Chairman's statement

The year under review has seen some of the toughest trading conditions in our Group's history, yielding financial results that can at best be described as disappointing. Our reporting year was characterised by depressed consumer spending, costs rising ahead of internal sales inflation and problematic industrial relations.

This has occurred against the background of an economy that has been sluggish in recovering from the global recession and a retail environment that has become increasingly competitive. The Group's turnover growth has been modest as customer spending has remained cautious. However, in the face of this, we still generated R1.4 billion in trading profit, not an inconsiderable result.

It was always inevitable that the significant investment we have made in the future of the business would impact on our bottom line. I am, however, in no doubt that this critical expenditure will greatly strengthen the foundations on which our business has been developed for the past 43 years.

Gareth Ackerman
Chairman

"It is our shared view that the structural changes now happening in Pick n Pay are designed to catapult the business to global best practice"

Chairman's statement continued

Welcome to Alex Mathole and Lorato Phalatse as new independent non-executive directors

Alex Mathole

Lorato Phalatse

The consequence of these factors is that Pick n Pay is a company in major transition. When one considers the scope and speed with which we have instituted essential changes, it is clear that many have underestimated the full extent of the transformation necessary to regain and retain profitable market share and competitive advantage.

We predicted that these efforts would affect short- to medium-term results and that the benefits of sweeping change would be measurable across years rather than months.

In this increasingly competitive environment, we have deliberately accelerated our transformation strategies and I and the Company's management are unapologetic about the changes and investments, which we believe are absolutely critical. It is our shared view that the structural changes now happening in Pick n Pay are designed to catapult the business to global best practice.

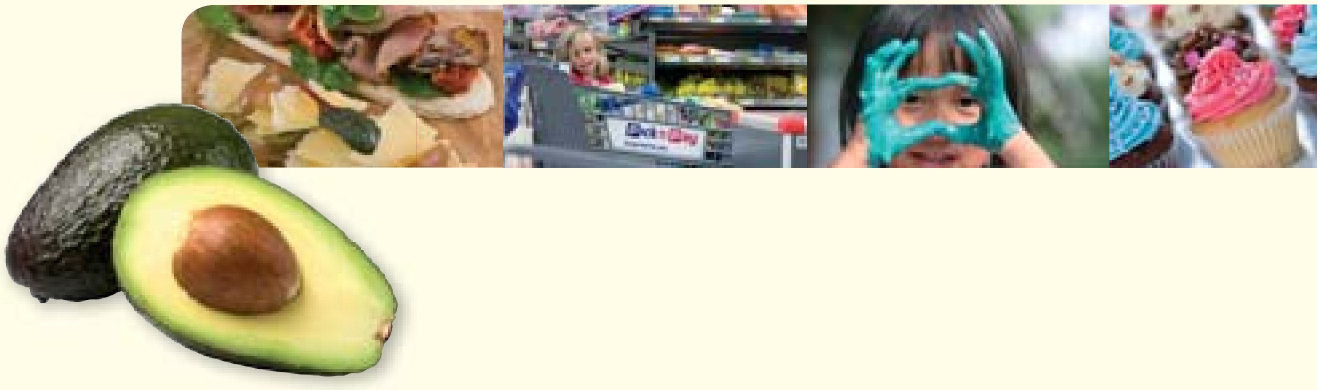
We are taking the pain now for future success in the long-term interests of both the Company and its shareholders but I can say with confidence that we are beginning to experience the fruits of this process.

In particular, our expansion into the broader southern African market has been phenomenally successful. We have experienced remarkable co-operation from the governments of those countries and support from consumers. Their welcome approach to foreign investment has been an eye-opener, boding well for the profitability and further growth of our operations throughout the subcontinent.

An important development post year end was the launch of Smart Shopper, South Africa's first major grocery chain loyalty programme which has been well received by our customers. We are encouraged by the significant number of customers who are now active Smart Shoppers.

In July 2010, subject to approval by the Australian competition regulator, the Australian Competition and Consumer Commission (ACCC), we accepted an offer from Metcash Trading Limited (Metcash) to acquire Franklins for AUD215 million.

The ACCC reviewed the proposed transaction under its informal merger clearance process and opposed the sale to Metcash on the basis that it believes the sale is likely to lead to a substantial lessening of competition in the market for the wholesale supply of groceries to independent retailers in New South Wales.



Following the ACCC's decision, the parties announced that they proposed to proceed with the transaction and this led the ACCC to commence legal proceedings in the Federal Court of Australia in December 2010, seeking to prevent the parties from completing the transaction. We and Metcash agreed with the ACCC to an expedited hearing, which commenced in mid-March 2011. We believe the ACCC's assessment of the likely competitive effects of the transaction is flawed and, together with Metcash, have vigorously defended the proceedings. The judgement of the Court is expected before 30 June 2011.

Should the Federal Court of Australia prevent the acquisition by Metcash, we remain committed to the sale of Franklins and anticipate selling the Franklins stores, either individually or in groups, under a competitive tender process.

Franklins has been treated as a discontinued operation and its results have been reflected separately from those of continuing operations. Turnover in Franklins for the year of AUD827.2 million was down 3.9%, with a net loss incurred of AUD18.1 million (excluding depreciation, which is not provided at Group level from the time a business is classified as held for sale) against a profit of AUD2.5 million last year.

After a few very difficult years, I believe that consumer confidence will improve in the year ahead, sustained by economic recovery and low interest rates. We are also mindful of increasing inflationary pressure driven by rising food and fuel prices.

This is Pick n Pay's first integrated annual report, in which we combine the Group's financial statements with sustainability reporting and disclosure. Our focus areas of consumer sovereignty, business efficiency and the conviction that doing good is good business, have for many years enabled us to demonstrate to our stakeholders a commitment to environmental, social and economic sustainability. This will not change.

Integrated reporting requires us to communicate more explicitly how these commitments link in to the core strategy of our business. We have sought to clarify these links in relation to our products, suppliers, governance practices, employees, local communities, as well as our use of natural resources. These commitments find expression in our newest store Pick n Pay on Nicol, profiled on pages 30 to 31, which is a superb example of integrated thinking driving our action.

The Sustainability Report, available on our website, is aimed at a broader spectrum of stakeholders and incorporates detailed accounts of our achievements and ambitions in such areas as our partnership with rural women and farm workers in the Western Cape to source dairy products, our considerable achievements in improving efficiency while aiming to achieve zero waste to landfill by 2015 and to substantially reduce our carbon emissions.

Chairman's statement continued

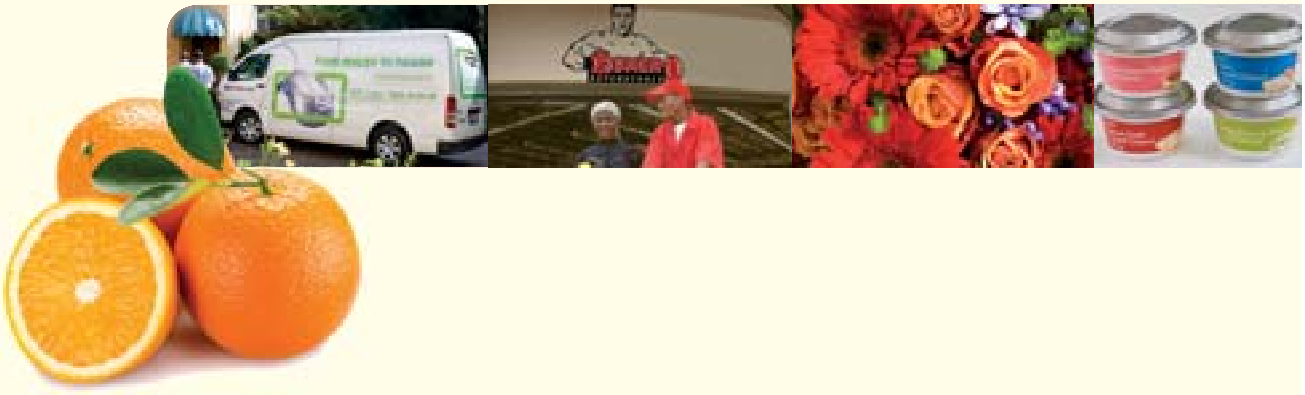
It is a measure of Pick n Pay's progress in the sustainability arena that we were during the year named the overall winner in the category "Companies and organisations with innovative environmental strategies that improve business performance" at the annual Mail & Guardian Greening the Future Awards.

In terms of our corporate social investment obligations, we have continued our policy of allocating in excess of five percent of after-tax profits to projects and causes which benefit the communities within which we operate. We know that the growth and success of our business is dependent on the nature of our relationship with South African communities. Through the work of the Ackerman Pick n Pay Foundation we have remained committed to true empowerment by focusing on assisting small businesses and projects which restore dignity and help develop the human spirit from the inside out.

To a company such as Pick n Pay, the nation's food security must be a matter of constant concern. I remain troubled at the continuing delays around the release of Government's Green Paper on Land Policy. Without an unambiguous, achievable and sustainable resolution to the issue of land reform, at stake is not just South Africa's land reform programme, but also our long-term ability to ensure food security, reach our economic growth targets and compete in global markets.

The new Consumer Protection Act has been promulgated and Pick n Pay is fully aligned with all of its provisions. The introduction of the new Companies Act, together with King III, will have far-reaching effects on the way we do business and interact with our shareholders. Its provisions governing mergers and acquisitions, rights of shareholders and duties of boards of directors and the appointment of audit committees will have wide consequences for corporate governance and the day-to-day running of our business at all levels.

In summary, Pick n Pay has experienced significant change in recent years, when trading conditions have been at their worst in recent memory, in the face of global recession, uncertain consumer confidence and stressful labour unrest. That we have weathered these challenges while continuing with an ambitious restructuring programme, has in no small measure been due to the indefatigable energy and dedication of Nick Badminton. I owe him and his management team a considerable debt of gratitude for their support.



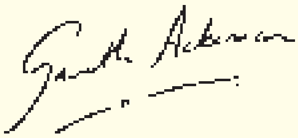
The appointment last year of Jonathan Ackerman as Customer Director will enable us to enhance our commitment to consumer sovereignty by a stronger emphasis on all issues pertaining to customer service and needs.

During the year under review, Alex Mathole and Lorato Phalatse joined the Board as independent non-executive directors with effect from 1 November 2010. I welcome them and look forward to their constructive contribution to the affairs of the Company.

We also said farewell to Connie Nkosi, who retired from the Board on 31 December 2010, after serving as a member since 1996. We are deeply grateful for the years of guidance and dedication that she brought to our deliberations over that period.

Our Chief Finance Officer, Dennis Cope, retired as at the end of April 2011 after nearly 34 years of loyal and devoted service to Pick n Pay. We will miss his wisdom and humour and wish him well in his well-deserved retirement. He will be replaced on the Board and as Chief Finance Officer by Bakar Jakoet, who has been with the Company for 26 years and has most recently served as Group Finance Controller. Bakar has our every best wish in this key role.

Thanks also to the Board of Directors and the people of Pick n Pay for their incredible support during a difficult year. I am confident that the platforms we have put in place will position us well for the future.



Gareth Ackerman

Chairman