary Limited and the Spar Group Limited. The complaint relates to the long term exclusive lease agreements between these retailers and landlords of shopping malls, which in the view of Massmart Holdings; violate certain provisions of the Competition Act.

The Commission has decided to incorporate this complaint to similar cases currently being investigated and proceed with further investigations in this regard.

Charlene Mulder v Scarlet Dawn Trading 282 cc T/A Devco Electrical and Mechanical Wholesalers, The Delphic Oracle 80 cc T/A Promac Trading, The Business Zone 2154 cc T/A Uni-Trade

The Commission has decided not to refer the complaint by the Directorate of the Provincial Forensic Services of the Western Cape. The Directorate alleged that Devco, Promac and Uni-Trade may be engaging in corrupt and fraudulent activities in the market for the provision of maintenance related items at the Tygerberg Academic hospital in the Western Cape.

This has been done through the practice of submitting various price quotations at the hospital as though they were from different entities competing with each other for the tender. In this instance, one of them quoted with a lower price and the rest with higher prices to ensure that the lowest bidder is awarded the tender. It has since been uncovered by the Forensic Services Directorate that these companies in fact belong to the same person.

The Commission is of the view that the alleged conduct does not amount to a contravention of any provisions of the Competition Act but may, if proved true, amount to fraud. The matter has been referred back to the Forensic Services Directorate.

3. Appeal

Mondi v Competition

The Commission has noted the judgment of the North Gauteng High Court in the above matter. The High Court handed down its judgment on 12 November 2014. The judgment permits disclosure of documents which formed the basis of the Commission’s decision to initiate a complaint during the investigation stage of a complaint in a review application. Given the significance of the precedent set by court on the Commission’s investigations, the Commission has decided to appeal the matter to the Supreme Court of Appeal.
ENDS

For more information:
Mava Scott, Spokesperson
012 394 3527/ 076 095 2350/ MavaS@compcom.co.za

Themba Mathebula, External Communication Coordinator
012 394 3325/ 084 896 0860/ thembama@compcom.co.za
Notice of Non-referral of Complaint

Date: 12 May 2015

Concerning

(Name and file number of complaint :)
Massmart Holdings Limited v. Shoprite Checkers Proprietary Limited, Pick n Pay Retailers Proprietary Limited and Spar Group Limited:
Case No. 2014Oct0612

The Competition Commission received a complaint against the above named respondent on: 31 October 2014.

Having completed its investigation, or the time having expired for referring the complaint to the Tribunal in terms of section 50(2) of the Competition Act, the Competition Commission gives notice that:

☐ The Commission will not refer any part of the complaint to the Competition Tribunal.
☐ The Commission will not refer to the Competition Tribunal the particulars of the complaint listed on the attached sheet, but will refer the remaining particulars of the complaint.

Name and Title of person authorised to sign on behalf of the Competition Commission:

Junior Khumalo (Manager: Enforcement & Exemptions)

Authorised Signature: [Signature]

This form is prescribed by the Minister of Trade and Industry in terms of section 21 (4) of the Competition Act 1998 (Act No 89 of 1998)
Enquiries: Chiweza Edward  
Our reference: 2014Oct0612  
Your ref: CDH-CDH.FID3513320

30 May 2015  
Chris Charter  
Director - Competition  
Cliffe Dekker Hofmeyr Inc  
1 Protea Place,  
Sandton

By e-mail: chris.charter@dlacdh.com

Dear Mr. C. Charter

MASSMART HOLDINGS LIMITED V SHOPRITE CHECKERS PROPRIETARY LIMITED, PICK N PAY RETAILERS PROPRIETARY LIMITED AND SPAR GROUP LIMITED: 2014OCT0612

1. We refer to the aforementioned complaint filed with the Competition Commission ("the Commission") by your client, Massmart Holdings Limited ("Massmart") on and 31 October 2014 against Shoprite Checkers Proprietary Limited ("Shoprite"), Pick n Pay Retailers Proprietary Limited ("PnP") and Spar Group Limited ("Spar"). For the purpose of this complaint Shoprite, PnP and Spar will be jointly referred to as "the Respondents".

2. In the complaint, your client alleges that the Respondents entered into exclusive lease agreements with landlords of different shopping malls. It is further alleged that such

Promoting a competitive business environment for the benefit of all South African consumers, workers and owners
exclusive leases impede competition from new market entrants at a time when competition ought to be fostered. These effects have been particularly acute in the case of foreclosure against one of Massmart's subsidiaries, Game, a competitor with the potential to introduce competition at a national level. Massmart further alleges that the conduct of the Respondents renders smaller rivals vulnerable and places them in a position that makes them ineffective competitors.

3. Please note that the Commission has taken a decision to conduct a market inquiry into the grocery retail sector. The Commission will publish the Terms of Reference for market inquiry in a Government Gazette sometime in May 2015. The inquiry will also afford all interested parties including, Massmart, landlords and the Respondents an opportunity to raise concerns and set out their views.

4. As per your request, the Commission has taken a decision to issue a Notice of Non-Referral in this complaint.

5. In the circumstances, please find attached hereto a Form CC8, which is a Notice of Non-Referral. Please note that you may in terms of Section 51(1) of the Act, refer the matter to the Competition Tribunal for consideration. Furthermore, in terms of Rule 14(1)(b) of the Rules for the Conduct of Proceedings in the Competition Tribunal, you have twenty (20) business days after the Commission has issued a Notice of Non-Referral, to refer your complaint to the Tribunal, on Form CT1, which may be accessed from the Tribunal's website, which is at www.comptrib.co.za.

6. Should you have further queries in this regard, please do not hesitate to contact Mr. Chiweza on telephone number (012) 394 1829 or EdwardC@compcom.co.za

Yours faithfully

[Signature]

JUNIOR KHUMALO
MANAGER: ENFORCEMENT & EXEMPTIONS
TEL: 012 394 3265

Promoting a competitive business environment for the benefit of all South African consumers, workers and owners
Memorandum

TO : LOUISE DU PLESSIS
    HEAD OF THE INQUIRY TECHNICAL TEAM
    MARKET INQUIRY INTO THE GROCERY RETAIL SECTOR

FROM : CLIFFE DEKKER HOFMEYR INC
       CHRIS CHARTER
       NAASHA LOOPOO

SUBJECT : SUBMISSIONS TO THE GROCERY RETAIL SECTOR MARKET INQUIRY BY
          MASSMART HOLDINGS LIMITED

DATE : 22 SEPTEMBER 2016

Dear Sir / Madam

As requested, find attached a copy of Massmart Holdings Limited non-confidential submissions that were made on 29 August 2016.

Please confirm receipt.

Thank you and kind regards

[Signature]

Cliffe Dekker Hofmeyr Inc
Chris Charter Naasha Loo poo