FOCUS ON
IRELAND

THE DEVELOPMENT OF A NEW HEALTH AND WELL-BEING FOOD CONCEPT, NAMELY SPAR’S BETTER CHOICES CAMPAIGN, ENCOURAGES CONSUMERS TO MAKE HEALTHY SHOPPING CHOICES.

FINANCIAL OVERVIEW
BWG performed well, achieving sales growth across all retail brands. Turnover increased by 36.8% to R23.1 billion (2015: R16.9 billion), representing 25.5% of overall group turnover. Consumer spend has shown a positive increase in comparison to 2015. However, disparity in economic growth across the country affected performance. While consumer activity in urban areas indicates continued recovery from the global economic recession, rural areas remain a challenge.

Intense competition in the Irish grocery retail sector further compounded tough trading conditions, limiting opportunities for cost recovery and the scope of retail investment. Ireland continues to experience a deflationary trend, with competition for market share resulting in businesses throughout the supply chain absorbing increased import prices while lowering retail prices. Against this backdrop, food and non-alcoholic drinks deflation of more than -1.1% and alcohol deflation of -3.7% was recorded.

BWG’s gross margin increased to 10.8% (2015: 10.5%), Operating profit amounted to R433.4 million (2015: R306.4 million), representing 16.8% of the group’s operating profit.

OPERATIONAL OVERVIEW
BWG operates a multi-brand retail strategy, which includes SPAR, MACE, XL and Londis, and is the market leader in convenience retail in Ireland, with approximately 40.0% market share.

There are three main offerings within the SPAR brand. SPAR provides neighbourhood shopping, with central locations and extended shopping hours to maximise convenience. SPAR Express targets on-the-go, forecourt shoppers, and EUROSPAR provides supermarket shopping.

SPAR and SPAR Express showed pleasing growth and remain the brand of choice for many independent retailers – demonstrated by the opening of 22 new stores during the year. The SPAR house brand delivered growth of 3.5% in 2016. The new premium house brand, SPAR Select, which was introduced in 2016, has been well received, with good distribution among the larger-format stores. SPAR Select was also the winner of two product quality awards, and the brand is anticipated to deliver solid returns in the coming year.

The development of a new health and well-being food concept, namely SPAR’s Better Choices Campaign, encourages consumers to make healthy shopping choices. This campaign is aligned with the development of the Fresh Choice brand for fruit and vegetables, available to all BWG retail brands. The Fresh Choice brand delivered growth of 81% in 2016, with annual turnover of R129.7 million. The introduction of four new ranges within the Fresh Choice brand, accounted for over R32.9 million in incremental retail sales.

A new consumer strategy was developed for EUROSPAR and launched during the year. This strategy focuses on delivering value against EUROSPAR’s strategic objective to be ‘Famous for Fresh’. Following the launch of the first, new-look EUROSPAR concept store in June 2015, seven new stores have been involved in the investment programme. This programme introduces bakeries and fresh food ranges in-store, supported by a strong focus on refurbishments. The investments showed positive gains, with each of the seven stores delivering average retail sales growth of 10%.

MACE is the longest-established convenience shopping brand in Ireland. The MACE network includes community stores, as well as forecourt shopping, with a total of 226 stores around the country. MACE is particularly strong in the forecourt sector, with 152 forecourt stores. The XL brand is concentrated on a rural spread of smaller, independent stores that are serviced by the Value Centre Cash and Carry network. Retailers also have access to the BWG Group central billing supply network of direct store delivery, and the BWG chilled product distribution centre.

Londis has been fully integrated into the BWG Group. The Londis chilled product and produce supply chain was successfully migrated to the new Kilcarbery facility in Dublin. This has boosted the profitability of both Londis and BWG, as enhanced efficiency and productivity has been realised through consolidated deliveries and product moving through a single facility. Londis’s core business functions have been fully absorbed into the BWG Group, and the benefits of logistical and commercial synergies between the two businesses have been realised. This resulted in positive sales growth for Londis for the first time in eight years.
A new Londis store image was launched, with a strong focus on fresh food and produce. This formed part of a significant capital expenditure programme to address underspend in previous years. BWG’s premium coffee offering was introduced at 58 Londis locations, along with a new deli concept. It is anticipated that these offerings, supported by the new-look stores, will enhance sales and retailer margins.

BWG operates a successful wholesale business through its Value Centre Cash and Carry branch network. It delivered 7.3% growth, ahead of competitors, contributing approximately 25.4% (2015: 27.0%) of total turnover. A major offering includes the BWG Foodservice business, which produced strong year-on-year growth through new business developments and the awarding of new supply contracts. Two Value Centre Cash and Carry depots were consolidated during the year and moved to a new location, as the existing branches were unsuited for development.

BWG runs a world-class operating model from the national distribution centre in Kilcarbery, which services SPAR, SPAR Express, EUROSPAR, MACE and Value Centres for perishables, dry and liquor products. The transition of volumes from Londis and integration of the chilled product distribution facility has enabled BWG to offer retailers a greater multi-temperature product range with a combined multi-temperature delivery service. This has reduced delivery traffic and realised improved distribution efficiencies through better vehicle payload, reduction in kilometres travelled, and greater economies of scale. Appleby Westward services 309 SPAR stores (2015: 292) in South West England. The increase in stores is owed to the acquisition in June 2016 of Gilletts, a family-owned business operating 63 SPAR stores in South West England.

Capital expenditure of R17.3 million was invested in the roll-out of 128 ATMs across BWG’s company-owned SPAR stores. This is the first venture by SPAR Ireland into financial services. BWG has seen an increase in store footfall, with the initial investment delivering strong payback.

BWG introduced loyalty schemes for SPAR, EUROSPAR and MACE. This provides retailers with critical sales support, as consumers are encouraged to become increasingly loyal with a higher average spend per store visit. Retailers also benefit from an extensive marketing programme that is linked to print media, television, radio and digital advertising.

The relaunch of the Glenmor brand for fresh meat and poultry aims to deliver enhanced value for shoppers by providing ‘farm-to-fork’ traceability on red meat and poultry. The relaunch includes innovations in packaging to enhance presentation and shelf-life, as well as focus on maintaining quality standards and provenance of source, to improve retailer margins.
FOCUS ON IRELAND
(CONTINUED)

STORE FORMAT OVERVIEW
The Irish offering comprises mostly convenience stores, with EUROSPAR representing the supermarket format. Value Centre Cash and Carry provides a direct general wholesale supply service to the wider, independent retail grocery market. Wholesale brands include BWG Foodservice (servicing the Irish catering industry from three depots), and BWG Wine and Spirits (operating out of BWG’s national distribution centre).

SPAR
• Comprises SPAR (51,708 m² total selling area) and SPAR forecourt stores (26,889 m² total selling area)
• Neighbourhood and forecourt convenience
• Groceries, fresh produce, baked goods, coffee and liquor
• Comprehensive offering of snacking, ready-to-eat and on-the-go products

PERFORMANCE
• Opened 20 new stores
• Closed 17 stores
• Upgraded 53 stores

NUMBER OF STORES
<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
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<tr>
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</tr>
<tr>
<td>'15</td>
<td>385</td>
</tr>
<tr>
<td>'16</td>
<td>389</td>
</tr>
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</table>

EUROSPAR
• 34,863 m² total selling area
• Comprehensive range of groceries and general merchandise
• Fresh produce, in-store bakery, butchery, deli, ready-to-eat products and home-meal replacements

PERFORMANCE
• Opened 1 new store
• Closed 1 store
• Upgraded 10 stores

NUMBER OF STORES
<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
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<td>'15</td>
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<tr>
<td>'16</td>
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</table>
**PERFORMANCE**

- Founded in 1960
- 31 047 m² total selling area
- Neighbourhood and forecourt convenience
- Groceries, fresh produce, baked goods, coffee and liquor
- Comprehensive offering of snacking, ready-to-eat and on-the-go products

**MACE**

- Established in 1997, supplied primarily by Value Centre Cash and Carry
- 22 250 m² total selling area
- Smaller-scale convenience and neighbourhood store
- Comprehensive offering of snacking, ready-to-eat and on-the-go products

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>'12</td>
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<tr>
<td>'15</td>
<td>230</td>
</tr>
<tr>
<td>'16</td>
<td>226</td>
</tr>
</tbody>
</table>

**PERFORMANCE**

- Opened 13 new stores
- Closed 20 stores
- Upgraded 29 stores

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Stores</th>
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<td>'15</td>
<td>238</td>
</tr>
<tr>
<td>'16</td>
<td>240</td>
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</table>
Focus on Ireland

(continued)

Performance

- Opened 2 new stores
- Closed 12 stores
- Upgraded 25 stores, with 22 deli refits
- Roll-out of premium coffee offer complete in 58 stores

Number of stores

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
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<tbody>
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<td>2014</td>
<td>141</td>
</tr>
<tr>
<td>2015</td>
<td>139</td>
</tr>
<tr>
<td>2016</td>
<td>128</td>
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</table>

Focus on Ireland (continued)

DISTRIBUTION CENTRES

The national distribution centre services BWG’s retail and wholesale operations in Ireland, while the Appleby Westward facility services a chain of SPAR stores in England.

BWG GROUP

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2016</th>
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<tbody>
<tr>
<td>24 000 m² surface area</td>
<td>24 000 m²</td>
<td></td>
</tr>
<tr>
<td>21.8 million cases per annum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>161 agency employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>101 permanent employees</td>
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</table>

Number of stores serviced

<table>
<thead>
<tr>
<th>Store Type</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPAR</td>
<td>389</td>
<td>385</td>
</tr>
<tr>
<td>Londis</td>
<td>128</td>
<td>139</td>
</tr>
<tr>
<td>EUROSPAR</td>
<td>48</td>
<td>48</td>
</tr>
<tr>
<td>MACE</td>
<td>226</td>
<td>230</td>
</tr>
<tr>
<td>XL</td>
<td>240</td>
<td>238</td>
</tr>
<tr>
<td>Out of Appleby Westward</td>
<td>309</td>
<td>292</td>
</tr>
<tr>
<td>Total</td>
<td>1 340</td>
<td>1 332</td>
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</table>
TOP FIVE RISKS

<table>
<thead>
<tr>
<th>RISK</th>
<th>MITIGATING ACTIONS</th>
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</table>
| Competition in the grocery industry                                 | • Ongoing competition from established multinational and domestic brands that have size and scale places pressure on margins at retail and wholesale level. This requires increased investment in current retail footprint, targeting store design and securing new customers.  
• Enhancing our fresh food offering                                 |
| Changes in supply chain and withdrawal of suppliers from direct store distribution | • Investment in a technologically advanced chilled product facility at national distribution centre  
• Identifying further opportunities to improve our logistics operations  
• Continued focus on attaining the lowest cost to operate with an ongoing focus on delivering reductions in supply chain costs |
| Cost pressure (increasing labour and supply chain costs)            | • Capturing and delivering synergistic benefits from the Londis acquisition  
• Continued focus on overhead reductions and reducing the cost to serve  
• Introduction of a new retailing standards programme that is aligned with and supports the six pillars of the EUROSPAR strategy |
| Legislative changes affecting key categories – tobacco and liquor packaging and labelling requirements | • Lobbying through industry groups to minimise the potential impact of any changes on BWG’s wholesale and retail business  
• Membership of Responsible Retailing of Alcohol in Ireland (RRAI), a body charged with the implementation of a code of practice to govern responsible liquor retailing in mixed-trade outlets in Ireland |
| Customer loyalty                                                   | • Focused marketing campaigns and public sponsorships  
• Loyalty programmes to reward consumers for their return business |

APPLEBY WESTWARD LOGISTICS

Saltash ambient distribution centre

<table>
<thead>
<tr>
<th>Surface area</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>7,800 m²</td>
<td>7,209 m²</td>
<td>7,809 m²</td>
</tr>
<tr>
<td>10.0 million cases per annum</td>
<td>2015: 6.0 million</td>
<td>2016: N/A</td>
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</tbody>
</table>

APPLEBY WESTWARD LOGISTICS

Cullompton fresh produce distribution centre

<table>
<thead>
<tr>
<th>Surface area</th>
<th>2015</th>
<th>2016</th>
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</thead>
<tbody>
<tr>
<td>2,760 m²</td>
<td>2,616 m²</td>
<td>2,760 m²</td>
</tr>
<tr>
<td>4.5 million cases per annum</td>
<td>2015: 4.5 million</td>
<td>2016: 4.5 million</td>
</tr>
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</table>
FOCUS ON IRELAND
(CONTINUED)

SOCIAL SUSTAINABILITY REPORT

Irish retail is the country’s largest industry and largest private sector employer. It is therefore a critical contributor to the country’s economy. BWG has entrenched operating policies which govern its engagements with major stakeholders and comply with all relevant legislation.

COMMUNITY INVESTMENT

The National Children’s Hospital is BWG’s chosen charity partner. We work closely with retailers on outreach and fundraising campaigns in support of the hospital. Examples of BWG’s other major CSI initiatives include the recent partnership with the Bia Food Initiative. This partnership, involving the BWG Foods Trade Show, BWG Foodservice and the national distribution centre, aims to reduce food wastage in Ireland. In 2016, a total of 10 985 kg of food was redistributed to charities. This is the equivalent of 24 067 meals, with 35.1 tCO2e saved. BWG also continued our partnerships with Feeding Ireland’s Future, a joint venture with retailers, suppliers and service providers to offer pre-employment support to unemployed people between the ages of 18 and 24, and Business in the Community, where company representatives work with local schools to provide students with career advice and guidance on application skills and job interviews.

SPAR Ireland’s headline sponsorships are:
• Athletics Ireland
• Kitchen Hero, a national television programme
• Football Association of Ireland

Through these major sponsorships, the SPAR brand receives large-scale exposure and an association with health and wellness.

OUR EMPLOYEES

In a growth economy, the greatest people risk relates to recruitment and retention, which is exacerbated by wage inflation prevailing across most sectors. Ongoing pressure and lobbying to increase the minimum wage is impacting stable labour relations. It is likely that the increase in the minimum wage will be implemented, which will affect BWG’s labour costs. BWG maintains positive relations with the relevant unions and no significant labour issues occurred during 2016.

Health and safety

The health and safety of employees on-site is a highly regulated aspect of the business. We introduced a confidential employee assistance programme and developed a stress management policy to bolster employee wellbeing. The national distribution centre has on-site security 24 hours a day, with remote monitoring in place for burglar and fire-alarm activation. No material incidents were reported during the year.

Employee development

BWG is committed to employee learning and development, and continues to train all employees to ensure that they are adequately equipped to carry out tasks efficiently, safely and according to required standards.

Food safety

As a food retailer, BWG implements the highest practices to ensure the safety and quality of all products. This is measured according to six key areas:
• Retail employee training
• Food safety manuals
• Store audits
• Industry standards, emerging issues and liaising with government bodies
• Allergens
• Supplier approval

ENVIRONMENTAL SUSTAINABILITY REPORT

BWG introduced a number of innovative supply chain initiatives to make the distribution operations more environmentally friendly, resulting in reduced mileage and a vastly decreased carbon footprint. These include:
• Upgrading transport technology, including newer fleets to improve fuel utilisation
• Introducing drawbar trailers to improve vehicle payload and cube utilisation, as well as to reduce kilometres travelled
• Consolidating distribution with multi-temperature deliveries on one vehicle to retailers

To reduce the environmental impact of packaging waste generated by our daily operations, BWG supports the following initiatives:
• The national distribution centre recycles the equivalent of 10.33 tonnes of dry mix cardboard and plastic.
• BWG is a member of Repak, a business-led compliance scheme licensed by the Irish government to fund collectively the recovery and recycling of packaging on behalf of Irish producers. This is in line with the European Union Packaging Regulations, which require that suppliers and producers of packaging and packaged products fund the recovery of any used packaging. By joining Repak, BWG is fully compliant with legislation, and is not required to take back packaging for recycling.
FOCUS AREAS FOR 2016

The following table reflects our performance against our 2016 focus areas as stated in our previous report:

<table>
<thead>
<tr>
<th>PROGRESS IN 2016</th>
<th></th>
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</table>
| Bedding down the new chilled product warehousing facility at the national distribution centre | • Significant increase in year-on-year volumes were absorbed seamlessly into the national distribution centre  
• Significant reductions achieved in cost per case distribution, particularly on chilled product volumes  
• Delivery standards to retail consumers are now world-class |
| Integrating the Londis retail business, including transfer of supply chain and logistics to the national distribution centre | • Project was complete on budget and ahead of schedule. Volumes are not yet fully integrated into the national distribution centre |
| Returning to like-for-like top-line growth in the retail business | • All retail brands experienced year-on-year growth in 2016, with the economy returning to a growth cycle |
| Continuing support of retailers to achieve profitability growth | • Retailer profitability remains a key focus area. In 2016, BWG introduced a number of initiatives to improve retailer profitability, including:  
  - Improved retailer rebates  
  - Increased focus of retailers on the retailer benefit programme  
  - Cost of goods reductions based on exchange rate variance  
  - Relaunch of the Glenmor brand will deliver significant value for retailers and retail customers through lower cost of goods, improved rate of sale and enhanced traceability |
| Leveraging increased focus on house brands | • Increased focus delivered across all house brands. For example:  
  - SPAR and MACE brands continue ahead of the competitor set  
  - Relaunch of the Glenmor brand  
  - Development and roll-out of new ranges under Fresh Choice, delivering new and incremental sales |

FOCUS AREAS FOR 2017

BWG’s priorities for 2017 include:
- Investigating potential acquisition opportunities
- Monitoring and mitigating the risk of Brexit
- Continuing like-for-like, top-line growth in the retail business
- Continuing to support retailers to achieve top-line and profitability growth
- Ongoing capital investment across the entire retail estate, with a focus on IT security infrastructure
- Opening of the new consolidated cash-and-carry depot
- Continuing growth of BWG Foodservices by successfully winning new supply contracts