# STATEMENT OF THE CHIEF EXECUTIVE OFFICER

## DEAR ALL

In 2017, we have achieved most of our objectives for the year and with our overall positive performance we have delivered good results in all our divisions. We also made considerable improvements in three defined key areas such as accelerating organic growth, increasing cash generation and reducing our debt.

We progressed with the implementation of the new Business Operating Model (BOM) and started to deliver on the implementation of the digital strategy with the opening of the first four New Generation Stores. We will continue to execute on these initiatives in 2018 and we will remain focused at operational level in order to further improve our organic growth; drive our cash generation to strengthen our debt position and to expand our operational margins to improve our performance going forward.

Focus on organic growth, cash generation and deleveraging.

From a financial perspective Dufry achieved again a strong set of results, despite the high comparison base of the previous year's second semester. While our turnover increased by 7.0 % and reached CHF 8,377.4 million, our EBITDA came in at CHF 1,007.1 million, equal to an improvement of 7.7 % on the previous year. We also succeeded again to confirm our sustainably strong cash generation, with the free cash flow amounting to CHF 467.0 million. A remarkable result, which allowed us to further reduce our net debt during 2017 by CHF 63.5 million in total.

**Broad operational progress**

We saw the full amount of CHF 125 million synergies generated by WDF's acquisition reflected in the 2017 financials. This is a considerable achievement as the synergies we extracted exceeded our original expectations of CHF 105 million – a positive result achieved through the in-depth know-how of our integration teams and their focused approach to thoroughly and continuously analyze further potentials.

Synergies from the WDF acquisition fully reflected in 2017.

After having completed the World Duty Free integration ahead of the initial plan, we started with the implementation of the new Business Operating Model (BOM) in early 2017. The BOM is structured in three operational levels – country, division, headquarter – all supported by global functions – and aims at standardizing processes, introducing best practices across the Group and in general at further aligning the way we work together as a company. This setup allows for fast response to market requirements, while securing efficient coordination across the whole organization. The implementation is being executed in several waves, always involving a certain number of countries and spanning cross-divisions. In 2017, we have launched the BOM process in 19 countries, of which 10 have already passed internal certification reaching the expected efficiencies and well adapting to the new way of working. Our aim is to deliver CHF 50 million of extra EBITDA on a full year basis as soon as all BOM initiatives will be globally implemented.

# 2,200

Dufry is a real global player operating over 2,200 shops throughout all continents.

Organic growth for the full year 2017 reached 7.4%, which is a considerable improvement compared to the previous year. This positive result is even more remarkable as the comparison base was higher. We saw our growth developing positively in all divisions, which is an excellent sign for the health of our business and the effectiveness of our diversification strategy.

## Organic growth of 7.4% in 2017.

In order to drive organic growth operationally, we have intensified the deployment of our marketing initiatives at global scale. Besides global promotions, which have already proven their effectiveness in the previous year, we have intensified the bilateral collaborations with specific suppliers as part of the brand plan. The collaboration with e.g. Lindt to develop a specific product for Dufry and to promote it exclusively at our shops has proven to be a great concept, generating additional sales both for the brand partner and for Dufry. The same strategy has been applied with Edrington, whose Highland Park single malt whisky limited edition, consisting of only 540 bottles, was marketed exclusively in the World Duty Free shops in the UK.

**Securing future business through expansion and refurbishment of retail space**

In 2017, we successfully secured future business by further increasing our retail space, extending important concessions and winning new contracts, thus once more underlining the resilience of our industry.

The expansion of the gross retail space in 2017 amounted to 30,000 $m^2$, with North and Latin America accounting for the largest part, followed by Asia, Middle East and Australia and then Southern Europe and Africa. Moreover, we currently already have 15,500 $m^2$ of signed space to be opened in 2018 and 2019.

## Important contract winnings and extensions.

This was first achieved by adding new locations to our global footprint, which is also an important step, when it comes to offering our brand partners a global window display to showcase their products and brands. The newly won concessions well reflect our strategy to consider multiple channels with captive traveler or visitor audiences, which go beyond our main presence in airports. Among the most relevant ones there is the considerable expansion of our cruise ship business with the new JOY contract, which is the first vessel of Norwegian Cruise Lines having been built exclusively for the Chinese market and mainly sailing the Asian seas. Moreover, we signed a new concession with Carnival Corporation to operate shops on board the Carnival Sensation and the Carnival Valor.

With the new concession in Bogotá, Colombia, we added one of the most important markets in Latin America; and we also expanded our portfolio in the United States with Raleigh Durham airport among others. Last but not least, the newly won concession in Kuala Lumpur, Malaysia, in the Genting Highlands, adds another downtown operation to our portfolio.

The second key element of business development was the early renewal and extension of contracts. The highlight in 2017 was the 30 year contract signed with Fraport covering fourteen regional airports in Greece. Among the most important extensions there is the

Swedavia contract in Sweden covering the concessions for seven airports; we also renewed the Malta concessions as well as the contracts for the Brazilian airports of Brasilia and Natal. Last but not least, we successfully extended our concessions in Las Vegas, Liverpool, Jersey (Channel Islands) and Macao.

Moreover, we continued to deploy our shop refurbishment plan, as this is one of the most effective measures to drive sales within a given retail space. The total retail space refurbished amounted to over 32,000 $m^2$ in over 70 shops across all our divisions. In this context it is worth mentioning our refurbishments done in Athens (Intra-Schengen), Milan, Vancouver, Los Angeles, Cancun, Madrid and Guadeloupe as well as in Heathrow, Gatwick and Melbourne.

**Digital Strategy – Enhancing customer experience to drive sales**

In order to accelerate our adaptation to the changing environment and to further increase our conversion rate – i.e. converting travelers into customers – we want to improve the way we engage with our customers. What we are aiming at, is to communicate to our customers more and more often, but also to enhance their shopping experience and to foster the brand engagement. Besides an intensified market research effort, our digital strategy is therefore built on three major elements, which allow us to connect with our customers from the moment they plan their trip until they get back to their home airport.

## Improving the communication with customers through digitalization.

The key element of the digital strategy is the new generation store, of which we have successfully launched the first three in Melbourne, Madrid and Cancun during 2017, followed by Zurich airport in early 2018. The new generation stores enchant customers and provide a completely new shopping experience as the shops communicate with customers in different languages and adapt promotions and marketing campaigns to match the customer profiles and nationalities present at the airports at any given time of the day.

The new generation store also includes the employee digitalization element, which consists of tablets to better serve customers with product information and to send personalized promotions to holders of our customer loyalty program “RED by Dufry” app present at the airport. We have considerably intensified the rollout of RED by Dufry in the year under review; it is currently available in close to 100 locations. Finally, in order to allow customers to order online and pick-up their goods when departing or upon arrival we have further expanded our Reserve & Collect service network to 47 airports around the globe.

**Favorable business environment and internal efficiencies to be expected going forward**

The positive market conditions seen throughout 2017 have continued in the first months of 2018, thus providing a good base for the start into the new reporting year. The same applies to passenger growth, one of our main growth drivers, which shows ongoing strong development in 2018. We will also start to benefit from the efficiencies of the BOM implementation, which will be building up as of the second quarter 2018.

## Positive conditions seen in 2017 continued in early 2018.

We remain committed to our strategy of profitable growth and the results seen for 2017 are evidence that we are heading in the right direction. Also in 2018, we will continue to drive organic growth with our defined marketing initiatives, the deployment of the digital strategy, the brand plan and the refurbishments as well as the support of the currently 15,500 $m^2$ of new space being opened in 2018 and 2019. From a more financial perspective, we will still focus on cash generation and on deleveraging as well as keeping our tight cost control.

**New Organization to foster shareholder value delivery**

Early in 2018, we announced the new simplified group organization, which will further improve the speed of decision making, thus allowing us to be closer to the market. We also want to drive efficiencies and to focus on delivering shareholder value, in particular through acceleration of growth supported by our digital transformation.

With the new organization we are ready to capture future opportunities and further increase profitability. For further details on the composition of the new

Global Executive Committee reduced in size, please refer to page 19 and / or to the section Corporate Governance respectively on page 227 of this report.

> New organization will allow for capturing further opportunities.

**Seeking additional growth opportunities in North America**
With the Initial Public Offering of our North American business under the name of Hudson Ltd., listed on 1 February 2018 at the New York Stock Exchange, we want to best position the new entity to access additional growth opportunities in the United States and Canada.

As market fundamentals in North America differ as compared to other markets and as also the industry shows a somewhat different trajectory, the North American business needs additional strategic and operational flexibility. As we know that both food and beverage as well as master concessionaire capabilities will become more relevant in North America going forward, we will increase and further develop our skills in these respective business areas with a view to also further drive growth in our traditional retail business and thus provide landlords the same high-level service standard, they have been experiencing through the past decades.

**Thank you**
2017 was again a very intense year with a high workload for our teams. Besides managing the daily business and driving the implementation of the BOM throughout the whole year, in the second semester 2017 we started to work on the assessment of the Initial Public Offering (IPO) of Hudson Ltd, which required additional dedication and time-allocation for some of our headquarter teams and our colleagues in the United States. Thus, it is a key priority for me to thank all our colleagues and teams across all functions and operations for their strong contributions and their engagement to accomplish our common goals set for the past year.

I also want to thank our suppliers, landlords and business partners for their ongoing support in further developing Dufry. We have seen a very positive increase in the level of collaboration along the value chain of travel retail, which we consider to be the key element of our further mutual success. We are looking forward to continue developing this path of collaboration and will strongly support related initiatives by suppliers and landlords.

Last but not least, I thank our Board of Directors and shareholders for their ongoing support, trust and contributions in making Dufry even more WorldClass. Worldwide.

Best regards,

Julián Díaz González