UNDERSTANDING OUR OPERATING ENVIRONMENT

SPAR Switzerland is a relatively small player in the Swiss market and currently holds a 2.5% market share. The grocery market is dominated by Migros and Coop.

Interest rates and core deflation remained neutral and stable in 2018. Despite a slight devaluation of the Swiss franc (CHF) against the euro, this has not been sufficient to negate the attraction of cross-border shopping prevalent across Switzerland. Many potential customers continue shopping across the Swiss border where they have greater buying power and where goods can be bought at significantly reduced prices – and free of value-added tax. Swiss import tariffs and trade protection further drive up prices significantly with the result that Switzerland is more than 50% more expensive for an average shopping basket than our neighbouring EU countries. This gives further momentum to the cross-border shopping trend. Estimates are that in excess of CHF 14.2 billion of retail spend bleeds across the border every year given the substantial price differentials that exist.

In an effort to mitigate this, we have started benchmarking with SPAR Austria to identify opportunities to reduce the net landed costs into our distribution centre. This is an extremely complex process given the legislation and tariff structures in place, but early signs are promising. Further to this we are also exploring collaboration with global suppliers to open more cost-effective supply into Switzerland through their international sourcing capacity with a big focus on our house brand categories.

Expansionary growth in German-speaking Switzerland has been limited due to local rules in site approvals resulting in delays. Organic growth relies on SPAR driving the convenience differentiation in all elements of our business with a focus on advertising, range expansion in Fresh, store design and in-store execution.
OUR PROFILE IN SWITZERLAND

“Our intent is to develop the SPAR brand DNA to represent the most admired convenience food offering in the German-speaking part of Switzerland.”

SPAR Switzerland has a multi-brand retail strategy in German-speaking Switzerland, serving 39 corporate and 142 independent retailer stores under the SPAR banner. There are two formats under the SPAR brand, namely SPAR, which is aimed at neighbourhood shopping, and SPAR Express, which is for forecourt convenience and high-frequency commuter type shopping. Our six TopCC stores provide a direct, wholesale and cash-and-carry service catering specifically to the restaurant and business trade and not the general public as this is not permissible under Swiss law. Altogether, the 181 SPAR and SPAR Express, six TopCC and 128 MAXI stores comprise the 315 stores serviced out of our distribution centre in St Gallen.

SPAR Switzerland’s national distribution centre is a modern logistics centre supplying 8 300 ambient and 2 240 chilled product stock-keeping units.

SPAR neighbourhood stores offer a range of between 7 000 and 12 000 products, depending on the size of the store. The category assortment for Fresh generally constitutes 44% of the product range. SPAR Express stocks between 2 500 and 3 000 products, and TopCC has a product range of 18 000 products, making it one of the largest players in the Swiss cash-and-carry market.

With the average SPAR Switzerland store at 200 m² to 500 m², our stores lend themselves to the convenience store model, which does not compete purely on price, but on accessibility, quality and profit-generating specialised items like convenience foods and coffee.

Find our store profiles here and read more about the distribution centre here.
OPERATIONAL OVERVIEW

SPAR Switzerland maintained a steady improvement in its financial position since the turnaround achieved in 2017.

Retail turnover is slightly down compared to last year given the strategic closure of six loss-making stores since February 2017 as well as the pressure on the restaurant and business trade that supports our cash and carry operations, which has seen significant closures and liquidations in the year. Our most significant challenge remains the ability to drive top-line growth in the context of a flat economy.

Expense and margin management was exceptional, resulting in a solid profit after tax of CHF6.3 million for the year (2017: CHF2.5 million). Read more about Switzerland’s financial performance here.

A strong focus on the implementation of category management resulted in significant improvements in demand-based planning which supported a dramatic reduction in stock levels. The latter was especially effective in terms of promotional stocks. Category management has been implemented at 69 stores and two TopCC stores, and is expected to be completed for all stores within 24 months. At the distribution centre, this resulted in revised range requirements and the elimination of stock-keeping units.

The successful category management rollout impacted volumes of cases despatched negatively, which was exacerbated by the closure of stores. However, the improvement in cash flow, increased profits and increased consumer basket spend negated reduced volumes.

Three new SPAR stores opened this year and we gained a supply contract for a further 27 stores trading under their own brand in the French-speaking area of Switzerland. 19 stores were refurbished of which seven involved major upgrades.

Our store disposal drive has slowed down due to the extensive funding required to facilitate these deals. We anticipated 10 closures but only achieved four. We continue to explore the feasibility of further closures.

Significant progress and savings were made in our people and supply chain costs. We optimised our workforce following the sale of several underperforming corporate stores. Warehouse productivity improvements followed from an initiative to start using rolltainers - saving warehouse space and transport costs.
Although we continue to reduce the frequency of deliveries, the launch of Fresh To Go and the commencement of supply to a new group of stores in the Western part of Switzerland, limited potential cost savings.

A new transport management and fleet optimisation system is on track to be introduced in October this year to further improve efficiencies. This, combined with backhaul and one-way load opportunities, as well as the use of rail transport to remote areas, will allow us to further reduce and optimise distribution costs.

A master plan for capital expenditure over the next ten years has been approved by the board. This will ensure that we maintain and upgrade facilities according to a long-term, phased and returns-driven plan.

SPAR Switzerland focuses on delivering value through Fresh, and providing a wide selection of quality meats, wines, and day-to-day grocery products at a competitive price in the convenience market. To support this position, SPAR Switzerland launched the first SPAR Natural concept which focuses on healthy eating, organics, vegan and vegetarian options as well as supplements. The Fresh To Go brand was launched in May, emphasising freshly prepared, tasty and healthy daily take home meals. The offering will be expanded following early successes. An in-store liquor and wine concept is set to be launched in 2019.

Our relationship with SPAR South Africa is particularly important in new product and concept launches as we can test and adapt South African versions without incurring research and development costs. Examples of this include the Win A Car competition, the SPAR Friends loyalty programme, fleet planning and in-store concepts such as Beantree@SPAR.

Having developed an omni-channel and online delivery strategy in 2017, aimed at cost-effectiveness and practicality, a TopCC store was used as a pilot this year. This provides a platform for future expansion into the SPAR network. On completion of the pilot, the capability will be rolled out to the balance of TopCC outlets.

SPAR Switzerland’s omni-channel strategy includes an integrated ordering and delivery system through our internet shop, which is fully integrated in the SAP IT environment. Customers can order quickly and conveniently, and delivery takes place directly through our own truck fleet, with click-and-collect also as a potential future option.

As the current challenging economic conditions are expected to prevail over the medium term, we are focusing on creating additional revenue streams through our Fresh and convenience offerings. The Fresh To Go range realised an additional CHF 1 million in sales in the first six week after being launched - a successful driver for further growth.
2017 FOCUS AREA

Improving our retail execution and performance to achieve the required returns. This will be supported by SPAR Switzerland’s world-class distribution capability and support services, and with the recognition that this will take some time to achieve.

Going forward, SPAR Switzerland will build trust and strengthen our relationships with our retailers thereby involving them in our decision-making processes and strategy.

We will focus on quality and convenience and cluster our stores based on consumer needs defining hero categories per cluster, as well as creating convenience driven solutions for our retail stores.

In terms of category management, we will perform continuous range reviews to align with customer needs, use data and analytics to determine Swiss consumer segments and their needs and position our stores and product offering based on these customised needs.

SPAR Switzerland plans to host joint business planning sessions with our major suppliers to focus on the collective opportunities that exist to eliminate waste in the supply chain and share the benefits that accrue.

In line with our new strategy, an employee culture programme, to bed down our purpose values and vision, is in the planning stages and almost ready for roll-out.

EXAMPLES OF PROGRESS AND CHALLENGES IN 2018

Distribution centre and retail profitability increased substantially in the past year. Sustained success depends on the ability to develop and expand our store base despite exceptionally high construction and refurbishment costs.

We have been sharing our vision and strategy with all our retailers and at our members’ meetings. We established a Marketing Committee and encouraged more involvement and decision-making support from the guild – historically not the case. Travel incentives and exposure to South African retailers and conventions help us shift the culture of the business.

The evolution and success of concepts such as Beantree@SPAR and Fresh To Go are evidence of progress. 43 Beantree@SPAR concepts were launched. SPAR advertising also assists by emphasising our convenience driven strategy.

The implementation of category management resulted in more customised ranges based on consumer needs. We launched the Spar Friends programme as a loyalty platform that is critical for future growth. By combining the launch with a Win A Car competition, we registered 123 000 customers. Since the launch we achieved a 21% contribution to retail turnover from card holders due to our ability to customise our offering. The average card holder basket is also significantly higher in value than those of non-card holders.

Joint business planning commenced with one of our biggest suppliers, and significant opportunities have been identified for joint savings. Unilever has been lined up to further progress this initiative and through 2019 we will expand this project to maximise its potential across our supplier network.

The very heart of our business remains our values and culture, which underpin all that we do. The employee culture programme was launched and activities to embed this is underway.
FOCUS AREAS IN SWITZERLAND

SPAR PRIORITIES FOR 2019

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SWITZERLAND RETAILER PRIORITIES FOR 2019

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OUR FOCUS ON HUMAN, SOCIAL AND RELATIONSHIP CAPITAL

SPAR Switzerland has been involved in the Swiss retail landscape for almost 30 years and remains committed to adding value to the communities in which we operate.

We strive to deliver outstanding service and excellent product offerings, while simultaneously working towards social and environmental prosperity for all. We are involved in ongoing initiatives to strengthen the SPAR brand and enhance the reputation of SPAR Switzerland in the minds of stakeholders.

INVESTING IN OUR COMMUNITIES

Our marketing approach is directed by “Being the good neighbour” which features a strong social responsibility and sponsoring foundation. Through our community investment projects, we apply our core values and develop our reputation as a responsible and involved corporate citizen. SPAR Switzerland sponsors a number of festivals and sporting and recreational events to encourage active, healthy lifestyles, including a Good Neighbours Day.

Most of the projects undertaken this year were aimed at enhancing this positioning with our employees, retailers and consumers. In this way we enhance our neighbourhoods’ loyalty to their local SPAR. These included a Kids Flight day in association with the Swiss Children Cancer Association, which we have been supporting for many years. We sponsored a ladies running/walking series in several towns and cities, as well as Swiss handball.

OUR EMPLOYEES AS AN ASSET

One of our focus areas is fostering motivated and empowered people. We strive to provide our employees with a working environment that nurtures career growth and development. We conduct biannual employee surveys to monitor and manage employee concerns and expectations to ensure we can attract, retain and develop our talent pool.
EMPLOYEE DEVELOPMENT

We continually invest in the development of our people: our apprenticeships, for example, are a valuable differentiator. Our extensive training program this year included 103 learnerships and initiatives such as:

- Category management training
- Productivity and efficiency training
- Health and safety training
- English and German language training
- Service department courses
- Specialist functional training
- Employees bursaries in their field of expertise

The launch of e-learning has been delayed due to the extent of translation and customisation required and will be completed in 2019.

Read more about our employees in the section on material relationships.

HEALTH AND SAFETY

The health and safety of SPAR Switzerland’s employees is critical to the success of our business and to safeguard employee health and wellness, SPAR Switzerland subsidises employees’ annual medical check-ups. This initiative is particularly important for our more senior employees, who provide leadership and expertise within the organisation. We subscribe to all the legislated requirements for health and safety and are audited accordingly.

FOOD SAFETY FOCUS

SPAR Switzerland ensures that the highest standards of food safety are maintained. We have a dedicated quality control department to monitor food safety, and inspections are done in collaboration with local food inspectors who are employed by the Swiss government. In addition, we provide our employees with courses and training on food safety, when necessary.
OUR FOCUS ON MANUFACTURING AND NATURAL CAPITAL IN THE SUPPLY CHAIN

Environmental initiatives are developed to yield commercial gains and environmental welfare, and include enhancements to our fleet, as well as energy- and waste-reduction programmes to make our distribution operations more environmentally friendly.

Supply chain optimisation and logistics remain the most significant improvement opportunities in the business and a significant amount of resources and effort have been focused on addressing these. All drivers have and continue to receive environmentally friendly driving techniques and we have on-board monitoring to measure performance.

Our PET recycling plant is operational and working well while order and pack size optimisation efforts are underway to reduce waste.

We were the first in Switzerland to use hybrid trucking since 2012, starting with Volvo, and more recently we have started using Scania hybrid vehicles. This represents a CO₂ emission saving of 13 000 kg per annum and through using a combination of road and rail transport we save a further 45 000 kg per annum. This amounts to a total saving of 58 tons per annum in fleet CO₂.

The aim is to continue to rely on latest technologies in the future and thereby make an active contribution to lessening our impact on the environment.