



STATEMENT OF THE CHIEF EXECUTIVE OFFICER DEAR ALL

In 2018 we faced challenging conditions in some of our main markets. Turnover reached CHF 8,684.9 million versus CHF 8,377.4 million in 2017, a growth of 3.7%, and EBITDA grew by 3.3% to CHF 1,040.3 million in 2018 from CHF 1,007.1 million one year earlier. Free cash flow reached CHF 617.1 million, 32.1% higher than in 2017.

While in the first semester of the year, we saw good organic growth in almost all locations and global growth reached 5.5%, we experienced a deceleration in the second half of 2018 in some of our key markets, particularly in South America and Spain. As a result, and despite the adverse conditions in the year under review, Dufry continued to grow organically by 2.7% in the full year 2018. Growth in Spain slowed down, driven by a shift in tourist flows from Spain to other Mediterranean destinations, and in Latin America, currency devaluations – notably in Brazil and Argentina – affected the purchasing power of these important nationalities. Conversely, we performed well in a significant number of other markets, with strong growth in Turkey and most markets in the Middle East, Asia and Australia, as well as North America showing a very robust development. Overall, 2018 confirmed once more that geographical diversification helps to mitigate risks from external factors.

In addition, we saw a remarkable acceleration in new concession wins in several channels. Dufry added important new contracts in airports, cruise

2,300

Dufry is a real global player operating over 2,300 shops throughout all six continents.

lines and ferries, and signed agreements to run duty-free shops in locations such as Hong Kong and Perth, and on Holland America Line, Norwegian Cruise Line and P&O Ferries vessels.

Business Operating Model fully implemented.

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By year-end 2018, we finalized the implementation of the new Business Operating Model (BOM) as expected. The BOM is aimed at standardizing processes, procedures and IT systems, introducing best practices across the Group and in general at further aligning and standardizing the way we work as a company. This setup allows for fast response to changing market requirements, while securing efficient coordination across the whole organization. By implementing the program, we secured the delivery of the expected CHF 50 million in efficiencies, of which CHF 40 million are already included in the 2018 results, while the remaining CHF 10 million will be reflected in 2019.

Resilient cash flow generation confirmed

The 2018 business year is a good example of our capability to generate resilient operational cash flows despite challenging conditions. In 2018 we reached a new record, with free cash flow amounting to CHF 617.1 million and an equity free cash flow of CHF 370.8 million, almost the double recorded in the previous year. This is a remarkable performance and it allowed us to further reduce our net debt during 2018 by CHF 400.8 million in total.

Dufry executed a significant number of global marketing initiatives

In order to drive organic growth through our operations, we have intensified bilateral collaboration with our most important global brand partners. In particular, Dufry has been fostering the introduction of exclusive products, limited editions and novelties. By developing products sold only in travel retail – or increasingly exclusively in Dufry shops – we can create that sense of uniqueness and individuality, that raises brand value, drives sales and provides customers with memorable experiences. Ultimately, it is a great way to differentiate from online or high street retail.

Resilient strong cash flow generation.

Securing future business through the expansion and refurbishment of retail space

In 2018, we successfully secured future business by further increasing our retail space, extending important concessions and winning new contracts, thus once more demonstrating our leading position in the industry.

The first major highlight among our new contracts is our important expansion in Asia, where we won the concession to operate duty-free shops at the new West Kowloon train station. Operated by MTR, this express railway connects Hong Kong with Mainland China (Shenzhen) through its high-speed rail network. Furthermore, we opened the much-anticipated downtown operation in Genting Highlands, an integrated resort located northeast of Kuala Lumpur. Last but not

least, we added another operation to our portfolio in Australia with the duty-free stores at Perth Airport, which allows us to increase our footprint in the Southern Hemisphere.

Another step towards our Asia expansion.

Secondly, in line with our strategy, we considerably expanded our cruise ship and ferry business with the addition of 16 new ships and a total of 48 shops. This includes shops on ten Holland America Line vessels, the duty-free shops on board the BLISS (Norwegian Cruise Line) as well as on the Carnival Inspiration of Carnival Cruise Lines. Moreover, Dufrey signed a contract to operate shops on board 15 P&O Ferries crossing the English Channel as well the Northern and the Irish Seas.

Adding new locations to our global footprint is important 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 may go beyond our presence in airports.

Important contract wins and extensions across channels.

The second key element of our 2018 business development was the early renewal and extension of existing contracts. After already renewing important operations in the UK in 2017, in the year under review Dufrey successfully extended its Gatwick concession until 2025. The Hudson team was also successful renewing important concessions, such as Pittsburg for an additional 10 years, LaGuardia for 4 years and Boston for an additional 10 years, to mention a few.

Moreover, we continued to deploy our shop refurbishment plan, as this is one of the most effective means of driving sales within a given retail space. The total retail space refurbished in 2018 included over 34,000 m² in over 90 shops across all our divisions. In this context it is worth mentioning the refurbishments carried out in Malaga, Antalya, Toulouse, Heraklion, London Heathrow T3 (New Generation Store), Glasgow, Bali, Cancun T3 (New Generation Store) and Atlanta.

Overall, we expanded our gross retail space in 2018 by 26,800 m², with Latin America and Asia, the Middle East and Australia accounting for the largest portion of this, followed by North America and then Southern Europe and Africa. Moreover, we currently already have 19,800 m² of signed space that will open in 2019 and 2020.

Despite headwinds in certain markets in 2018, Dufrey has a strong strategic positioning with a broad portfolio of high-quality concessions across many markets in a sector with positive fundamentals. Our focus continues to be the delivery of solid long-term results for our shareholders.

Digital Strategy – Enhancing customer experience to drive sales

Dufrey's digital strategy aims at driving sales by using digital technology to increase the number of touchpoints and customer engagement, as well as providing employees on the shop floor with digital tools to better serve and interact with customers to improve their shopping experience. Besides an intensified market research effort, our digital strategy is built on three major elements that allow us to connect with our customers from the moment they plan their trip until they get back to their home airport.

Improving communication with customers through digitalization.

In 2018 we progressed well with each element and made some significant steps with the rollout of our different work streams. The cornerstone of our digital strategy is the new generation store. After a first wave of implementations of the concept in 2017 in Melbourne, Madrid and Cancun T4, we continued the rollout in Zurich, Heathrow T3 and Cancun T3. The new generation stores provide a stronger 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 the sending of 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 and it is currently available in 200 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 153 airports around the globe. Last but not least, at the end of 2018, we also launched our new on-line platform Forum by Dufry, which connects all of our digital dots and adds emotion and experience with content provided by brands, bloggers and influencers, highlighting the attractiveness of the travel retail channel. The Forum provides access to our Reserve & Collect websites as well as to RED by Dufry, completing the circle.

One of the key advantages of travel retail is that, by definition, our customers come to us. Unlike the high street, we do not need to attract customers to our locations, they are there to travel. As such, our digital strategy does not seek to replace the physical shop and personal interaction. Quite the opposite, those remain to be key elements, while digital initiatives contribute for an enhanced experience and facilitate our communication with the customer.

Full impact of strategic initiatives in 2019

We faced difficult external conditions in some regions in 2018, but remain optimistic about Dufry’s ability to deliver mid- and long-term sustainable growth. The situation in 2019 remains uncertain, but we are confident that the consolidation of our BOM and the global digital and marketing initiatives launched in 2018, will – along with the reorganization announced at the beginning of 2019 – support the acceleration of our organic growth in 2019, despite the strong Q1 2018 comparables.

New organization announced in January 2019

In January 2019 we announced a new organization to reflect developments made thanks to the BOM. As this process has now been completed and the setup of the local operations has been aligned, we can further simplify our organization, drive market agility with full customer focus, generate additional efficiencies at headquarter level, and accelerate organic growth. Changes include the regrouping of the former divisions Southern Europe & Africa and UK & Central Europe into the new division Europe & Africa. Moreover, the new structure will also further integrate the commercial and corporate teams at divisional and headquarter level. We also plan to invest further in sales staff and sales incentive programs. In the context of the new organization, the Divisional CEOs will join the Global Executive Committee.

Thank you

2018 proved to be a challenging year for Dufry, but we delivered resilient results. Besides managing the daily business, the teams made a major effort implementing the BOM throughout the whole year – a task that involved countries, divisions and headquarters alike and requested a tight collaboration. I would therefore like to thank all our colleagues and teams across all functions and operations for their strong contribution and their engagement in accomplishing 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 the level of collaboration intensifying along the value chain of travel retail, which we consider to be key to our mutual success, also going forward. We are looking forward to continuing to develop 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