Sligro FOOD GROUP N.V.

Annual report 2013


best butcher
best bakery
Emté
Net sales 2.5 billion
Dividend 1.05 per share
Net profit 68 million
Best wholesaler
EMTÉ
Sligro

Contents

Foreword
KOEN SLIPPENS

The Dutch economy showed two faces in 2013, with signs of macro-economic improvement especially in the second half of the year. There were enough positive indicators to give grounds for some optimism.

Koen Slippens
CEO Sligro Food Group

Economy

However improvement in the national economy does not automatically mean that the effects are immediately felt by Dutch consumers, because the positive trend is being driven mainly by exports and international activity. This has been in evidence for some time in southern Europe and we are now also experiencing it in the Netherlands.

Since the summer, consumers have also been reducing their expenditure on food, as household budgets are squeezed by the continuing decline in real disposable incomes in the Netherlands. Consumers are discovering that they can also save on food, in euros if not in calories. With growing numbers of people finding that their salaries are not lasting the month, this is gradually impacting on the supermarket sector as well. Never before has the combined sales of all the supermarkets in the Netherlands fallen month after month compared with the previous year.

Market

This trend has been in evidence for some time in the foodservice market, where we have witnessed a steady annual decline in spending in recent years. Much of this decline is probably due to buying more cheaply on the food retail market, as well as down-trading in the foodservice segment. As a consequence of this and the capture of market share from specialist retail outlets, supermarkets have suffered relatively little from the fall in disposable incomes in recent years. Consumers want cheaper alternatives, which partly explains the success of the budget OK€ brand we launched in 2013.

For the first time since 2008, the market share of the hard discounters increased sharply in 2013. That is not surprising now that the government's 'economies' are being felt so strongly by those whose incomes are just above the minimum. With our large market share in the foodservice market and EMTÉ's positioning as a full-service supermarket, this has affected us slightly more relative to the total reduction in food spending.

As a result of these developments, we estimate that volumes in the supermarket channel remained fairly stable in 2013. Consumer sales grew by 1.8%, but that includes the VAT increase which came into force on 1 October 2012. We estimate that the foodservice market shrank by 4.5% in volume and 2.5% (including the VAT rise) in consumer euros.

New reality

Fortunately, we decided in 2013 to 'Switch on!'. We see the current climate as the new economic reality and do not expect it to change significantly going forward. The challenge, therefore, is to be successful in this new reality. In times of crisis you try to redistribute the cake, but in the new reality you try to make the cake bigger. In some cases, you can ultimately achieve more cake for all.

Food retail medium-term plan

Within Sligro Food Group, we are focusing in our medium-term plan for EMTÉ mainly on improving existing operations which do not require heavy investment. We worked hard last year on our plans to strengthen our foundations and stimulate growth in our existing activities. These are discussed in the section on our food retail business (from page 23 onwards). Despite the market leader's highly competitive pricing in the latter part of the year, we made satisfactory progress and we are confident of achieving our objectives. A key element is the new loyalty programme which we will be launching in 2014. We also plan to focus even more closely in the coming year on our positioning as a supplier of good food and on cutting our costs to achieve the competitive level we seek.

Foodservice

While we are confident that Sligro and Van Hoeckel can cope well with the challenging market conditions, we may not be able to avoid some erosion of our results. We shall aim to strike a balance between short-term results and sustained growth in market share, thus between

costs and optimum customer focus. Our priority will be our market position in the medium term, focusing on structural growth in profitability while maintaining the right balance with short-term results. The Van Oers acquisition enabled us to make faster progress and increase our market share in 2013 to 21.2%. The recently announced acquisitions of Rooswinkel and Horeca Totaal Sluis, which together will generate around €50 million of additional sales per year, are the next steps in that strategy and there may well be further moves towards consolidation. We shall therefore continue to invest actively in our market position and in our outlets, logistics and ICT infrastructure.

Profit share

For at least a decade, our foodservice business has achieved organic growth in market share of between a half and three-quarters of a percentage point per year and we are advancing steadily towards a market share of 30%, which is our longer-term target. In 2011, with a market share of close to 20%, we achieved a share of around 50% of the profit of the business sector as a whole. Although our result has been under pressure since then, it is quite possible that our 'profit share' has continued to grow.

CSR

Making profit is not an end in itself for our business, but an outcome. But this does not mean the outcome has been lower than it would have been if profit had been our objective. Corporate social responsibility (CSR) is not a limiting factor, but rather the opposite. For example, we are working hard to reduce our energy consumption and CO_2 emissions, which is good both for the environment and for our earnings. It does not mean that corporate social responsibility costs nothing, because we invest millions of euros a year in CSR. It goes without saying that an acceptable payback time for all our CSR programmes together is a precondition.

In 2012 we explicitly made CSR a feature of our corporate agenda. We are pleased to report that this challenge has been taken up just as actively as, for example, our drive to improve customer satisfaction and raise labour productivity. It is one of our objectives and we are pursuing it with vigour. It fits in with our culture and is part of our 'green DNA'.

EMTÉ

EMTÉ again outperformed the market in 2013, with like-for-like growth of 1.9%. EMTÉ is one of the few full-service supermarkets which managed to grow faster than the market, because a large proportion of the market growth was due to the hard discounters. The former Sanders outlets and our franchisees also achieved above-average growth. What has changed most for EMTÉ in recent years has been the attitude within our group. There was a little too much emphasis in the past on the differences between supermarkets and the foodservice business and why supermarkets could not do certain things. Now we are looking much more closely at Sligro's successes, to learn whether they can be repeated at EMTÉ. That is greatly benefiting not just EMTÉ but also Sligro, the reason being that supermarkets in general are better than foodservice businesses in terms of professionalism because they have had to cope with the competitive pressure for many years. The internal synergy within the group or, as we describe it in terms of our cultural attributes, our Strength in Unity, has grown significantly. Having been acclaimed as the most customer-friendly supermarket in 2012, EMTÉ received several more inspiring and valued awards in 2013. EMTÉ was found to have the best bakery and butchery departments of all supermarkets in the Netherlands and we were placed second in the overall fresh-food ranking. Two stores, EMTÉ Kloosterzande and EMTÉ Oudewater, were chosen as the best supermarkets in their province and are currently competing to win the title of the best supermarket in the Netherlands. And lastly, EMTÉ was the supermarket showing the fastest improvement, with a place in the top five of the GfK Christmas Report in all individual aspects.

Sligro

Sligro again outperformed the market by a clear margin. With organic growth of 0.6%, excluding the VAT effect on tobacco products, we grew around 3% faster than the market, extending for another year our long-term track record of outperformance. Sligro also won the first Foodservice Award in the wholesaler category and we were particularly pleased with our top 3 ranking on all individual assessment criteria. We made good progress in 2013 with the Sligro 3.0 revitalisation project, which will have a far more visible impact in the course of 2014, starting with the brand-new Sligro location in Maastricht.

The commissioning of our new delivery-service distribution centre in Venray fully met our expectations and, thanks to excellent preparation by the team responsible, passed off without a hitch. Our former delivery activities in Maastricht and Haps have been brought together at this location and customers have been transferred from Gilze, where we now have enough space for further growth. The acquisition of Rooswinkel will fill most of the still unused capacity. Investments of this kind rapidly lead to cost savings, quality improvements and a return on CSR.

At the end of 2014 we are planning to undertake a similar commissioning operation in the municipality of Lansingerland, where a very modern 18,000 m^2 delivery centre is currently under construction on a 40,000 m^2 site with room for future expansion. The existing distribution centres in The Hague and Barendrecht will be replaced by the new centre at this location, conveniently coinciding with the expiry of these two leases. The commissioning of this new distribution centre will, at least for the time being, complete our investments in the logistics infrastructure for our delivery-service operation. Of course, we always live in hope that growth in our business will necessitate further capacity expansion.

Sales and profit

Group sales rose 1.3% to €2,498 million in 2013 and we achieved organic growth of 0.9%, excluding the VAT effect on tobacco products. Our food retail business reported an improvement in operating result, although this levelled off in the second half of the year, reflecting the additional pressure on prices referred to above. Foodservice's operating result was also under some pressure from the challenging market conditions, the cost of integrating Van Oers and the increased pension costs due to changes in the accounting rules which apply mostly to foodservice. The group's total operating result stabilised at €89 million.

Reflecting the reduced contribution made by associated companies, group net profit was slightly lower in 2013, down 0.9% to €68 million. As in 2012, the free cash flow exceeded the net profit by a substantial margin, rising to a record €101 million from close to €96 million in 2012.

Dividend

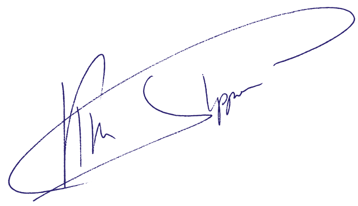
Because we consider our financial position to be very robust, we propose in accordance with our dividend policy to distribute an unchanged dividend of €1.05 per share, consisting of a regular dividend of €0.80 (2012: €0.80) and a variable dividend of €0.25 (2012: €0.25). We also propose, with a view to equalising the cash flow, to pay the dividend henceforth in two instalments as from 2014. We shall thus move to payment of an interim dividend, for the first time on 20 October 2014, the 25th anniversary of Sligro Food Group's stock exchange listing. We propose to set the interim dividend at half of the regular dividend for the previous year. In 2014, therefore, it will be €0.40 per share.

2014

Although there are signs of an economic recovery, we do not expect it to lead to a significant increase in the consumer spending that is relevant to us in 2014. The budgets of too many households are still too small to allow spending to grow and there are further cost-of-living rises on the way. We are not depressed or angry at this prospect: things are as they are. Our task is to do the best we can for all involved in our business: customers, shareholders, staff, suppliers and society in general (everyone is free to choose their preferred order of priority).

In 2013 we made a serious effort to 'switch on' on many fronts. By 'switching on' we mean having a clear vision that, in the new economic climate, you have to update your business model if you want to continue to be successful. I am proud of the way our business has taken up that challenge in the past year. It involves processes – many of them long-term – which will deliver visible results in the coming years. From the commercial business units at front of stage to the back-office organisation, we have chosen clearly and pragmatically to define our vision (from starting-point to destination), to plot our course, to facilitate our progress and to address the challenge with great energy and vigour. It is not, of course, an easy task and is difficult for the individual, but seldom in the past has our organisation taken up a challenge with such determination. We are confident we have the strength to grasp the many opportunities that will arise in the future.

The important thing is to strike the right balance: between the interests of all our stakeholders, between the short term and medium-to-long term, between cost saving and customer leadership, between short-term return and investment in the future and between market share and profit. In weighing the options, we shall ensure that the balance we strike will in any event enable us to continue making choices, because without a decent return we shall be dependent on choices made by others. Our motto for 2014 is therefore: 'Strike the right balance!' (In Dutch: Vind de balans!)



Koen Slippens,
CEO

Key figures

(Amounts x € million)

	2013	2012
Resultaat		
Net sales	2,498	2,467
EBITDA	142	142
EBITA	101	99
EBIT	89	89
Profit for the year	68	69
Net cash flow from operating activities	133	129
Free cash flow	101	96
Proposed dividend	46	46
Equity and liabilities		
Shareholders' equity	571	555
Net interest-bearing debt	38	69
Total equity and liabilities	1,006	968
Employees		
Year average (full-time equivalents)	5,829	5,848
Salaries, social security charges and pension costs	233	227
Ratios		
Year-on-year increase in sales %	1.3	1.9
Year-on-year increase in profit %	(0.9)	(11.1)
As percentage of sales:		
Gross margin	23.1	22.6
Gross operating profit	5.7	5.8
EBITA	4.0	4.0
EBIT	3.5	3.6
Profit for the year	2.7	2.8
Return as % of average shareholders' equity	12.1	12.5
Operating profit as % of average net capital employed	13.6	13.1
Net interest-bearing debt/EBITDA as %	26.7	48.8
Shareholders' equity as % of total equity and liabilities	56.8	57.3
Figures per €0.06 share		
Number of shares in issue (year-end x 1,000)	43,700	43,822

(Amounts x €)

Shareholders' equity	13.07	12.65
Profit after tax	1.55	1.56
Proposed dividend	1.05	1.05
Year-end share price	28.21	21.75

Profile

Sligro Food Group N.V. encompasses food retail and foodservice companies selling directly and indirectly to the entire Dutch food and beverages market. The Group is active in foodservice as a wholesaler and in food retail as a wholesaler and retailer.

Food retail

The food retail activities comprise around 130 full-service EMTÉ supermarkets, of which 30 are operated by independent retailers.

Foodservice

Sligro Food Group leads the Dutch foodservice market, with a nationwide network of cash & carry and delivery-service outlets serving large and small-scale hospitality establishments, leisure facilities, volume users, company and other caterers, forecourt retailers, small and medium-sized enterprises, smaller retail businesses and the institutional market.

The cash & carry operation has 46 Sligro wholesale outlets and the delivery operation has 10 delivery centres. On the institutional market, we trade under the Van Hoeckel name.

We also operate our own in-house production facilities for specialised convenience products, fish and patisserie and delicatessen items, as well as a meat-processing centre focusing on the retail market. Our Fresh Partners associates specialise in meat, game and poultry, fruit and vegetables and bread and bakery products.

Our customers have the choice of around 60,000 food and food-related non-food items.

We also offer a range of services, some on a franchise basis.

CIV Superunie B.A., a leading purchasing cooperative with a share of almost 30% of the Dutch supermarket sector, handles Sligro Food Group's food retail purchases. As market leader, the Group handles its own purchases of foodservice products. Sligro Food Group companies actively seek to share expertise and utilise the substantial scope for synergy and economies of scale.

Activities that are primarily customer-related take place at an individual operating company level, with behind-the-scenes management at a central level. We strive to increase our gross margins through joint purchasing, combined with direct and detailed margin management.

Operating expenses are reduced through ongoing tight cost control and a joint integral logistics strategy. Group synergy is further enhanced by joint ICT systems, joint management of property and Group management development.

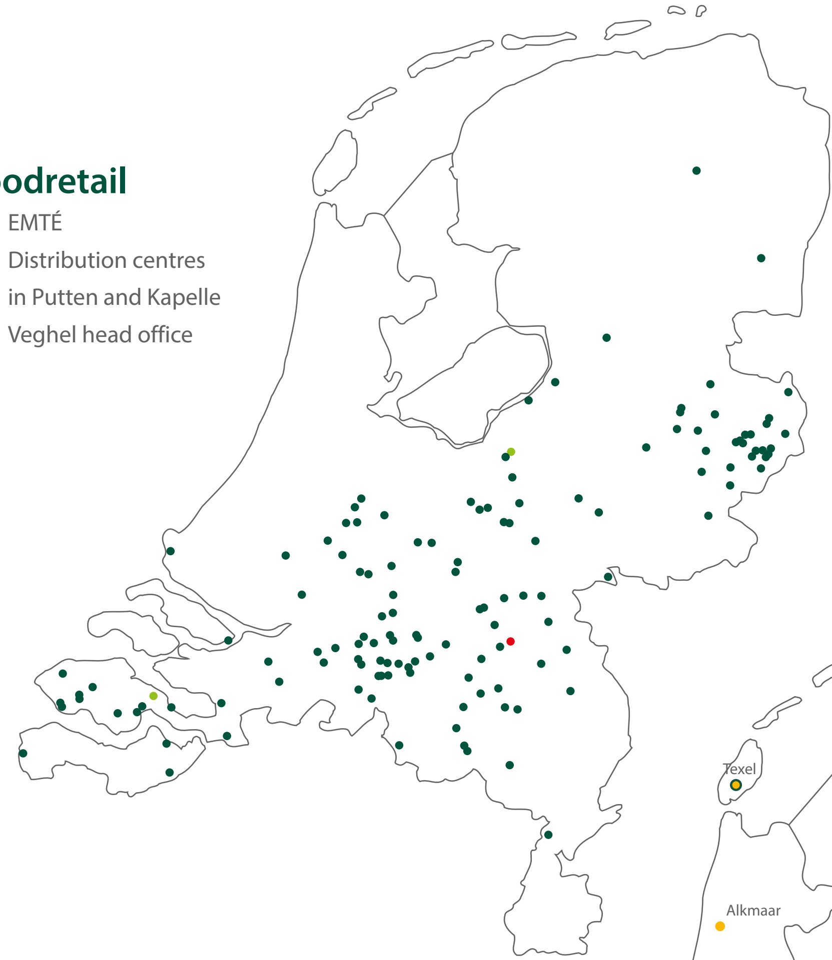
Sligro Food Group strives to be a high-quality company achieving steady, managed growth for all its stakeholders.

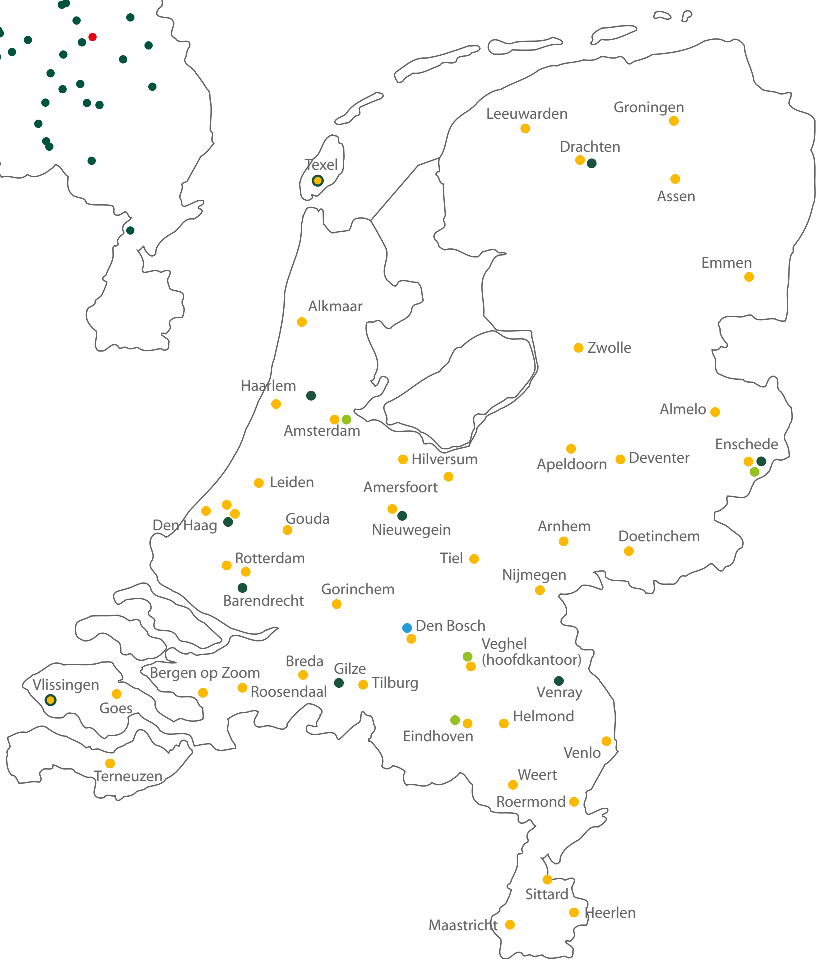
Sales in 2013 totalled €2.5 billion, generating a net profit of €68 million. The average number of full-time equivalent employees was just over 5,800. The Sligro Food Group shares are listed on Euronext Amsterdam.

Locations

Foodretail

- EMTÉ
- Distribution centres in Putten and Kapelle
- Veghel head office





Foodservice

- Sligro Cash & carry
- Sligro Delivery service
- Sligro Cash & carry/ Delivery service
- Van Hoeckel
- Production facilities

Important
DATES

Diary[1]

Final 2013 sales	2 January 2014
Final 2013 figures	23 January 2014
Press conference (11.00 AM)	23 January 2014
Analysts' meeting (13.30 PM)	23 January 2014
Publication of annual report	31 January 2014
Record date	19 February 2014
2013 Annual General Meeting at 11.00 AM at the company's offices, Corridor 11, Veghel	19 March 2014
Ex dividend date	21 March 2014
Record date	25 March 2014
Dividend available for payment	2 April 2014
Trading update	17 April 2014
2014 half-year figures	17 July 2014
Press conference (11.00 AM)	17 July 2014
Analysts' meeting (13.00 PM)	17 July 2014
Trading update	16 October 2014
Final 2014 sales	2 January 2015
Final 2014 figures	23 January 2015
Press conference (11.00 AM)	22 January 2015
Analysts' meeting (13.30 PM)	22 January 2015
2014 Annual General Meeting	18 March 2015

1) Press releases will be published at 7.30 AM.

The company is based in Veghel and registered in the commercial register of the Chamber of Commerce and Industry for East Brabant in Eindhoven under number 160.45.002.

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"We've created a tremendous amount together."

Ans van den Bosch

Sligro
SHARES

Sligro Food Group's shares are traded on the NYSE Euronext Amsterdam N.V. stock exchange.
Sligro Food Group is included in the AScX index.

Movements in shares (x 1,000)

	2013	2012	2011	2010	2009
Issued shares as at start of year	44,255	44,255	44,255	44,255	43,692
Stock dividend	0	0	0	0	563
Shares repurchased (cumulative)[1)]	(555)	(433)	(296)	(149)	
Shares outstanding as at year-end	43,700	43,822	43,959	44,106	44,255
Average shares outstanding	43,730	43,856	43,996	44,143	44,255

1) Included in the average number of shares outstanding as from the date concerned.

There were 43.700.015 shares outstanding at year-end 2013, a decrease of 122.000 on year-end 2012. The decrease is attributable to shares repurchased for the option scheme. Earnings per share are calculated on the basis of the average number of shares outstanding, as explained on page 123. Sligro Food Group seeks to pay a cash dividend of approximately 50% of the profit after tax (excluding extraordinary items) on a regular basis. The dividend proposed for 2013 is €0.80 per share, which equates to a pay-out ratio of 52%. In addition, it is proposed to pay a variable dividend of €0.25 per share, thus bringing the total dividend for the year to (unchanged) €1.05 per share.
With effect from 2014, it is proposed that an interim dividend shall be paid amounting to half of the regular dividend for the preceeding year. This means that an additional €0.40 per share will be made payable in 2014.
Sligro Food Group's website (www.sligrofoodgroup.nl in Dutch and www.sligrofoodgroup.com in English) includes information on the Group, its shares, financial position, press releases, Articles of Association, remuneration, directors' shareholdings and share transactions and corporate governance. Visitors can download annual reports from this site and also subscribe to press releases.

Key figures per share (x €1)

Share price	2013	2012	2011	2010	2009
- High	30.50	24.85	26.10	25.90	24.29
- Low	20.67	18.50	19.65	21.30	13.75
- Year-end	28.21	21.75	20.75	23.20	24.02
Earnings per share	1.55	1.56	1.78	1.59	1.68
Dividend	1.05	1.05	1.05	0.70	1.00[1)]
Year-end market capitalisation (x € million)	1,248	963	918	1,027	1,063

1) Anniversary dividend marking 75th anniversary.

	2013	2012	2011	2010	2009
Total value of shares traded (x € million)	117	125	227	205	276
Volume traded (x 1,000)	4,459	5,900	9,463	8,750	15,119
Number of transactions (single counting)	24,700	31,677	40,337	58,433	61,065

The highest volume of shares traded in one month in 2013 was 0.7 million in March and the lowest volume was 0.16 million in May.

Disclosure of major shareholdings:

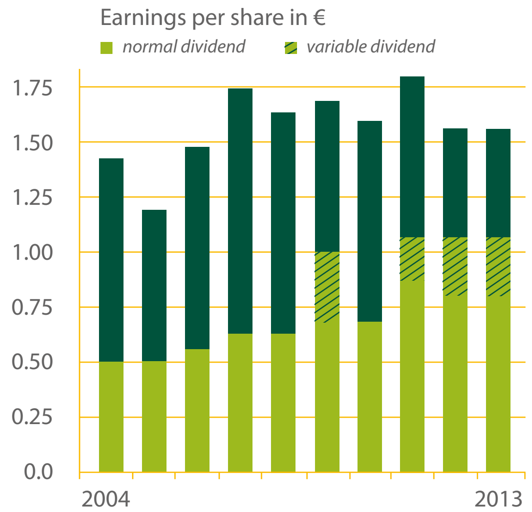
	%
Stichting Administratiekantoor Slippens	33.95
Darlin N.V.	6.12
ING Groep N.V.	5.43
Stichting Administratiekantoor Arkelhave B.V.	5.06
Boron Investments N.V.	5.02
FRM LLC	3.94
Belegging- en Exploitatiemaatschappij De Engh B.V.	3.09

Disclosure must be made when a shareholding exceeds or falls below certain legally stipulated percentages. Since this can result in double counting, the disclosures do not always provide a true picture of the number of free float shares. Corrections are consequently made for double counting. In the holdings of Sligro Food Group employees 255,000 shares are held by members of the Executive Board. These are specified on page 113. The estimated distribution of the share capital as at year-end 2013, based on market information and covering 84% of the capital in 2013 (2012: 87%) is presented in the following table.

	Private investors		Institutions		Total	
	2013	2012	2013	2012	2013	2012
Netherlands	54	54	14	14	68	68
UK			3	5	3	5
USA			10	9	10	9
Other countries			3	5	3	5
Total	54	54	30	33	84	87

Share price

Per share



From left to right:
Willem-Jan Strijbosch
Huub van Rozendaal
Koen Slippens

Directors
AND MANAGEMENT

Supervisory Board

A. Nühn, president (60)
Th.A.J. Burmanje (59)
B.E. Karis (55)
R.R. Latenstein van Voorst (49)

Group Executive Board

K.M. Slippens, voorzitter (46)
H.L. van Rozendaal, CFO (58)
W.J.P. Strijbosch, Foodservice (45)

Company Secretary

G.J.C.M. van der Veeken (52)

Executive Board of Sligro Food Group Nederland B.V.

Group Executive Board, together with

P.A. van Berkel, Productie en Van Hoeckel (49)
J.G.M. de Bree, Personeel & Organisatie (56)
J.H.A. van Heerebeek, Foodretail commercie (47)
R.F.L.H. van Herpen, Inkoop (46)
K. Kiestra, Foodretail operatie (45)
M.W. Pietersma, Foodservice zelfbediening (63)
C. de Rooij, Logistiek (60)
R.W.A.J. van der Sluijs, Financiën (37)
M.M.P.H.L. van Veghel, ICT (41)
C.A. Welsing, Supply Chain (40)

Works Council

R. Heijberg, voorzitter
J. Sarbach, secretaris
R. Albers
R. Beckers
E. Beernink
P. Berben
T. Bouman
M. Brugman
D. van der Does
A. van den Elzen
H. Emmers
P. Eshuis
B. Gerards
E. Goedhart-Joosten
J. van Hal
D. Kleijer
M. Langen
B. Livestroo
M. Overdevest
A. Reijnders
R. Rombout
S. Sillen-van der Velden
M. de Smit
J. Stehman
J. van Zon

"I find the whole process from grape to wine interesting."

Vincent Berends

Strategy

Sligro Food Group strives to be a high-quality company achieving steady, managed growth for all its stakeholders.

Sligro Food Group sells directly and indirectly to the entire Dutch food and beverages market, where it provides a comprehensive package of food and food-related non-food products and services. We are supported both by a professional, efficient and fully integrated back-office organisation and by a culture that focuses consistently on the customer and our shared passion for food. Preserving and promoting that typical Sligro culture in a steadily expanding organisation is a priority.

Our objective is to achieve average growth in sales over a whole economic cycle of around 10% each year, with around 4% attributable to organic growth and around 6% to growth through acquisitions. Our target for organic growth assumes annual inflation of approximately 2%. Growth through acquisitions is by its very nature less gradual than organic growth, particularly because the Group focuses primarily on relatively large acquisitions. The Dutch food market is still fragmented to such an extent that we believe there is a good chance of achieving our desired level of growth through acquisitions over the coming years. We are also seeking opportunities in the foodservice markets in neighbouring countries. We strive to achieve profit growth that is on average at least equal to the growth in sales, so that we can offer shareholders attractive returns over the longer term. We aim to operate in a socially responsible manner and to render account for our performance. Economic and social benefit go well together with a listed family business like ours.

One of the ways in which we seek to be an attractive partner for our customers is by providing a high level of service at competitive prices. Our growth strategy provides our staff with opportunities for personal development, while giving our suppliers the chance to increase their product sales and introduce new product lines. Society as a whole benefits from increasing levels of employment and the resultant rise in tax revenues. As a supplier of food products we are very conscious of the importance of food safety and obviously fully support compliance with externally set quality standards. To ensure that we have sufficient purchasing power in the market, our food retail purchases are handled by cooperative purchasing organisation Superunie, which has almost a 30% share of the market. As the market leader in foodservice, we handle our own purchasing for those activities.

The Group operates in a fiercely competitive environment, with limited scope to translate cost increases into higher selling prices. We therefore strive constantly to increase the efficiency of our operations by ensuring that our distribution, communication and information systems, for example, are as effective as possible. Companies within the Group work very closely together to maximise the benefits of internal synergy. Activities that are primarily client-related take place within several business units, with 'behind-the-scenes' management at a central level.

Achieving our objectives will strengthen Sligro Food Group's independent position in the market, a position we intend to retain into the longer-term future.

Commercial DEVELOPMENTS

Goals

- → To increase sales by an average of 10% each year (including acquisitions).
- → To take the market share in foodservice to 30%.
- → To maximise the potential for internal synergy and exchange of know-how between Group activities.
- → To achieve competitive and permanent margin management.
- → To provide high-quality service, always with a view to maximising customer loyalty.

Strategic implementation

- → To continually renew and improve our commercial concepts, formats, distribution channels and approach, including e-commerce.
- → To ensure efficient and effective operational management of our retail and foodservice outlets.
- → To optimise synergy behind the scenes and present our image effectively at front of house.
- → To focus on large-scale activities to avoid unnecessary complexity.
- → To expand and upgrade our network and optimise and enlarge existing outlets.
- → To establish a more differentiated positioning in respect of our regional customers by combining the professionalism that we can offer through our critical mass with the character of a local partner: 'growth by staying small'.
- → To strengthen customer relationships through loyalty programmes, events, private labels and our range of perishables and unique products from our own production kitchens.
- → To further expand the package of services aimed at B2B customers in both foodservice and food retail in order to support them in their day-to-day commercial and operational struggle.
- → To further increase our expertise, customer focus and entrepreneurial culture through ongoing employee training programmes and continually championing the typical Sligro Food Group culture.
- → To capitalise on acquisition opportunities satisfying our criteria.

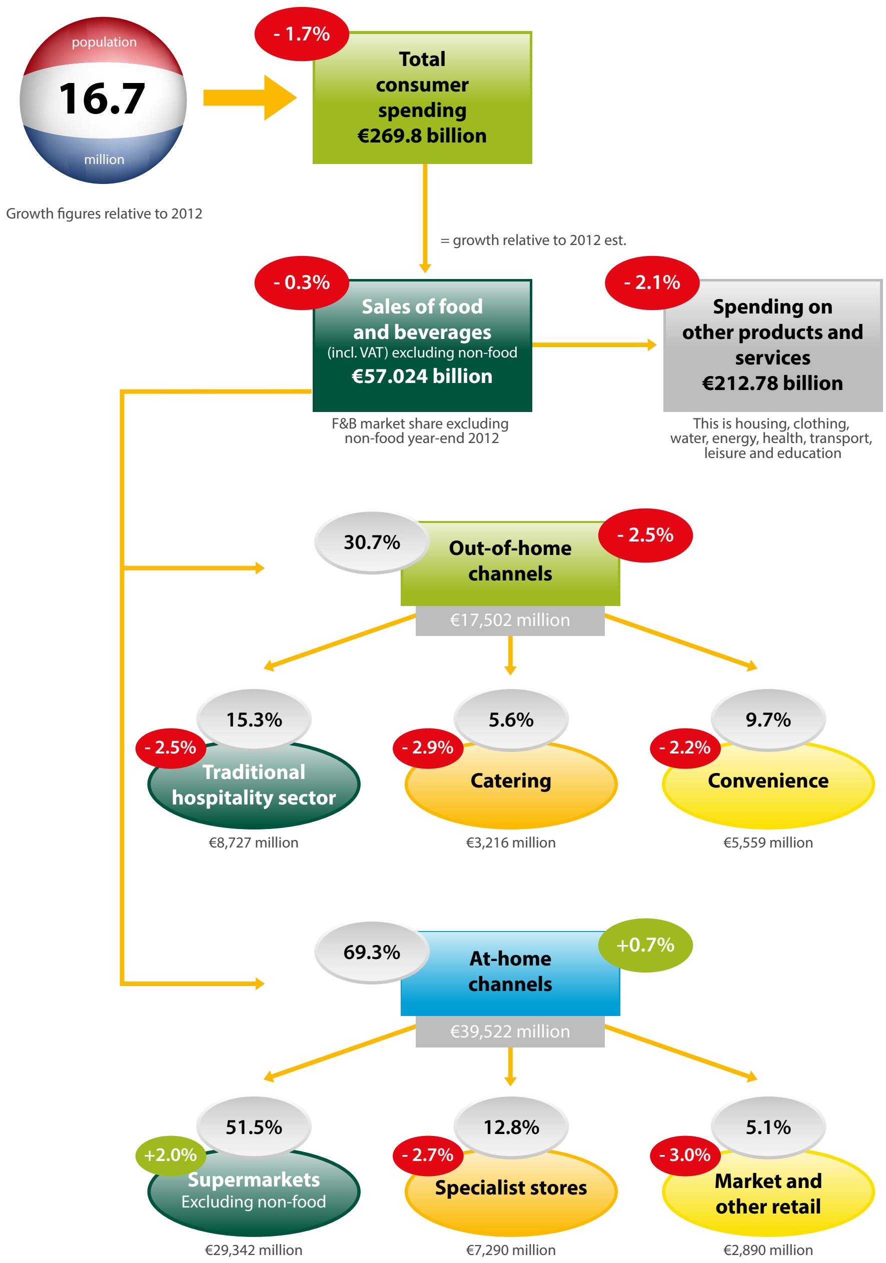
The food market

Sligro Food Group is active in all main segments of the Dutch food market, i.e. the market for food and beverages. This market comprises both the 'out of home' or foodservice channel and the 'at home' or food retail channel. This means that the success of our activities depends primarily, both directly and indirectly, on consumer spending in the Netherlands. The chart on page 18 provides information on the total levels of consumer spending. This information is taken from the Foodservice Monitor Report compiled on behalf of the Netherlands Foodservice Institute ('FSIN'). This report provides an overview of the Dutch foodservice sector and developments in this market, also in relation to the food retail market. As the foodservice market is far less homogeneous than the supermarket sector, figures for the former are much less consistent and reliable than those available for the food retail sector. This is evident, for example, in the structural differences between the market projections by the Dutch Foodservice Institute (FSIN) and Statistics Netherlands (CBS), the latter in our view (and that of many other players in the segments of outlets, suppliers and wholesalers) having long overstated growth in the hospitality market by a considerable margin. The CBS figures indicate that the economic downturn has had only minor impact on the hospitality market in recent years, which is in stark contrast with other sectors that are dependent on consumer spending. The FSIN findings accordingly reflect our own experience in the market much more closely.

"A venison steak always tastes good!"

Erik ten Have

Consumer spending in the Netherlands



Source: Beleidsmonitor 2014 FSIN

The market shares in the two segments of the food market are as follows:

in %

Foodservice market players [1]	2013	Market share 2012	2011
Sligro Food Group	21.2	19.9	19.2
Various breweries	14.0	13.9	14.0
Lekkerland	12.4	13.5	14.8
Deli-XL	11.1	10.8	10.6
Metro	9.6	9.6	9.2
Hanos/ISPC	7.0	6.4	6.4
Kruidenier	3.3	3.5	3.6
De Kweker/Vroegop	2.2	2.1	2.1
Other	19.2	20.3	20.1
	100	**100**	**100**

Players Supermarkets [2]	2013	Market share 2012	2011
Albert Heijn	34.0	33.7	33.5
C1000 [3]	9.5	12.0	12.1
Jumbo	11.2	9.6	7.4
Super de Boer [5]	0	0	2.4
Plus [4]	5.8	5.8	5.9
Aldi/Lidl	16.0	15.1	14.6
Sligro Food Group [1]	2.7	2.7	2.7
Other [6]	20.8	21.1	21.4
	100	**100**	**100**

1) Source: Foodservice Beleidsmonitor 2014. 2) Source: Sales figures from the companies themselves /market definition according to Nielsen and IRI. Figures for prior years restated to some extent. 3) Acquired by Jumbo in 2012. 4) Member of Superunie purchasing organisation. Superunie members have a total market share of almost 30%. 5) Acquired by Jumbo. 6) Almost all in the 'other' category are members of Superunie.

The value added by our customers and VAT have to be eliminated from the figures in order to compare total consumer spending with Sligro Food Group's sales. FSIN estimates the size of the foodservice market at wholesale prices at slightly below €6.5 billion. In 2013, the market shrank by €300 million, or 4.5%. More than €100 million of the decline is due to the change in the way VAT is levied on tobacco products (purely an accounting matter – see explanation on page 31) which came into effect on 1 July 2013, leaving an underlying 3% decline. This effect relating to tobacco products will continue to be apparent in the first half of 2014. Not all players in the foodservice market are equally active in selling tobacco products. Lekkerland is market leader in this segment of the market and the decline in that company's market share and the relative increase in the market shares of other players mentioned must therefore be seen partly in that light. As there is very little difference between our overall market share and our market share with regard to tobacco, our market share has in fact hardly been affected. Of the increase in our share of the foodservice market, 0.8% is due to the acquisition of Van Oers, the remaining 0.5% being achieved organically. In our own projections, we use a broader definition of small and medium-sized enterprises and we include commercial non-food sales. This means that only 82% of our overall foodservice sales are attributed to the foodservice market in the statistics.

Share of food market 8%

Based on total consumer spending on food, Sligro Food Group has approximately an 8% share of the market, in value terms, putting the Group in a strong number 3 position in the Dutch food market. In recent years, the food retail market has continued to win market share from the foodservice market. On top of that, supermarkets are still taking market share away from specialist businesses. In these difficult economic times, supermarket sales are approximately keeping pace with inflation but, despite inflation, foodservice spending is falling. The opposite applies in times of economic growth, and for that reason alone it is good to be active in both segments. The trend over the past seven years gives the following picture.

Source: FSIN analysis. Market share out of total food sales

The following chart shows which Group operating companies target the various segments of the food market. Although the activities primarily focusing on customers are performed separately and therefore with 100% focus, everything is closely managed 'behind-the-scenes' at a centralised level, wherever possible. This synergy, both in foodservice and food retail, is a means of differentiating ourselves from the competition, while also promoting our learning ability and achieving greater efficiency. Only where a centralised approach is not possible or desirable do we use individual systems and processes. In this way we maximise the synergistic benefits on the one hand and, on the other, ensure a clear focus on the customer and the specific market in each individual business unit.

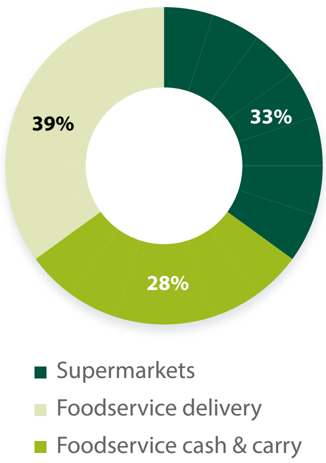
Central where possible, local where necessary

Central distribution centre and head office in Veghel		
Food retail	**Foodservice Cash & carry**	**Foodservice Delivery-service**
EMTÉ	**Sligro**	**Sligro/Van Hoeckel**
130 Own and franchise outlets	Large and small hospitality sector, leisure, caterers, forecourt outlets, large-scale users, institutional	
2 Distribution centres	National network of 46 cash & carry outlets	National netwrok of 10 delivery-service outlets
Sligro Fresh Partners & Production Specialised production facilities for convenience products (Culivers), fish (SmitVis) and meat (retail), patisserie/home caterer (Maison Niels de Veye) and four fresh-produce associates		

Analysis of sales in 2013

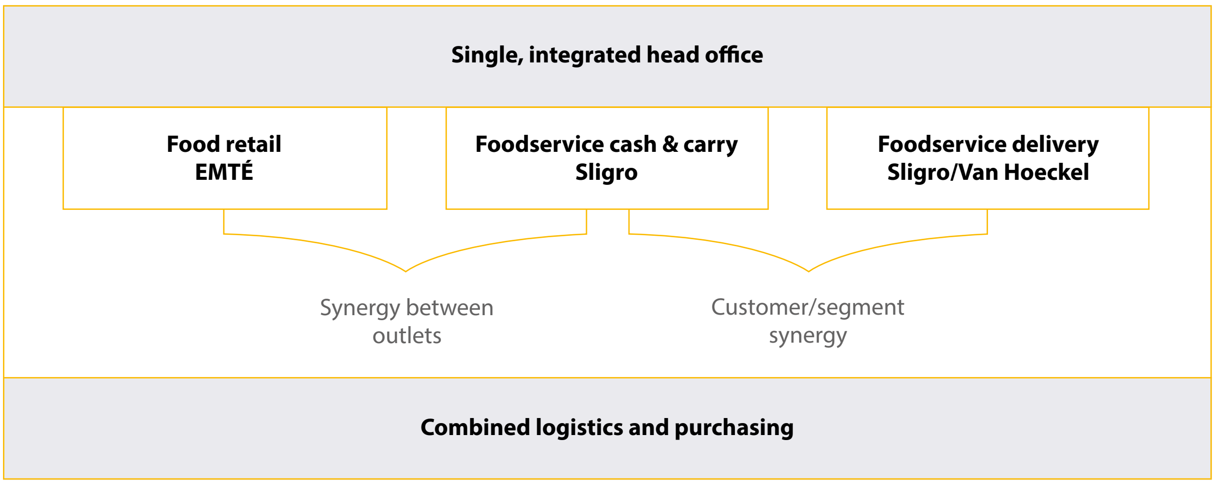
Sligro Food Group focuses, directly or indirectly, on the food and beverage appetites of consumers in the Netherlands. Consumers can do their shopping for themselves in our EMTÉ supermarkets, while foodservice customers can opt for self-service in our cash & carry stores, for delivery services or for a mixture of the two. The cash & carry stores are usually used by smaller, occasional or secondary customers, although larger customers also visit our stores for inspiration and information or simply because they prefer to select their products themselves. The latter are often also foodservice customers, who receive regular supplies from the range of over 60,000 items held at our delivery-service locations. These three channels (supermarkets, cash & carry and delivery services) each account for around one-third of Group sales, not that an equal distribution is an end in itself.

Analysis of sales in 2013



Synergy

The following table shows the links and the synergy between the three channels. Instead of operating as a group of businesses, Sligro Food Group comprises a single, integrated business with overlapping types of customers and distribution methods, the routes to the market in other words. Due to the strong competition and the availability of market data, the Dutch food retail market is more professional than the foodservice market. Our foodservice organisation can learn a great deal from that. Food retail in turn can learn a great deal from foodservice, as the market leader that prides itself on its service and customer loyalty, not to mention the broadest range on the Dutch market.



"It's great every day here on the shop floor."

John Materman

Trends in FOODRETAIL

x € million

	2013	2012
Net sales	840	833
Gross operating profit (EBITDA)	28	27
Operating profit before amortisation (EBITA)	15	11
Free cash flow [1]	24	26
Net capital employed	172	191
EBITDA as % of sales	3.3	3.2
EBITA as % of sales	1.8	1.4
EBITA as % of average net capital employed	8.3	5.7

1) Excluding interest and associates.

Market information

To assess the trends in the market we make use of information from GfK, Symphony IRI and AC Nielsen. The latter two organisations collect market data from the supermarket chains 'affiliated' to them. That covers around 80% of the total market. GfK bases its data on consumer surveys. In our eyes, GfK is an undisputed specialist when it comes to data in which the link to consumer characteristics and profiles is of great importance. With respect to overall market figures such as sales trends, traffic and average spends, however, the scanning-based data collected by IRI and Nielsen is much more reliable than the random sampling and individual consumer responses used by GfK. In 2013, the figures diverged considerably, in terms of both magnitude and timing. To build up a picture of the market in 2013, we took the arithmetic mean of the IRI and Nielsen figures. Obviously, the data collected by both organisations relating to the 80% of the market actually covered is the same in each case; the difference is due to the other 20%, specifically that part of the market occupied by Aldi and Lidl. The estimates for this end of the market produced by the two research bureaus differ quite considerably, with IRI estimating a mid-range single-digit whereas Nielsen comes up with double-digit growth. That also means that the estimated overall market growth rate differs by a whole percentage point, which is quite appreciable in a market in which market shares are sometimes calculated to two decimal places. The crucial question concerns the measure of Lidl's success, as there is greater consensus regarding Aldi. In hard times, with incomes under pressure, discounters generally do well, but to explain the growth of Lidl on that basis alone is too simplistic. Lidl has gone from being an out-and-out hard discounter to a hard discounter with service elements, spending a great deal on marketing into the bargain, and it seems that the message of what Lidl has to offer is getting across.

Size of market: €34.3 billion

Taking the arithmetic mean of the IRI and Nielsen figures, the market grew by 1.8% in 2013, to €34.3 billion. That more or less matches inflation. It should be noted that down-trading has an effect on market volume, and people are tending to go for cheaper alternatives in the current climate. It should also be borne in mind that market growth of 0.4% in the first three quarters is accounted for by the increase in the already high VAT rate from 19% to 21% on 1 October 2012, and that is a component of the inflation rate since the market is measured in terms of consumer spending. However, that element of the growth only benefits the exchequer.

Negative growth trend

The trend in growth over the year was almost continuously downward, except for July, when we had such glorious summer weather. Depending on which market research bureau you take we see months from the summer onwards in which the market either shrinks slightly or shows very limited growth. Both organisations report falling volumes since then. The last time we had a shrinking market was in 2005. As can be seen from the graph on page 19, supermarkets have succeeded in taking sales away from out-of-home consumer spending on food and specialist food shops. As a consequence, the economic woes appeared to leave the supermarkets untouched but that now no longer seems to be the case. Ironically, this coincides with signs that the economy is recovering.

Shifts in the market

The Dutch market in 2013 was dominated by the advance of Lidl and the dismantling of the former number two brand in supermarket land C1000. C1000 was taken over by Jumbo in 2012. In 2013, there was a massive effort to convert C1000 stores to the Jumbo format, as well as into the formats of Albert Heijn and Coop, which together bought 129 C1000 stores. The number of C1000 stores declined by 118 in 2013 to 267.
Various rumours have been doing the rounds concerning the success of the conversion operations and, obviously, everyone has their own agenda and calculation methods for giving the news the right spin. However, it has become clear that things have not been an unqualified success. C1000 had too loyal a customer base and too unique a position in the market. Individual franchisees have not always been happy with the choice of new format either. Market leader Albert Heijn also had quite a few problems of its own, as its quarterly figures show. Despite having taken over and converted C1000 stores, the AH market share stabilised at a level slightly below 34%.

Procurement market

The Dutch market is supplied by five purchasing organisations. There are Aldi and Lidl, which are, of course, supplied from outside the country to a very large extent, and then there are Ahold, Jumbo/C1000 and the purchase cooperative Inkoopcombinatie Superunie representing the relatively small players. The slices of this procurement market taken by the latter three changed very little in 2013, with Ahold at almost 34%, Superunie almost 30% and Jumbo/C1000 around 20%. Superunie and its 13 members provide the Dutch consumer with a wide choice of supermarket formats, in contrast to the rest of Western Europe, where in each country the market is carved up by five or so large retailers. The Dutch Authority for Consumers & Markets (ACM) would do well to take more heed of that fact.

EMTÉ

We ourselves have around 130 EMTÉ supermarkets, of which 30 are operated by independent retailers. With these supermarkets we have a market share of 2.7% and succeeded in posting like-for-like growth of 1.9% in 2013. That means we were one of the few full-service supermarkets to outperform the market. An overview of our supermarkets is given in the table below.

Number at year-end		x 1,000 m² retail space at year-end		Consumer sales[1] x € million		Index of like-for-like sales	
2013	2012	2013	2012	2013	2012	2013	2012
129	131	137	138	955	940	102	103

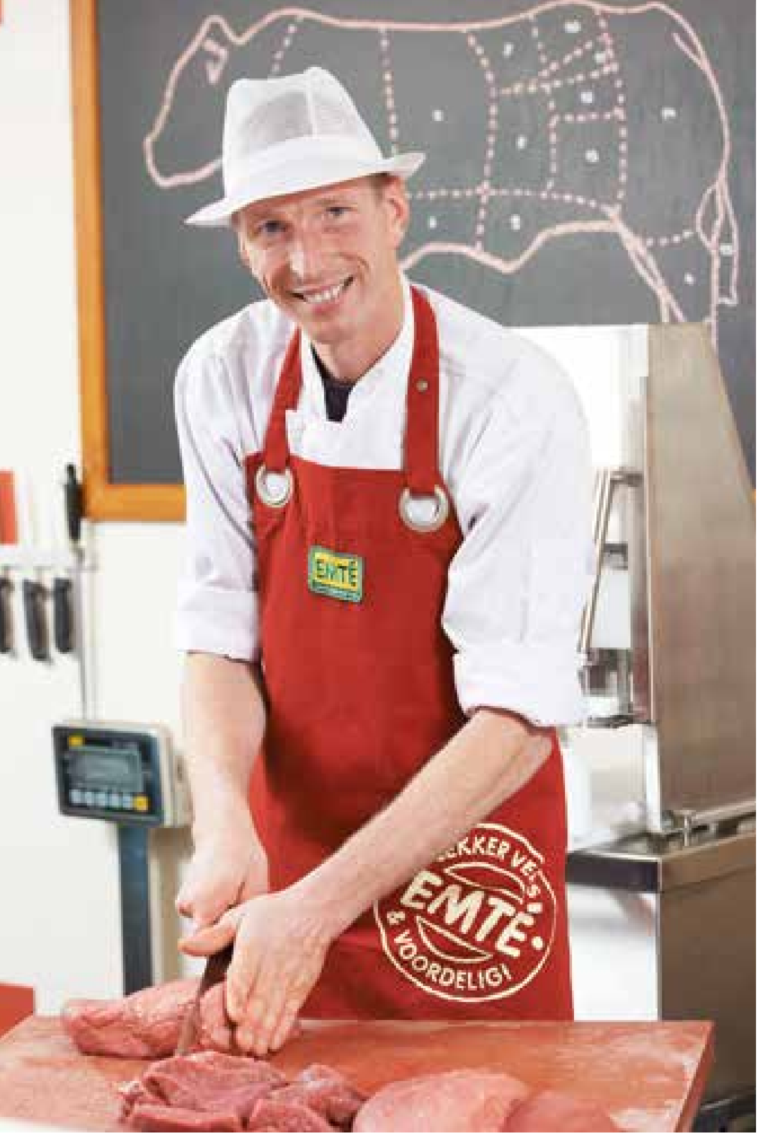
1) Including changes in the store portfolio during the year and VAT.

Total food retail sales comprise EMTÉ's consumer sales (excluding VAT) and the wholesale value of sales to franchisees and to the leisure group Center Parcs. Sales (excluding VAT) can be broken down as follows:

(x € million)	Net sales		Share of sales (as %)	
	2013	2012	2013	2012
Own supermarkets	686	678	82	81
Independent retailers	154	155	18	19
Total	**840**	**833**	**100**	**100**

Medium-term plan

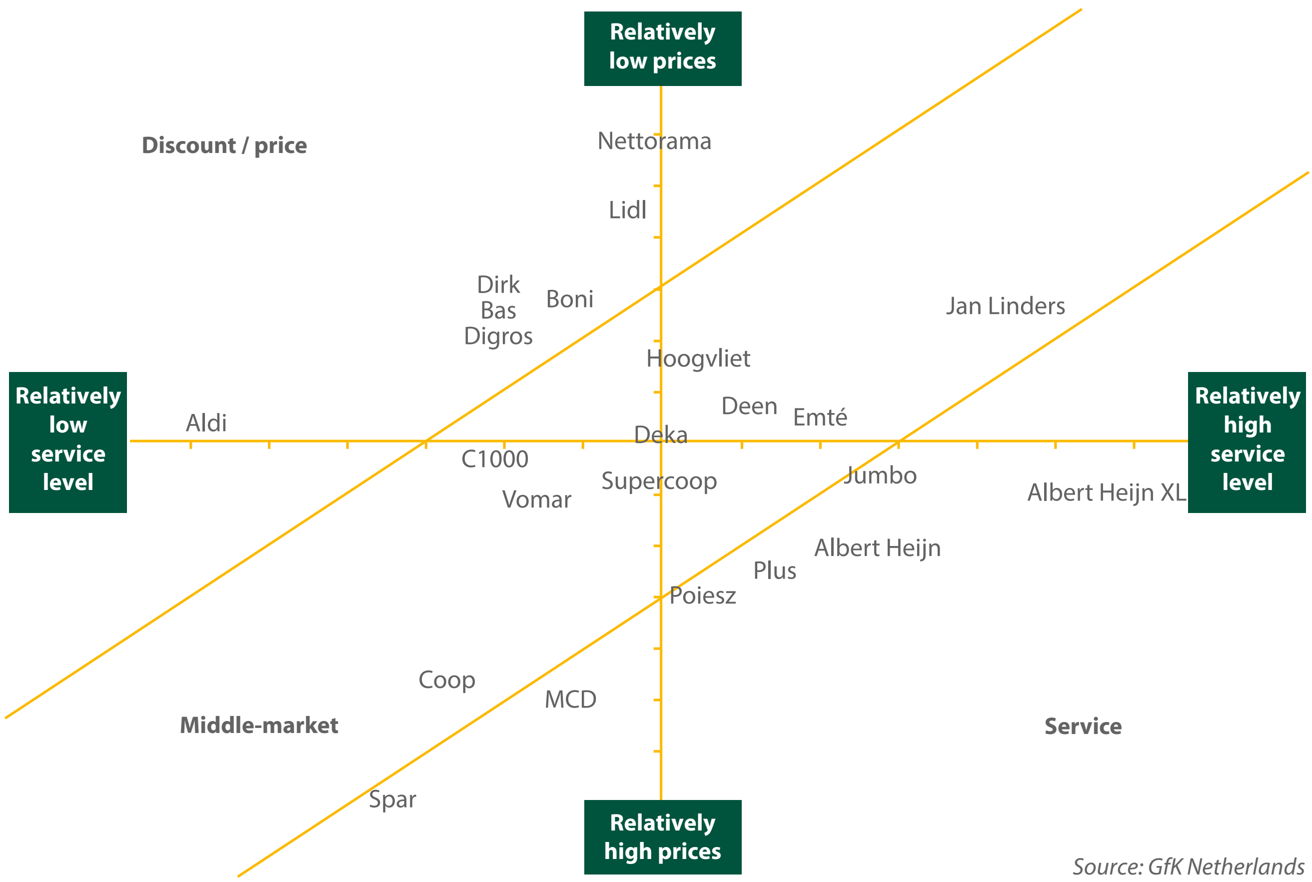
At the beginning of 2013 we published our medium-term plan for EMTÉ, which is outlined in the diagram below. We are now one year into the plan and are able to report that we have made good progress. That applies both to those aspects that are intended to create growth and to the aspects concerned with strengthening the basics. This is obviously largely borne out by our sales growth, which outstripped the market. More importantly, we did better than the other full-service supermarkets. The fact that our overall sales performance despite this failed to meet our expectations was primarily down to the high rate of growth achieved by the hard discounters in 2013 and also to disappointing Christmas sales. More important for the longer term are the improvements shown by consumer surveys. After all, in the final analysis, it all comes down to having satisfied customers.



Awards and nominations

In the GfK vote for Best Fresh Produce Supermarket, both our butchery department and our bakery department came first in their category and we were voted number two overall, our best score to date. The year before, we shared third place. In the ongoing competition for the Supermarket of the Year, in which 184 supermarket stores across the country participated, two of our EMTÉ stores came top in their province – EMTÉ Oudewater in Utrecht and EMTÉ Kloosterzande in Zeeland. Both stores are therefore in the running for the national award. The rules limit entrants to two supermarkets of any one format per province. We are particularly proud to have two winners with a market share of just 2.7%. In the 2013 Christmas report shown below we made the biggest advances, joining the top five, an improvement of six places compared with the preceding year. The EMTÉ team and many others within Sligro Food Group are putting a great deal of effort into the implementation of our medium-term plan, so it is encouraging to have recognition of that fact from our customers in the form of their votes.

GfK Christmas report 2013



Source: GfK Netherlands

Creating growth

We are not there yet by any means and that applies both to the building blocks for the creation of growth and to the strengthening of the basics. We are working on some things largely in the background but on some things our efforts are becoming increasingly visible in the foreground.

One very important step in 2014 will be our new loyalty programme on which we are energetically working in the background at this moment. We expect to be able to unveil our programme to consumers in the second quarter. This loyalty programme will also make it clear that EMTÉ is part of a group with a strong presence in the foodservice market as well. We feel it would be wise of us not to give any more away at this stage, however.

As regards our ability to offer a unique product range, we have already achieved substantial progress, enabled partly by the possibilities afforded by Sligro Food Group. As examples of the latter we would mention a new line in chilled ready meals, a sharp expansion in the range of fish available, a premium line in single-portion ice cream desserts and our 'Laafbrood' bread idea. Other novelties concern new top lines of nuts and meat products. These are all things designed to support our 'good food' positioning, which will be spotlighted as part of our 'EMTÉ 10' campaign, for example. This is because we are passionate about good food and drink – the tastiest quality products, and not just niche products but ordinary products as well like the 'tastiest meatball' – in other words, the utmost in culinary aspirations for a supermarket. We look upon our high placement in the fresh produce ranking as confirmation of our product range choices. These two building blocks clearly show how EMTÉ is seeking to profit from the added value of the Group, and that was not always so apparent in the past. The new approach not only greatly benefits EMTÉ but also Sligro as a whole, inasmuch as supermarket organisations tend to be more professional than foodservice companies whereas they are less focused on 'good food'.

The main thing is that we are stronger together than the sum of the parts. Otherwise there would be no point in being part of the same group.

The EMTÉ brand

We also made great progress with building the EMTÉ brand in 2013. Gradually we are succeeding in getting our message across more effectively. Our first TV commercials appeared in 2013 and Peter the EMTÉ shopper is beginning to become a familiar face on commercial television. Whereas EMTÉ last year fought it out with a wide range of marketing messages, the campaign in the year ahead will become far more focused and 'good food' will be the dominant theme. You cannot build a brand just like that, of course. It is a question of the long haul and a consistent communication strategy on all fronts. We expect to do increasingly well as we go forward.

Strengthening the basics

Considerable progress was made with strengthening the basics in 2013. The modular management of the product range is gradually becoming more established and there have been further improvements in ensuring that shelves are kept stacked. Various measures have also resulted in a reduction in shrinkage of more than 10%, which is better than our original target for the year. It is to this end that the category management department has become very much part of the organisation and has been strengthened.

We have an ongoing programme aimed at reducing staff costs. We are taking a long-term approach in this respect, having due regard to the format choices that have been made and the level of service which they imply, and we are seeing the results reflected to an increasing extent in the monthly figures. Using a detailed comparison of similar stores based on a survey conducted in 2013, we expect to be able to achieve further substantial improvements in the years ahead.

"This department is the most fun (and the tastiest!)."

Mariëlle Veldhuis

In short, we feel that EMTÉ is moving in the right direction. There is still a great deal of work to do but we still have two years in which to achieve our objectives and we have every confidence in doing so.

Marketing shenanigans

Sometimes our room for manoeuvre can be curtailed by the shenanigans of others but it is the timing of our actions rather than the direction of the process that is derailed. These days retailers tend to start wielding the price weapon all too quickly if sales are slow for a couple of weeks. The effect is to reduce distinctiveness, creating more of an amorphous mass. However, we believe firmly in setting ourselves apart and in our distinctive positioning, and we are uniquely equipped to pursue that goal by having in-house the market leader in foodservice. We saw that wielding of the price weapon in the autumn, when the market leader suddenly slashed many prices, only to come a cropper when consumers failed to respond. We also wonder how we should view the banana war in the Netherlands in relation to corporate social responsibility and fair trade. In other countries there is evidence that this is not a beneficial strategy. Consumers like low prices and price reductions. But there are more ways of satisfying that desire than by simply cutting the price of popular branded items and then having to try and sell fewer of them because you are making a loss on every sale. Consumer organisations also need to ask themselves whether their price comparison methods bring as much transparency as they like to think. As long as special offers and fresh produce are included to such a limited extent in the comparisons, consumers are quite possibly being led astray. A proper comparison self-evidently requires greater effort. We go to great lengths to make that effort. In our view, consumers need a good price/quality ratio, transparency and good, honest and reliable products, and that is what they get from us, all year round.

Online

Finally, when talking about food retail, we must not forget to mention that the market is gearing up for online shopping. In response to the rapid launch of click-and-collect points by the market leader, other players are following suit. There have long been home deliveries of supermarket shopping in the Netherlands, of course, but there has never proved to be a real gap in the market for this service. Home delivery of food shopping is not such an obvious necessity as in the case of non-food, where it has really taken off. We are therefore of the opinion that click-and-collect could be the better answer for the consumer and certainly for the retailer. The last mile in the case of food delivery is particularly expensive. What we have so far seen above all is supermarkets 'converting' their physical stores into online stores and simply transferring all the commercial irritations and supply chain restrictions of the physical store and the brand format to the internet. In other sectors we often see online stores becoming filled with unconventional businesses attempting to take a slice of the market for themselves using an online strategy, with varying degrees of commercial and financial success.

Superdirect.com

We have elected to participate in the start-up of Superdirect.com, which is coming to the market with a different approach:

- Our service is free of charge.
- good food at low prices.
- 24/7, we are always open.
- Order before 10 p.m.; collect any time after 11 next morning.

The 24/7 operation is only possible because Superdirect has fully automated collection points. The first pilot started operation in the Eindhoven region in the autumn of 2013. We expect several more outlets to follow in 2014. We shall then be assessing whether Superdirect (and any similar operations) is a concept which appeals to consumers, because that is the key question at present, in a market which is still very small. If the answer is yes, a more ambitious investment programme will be necessary and also worthwhile, provided there is a more predictable business case, of course. For the time being we see our participation in Superdirect as an interesting and informative entry route.
We currently have a 37% interest in Superdirect, with all start-up costs being expensed as they are incurred. Our share of that loss has been included in the share in results of associates.

SPAR

Our associate Spar, in which we have a 45% interest, is having a comprehensive overhaul of its format for both local supermarkets and city stores as well as campus stores. That is, of course, not going to alter the fact that the main local supermarket segment, in which Spar predominantly operates, is lagging behind the full-service supermarkets and Spar is also obviously suffering from the growth of the hard discounters. The pressures on the local supermarket segment in some cases call for an extra effort if these stores are to be preserved but it may also be necessary to abandon the smaller outlets. Spar is attempting to strike the right balance between the incomes of its franchisees and the efforts required on the one hand and maintaining a decent return for its shareholders on the other. Tight cost control is a vital ingredient in this context. So far Spar has been quite successful in this regard.

"Traditional skills inspire people. I want to show customers something special."

Theo van Egmond

Trends in FOODSERVICE

x € million

	2013	2012
Net sales	1,658	1,634
Gross operating profit (EBITDA)	114	115
Operating profit before amortisation (EBITA)	86	88
Free cash flow [1]	77	70
Net capital employed	426	424
EBITDA as % of sales	6.9	7.1
EBITA as % of sales	5.2	5.4
EBITA as % of average net capital employed	20.2	20.4

1) Excluding interest and associates.

Market information

According to umbrella organisation the Dutch FoodService Institute (FSIN), the foodservice market shrank by 2.5% in 2013 to €17.5 billion in terms of consumer spending, i.e. including VAT and the added value of our customers. The FSIN estimates that the wholesale value shrank by 4.5% to slightly less than €6.5 billion. The main explanation for the difference in the percentage figures between consumer spending and wholesale value is the change in the VAT treatment of tobacco products.

Tobacco products

With effect from 1 July 2013, VAT on tobacco products has been levied in the usual way, i.e. on the total added value in the chain. Prior to that date, VAT was levied directly on the manufacturers along with excise duty. The impact on the entire foodservice sector has been estimated at €225 million over a full year, and therefore half that amount in the second half of 2013. The wholesale value is reduced by this figure whereas the retail value remains unchanged because it always was inclusive of VAT. On the basis of these figures, it is possible to calculate that the sales of tobacco products through the sector, excluding VAT, amount to around €1,300 million a year, a large part of the sales being in the forecourt market. Our foodservice business sales in 2013 were reduced by €22 million as a consequence of the change in the VAT rules affecting tobacco products. Incidentally, we do believe that the change of method leads to a more accurate view of the market and market conditions, even if the high level of duty on tobacco products means that they are overrepresented in the total sales mix. To further complicate matters, the already high rate of VAT was increased from 19% to 21% from 1 October 2012. On top of that, tobacco sales are falling, especially in the border regions. The increases in duty in recent years have not produced higher revenues, at least not for the Dutch exchequer, rather the contrary. The trouble is that, when consumers cross the border into Germany or Belgium to buy products that are subject to duty, it is not only dutiable products that they buy. The effect is felt by our customers in the border regions in particular and this affects our business too. However, that does not stop our government from implementing further increases in the duty on alcohol, although the planned increase in duty on tobacco has in fact been put on hold for future years.

We have a combined logistics operation for tobacco products together with a partner, going by the name of Vemaro. In 2013, Vemaro opened a second distribution centre and our partner has since transferred all its related activities to Vemaro. We expect to be able to achieve further efficiency savings as a consequence and at the same time to reduce the continuity risk.

Organic growth and market share

The various changes referred to above cloud the picture of the way sales have developed somewhat. We have therefore decided to report our organic growth rates both including and excluding tobacco products (and the effects of VAT) in future, in the belief that the figures excluding tobacco reflect the underlying trend more accurately. Since for us the share of tobacco in the foodservice market roughly corresponds with our overall market share, the impact on our market share due to the new rules affecting tobacco is relatively limited. As can be seen from the table on page 19, our market share has increased by 1.3% to 21.2%, with the Van Oers acquisition accounting for a rise of 0.8% and organic growth the remaining 0.5%. We outgrew the market by around three percentage points, which is the sort of figure we have seen every year for more than 10 years now.

Cash-and-carry and delivery service

That outperformance, incidentally, was entirely down to our delivery service business. On the cash-and-carry side, our sales roughly paralleled the market. That decline in sales is partly due to a change in policy relating to consignment sales aimed at dealers. The size of the foodservice market itself is an estimate and a breakdown into cash-and-carry and delivery is not available. Our estimate is approximately 40/60% but, even with that knowledge, it is not possible to calculate a reliable market share per segment. On the cash-and-carry side, the bulk of sales in relative terms is achieved on product lines and customer target groups that are not counted as part of the market by FSIN. The fact remains that our market share of the cash-and-carry business is substantially higher than it is in delivery services, making it difficult to outstrip the market on a permanent basis. Our delivery business grew vigorously in 2013, with sales increasing by more than 6%. That growth is mainly the result of our investments in recent years in infrastructure, systems and pricing proposition. It is largely the delivery service activities that will have to drive us onward to the 30% market share of the overall foodservice market that is our goal in the medium term. The share of the cash-and-carry business, as already mentioned, is already relatively high. The timeline for achieving our goal will depend largely on our ability to seize takeover opportunities, although we also believe that we can continue to grow organically as we have been doing for quite some time. We have so many ideas and plans up our sleeve that we are not likely to run out of steam anytime soon.

Share of profit

Using external data we calculate that, in 2011, when we had a market share of not quite 20%, we realised 50% of the profit of the entire foodservice market. And since 2011, our profitability has declined, owing to the economic circumstances. Even so, we believe that our share of the profit in the sector has increased. We base this assertion largely on available data from our major competitors, which have seen their profits tumble since then. Gradually, however, the difficult market conditions are increasingly beginning to affect businesses active in this market and, unfortunately, they are also our customers. Nevertheless, so far hardly any wholesalers have gone bankrupt, although the number of reorganisations has increased sharply. We are more convinced of our policy of winning market share, even if we cannot avoid a certain amount of profit erosion in the process. In other words, we have made a deliberate choice to sacrifice short-term profits for long-term market position. The takeovers of Rooswinkel and Horeca Totaal Sluis, details of which are given separately later, will add sales of around another €50 million annually, allowing us to garner another 0.75% market share approximately. We are extremely pleased that these acquisitions particularly strengthen our activities serving independently run hospitality sector businesses, which is a market where we can offer the most added value.

Strengths and weaknesses analysis

We have been performing our own SWOT analyses, which we published for the first time last year, to a critical reappraisal, partly in the light of the new economic reality: is good actually good enough and have we become sufficiently switched on? Today's success is yesterday's truth, but how can we consolidate that success in the future? Those were the questions that prompted an intensive and inspirational self-assessment in 2013, from which we concluded that good will not be good enough in the long term. We have a great deal of respect for the past, in which we have established an unbelievably impressive business, as evidenced by our 'share of the profit' in the sector. Strong businesses are constantly innovating, however, and it is precisely while times are hard that we need to make the leap from 'good' to 'great' and, to achieve this, a brand strategy is the vital key. In the SWOT analysis below, we still see our business as having the same strengths but we have also identified weaknesses which we were not so aware of before. The outcome in 2013 was the SWOT analysis presented below.

SWOT 2013

Strengths	Weaknesses
→ Centrally located distribution centre → Centralised structure and systems → National network of cash-and-carry stores → National network of delivery-service distribution centres → Integrated back-office and associated ICT systems → Strong Sligro format → Market leadership → Membership of Superunie purchase combine → Plenty of retail and cash-and-carry know-how → Unique corporate culture	→ Marketing insufficiently aligned with the role of market leader → The number of innovative products is too low in specific destination categories → Modesty in the organisation and insufficient external exposure → Need to make better use of our marketing/sales systems and data
Oppertunities	**Threats**
→ Market consolidation → Demographic changes → Network optimisation → Sqeeze on customer profitability in our markets → Long-term growth profile of the foodservice market → Internationalisation	→ Economic development → Clustering of consumers → Global increases in food prices → Complacency

Revitalisation

This observation was what prompted the Sligro 3.0 revitalisation programme, the impact of which will become increasingly apparent in our front-office operations from the beginning of 2014 onwards. It is a process similar to that which we have previously undertaken with Van Hoeckel but, given the size of the whole foodservice business and its importance to the Group among other things, this will be on a much greater and far-reaching scale. The total programme extends over a period of three years or so. In 2013 we formulated a precise definition of our brand strategy and decided how we need to pursue that strategy in future.

→ What is our role?
→ What makes us a good company?
→ What is our economic driver?
→ What is our vision and mission?
→ What is our positioning?
→ What are our strengths and weaknesses?
→ What route should we follow to get from the existing situation (A) to the desired situation (B) – from good to great – from a typical wholesale supplier to a strong foodservice brand?

We feel it is too early at this stage to disclose exactly how we plan to address those questions because we have not completely finalised our ideas in all areas yet. Moreover, we do not wish to give the game away to the competition any sooner than we have to. One thing is certain and that is that our promotion and marketing programme in 2014 is set to undergo substantial change. We also know that the opening of the new Sligro cash-and-carry store in Maastricht in March 2014 heralds a significant change in content and signage designed to clearly project our brand strategy. Very clear choices will also be made in specific sections of the product range. In view of these plans we decided to delay a number of other investments in outlets in 2013. When the Maastricht store has proved a success, we will then be able to make a fresh start with a relatively large number of outlets. The organisation of our representatives in the field has also been altered to reflect the new basic segmentation of customers and the marketing department is being given a much more emphatic and initiating role.

The whole revitalisation process is one of the biggest 'A → B' exercises or 'Switched on' activities of recent years within the Group. It is a process that has taken an enormous amount of time but one which has given us much greater energy. Many departments have played a part in this most ambitious of projects and continue to do so. The enthusiasm for what lies ahead is widely shared.

E-commerce

In 2015, the emphasis will be placed on e-commerce. In preparation for this shift of emphasis we shall essentially be using 2014 to ready the back-office operations for that development. By e-commerce we understand advanced forms of e-commerce with much enriched content, which will necessitate our databases being filled in a way that makes them easy to maintain. The necessary systems have been procured and the structure for making it possible has been designed. As regards somewhat less advanced forms of e-commerce, considerable progress has already been made. In this context we mean such things as the accessibility and content of the website, email marketing and website content for our professional customers: foodbrigade.nl. Incidentally, not many people will be aware that the Sligro delivery operations have sales of almost €1 billion, and that around 90% of this business is generated entirely online, making it one of the largest Dutch e-commerce enterprises.

FOODBRIGADE

Competitive edge

A strong business is a brand that is constantly renewing itself from a position of strength and not weakness. We are pleased that the strengths of our business continue to be as robust as ever and in effect underpin our further development. Some of our foodservice competitors have also embarked on processes of renewal but are starting from a position well behind us and therefore in our view to some extent lack the strengths which in our case provide a good base from which to advance. None of the others, for instance, has a proper central distribution centre, with one central structure and central systems. Creating a situation like that is very difficult to do retroactively. Our foodservice business was built up on a retail model. Nearly every retailer, whether food or non-food, has a strong central management system with one or more internal distribution centres, allowing individual stores or local customer distribution centres to concentrate completely on the customer. To achieve that kind of setup you need a single central ICT system to make it all possible. Since we have three routes to the market, that is not only very important but also more complicated. It is this organisational structure that enables us to be the only ones to successfully run relatively small outlets (type I) in provincial towns. This structure also brings all sorts of advantages with it when it comes to having a unique product range, own labels and exclusive imports.

Purchasing power and own labels

Another strength which, in our view, gives us a more or less permanent edge is the lead we have in market share, coupled with our membership of Superunie. These two factors together give us a really strong purchasing position and the associated scope for selling own-label products. Approximately one-third of the foodservice sales concerns food in retail packs which we are able to purchase via Superunie at competitive retail prices. Our competitors in the foodservice market do not have a strong purchasing position with respect to retail packs. This we obviously see as a competitive advantage but the assertion by a competitor that this explains the difference in profit between us and them is grossly exaggerated. We are, however, quite happy for them to believe that.

International

Again in 2013 we made a serious attempt to pursue our ambitions to secure a major international acquisition, specifically in Scandinavia. We were, however, unsuccessful. It was a pity but, where a first major international venture is concerned in particular, we firmly believe you have to stick to your principles and the criteria you have set yourself before embarking on such a journey and, in this case, that was simply not feasible. The attempt did, however, confirm our view that the right opportunity could lead to success, although it is never going to be a

copy-and-paste situation; markets and eating habits are quite simply too different for that. Cross-border synergy is never going to be as great as that which can be achieved in the national market. In the foodservice market, we prefer to look for opportunities in the Netherlands, usually targeting relatively weak companies that we can quickly integrate into our network or else specialists in a particular segment or region. On the international front we are looking mainly at strong players with an adequate market share in their national or regional markets and with strong management. The synergy will then come largely from best practices, some shared procurement and further expansion of market position. That obviously limits our options but that is a constraint governing the ability to succeed in those different markets. So we shall just have to be patient. In any case, there is still plenty to be getting on with in the Netherlands.

Belgium

An exception to that policy is the Belgian market, which we are penetrating swiftly and successfully with operations based on two of our Dutch distribution centres. We are busy setting up a small organisation that is fully geared to serving the Belgian market. Additionally, Belgian customers in the border region have also been using Sligro cash-and-carry outlets close to the border for many years. We have now built up a clear picture of the Belgian market and are working successfully to increase awareness of the Sligro name, not least as main sponsor of the Belgian Hockey Association. The Belgian market is on the eve of important changes regarding a prescribed method of invoicing, which have tax implications. We are following developments with interest. We are also exploring the scope for relatively small acquisitions in this highly fragmented market. In the fullness of time, the possibility of a separate Sligro presence in Belgium achieved by means of an acquisition cannot be ruled out. For the time being, however, we are still perfectly well placed to expand our business in Belgium by operating from the Netherlands.

Sligro and Van Hoeckel

As the chart on page 20 shows, in our delivery service operations we use two different names. We serve institutional customers under the name Van Hoeckel, using the Sligro name for the other segments of the market. That does not mean that Van Hoeckel is a separate business – that is not part of our philosophy. Entirely separate identities are projected for our commercial market operations (sales, marketing, field representatives) but these operations again depend very much on centralised back-office support. As regards logistics, Van Hoeckel has been fully incorporated into the delivery service structure of the foodservice operations since 2012, by using five large delivery service centres for institutional customers, which we call the Big Five.

"Having personal contact with regular customers is what makes it special."

Niels Bos

"I've been enjoying the job for six years now, and it's still fun!"

Sabita Harkisoen

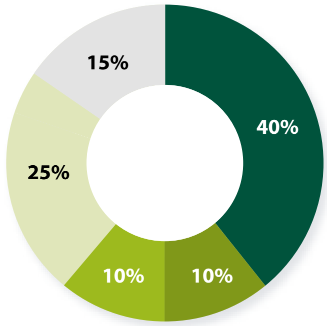
Fresh produce and Fresh Partners

Fresh produce is becoming an increasingly distinctive factor in foodservice. We sell all the same A-brands as the rest so we can only set ourselves apart in terms of logistics and price, although it is incidentally good to note that a number of major A-brands are beginning to appreciate increasingly that working in close partnership with a market leader that has been outperforming the market for years on the basis of a shared commercial commitment and database analyses is a very wise choice. Again for Sligro, it is the 'choose or lose' principle that applies. When it comes to freshly produced products, however, many different forms of distinctiveness become possible and important. That is why we have in our portfolio a number of production companies and operate in close partnership with a number of fresh produce partners in which we have non-controlling interests providing confirmation of a lasting relationship for both sides. For all our perishable products, these partners operate under the Sligro Fresh Partners name, as does our wholly owned subsidiary SmitVis. SmitVis is market leader in fish for the foodservice sector. Culivers is our wholly-owned subsidiary producing convenience foods and Maison Niels de Veye specialises in exclusive patisserie, deserts and savoury products forming the basis of ready-made meals. Sanders Vleescentrale is a wholly-owned subsidiary dealing in meat, which mostly supplies food retail.

We also hold non-controlling interests in Smeding (fruit and vegetables), Kaldenberg (meat), Ruig (game and poultry) and Verhoeven (bread and bakery products). Although these companies were originally active in the foodservice market, Smeding and Verhoeven also supply EMTÉ to a considerable extent, and Ruig to a lesser extent as well.

Analysis of sales

Our foodservice sales are divided among the various customer categories as follows:



- Hospitality sector
- Institutions/schools
- Company catering
- SME/business services
- Fourcourts/small-scale retailers

In the following paragraphs we take a closer look at the various parts of our business, covering the salient features of 2013 and the developments that are being planned in the short term.

Cash & Carry

With 46 outlets and a presence in all the major geographical subdivisions of the market we now cover the entire country. In the fullness of time we feel there is still room for further expansion in the direction of 55 outlets. At the beginning of 2013, the successful outlet in Hilversum was upgraded from a type 1 store to a type 3 store.

Sligro Maastricht

The most important investment in 2013 concerned the new outlet in Maastricht, which is due to open in March 2014. The project involves capital expenditure of around €9 million. As explained on page 33, much of the change in the outward appearance of our format will be on display in this new store for the first time. It is, of course, not merely a question of the projection and the addition of new features of the format. There is a great deal more going on behind the scenes. We are therefore working on a training programme among other things and we shall be implementing some significant changes in a number of specific categories within the product range. Because so much that is new comes together in this one location we have deliberately taken a little extra time to ensure that everything is as it should be from the outset. The novel features were also the reason for delaying other cash-and-carry investment projects so that, when the Maastricht store has proved a success, we will be able to push ahead rapidly. These plans include expanding the outlet in Enschede to a type 3 store and relocating the outlet in Gouda to a new site of almost double the size, allowing the existing type 1 store also to be converted into a type 3. Further major upgrades are planned in Eindhoven, The Hague Forepark and Veghel.

Fresh produce in type 1

Another important pilot which we conducted in 2013 was to have fresh produce in type 1 outlets. We have a total of 14 type 1 stores located in catchment areas that are too small for a type 3 outlet to be successfully operated. We would still like to be able to offer our customers in the smaller areas of the market the possibility of buying short-life perishables from us as well. This would apply to customers that are too small to make use of the delivery service or simply prefer self-service. That possibility is currently being trialled in our outlet in Tiel in a pilot that has been running for a short while. Further roll-out is planned in 2014. Customers wishing to avail themselves of the possibility place their orders using an online ordering application that is also used by our delivery service customers, and the same short delivery times apply. Instead of actually delivering the orders, however, they are assembled ready for customers to collect which they can do, for example, when visiting the store to buy other provisions. This service can be provided cost-efficiently as a limited proportion of the product range offered by our cash-and-carry outlets is already supplied from our delivery service centres – a splendid e-commerce solution based on 'click and collect'.

We believe that we are providing our customers with an extra service in the form of this option, which will allow us to further strengthen our market position. Because type 1 stores know their customers very well on a personal level we expect to ensure that customers are fully aware of the new service in a short space of time.

Cost structure

Plans were drawn up in all parts of the Group in 2013 for aligning the cost structure with the new economic reality. Our cash-and-carry outlets already have an extremely low cost base, however, which is difficult to reduce further if sales fall. One thing we certainly do not want to do is to undermine the quality of the service we provide because we know from customer surveys that that is an important factor in the choice of Sligro as wholesale supplier. Even so, we still managed to achieve substantial savings in 2013 by introducing further automation into the ordering process between outlet and central distribution centre. In due course we believe this should not only produce cost savings but also allow us to keep shelves filled better while carrying lower inventories – better supply chain management in other words.

Delivery service

We took further steps in 2013 in the professionalisation of this part of the business. As already reported on page 32, our delivery service recorded splendid growth of more than 6% (including Van Hoeckel).
That was partially attributable to the successful start of major new customer relationships for Sligro and Van Hoeckel. Examples are the Autogrill operations in Belgium and IFZ in Friesland.

Three things in particular distinguish the year under review, however:

- → The successful integration of Van Oers.
- → The smooth commissioning of the new delivery service centre in Venray.
- → A detailed cost-saving programme forming the centrepiece of the SFG-wide 'Click on Costs' programme, the effect of which will be seen in 2014 especially.

Preparations were also made in 2013 for the planned acquisitions of Rooswinkel and Horeca Totaal Sluis, which we announced early in 2014.

Van Oers

At the beginning of 2013, we completed the acquisition of Van Oers. Finally acquiring ownership of a business brings to an end the initial pleasure because the sort of integration exercise which follows demands a great deal of work, drawing up a very detailed plan, followed by its careful execution. Having paid the price for getting it wrong in the past we were determined to learn our lesson and not let history repeat itself. Under the project name of Voss, a fairly large team successfully took charge of the integration process. New commercial agreements had to be signed with all the customers and we had to show them how to use our order system Slimis. All the new customers also obviously had to be fitted into the foodservice delivery service infrastructure. The Van Oers employees either joined Sligro or entered the service of our carriers, although in most cases this involved changing jobs. Some elected to take advantage of the social plan.
By the end of June we were able to assess the success of the operation – high rate of customer retention, everything running on our systems and integration costs of around €1 million, which was within budget. After the summer, it was once more business as usual, although that does not mean there is not room for further optimisation.

Venray delivery service centre

A second important achievement was the commissioning of the new delivery service centre in Venray. This now gives us a modern distribution centre totally geared to our operations extending to 16,500 m² at which the activities of the now closed delivery centre in Haps and the delivery activities from Maastricht have been merged – in anticipation of the opening of the new cash-and-carry outlet in Maastricht. We have also transferred customers previously served from Gilze to Venray because we were getting short of space in Gilze as a result of the sharp growth of the business. These changes mark the completion of our planned segregation of the cash-and-carry business and the delivery service business. At the Vlissingen outlet, however, delivery service and cash-and-carry operations remain integrated at the one site. This has to do with the strongly seasonal nature of the business locally. Fortunately, Venray was built with a view to growth and the Rooswinkel activities can be integrated into the operations of this site. With the successful commissioning of the Venray delivery service centre we have not only created increased capacity but also achieved a reduction in costs of around €1 million. That gives us considerable confidence with respect to a comparable operation scheduled for the autumn of 2014 in the municipality of Lansingerland. It is here that we plan to invest in an 18,000 m² distribution centre in which the activities currently carried on from Barendrecht and Den Haag will be combined. With the expiry of the leases on the existing premises we should again be able to achieve savings of roughly €1 million.
The collaboration with the local authorities in both Venray and Lansingerland has been consistently constructive, decisive and reliable. Those are qualities that we particularly appreciate and represent the right way for a local authority to attract new investments and jobs in these difficult times. We feel that is something we should mention because all too often unfortunately the opposite is true, as in the case of Veghel, and that is where we have our headquarters! Bragging about fancy statistics without realising that the achievements they represent were brought about despite and not thanks to the local council and officialdom tells its own story. It can't be helped but it does make doing business difficult, especially for a company like ours that has not shied away from its responsibilities in numerous industry-wide bodies and regional clusters.

'Click on Costs'

The third large-scale operation that was embarked upon in 2013 was the Group's 'Click on Costs' programme with which we have set ourselves the goal of cutting costs by €10 million in the years ahead, a substantial contribution to the realisation of the savings being made by the delivery service business. In 2013, six detailed plans were drawn up by teams from marketing and operations, designed to produce savings of wage costs and transport costs amounting to around €5 million.

Although the foodservice delivery service business has grown rapidly in recent years, profit growth has not kept pace with the expansion. That is partly to do with price competition (partly initiated by ourselves) of course, but we have also been guilty of taking our eye off the ball. We now intend to put things right, making it possible to expand the business more profitably with our highly competitive marketplace offerings.

Rooswinkel

Apart from the above-mentioned programmes, the delivery service team will have a lot of work on its hands with the integration of activities following the recently announced takeovers of Rooswinkel and Horeca Totaal Sluis. The Rooswinkel acquisition substantially strengthens our position in the small-scale hospitality sector and institutional customer market. Rooswinkel posted sales in excess of €30 million in 2013 serving these customers, with a workforce of 120, all of whom will be joining the Group. The plan is to integrate these activities into the operations at the Venray delivery service centre in the first half of 2014, involving an operation similar to that with Van Oers in 2013. Whereas Van Oers served mainly large customers, Rooswinkel with two exceptions has mainly small customers. As soon as the ACM clears the merger we can make a start with the integration process. And as soon as customers start being supplied from Venray, the deliveries and sales will be recorded as our own. Until such time, Rooswinkel will continue to take responsibility for the business.

We have every confidence that, with the same team and sticking to the same script, we can once again make a success of the operation.

Horeca Totaal Sluis

We also recently announced the takeover of Horeca Totaal Sluis B.V. and expect to complete the acquisition in February. Horeca Totaal Sluis is a highly successful wholesale supplier serving the hospitality sector in the West Zeeuws-Vlaanderen region, which has always made it pretty difficult for us to penetrate this region. Horeca Totaal Sluis posted sales of €20 million in 2013 and has a staff of 40. The business of Horeca Totaal Sluis is highly seasonal and the plan is therefore to allow this company to continue operating under its own name and not make a start with the physical integration of activities until the autumn of 2014. Integration will also mean that our existing delivery service customers in the region will in due course be transferred to the site in Sluis. We also intend to preserve the cash-and-carry outlet in approximately its existing form. In view of the size of the regional market, a proper Sligro type 1 outlet does not seem to make too much sense at this stage.

We expect the two acquisitions, coupled with the remaining bedding-in effect of Van Oers, to contribute around €55 million to our sales in 2014. Both acquisitions strengthen our presence, especially in the core customer target group of regional hospitality sector businesses.

Van Hoeckel

Van Hoeckel was able to profit to the full from the measures implemented in recent years as part of the Van Hoeckel 3.0 project in 2013, making the company much more customer-orientated, which has been appreciated by customers. Van Hoeckel managed to secure various new contracts and also had a high rate of retention on contracts expiring in 2013. As a consequence we saw sales to the institutional customer group increase by double figures and the prospects for 2014 do not look bad either, although growth will be less than in the excellent year of 2013. The growth which we are seeing in the institutional market is being achieved in a market which itself is expected to have shrunk by around 5% and is set to undergo a further substantial decline in the years ahead. As healthcare cutbacks bite, there has been a sharp fall in the number of nursing homes and care centres. For food sales, that means that there will be a major shift from intramural catering to extramural meals. Van Hoeckel is responding to that trend by such means as offering a ready meal concept based on online ordering for elderly people remaining in their own homes: maaltijdservice.nl. Additionally, some time ago we took over Maaltijdservice Noord-Limburg, which is essentially a commercial version of the traditional 'meals on wheels' system in the Netherlands.

Maaltijdservice.nl

De lekkerste maaltijd, het snelst op tafel

"Now this is something you can really get your teeth into."

Monique Grotenbreg

Organisation
AND EMPLOYEES

Goals

- → To establish long-term employment relationships, consistent with our status as a reliable and professional employer.
- → To encourage relatively long-lasting service with the company in order to maximise the payback from investments in training, corporate culture and commitment.
- → To maintain employees' pride in Sligro Food Group through intensive communication and by enabling them to share in the group's success.
- → To create a safe and pleasant working environment in which employees from different backgrounds can all feel at home.
- → To promote cooperation and partnership as a means of achieving targeted synergistic benefits for the group.
- → To ensure we protect and promote important elements of our organisational culture, our 'Green Blood', such as strength in unity, pride without arrogance, a passion to be the best, cost awareness, a healthy belief in ourselves and a conscious choice for directness.
- → To create a leadership style reflecting our organisational culture.
- → To remain committed to an informal organisation, where short lines of communication and reporting help to achieve intelligent and rapid solutions in day-to-day activities.
- → To continue promoting customer-oriented and customer-friendly practices as the standard for our employees.
- → To anticipate the challenges in the marketplace and our ambitions for the future through a group-wide quality drive in the organisation.
- → To consistently strive to improve employees' performance by providing structured and challenging opportunities for training and management development.

Corporate culture

This year we have included a more extensive series of key figures and statistics relating to our staff in this report, providing a more detailed picture of our organisation. This clearly shows what a people-centred business we are. Our staff have contact with our customers every single day. That may involve helping them to choose the right product, making a delivery or just a friendly word with a shopper. We firmly believe that our staff are a vital aspect of what makes our formats that bit different. That is clearly revealed in surveys. And it is something we cherish and are proud of.

The ultimate in customer focus and a tightknit and mutually loyal band of staff go hand-in-hand. How can you expect your staff to act in the customer's interests if, as employer, you cannot put yourself in the shoes of your employees? We look for staff who appreciate personal attention. For such people, it goes without saying that our customers deserve the same personal attention.

Green blood
our DNA

During the year under review we devoted attention in numerous ways to the elements of our corporate culture, our DNA, which we refer to as our 'Green Blood', identifying the following core values:

- Healthy **belief** in ourselves
- **Determination** to be the best
- **Pride** without arrogance
- Cost **awareness**
- Consciously **direct**
- Combine **strength**

This included pieces in our monthly staff magazine sliM and at the annual 'Kick-Off' convention at which we present our plans to around 800 middle managers. The most important thing, however, is for management to espouse those qualities and to tackle anyone who fails to do so. We have translated the elements of our corporate culture into formalised competency profiles which we use in connection with staff recruitment and selection and in training programmes, for example for supervisors. At our new delivery centre in Venray, the key features of our corporate culture are prominently displayed in numerous places.

It is important that we keep a careful eye on the way we conduct ourselves as the organisation becomes larger and new people join. We are aware that organisational culture is not something one can take for granted, certainly in the case of a culture as pronounced as ours. That is why we deliberately initiated our programme to engender a corporate culture in the first place and we realise that it requires an ongoing effort.

Labour market

The poor state of the economy means that unemployment continues to rise, even if the trend has slowed recently. People are still worried about their jobs and are consequently concerned about income security.

We are pleased that we have proved to be a reliable employer for many years. However, even we obviously have to trim our workforce when necessary. Happily we are still able to do that using a flexible approach and by actively transferring people internally. We succeeded in integrating the Van Oers employees into the regional organisation because of our considerable capacity to absorb people and because we were all determined to make it happen. Obviously, a process of this kind also demands the necessary flexibility on the part of employees. And it is thanks to such flexibility that the merger of the former Maastricht and Haps delivery activities in Venray went so smoothly. In situations of this kind we operate according to a social plan, incorporating strict rules. The principle is always that transfers should be to the same type of work elsewhere in the Group. In the case of the Van Oers takeover, however, because we do not have our own transport department, this was accomplished through agreement with our carriers. It has been our experience that, with a little creativity and flexibility, we are generally able to arrive at a mutually satisfactory solution in such situations. We have every confidence that, working together, we shall once again make a good job of integrating Rooswinkel and Horeca Totaal Sluis. Over and over again in our experience, a fair, transparent and professional track record of past performance provides the best credentials for the future.

Talent

It continues to be a challenge to find suitably qualified (HBO and WO) talent. On the one hand, people can be somewhat fearful of giving up existing 'certainty' and embarking on a new adventure and, on the other hand, we are extremely critical when it comes to recruiting the right talent. We are looking for people with the necessary competencies but we are also looking for 'Green Blood'.

There is no problem finding young people for our supermarkets. Many businesses are closing their doors to part-timers whereas we positively welcome them. A part-time job gives young people both work experience and experience of life, such as shouldering responsibility, solving problems, dealing with customers in a professional manner, planning and organising. That is all experience that will stand them in good stead later on and the work provides them with a reasonable living at the same time. Steps on the part of politicians to restrict temporary employment contracts to a maximum period of two years do absolutely nothing to help this group of people. These are young people who gain a great deal of valuable experience and are generally not planning to make a career of the supermarket.

For our cash-and-carry stores we always have a very high response to job vacancies. There is a good explanation for this. A Sligro store is ideal if you like selling and genuinely appreciate having contact with customers. It is one of the few places in the food business where someone can be a true salesperson, quite apart from the opportunity to work full-time as well. The level of interest is particularly high among people currently working in the hospitality sector. The work appeals to a large group who are passionate about working with food but would prefer more conventional working hours.

Sickness absence

Our aim is to get the absence rate down to 3.5%, which is a very ambitious target. In 2013 we were still well above that figure, at 4%, despite an improvement of 0.2 of a percentage point. So there is still some work to be done. As the organisation grows, there is a greater need for a more specific approach to tackle absenteeism. In the last quarter of 2013 we implemented a new module of our E-HRM platform, enabling us to directly monitor every absence and take targeted action depending on the specific situation. The system also allows a situation in which someone is absent on sick leave to be classified according to the risk of extended absence and the extent to which that risk can be influenced. Absence due to mental health issues (generally not work-related) has a high risk of becoming a lengthy episode but it is certainly possible to influence the outcome in such cases by providing proper support quickly. To that end we work closely with a network of professionals and company doctors.

The system also supports the entire administrative process. It provides the work platform for company doctors, supervisors and case managers, allowing all of them access to the information they need, and are permitted to see. Only company doctors, for instance, have access to details of a person's health. Automated workflows are incorporated so that we are able to deal with the mountain of bureaucracy demanded by the body responsible for implementing employee insurance schemes in the Netherlands (UWV) in a more or less automated manner.

The new system enables us to carry out all sorts of activities in-house which previously required a professional services organisation. This means we are much more on the ball and have everything under our own control and responsibility (which we think is the right place to start from).

"Bread and me, we belong together!"

Corine van der Linden

More or less at the same time as the implementation of our new absence monitoring system we started using a different service provider to look after our remaining company doctors. It was a challenge to switch systems and service provider all at once but the process was completed almost without a hitch. On that basis alone we are easily recouping the costs of the new system.

Return to Work (Partially Disabled) Regulation

We would have liked to bring responsibility for looking after and paying employees not qualifying as permanently unfit for work entirely in-house as well. The government wants employers to assume the risk for persons coming under the Return to Work (Partially Disabled) Regulation (Dutch acronym WGA) but requires an unlimited guarantee in respect of the risk of insolvency of the employers. No such insurance product is available on the market on acceptable terms. In previous years we have taken out private cover for the WGA risk with three separate insurers. Unfortunately it has become apparent that the insurance companies have got themselves into a real mess and are withdrawing from the market in droves by demanding ludicrous premiums when policies come up for renewal. This has effectively forced us to return to the public sector system. That means we have to deal with the UWV to implement the insurance scheme again, which we have no choice but to accept. However, we shall continue to maintain a tight control on things ourselves as far as possible. The UWV may possess plenty of expertise regarding regulations, assessments and procedures but we doubt whether that expertise is always applied in the interests of the disabled employee and the employer who has to foot the bill. The formal work culture and attitude of public sector organisations generally does not sit easily with our entrepreneurial approach.

With effect from January 2014 we will be legally required to bear the cost from staff who leave the employment of the company because they are ill and even of those who subsequently fall ill within a period of 30 days of the termination of their contract of employment. Things cannot get much madder than that in our view! We shall be bearing the risk ourselves but keeping a very close eye on things. That is because we are afraid that the UWV, whose role is to flag such cases, will not act in time or comprehensively. We have the impression that little thought was given to the various problems involved when the decision was taken to make this group of sick ex-employees the financial responsibility of their ex-employer. The situation between an employer and an ex-employee can be complex. It may be a case of non-performance, a labour conflict or someone employed on a temporary contract that was not made permanent because that person did not come up to scratch. We look upon it as one more challenge but see it mainly as the government simply shifting responsibility onto employers again. We would not have the slightest problem with accepting responsibility if we ourselves were the cause and were given the wherewithal to do something about it.

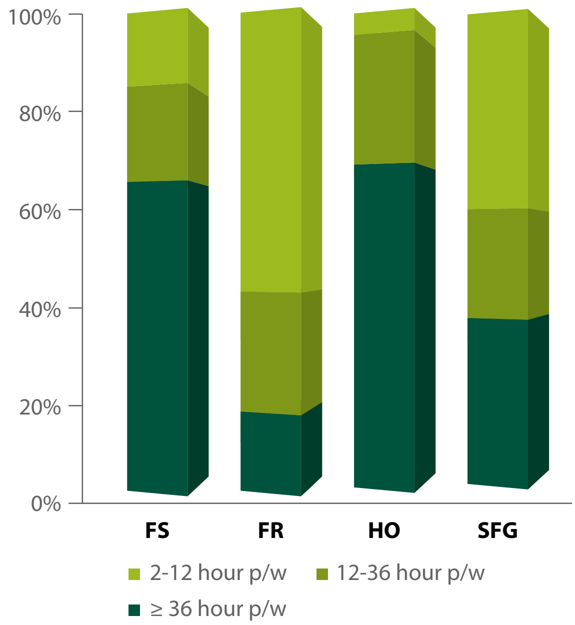
Diversity

The following graphs analyse our overall workforce into three categories:

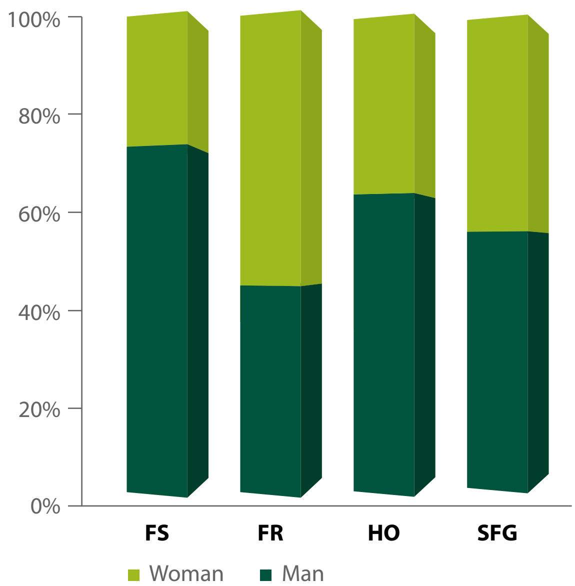
→ The central headquarters
→ Food retail
→ Foodservice

The age profile, gender, hours worked per week and necessary standard of education of these groups differ considerably.

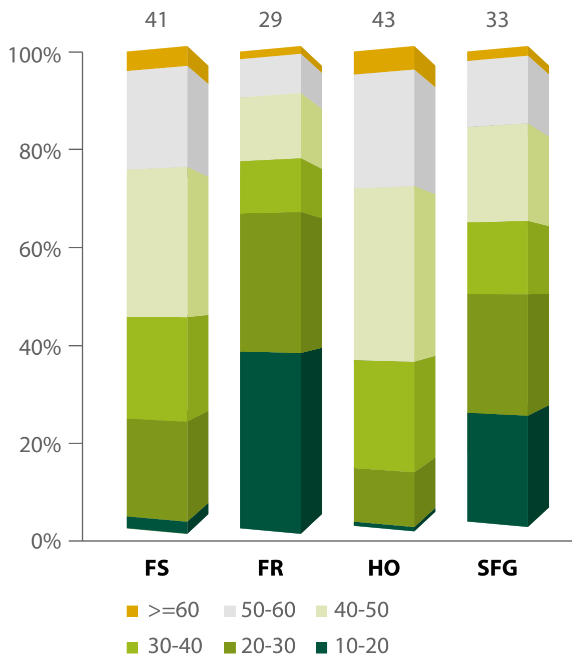
Staff analysed by contract



Staff analysed by gender



Staff analysed by age



From these graphs can be seen among other things that large numbers of young people working a small number of hours are employed in the supermarkets. These are mainly students, both girls and boys, working part-time to earn some money while still at school or college etc. In addition, many older women also worked part-time in a supermarket to fit around family commitments. This explains the preponderance of women in the food retail business plus the relatively strong representation of working a small number of hours per week. The foodservice business, on the other hand, involves a large number of jobs concerned with logistics operations, which are less appealing to women. The age profile for foodservice is fairly balanced. The nature of the work, however, means there are not many places for non-adults. It also largely dictates the necessary standard of education. Many jobs in a supermarket are manual whereas the foodservice activities require more highly qualified staff. Most foodservice employees are on full-time or near-full-time contracts.

The situation in our head office is totally different. Many jobs require secondary education qualifications or even graduates. This kind of job usually involves working full-time or on a substantial part-time contract. There is a clear trend towards increasingly high standards of education. Head office jobs are not really gender-specific but the type of organisation we are means that men are overrepresented.

We are attempting to give more jobs to women in two places within the organisation. We would like to see more women progressing onto the management teams of our supermarkets, not least because most of our customers are women. In our head office, too, we are seeing the number of women in management positions increasing, which is something we welcome. In particular, when it comes to the Executive Board, it is made up of three men. In 2013, no vacancies arose on the Executive Board and there were no changes in the composition so the gender ratio remained unchanged. The Supervisory Board is, though, made up of three men and one woman and is therefore not far off the intended statutory target of at least 30% women. Both men and women must of course possess the right competencies and fit in with our corporate culture – our 'Green Blood'. That remains the challenge but also the strength of our company.

Inclusivity

We have long had a policy of inclusivity within the organisation. In other words, everyone who wants to be part of the organisation and is prepared to make the effort is welcome. We try to remove any obstacles that are in the way. We have prayer rooms, we have halal Christmas hampers for those who want them, we offer basic education to those with reading difficulties and we try to find suitable jobs for staff who become partially disabled. We expect just one thing: that people have to make the effort if they want to be part of the organisation.

So far we have not had a targeted policy aimed at creating opportunities, for example, for certain groups in the labour market such as ethnic minorities or the disabled. However, these groups do find a place with us in various positions by virtue of our natural attitudes, corporate culture and CSR policy. We have a group which is actively engaged with 'the multicultural Sligro society' and our supermarkets represent ideal places to work for young people qualifying for assistance under the Disablement Assistance Act for Handicapped Young Persons (Dutch acronym: Wajong), for instance. We have around 150 disabled persons on our payroll, which we feel is doing well, given the composition of our workforce as a whole. This has come about voluntarily, not because we have to take on such people, but simply because it suits us to do so. And we relish the challenge of seeing what other scope there is for having a definite policy on these matters. The sweeping measures which the government plans to impose if its broad objectives are not achieved are typical of the government. It is not a policy but simply a mechanism for offloading responsibility.

Training

We are investing heavily in training. Last year there were almost 7,800 training session attendances, representing an expenditure of €1.5 million in addition to wage costs. The diversity of our workforce means we have to take a group-wide approach. Young people find it perfectly normal to follow an online course. That is the world they live in. We take advantage of that by, for example, offering our staff training modules in the form of e-learning programmes. That is also efficient. In our cash-and-carry stores we have staff who want to be salespersons on the shop floor. For them we have a specific in-house programme, geared to providing thorough training in the further development of professionalism. Here, too, of course we make use of the support that e-learning can provide. Developing professionalism is a different process, however, from teaching technical skills. It also demands a different didactic approach.

Over the years we have developed a complete training programme for almost all the disciplines in the wholesale business, from specialist salesperson to logistics expert. In many cases, this was done in partnership with regional training centres. However, we are being increasingly forced to abandon such partnerships because we are no longer able or willing to comply with the growing demands on the part of the government for the mandatory inclusion of certain subjects, for example, or concerning the minimum number of teaching hours. We know that there have been some unacceptable practices but we have always distanced ourselves from them. It is a pity these abuses are being combated with blunt instruments. We would prefer to see a customised approach, allowing us to genuinely offer people a second chance to obtain proper qualifications. A more facilitating rather than regulatory approach would be more than welcome. We have noted that intensive job training for our part-time staff in the supermarkets does not suit that target group. It either takes too much time, literally, or is beyond their ambition. We are currently looking into more suitable training options and plan to develop the first of this type of programme in 2014.

A tailor-made learning and personal development programme for a section of our highly educated staff has now been completed after two years. Through Sligro's Young Intelligence Think Tank, we have challenged more than twenty highly educated staff with an extensive programme of thought-provoking topics. The programme was delivered by trained teachers and internal and external specialists in all sorts of disciplines with the aim of expanding knowledge and understanding. We have also challenged these individuals to push their own personal development. It has been good to see how some of this group dared to accept the challenges and how much effort they put in.

Safety

We believe it is important that staff should feel safe at work. We do not discriminate against people and we treat everyone with respect in a culture of openness. Deliberate directness for us means telling it like it is, saying what you think of people, but always with respect for the other. Reports of sexual harassment or objectionable behaviour on the part of superiors are always acted on.

Another aspect of safety is actual, physical safety on the shop floor. That means using the right personal protective equipment, for example, and the right tools and equipment as well as complying with traffic rules in our distribution centres and lifting instructions. In our training efforts we devote considerable attention to safe working practices.

In order to tackle the subject of safety across the board, a steering group has been set up in which the operations managers from the various business units are represented. This steering group lays down the basic parameters of safety policy, which are then defined in detail in working groups made up of specialists in the subjects concerned.

During the year under review, it was made easier to report minor accidents. The nature and the frequency of such accidents can provide extra insight into trends and the risk of more serious accidents. It also raises awareness among the supervisory staff concerned. The result was an increase in reports of minor accidents. In 2013 we had 155 accident reports compared with 112 in 2012. Of these incidents, 53 led to time off work (2012: 32). There were four accidents resulting in hospitalisation. In appropriate cases, we obviously report such accidents to the Ministry of Social Affairs and Employment Inspector.

In 2013 we tightened up our policy with regard to the organisation of the in-house emergency response services. On each site, one member of the emergency response team received special training as risk manager and was made responsible for a number of additional duties relating to safety, such as checking of emergency exits, firefighting equipment and storage of hazardous chemicals. Annual refresher training will also be given.

There is a national downward trend in the number of raids on supermarkets and wholesale outlets. That has also been our experience and, in the year under review, there were just two attempted raids. Any such attempt is, of course, one too many because something like that can really upset staff. We have standing arrangements with professional support providers who can be called in at a moment's notice.

Works Council

The beginning of 2014 marks the end of the three-year term of the Works Council and there will be new elections. These will be held on the basis of the Sligro model, having due regard to the legal requirements. An example is the fact that we have only one representative body, which means that the Works Council mimics the organisational structure of the Group. We are after all one company whose marketing follows three different routes but with one integrated back office, as can be seen in the chart on page 20. All sections of the business are represented on the Works Council but the Works Council organises its duties by subject matter rather than by business section. In a company with 10,000 employees you cannot manage without worker representation. We are required to have a Works Council by law but we see that 'necessity' as a blessing. Input from employees, formalised via a Works Council and reinforced every day in consultative meetings or otherwise, enhances the quality of the company: 'Strength in partnership' as we refer to it in our corporate culture.

In the year under review, there were five scheduled Consultative Meetings. These meetings always begin with an exchange of information. The Executive Board reports to the Works Council in detail about what is going on in the company, both with respect to the various activities and regarding matters which directly affect staff. The Works Council reports in turn according to a rotational system.

"We can identify food trends before you see them in restaurants."

Daan Gelijsteen

In 2013, the business included the following items:

- → Presentation of annual plans for foodservice and food retail in 2013.
- → Progress with the integration of Van Oers.
- → Suggestions put forward by the Works Council for reducing the distance driven in private cars on company business.
- → The wage round for staff not covered by the CLA wage scales.
- → The progress of plans concerning Corporate Social Responsibility within the Group.
- → The progress of the CLA negotiations.
- → The request for agreement on night working in the delivery service centres.
- → The request for agreement on the internet protocol.
- → The organisational changes to the Personnel & Organisation Department.
- → The walking and cycling day organised by a Works Council committee.
- → The Group's 2012 Annual Report and the company pension fund (representation of employees is organised via the Works Council).
- → The SEPA project and associated problems.
- → The new Works Council elections.
- → Update on absentee rates and the Personnel & Organisation Department.
- → Safety policy.
- → The request for the Works Council's formal recommendations regarding the merger of the distribution centres in The Hague and Barendrecht on a new site.
- → The disclosure of a major holding made to the Netherlands Authority for the Financial Markets (AFM) by Stichting Werknemersaandelen Sligro Food Group pursuant to the Major Holdings in Listed Companies Disclosure Act (WMZ). The employees jointly hold almost 4% of the share capital of the Group.
- → The request for agreement relating to the new structure for company doctors.
- → The wage costs standardisation exercise at food retail.
- → The holidays policy.
- → The request for agreement relating to the Group's risk manager policy.
- → The organisation of the employee activities.
- → Sligro Food Group Stimuleringsfonds sponsorship projects.
- → The request for agreement relating to flexible working hours at the head office.
- → An update on the construction activities.
- → Changes in the governance model relating to the company pension fund's governing bodies.

The above list reveals that there was plenty to talk about. Discussions were conducted in a particularly constructive manner and, thanks to the preparatory work carried out in committee, they were also productive. We should like to thank the existing Works Council for the pleasant and professional manner in which they have worked with us and hope that we may continue to build on that with the new Council. With 'Green Blood', that will certainly be the case.

Conditions of employment

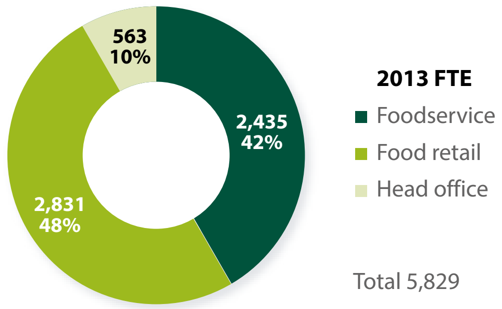
Our supermarket staff are covered by the Collective Labour Agreement for Large Food Retailers, and almost all other Sligro Food Group employees are covered by the Collective Labour Agreement for the Food Wholesale Sector. These two CLAs have in common that negotiations in recent years have been extremely tough or have failed to reach agreement altogether. There is close correspondence between the deliberations at local level in the separate industries and those at the heart of government in The Hague: slow, little in the way of innovative thinking and postponement of problems.

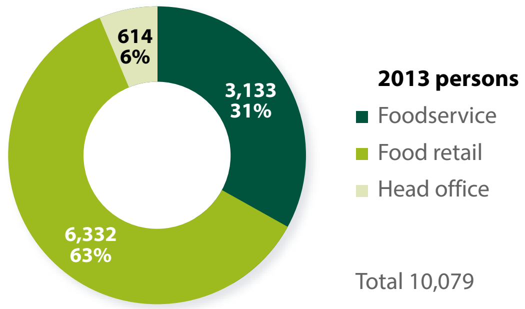
The wholesale sector CLA expired at the end of March 2012 and it was not until the end of December 2013 that agreement was reached with the unions (CNV and Unie), including a pay rise of 2%. The FNV union is keeping out of this sector. We hope that, without this the most traditional section of the union movement, it will be possible to introduce some changes in the future. In any event, this topic is back on the agenda.

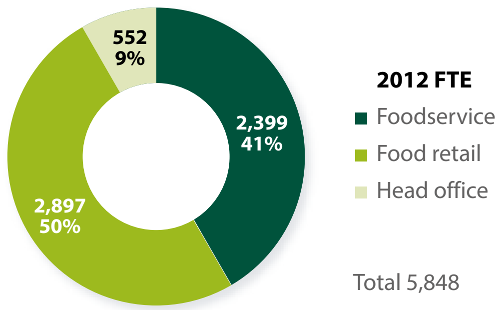
The supermarket CLA ran from 1 April 2011 to 31 March 2013 and, since then, just as in the case of the wholesale CLA, there have been protracted, fruitless negotiations about changes. The employers therefore unilaterally agreed on a wage rise of 1.25% at the end of December 2013 so that employees are not the ones to suffer from the tedious decision-making process.

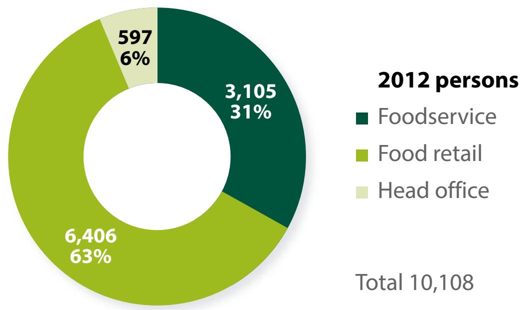
The graphs on the next page show the trends in the average number of employees. The average number of employees changed only slightly in 2013, which is not surprising in a year without any growth in volume. The takeover of Van Oers had the effect of increasing the average by 45 in 2013 and it should be borne in mind that the employees concerned only joined Sligro after the transfer of the revenue-generating business and that the Van Oers drivers were transferred to transport companies and not to Sligro. The graphs only show the numbers of actual Sligro employees. We also make use of temporary staff and Euroflex staff. This is partly the result of conscious choices we have made in our logistics activities and the need for flexibility

Employee numbers









and partly because there is no other way to attract staff of the quality we require. On the basis of a full year, 342 FTE jobs (2012: 319 FTE jobs) were filled in this manner.

Pensions and pension funds

Detailed information on the pension schemes available to Sligro Food Group employees can be found in note 5c on page 107 of the financial statements. Some of these schemes, primarily for our supermarket staff and professions such as butchers, are operated by the industry-wide pension funds. In most other cases, pensions are provided by the company pension fund, Stichting Pensioenfonds. Sligro Food Group. In all cases, Sligro Food Group has no obligations other than to pay contributions. These contributions must be sufficient to cover the costs, as required by the Nederlandsche Bank (the Dutch central bank), which is responsible for supervision. This requirement is met. A top-up scheme, based on defined contributions, has been agreed with an insurance company to cover amounts above the maximum pensionable salary (up to an additional €102,000). The industry-wide pension funds concerned currently have a limited reserve deficit and are not currently awarding any annual increases. The company pension fund substantially improved its funding ratio in 2013 from 111% to 122%. Three years ago we decided in response to a request from the pension fund board of trustees to institute additional recovery measures to strengthen the financial situation in conjunction with the Works Council. The Group made a one-off payment of €6 million and the employees have paid in a total of an extra €3 million over the past three years. Those members with deferred pensions would make their contribution by forgoing increases as and when they may again be awarded.

Now, three years later, we can report success. The pension fund has comfortably cleared its reserve deficit and, moreover, increased the rights of contributing members by 1%. Deferred pensioners did not receive any increase and future increases on deferred pensions will be subject to a 5% cut.

Staff participation

For many years Sligro Food Group has had a profit-sharing scheme for its employees. This is based on the Group's profit as a percentage of revenue, with a floor of 2.8%. Amounts paid out under the scheme are converted into Sligro Food Group shares that are blocked for four years. It is partly as a result of this scheme that employees now hold approximately 1.7 million shares.

In 2013, the profit amounted to 2.7% of revenue, which is below the minimum figure of 2.8%. Nevertheless, we have set aside €1.5 million as a share of the profits for this group of employees because we believe very much in staff participation. In 2014 we shall be attempting in consultation with the Works Council to find a way of coming up with a better solution for facilitating staff participation within the system of conditions of employment. Tax effects mean that the existing scheme has become excessively skewed with respect to the ratio between 'value' for the employee and costs to the Group, and a further increase in tax has been announced for 2015.

Full details of our profit-sharing scheme can be found at www.sligrofoodgroup.com, where you can see how we communicate our approach and how important the issue is to our employees.

Corporate Social RESPONSIBILITY

It has been our practice for some years to cover both our financial results and our sustainability performance in our annual report. Corporate social responsibility has become a permanent section of the annual report, in which we provide information on our vision, our approach and the practical issues we have addressed in 2013. We also report on progress towards our sustainability targets up to 2020.

Our vision of CSR; how we operate

At Sligro Food Group, corporate social responsibility and commercial returns go hand in hand. The advantage of this approach is that CSR stays high on our agenda, even in tough economic times, or rather in today's new reality. For us, corporate social responsibility is simply a key element of professional and sustainable business practices. That may well have to do with our position as a listed family business because, as a family business, we want to do things properly and treat our environment with due respect.

We measure the added value of Sligro Food Group by more than financial performance alone. As well as financial results, issues relating to safety (including food safety), energy, the environment and society also play an important role for us.

MVO Nederland (the Dutch CSR platform) defines CSR as 'an integrated business vision in which the business creates value at the economic (Profit), environmental (Planet) and social (People) levels'. We recognise our vision in MVO Nederland's definition.

In 2013 we again made good progress in defining and achieving our CSR objectives. We have found that our intrinsic motivation, namely our sincere desire to help in shaping the world we leave to the generations to follow, can go hand in hand with the pursuit of quantifiable targets. We believe that this combination is important, because setting targets alone should not be an end in itself: what is ultimately important is the concrete and effective action we take to bring about improvement.

About this report

In this section we report on the results achieved and the most significant developments in the field of corporate social responsibility (CSR) in 2013. The figures concerning staff are given in the chapter headed 'Organisation and employees' of this report. The report has been prepared in accordance with the Global Reporting Initiative (GRI) guidelines and qualifies as level C (self-declared). Sligro seeks to improve the transparency and relevance of the annual report with the help of the GRI guidelines and the Transparency Benchmark criteria. The GRI table can be found on page 146 of this report. The topics covered in this CSR report have been nominated by the experts on the CSR Steering Group. The content of the report also reflects questions, responses and feedback from stakeholders such as consumers, employees and shareholders and discusses developments in the sector, such as legislation and standards. The report's main target groups are our employees, customers, consumers in general, shareholders, suppliers and potential employees.

The report and the related GRI table can also be found on our corporate website. Please address any questions, comments or suggestions to: mvo@sligro.nl.

"It's nice when a customer comes back a week later and thanks you for your advice on the best cheese."

Tim Dozy

"I've been working in delivery for 40 years. It suits me fine."

Wilhelm Straatman

Implementation in the organisation

We have been working with a CSR Steering Group for some years. The composition of this Steering Group has been matched to the core themes which we have formulated for Sligro Food Group and for which the members bear ultimate responsibility for their respective areas within Sligro Food Group. The CSR Steering Group as a whole makes policy choices and the individual members implement them operationally within their respective areas. The CSR Steering Group is chaired by the chairman of Sligro Food Group's Executive Board. Progress towards our sustainability targets was a regular item on the agendas of the meetings of the Works Council, Executive Board and Supervisory Board in 2013 and regular presentations on that subject were given at those meetings. Reports on our activities in the field of sustainability are also given in 'sliM', our monthly staff magazine.

Stakeholder dialogue

Making clear choices and setting targets have resulted in more frequent and more intensive stakeholder dialogue. This dialogue is now more closely concerned with our sustainability policy, at all levels and within various bodies, with shareholders, employees, suppliers, customers, sector organisations, public authorities, NGOs, people living in the vicinity of our locations and students. The dialogue ranges, for example, from practical coordination of sustainability policy with customers such as Albron to stimulating discussions with and presentations to ZLTO (the Southern Netherlands Agriculture and Horticulture Organisation) on the marketing of sustainable meat. We are open to dialogue.

Sligro Food Group is an active member of the Dutch Central Food Retail Association (Centraal Bureau Levensmiddelenhandel or CBL) and we perform a number of management and committee functions, including those relating to sustainability.

Core themes, ambitions and targets

Sligro's CSR policy focuses on three core themes which we believe cover the areas in which our major opportunities and challenges lie and for which we bear the greatest and most obvious responsibilities for reporting in the chain: people, the environment and the product range. We have formulated qualitative and quantitative ambitions for each of these themes.

Our core themes

People	The environment	Oud product range
		
Our employees	Energy	Sustainable
Our customers	CO_2	Health
Our community	Packaging	Food waste
	Waste	

Ambitions and targets

The ambitions that relate to these core themes are:

People

We want to offer our employees and their families a challenging, inspiring and safe working environment. We want to play an active and responsible role in the community in which we are directly or indirectly involved.

Respect for all stakeholders is part of our CSR policy. One way in which this respect is expressed is in transparent communication with customers, about products and about resolving problems. Customer satisfaction for us is a measure of the extent to which customers perceive Sligro as treating its customers well. We have therefore set ourselves the goal of sustained improvement in our Net Promotor Score (NPS).

The environment

We aim to play a pioneering role, in which our respect for the environment drives us constantly to undertake bold but sensible innovation, keeping social and economic return in balance while remaining aware of our stewardship responsibilities.

As a measure of the success of our efforts, we have calculated our CO_2 emissions. To relate our CO_2 emissions to the growth of our business in the coming years, we express these as a percentage of sales. We are aiming to reduce our CO_2 emissions as a percentage of sales by 20% between 2010 and 2020 (simply expressed as 20-20).

Our product range

It is our responsibility to assist and motivate our customers to make sustainable and healthy choices.

With our unique eerlijk & heerlijk (literally 'honest and delicious') concept, which we launched in 2010, we are expressly putting our sustainable product range on the map. We aim to grow our eerlijk & heerlijk product range by 10% a year from now until 2015.

Developments and progress by core theme

People

Our employees

We are very well aware that our employees are the key to our success, in terms not only of production capacity but also of behaviour, depth of involvement, creativity and entrepreneurship. This annual report therefore focuses closely on our employees (starting on page 41), discussing business culture, vitality and other elements of our ambitions in that area. That section also includes the figures for our staff. We believe that, because employee satisfaction and customer satisfaction are closely linked, culture is one of the most robust, sustainable and distinctive success factors for any business, which is why we devote so much time and attention to it.

Our customers

Respect for all stakeholders is part of our CSR policy. One way in which this respect is expressed is in transparent communication with customers, about products and about resolving problems. Customer satisfaction for us is a measure of the extent to which customers perceive Sligro as treating its customers well.

Customer Satisfaction
Foodservice

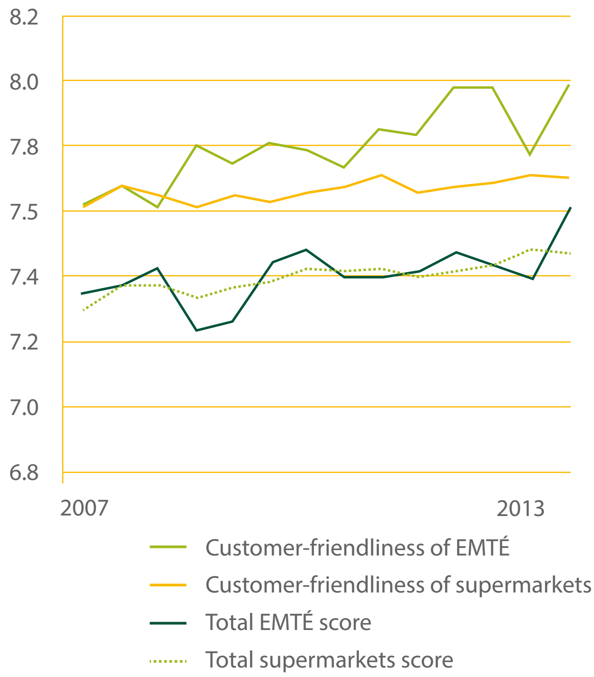
One of our targets last year was to measure our NPS (net promotor score) on a continuous basis. In the second half of 2013, Sligro commissioned an NPS survey with a view to measuring Sligro's performance and benchmarking it with that of its competitors. This was a more extensive survey than that conducted in 2012, when we measured only satisfaction among our own customers. The survey found that Sligro achieved the highest score of all the national wholesalers. Sligro scored well mainly among customers in the 'classic catering' and 'convenience catering' segments. We found this gratifying, because these segments are part of our primary target group.

Three opinions are particularly important for a good NPS. These are: 'provides the service I expect from a wholesaler', 'runs good promotional and price campaigns' and 'offers a good price/quality ratio'. Sligro scored highest, except for the statement 'runs good promotional and price campaigns'. This is one of the areas we shall address in developing and rolling out the new generation of our format, which is known internally as 'Sligro 3.0'.

Customer Satisfaction
Food Retail

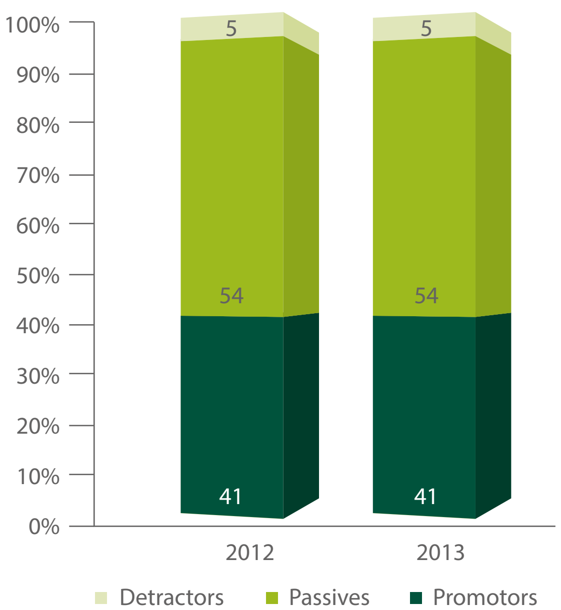
We measure customer satisfaction with EMTÉ using the Net Promotor Score. We also use the annual GfK summer and Christmas reports to see how EMTÉ scores compared with other supermarket formats.

Gfk summer and Christmas reports



In GfK's 2013 Fresh Produce Report, EMTÉ was chosen by customers as the Dutch supermarket with both the best butchery department and the best bakery department. EMTÉ was named as the most customer-friendly supermarket in the Netherlands in a customer survey by Market-Response in 2012. EMTÉ again achieved a high rating in the same survey in 2013, taking third place. We have also been using a mystery shopper survey for several years, achieving a steady improvement in our overall score:
2010: 7.87
2011: 7.99
2012: 8.06
2013: 8.14
Although the Net Promotor Score we achieved in the 2013 mystery shopper survey was identical to that for the previous year, there was a significant difference in the size of the sample: the NPS was based on 1,909 customers in 2012 but 10,008 in 2013. The large increase in the number of participating customers means that the rating is of far greater value than the year before, because the latest survey included more primary customers of other supermarket formats.

EMTÉ Net Promotor Score



Society

Sligro Food Group Stimulus Fund

The Sligro Food Group Stimulus Fund supports volunteer projects by Sligro Food Group employees. These are employees who have genuinely set up a campaign or project themselves and are actively working on it. The fund has been created to support social involvement by employees.

Koen van Antwerpen, who works Saturdays in the Returns Sorting Centre at the Veghel distribution centre, applied to the Stimulus Fund for help in building ecological toilets for Pronoei schools in Chicon (Peru). These are schools for children aged 4 and 5 whose parents cannot afford tuition or educational materials for them. Because the government provides no financial assistance for these schools, most of them have no sanitary facilities. There are at present 17 primary schools with no toilets. With the contribution made by the Stimulus Fund, Koen and a small team of Peruvian construction workers have built an ecological toilet, so the children now have proper hygienic sanitary facilities.

Liliane Fund

We have been working closely with the Liliane Fund for many years. With our employees and customers, we try to support the work of the Liliane Fund in all kinds of ways. After jointly evaluating our cooperation in 2013, we decided to look for a new project, preferably in one of the regions where both we and the Liliane Fund are already active, in our case as a buyer of commodities. The objective was to involve one of our local suppliers in a form of local assistance. The result was a new cooperative project in Sri Lanka between the Liliane Fund, Sligro Food Group and Bogawanta-lawa, the local producer of our Alex Meijer tea products. Together we have set ourselves a target of providing jobs for 100 handicapped young people with our tea supplier, thus making them less dependent on community support.

KiKa 2013 building-block campaign

In March, KiKa (the children's cancer charity) launched a national campaign to support the building of a new specialist hospital to treat children with cancer, the Princess Maxima Centre, which will become the largest child cancer treatment centre in Europe. KiKa's large-scale campaign in support of the Princess Maxima Centre, under the name 'Do Your Bit', is based on the sale of small building blocks symbolising the construction of the hospital. We have participated in this campaign in several ways, both as a company and more particularly in conjunction with our employees and customers. The campaign has so far raised €42,000.

Villa Pardoes

In addition to the regular support by our 'Plaza food for all' franchise format, our cooperation with Villa Pardoes, a special holiday home for children with life-threatening diseases, was given an extra boost in 2013. In October, Villa Pardoes celebrated its 12½-year anniversary and to mark the occasion it organised a big party for all its stakeholders. Together with Smeding, one of our Fresh Partners, and our customer Vitam Catering, we provided the buffets and drinks.

Tender Loving Care

Van Hoeckel (our business unit specialising in the institutional market) and its employees have been actively involved in the Verwenzorg (approximately Tender Loving Care) project. The object is to provide patient care for the chronically ill, not by ensuring proper medical care but by improving their quality of life, for example by giving them personal attention. Large groups of people with a chronic illness, such as those living in homes for the elderly, are not able to organise celebrations, do the things they enjoy or simply arrange a nice day out for themselves because they are dependent on others. That is where Tender Loving Care comes in. For Van Hoeckel, TLC means providing voluntary support staff and propagating the message. In this way, our colleagues are directly and personally involved in ensuring the well-being of our customers' patients. This often involves small everyday things, such as a visit to the local market, a garden centre or an evening out. Their initiatives and activities also encourage other Sligro Food Group employees to do similar things. Staff of the central Finance department, for example, chose to supplement their regular team outing with TLC by helping De Wellen, a care home in Oss, to prepare the evening meal and organising a bingo evening for all the residents.

DoSocial

Van Hoeckel is one of the founder members of DoSocial, a new foundation formed by several organisations which are directly or indirectly involved in care. Together they have one single overarching objective: structural improvement in the social well-being of the elderly and/or people needing help. On 5 September 2013, the foundation was launched with a major event in Vianen (attended by over 250 people). Many organisations involved in care, from suppliers to service providers, joined DoSocial as partners last year. The idea is that each partner should contribute to the achievement of social initiatives, mainly by providing time, manpower, skills and/or expertise. And, of course, they also make a financial contribution, but that is not the primary objective. What is important is the strength that comes from working together. One party may provide plants, another may give time and manpower to plant them and yet another may provide screens. Together they can create a splendid garden for a care home, where the residents themselves can be active and which gives them a place to enjoy the fresh air.

DoSocial has set up a 'Social Store Cupboard' to which requests for social help can be submitted and the supporters can offer what they have to give, thus bringing together demand and supply. Requests have to meet a number of important conditions. They must relate to a group of elderly people or people requiring long-term care and an activity which achieves a structural improvement in their well-being in the care context. DoSocial will support four social initiatives in 2014 and at least ten smaller (local) activities will work to widen the group of partners implementing these initiatives. Through its activities, Van Hoeckel is able to bring about change in a market which is clearly asking for change and in which the well-being of customers is suffering from the pressure on healthcare costs. At the same time, this shows what pleasure can be given by something as simple as a garden, a library or an excursion. www.dosocial.nl

Christmas hampers and good causes

Selling special Christmas hampers to support good causes has become a tradition at Sligro. In 2013 we supported the Liliane Fund, Hulphond Nederland (the Dutch assistance dog's charity), KiKa (the children's cancer charity) and the National Fund for the Elderly. Each fund or good cause is linked to a specific Christmas hamper and a fixed donation is made to the good cause for each hamper sold. In 2013, this campaign raised almost €53,000 in total for the four good causes.

Food Bank

In the Sligro logistic model, all unsalable items from all locations are returned to the central distribution centre in Veghel, where they are sorted into usable and unusable items. Usable products that are suitable for its purposes are collected weekly by Veghel Food Bank. This scheme was extended in 2013 to include the 's-Hertogenbosch Food Bank.

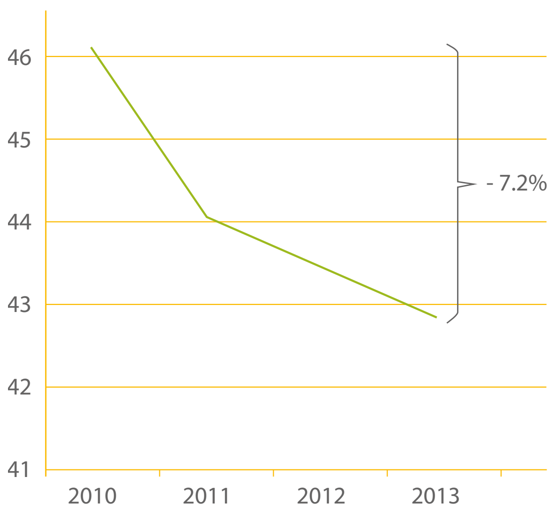
Environment

We aim to play a pioneering role, in which our respect for the environment drives us constantly to undertake bold but sensible innovation, keeping social and economic return in balance while remaining aware of our stewardship responsibilities.

As a measure of the success of our efforts, we calculate our CO_2 emissions as a percentage of sales. We are aiming to reduce our CO_2 emissions as a percentage of sales by 20% between 2010 and 2020.

Progress so far has been as follows:

CO_2 reduction as a percentage of sales (g/euro)



We have defined three priority areas within the overarching theme of 'the environment':

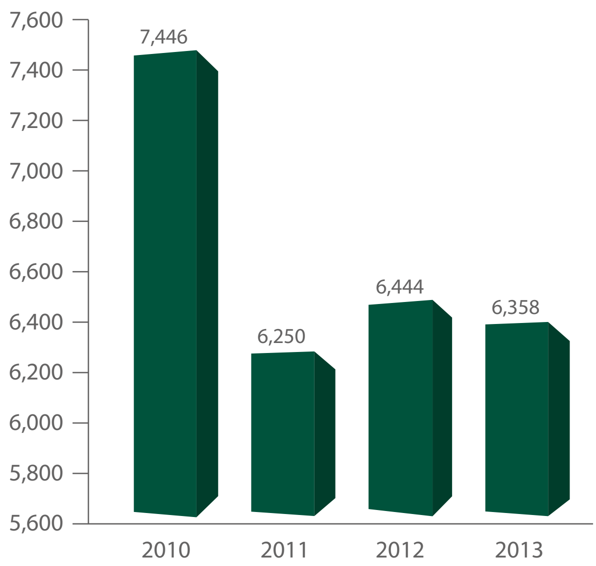
→ Energy
→ Logistics
→ Waste

Energy

We have learned in recent years that using heat recovered from refrigeration equipment to heat our buildings creates interesting opportunities. The trials with 'no gas' buildings at various Sligro locations and EMTÉ supermarkets in 2013 have been extended and improved. With the experience and knowledge we have gained, we plan to apply this technology wherever possible. It is already contributing to a reduction in our gas consumption and CO_2 emissions, but the results will be more visible in 2014. This is a good instance of improved sustainability being in balance with cost saving.

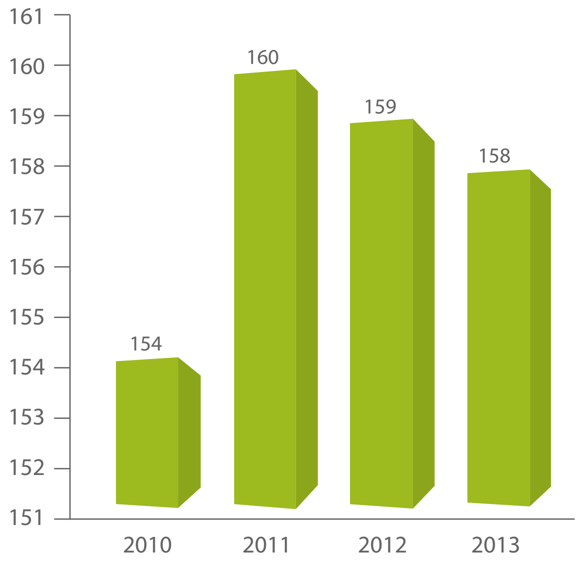
The absolute consumption figures show that gas consumed has fallen by around 100,000 m³ compared with 2012, but consumption fell far more in relative terms because 2013 was much colder than 2012, making a difference of almost 7%.

Gas consumption x 1,000 m³



Adjusted for degree-days, i.e. if 2012 had been just as cold as 2013, gas consumption in 2012 would have been around 6,870,000 m³ (2,902 degree-days in 2012 as against 3,094 in 2013). With actual gas consumption in 2013 of 6,357,000 m³, there was thus a saving of over 500,000 m³ of gas compared with 2012. This saving was achieved by investing last year in optimising the existing central heating installations. 'Remote-control' systems were fitted at around 20 locations, enabling the temperature in the different spaces to be set and optimised remotely. We plan to deploy this optimisation technology more widely in 2014.

Electricity consumption in MWh



Electricity consumption was almost 1% lower in 2013 compared with 2012, despite expansion of the sales floor area at various cash & carry locations which translated into extra consumption. The floor area of the Sligro delivery-service centre in Gilze was also extended. We built a brand-new Sligro delivery-service centre in Venray which has very low electricity consumption, partly thanks to LED line lighting.

Electricity savings were achieved by optimising control of a number of refrigeration and deep-freeze installations and fitting covers to freezer cabinets at ten existing Sligro cash & carry wholesalers. We also carried out work at many of our EMTÉ locations to comply with the energy covenant for supermarkets. We shall continue with these latter two projects in 2014.

Logistics

Sligro outsources its entire transport function. We work closely with our transport operators to minimise the environmental impact of our logistics operation.

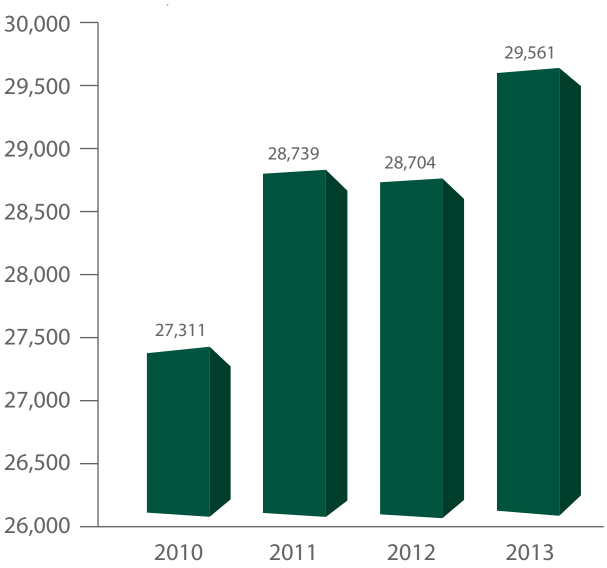
To reduce the CO_2 emissions from our transport operations, we are working simultaneously to reduce the number of kilometres travelled per euro of sales and the CO_2 emissions per kilometre, in the latter case partly by using alternative fuels.

In that context, we participate in projects investigating various experimental technologies, ranging from all-electric goods vehicles to the use of alternative fuels such as CNG and LNG, with a view to potentially making a substantial reduction in CO_2 emissions. These are long-term experiments and it is not yet clear where they will lead. Another way of reducing the number of kilometres travelled is to make our vehicles longer and higher, in the form of LZVs (longer and heavier tractor-trailer combinations) and double-deckers. We thought last year that there was little opportunity to expand our fleet of LZVs and double-deckers, but we were able to make further progress in this area in 2013.

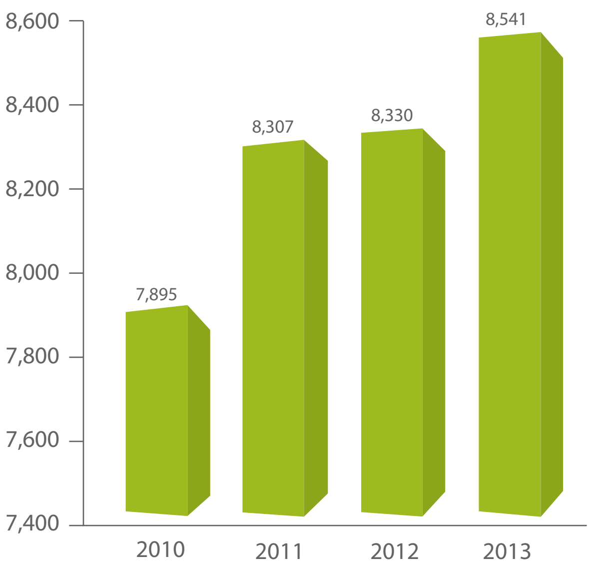
One LZV was added to our fleet at the Veghel distribution centre, one City Double-Decker was added at the Putten retail distribution centre and Sligro's Venray delivery-service centre took delivery of the first B-Double Eco combination of two City trailers, pulled by one tractor unit, to cover the longest part of the route. The trailers are separated at the destination and each is then taken on its own delivery route.w

The first ten Euro6 delivery vehicles, which minimise harmful emissions, entered service in 2013. These vehicles are also fitted with the quietest refrigeration systems, which also reduce noise nuisance to a minimum.

Distance travelled (km x 1,000)



Total fuel used (litres x 1,000)



The number of kilometres travelled has increased in absolute terms, but has fallen sharply in relative terms. Transport volume carried by the Sligro delivery service increased by 15.3% in 2013 compared with 2012, due to the inclusion of all Van Oers sales, organic growth and changes in the sales mix. This growth has made it possible to deploy larger vehicles, as discussed above. The delivery routes have also been rationalised, so the net growth in kilometres travelled was only 9%.

Waste

CO_2 effect of waste processing

In response to a question by VBDO (the Dutch Association of Investors for Sustainable Development) at the General Meeting of Shareholders in 2013, we have sought a uniform calculation method and evidence for the total reduction in our CO_2 emissions as a result of waste processing. In conjunction with our waste processor Van Kaathoven, a project was launched to find a CO_2 calculation system for Sligro Food Group.

It became clear from this project that the CO_2 emissions from our waste stream are entirely dependent on the way in which our waste is processed by third parties. We have influence over the quantity and proper separation of waste, but the waste processor then determines, by its choice of processing route, what CO_2 emissions our waste produces. The waste sector does not yet have a uniform CO_2 conversion factor for the various waste streams. We are disappointed that the waste sector is unable to devise a uniform method of calculating the CO_2 emissions from waste.

For that reason, we publish the CO_2 reduction we achieve by offering our separated waste for processing instead of the figures for unseparated and residual waste.

CO_2 reduction in the chain due to waste separation

2010: 3,133 tonnes
2011: 3,395 tonnes
2012: 3,700 tonnes
2013: 3,668 tonnes

These figures include all tonnages for the various waste streams: outdated products, category 3 waste, swill, glass, paper, card, foil and cooking oil. This reduction in CO_2 emissions is calculated on the basis of the 2013 conversion factors for each waste stream provided by Van Gansewinkel. The CO_2 factors used have been calculated under the responsibility of the TNO Research Institute, in accordance with ISO 14040/14044 procedures and guidelines. This approach has been approved inter alia by the LCA (Life Cycle Assessment) platform of the European Commission.

The stated CO_2 reduction is the reduction for the entire chain. This is because some materials can be reused after waste separation, which means a significant reduction in CO_2 emissions when they are made into new products. This is because recovering such secondary raw materials uses less energy than burning them and extracting and processing primary raw materials. This CO_2 saving in the chain is not part of our 2020 target for our 'in house' CO_2 emissions (transport and gas and electricity consumption).

Our product range

It is our responsibility to assist and motivate our customers to make sustainable choices, which is why we developed our eerlijk & heerlijk (literally 'honest and delicious') concept. eerlijk & heerlijk can be seen as an umbrella brand under which all sustainably produced items in Sligro Food Group's product range are sold. These are built on four pillars:

- Organic
- Fair trade
- Sustainable
- Local

Our objective is to offer the widest possible choice of sustainable products. No distinction is therefore made in the eerlijk & heerlijk range between 'A' brands and Sligro Food Group's exclusive brands.

We supplement the four pillars with products holding carefully selected certifications, which guarantee that they actually make a sustainable contribution to the aims of the relevant pillar. We currently include products with the following certifications in the eerlijk & heerlijk range:

Organic
- European organic logo
- EKO (and all variants in different countries, such as Agriculture Biologique, Bio-Siegel, USDA Organic)
- Demeter

Fair trade
- Fairtrade Max Havelaar
- UTZ Certified

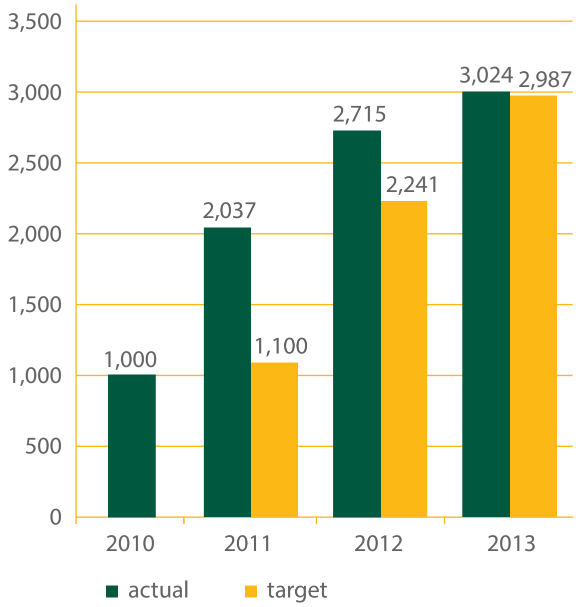
Sustainable
- ASC
- MSC
- Naturland
- 'Beter Leven' quality label
- Label Rouge
- Rainforest Alliance
- 'Milieukeur'

The website www.eerlijk-heerlijk.nl provides more information on the concept, which helps our customers make sustainable choices.

→ eerlijk & heerlijk promotional film

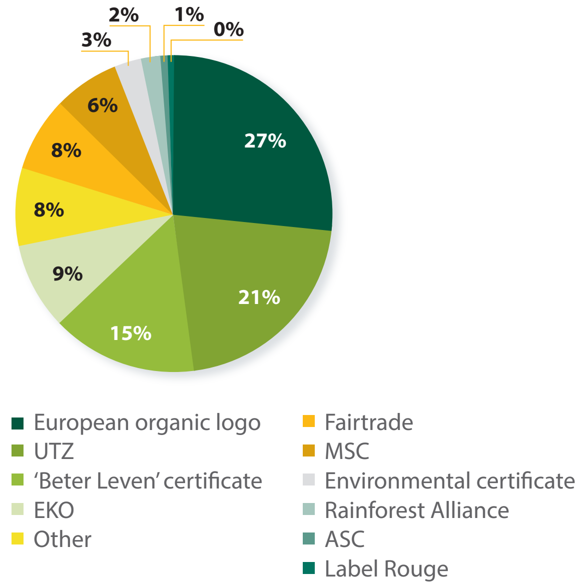
The eerlijk & heerlijk product range is still growing. We aim to grow this range by 10% a year up to the end of 2015. We shall announce our 2020 target in 2015; we do not consider it realistic to look so far ahead at this stage.

Number of eerlijk & heerlijk products in our range:



The number of products bearing the Beter Leven and UTZ Certified marks in particular grew strongly last year. The number of products for each certificate was as follows:

Shares per certificate



Healthy range

The 'healthy eating' tick mark ('Ik-Kies-Bewust' or IKB – literally 'I make informed choices') is widely accepted in the sector as an indicator of healthier products. In 2013 we made a start on screening our own-brand product range with a view to obtaining IKB certification where possible, if necessary with some recipe changes.

Number of different IKB products we carry:

2012: 813

2013: 885

There are also a further 318 items which meet the IKB criteria and for which we can apply for certification. If approved, they can be added to our range as IKB products. These 318 items are not included in the above totals.

Health-related activities involving customers

With Breakpoint, the healthy school canteen format, Sligro is helping schools to reverse the trend towards an unhealthy lifestyle among young people and help them to adopt a healthy lifestyle.

2012: 27 Breakpoint locations

2013: 37 Breakpoint locations 36 at school, 1 at work

2015 target: 75 Breakpoint locations

Food waste

We engaged in a number of activities in 2013 to reduce food waste, focusing primarily on meat, meat products, cheese, fruit and vegetables and bakery. In the meat products and cheese departments, wastage was reduced, particularly in the semi-self-service product range, by 3% compared with 2012 by making changes to packaging, the product range and the organisation of the supply chain. We did not meet the 25% target we had set ourselves, but we reduced wastage in the fruit and vegetable category by 20% compared with 2012 by revising the product range, allocating display space relative to customer flow and making changes to packaging units, exceeding our target of 10% by a wide margin. Wastage of meat was reduced by 4% by investing in a packaging unit in the central butchery department which extends the shelf life in the supply chain by three days. This has reduced the above-average wastage rate in our stores using the meat counter concept.

The most striking improvement in wastage was in the bakery department, where a reduction of over 25% was achieved by adjusting the product range. The total wastage of products in our EMTÉ supermarkets was reduced by over 15%.

BSCI

In August 2010 we joined the Business Social Compliance Initiative (BSCI), a non-profit organisation committed to the improvement of working conditions in countries that BSCI has defined as risk countries. To achieve this, the members and their suppliers have to formulate a plan for improvement leading to compliance with the standards of the International Labor Organisation (ILO).

→ Website BSCI

BSCI does not offer certification, but works to promote a process of improvement through monitoring, training, capacity expansion, lobbying and cooperation. Further information can be found at www.bsci-intl.org.

BSCI sets its members a target of two-thirds of their suppliers in risk countries taking part in the improvement programme and achieving a 'good' or 'in need of improvement' audit result within 5.5 years of joining the organisation.

Percentage of suppliers in risk countries as defined by BSCI with a 'good' or 'in need of improvement' audit result:

2010: 20%
2012: 41%
2013: 47%

As well as our three core themes – 'People', 'Environment' and 'Product range' – for each of which we have defined our qualitative and quantitative ambitions for 2020, many other sustainability-related activities were undertaken within Sligro Food Group in 2013 which were of a more one-off or short-term nature. They are certainly worth mentioning here, because they give a good insight into the broad scope of our sustainability-related efforts:

Breeam certification for Venray delivery-service centre

Close attention was paid to energy-saving when Sligro's Venray delivery-service centre was built. Several technologies were employed to create the most energy-neutral possible structure. For example, the heat generated by the various refrigeration installations was used for space heating and the refrigeration equipment 'runs' on natural coolant media. Smart LED lighting was also fitted in the deep-freeze, refrigeration and dry goods sections which only comes on where there is a person present. If the person moves away, the lighting dims automatically. This project is being monitored structurally to record how our first deployment of this concept performs. The plan is to continue developing the system and see whether it can replace traditional fluorescent lighting at other Sligro Food Group locations. Together with the other construction techniques employed and material choices made, these energy-saving measures have enabled us to obtain a BREEAM certification of 'GOOD' (2 stars). The new Sligro delivery-service centre in Lansingerland should qualify for BREEAM 3 (VERY GOOD) certification, making further progress towards sustainability.

EMTÉ BoekenBakkers competition promotes children's talent

In 2013, for the second year in succession, EMTÉ organised the largest children's book-writing competition in the Netherlands, in which over 1,200 children aged up to 12 took part. Eight children had their winning stories 'baked' into books, assisted by a Dutch celebrity, a children's author and a professional illustrator.

Because it is at the heart of the community, its customers include many families with children and, in particular, it has close links with local schools and community life, EMTÉ seeks to stimulate the reading (silently or aloud) of children's books via a savings campaign. Giving children an opportunity to take part in the writing competition further stimulates their creativity. Reading (silently or aloud) one of the books from the BoekenBakkers series for 15 minutes a day helps children to develop their language skills, according to the Reading & Writing Foundation which made a major contribution to this campaign. The books are saved for by parents, grandparents and schools. A savings campaign for books was therefore a conscious choice as a way of helping to improve literacy and language skills among Dutch children. A low-threshold savings campaign was chosen deliberately so that the books would reach as many children as possible. With more than a million BoekenBakkers books saved for, the campaign was a massive success.

Veghel-Uden truck run

The annual Truck Run was held in the Uden-Veghel region on Sunday, 29 September. It was an event in which 500 trucks drove through the region blowing their horns, with a 'passenger' on board to keep the driver under control. This event is specially organised and for them it is a high point of the year. They traditionally stop for lunch at the Sligro Events Hall in Veghel. Lunch is provided by Sligro and is prepared with great care and served by a group of Sligro volunteers who do everything to make it an unforgettable occasion for the participants. It's typical of what we call our 'green DNA': strength in unity, determined to be the best and proud without showing off!

Sligro's ranking in the Ministry of Economic Affairs, Agriculture & Innovation transparency benchmark

Our annual report is also rated in the transparency benchmark of the Ministry of Economic Affairs, Agriculture & Innovation. Although this does not measure our actual sustainability performance and only rates our report on the degree of transparency, this benchmark does give us information on how our transparency compares with that of other companies. We paid special attention to this aspect when compiling our 2012 annual report, with the result that in 2013 we were placed 97th in the transparency benchmark with a score of 138 points out of 200. This puts us 'among the leaders', which is an improvement compared with 2012 when we came 124th with a score of 99 points, but this position is still not satisfactory.

Head office printer project

In early 2013 we embarked on a project to replace all our printers and copiers, which we see as a way of both saving costs and improving our sustainability. The aim of this replacement project is to install fewer and more energy-efficient printers. Energy consumption is also being reduced by using energy-saving settings on the machines we install. Over 700 existing machines will be replaced by 490 new units, reducing the number of machines by 30%. The new printers are being set as standard to print double-sided in black and white, which is expected to yield a 20% saving in paper and lower toner and energy consumption. These savings will be measured more accurately in 2014.

RISK
AND RISK MANAGEMENT

The financial statements have been prepared under IFRS. A number of specific risks the Group faces are consequently discussed in detail in note 25 on page 126 of the financial statements. Information is provided on, for example, the Group's credit, liquidity and market risks, together with a sensitivity analysis of these factors. It should be noted that we do not consider these risks to be exceptional in terms of either their nature or their magnitude.

We also discuss the effect that the economy and competition have on the Group's activities. We explain that growth through acquisitions involves more risks than organic growth and discuss our reliance on information systems developed in-house.

The potential risks to the Group as a food supplier in relation to food safety are also discussed. Where relevant, the Group is insured against all the customary risks so that the financial consequences of calamities are covered as far as possible. We consider the following to be the most critical risks in our activities:

Acquisitions

Despite all the precautions taken and due diligence procedures completed, growth through acquisitions still involves a greater degree of risk than organic growth, as evidenced by the many mergers and acquisitions in the market that fail to meet their objectives. Risks arise both before and during the acquisition process. We will therefore only proceed with acquisitions if we can fulfil the duty of care that we have set ourselves. In 2013, this was the case with a possible international acquisition. However, risks can also arise after an acquisition. Considerable value can be destroyed by cultural differences and by employees pursuing different agendas, but primarily by ICT integration exercises and the like. ICT integration has to take account of both internal and external aspects, including interfacing with systems used by customers and suppliers. Rather than bringing in people from outside, Sligro Food Group has a policy of immediately setting up a multidisciplinary integration team comprising people from its own ranks and from the business that has been taken over. This approach has proved successful in identifying and addressing many of these risks, as was the case with the acquisition of Van Oers. The same approach will also be used for the Rooswinkel and Horeca Totaal Sluis acquisitions.

ICT systems

Properly functioning ICT systems are the lifeblood of our business in the same way, for example, as electricity is. Managing the risks in these systems involves far more than simply safeguarding the continuity of data processing. It also means protecting the integrity of data and software and the associated decision-making process. The multitude of customers, products, locations and suppliers and their mutual interdependences make this a complex process. At the same time, however, these systems can also create a clear competitive advantage. Systems failing to work or not operating well can threaten the continuity of the whole business within a relatively short period of time. A great deal of effort and millions of euros have been invested in recent years in the further optimisation of various ICT tools, such as the continuity matrix, test tools and duplicated data centres. In 2013, a new national firewall structure was implemented, taking our security against external cyber threats to a much higher level. Additionally, a detailed plan was approved for the future enterprise architecture in which the IT, software and business architecture all come together. The related aspects of continuity of data processing and security of information were also formalised as part of the same planning exercise. By the end of 2013, all our business units were using the Group's centralised ERP applications; as a result, almost all the information in these applications is now available via a single data warehouse application.

"I grew up in Scheveningen and was involved in the fishing industry. Fish is my life."

Koos Verhagen

Government

Some government measures can have a major impact on our operations and results, and can present a threat to certain activities within a relatively short timeframe. Environmental measures and opportunistic spending cuts in particular can have a serious effect. Political decisions are sometimes scarcely predictable. Examples we could mention are intervention in things like Christmas presents for staff, the anti-smoking policy as it affects the hospitality sector, changes in VAT and increases in excise duty (the implications of which have not been thought through), which have had a considerable negative impact in the border regions especially. Government 'spending cuts' often simply translate into higher charges for businesses (and, therefore, individuals), and we will also see this in 2014. Intervention by regulators can also have a serious impact on operating processes.

Customers, partners and suppliers

Since economic conditions have been tough for many years now, it is not only consumers that are hard-hit but also many businesses find themselves in financial difficulties. The restricted access to credit experienced by many businesses means that continuity risks are increasing. That increases our credit risk on trade receivables, with evidence of a rise in bad debts, although the diversity within the customer portfolio means that the risks remain manageable. The combination of the state of the economy and the growing interdependence between us and business partners (including Fresh Partners) and suppliers is leading to increased continuity risks. That concerns not only financial risks but also ICT risks, with the potential to adversely affect our operations. Supported by external advisors we conducted a business impact analysis in 2013 in which both the consequences of a major catastrophe within the Group itself (such as a very serious fire) and particular dependencies and risks associated with partners and suppliers were considered. This will form the basis of further analysis in 2014 but it is evident that risks are increasing.

Risk Management and Control Systems

We have a special department focussing solely on our administrative organisation and internal control, alongside the departments that remain responsible for these processes. 'To measure is to know' is a key principle of risk management. If you know what is happening, you can adjust your policies accordingly. Our central data warehouse, where practically all our operating and financial data are recorded, is of great benefit to us in this respect. All our business units have been integrated into the Group's central information and control system. We have based our work in this respect on the proven 'in control' approach used at Sligro's cash-and-carry outlets, where the administrative systems are similarly structured.
All our back-office management activities, including finance, are now performed at head office. This means there is now almost no indirect control of our business activities. Most of our processes are controlled and recorded directly by specialised central departments. This, in combination with ICT systems, ensures efficiency.

This is the basis for assessing the proper operation of our internal risk management system and associated internal controls, as seen in the finance department's monitoring of overall cash and goods flows and their interrelationships. This monitoring means we can be sure that our sales are properly and correctly recorded and generate the correct incoming cash flows. It also means we can be assured that outgoing payments to suppliers are correct.

As the Group operates at many different sites, we also make intensive use of internal benchmarking. In this way our management information supports our internal controls and vice versa. Overall controls identify possible gaps in internal controls associated with the informal and entrepreneurial nature of the business culture that has contributed over the years to the Group's commercial success. In 2013, an integrated medium-term back-office plan was prepared, drawing together the business and back-office agendas in a clear-cut fashion involving eight different main pathways in an attempt to ensure that the business plans are practicable in terms of processes, systems and staffing and that proper attention has been given to the associated vital controls. This plan will be updated quarterly and discussed with the management team. It will become apparent in 2014 whether this approach produces the desired result: fewer weak links, cross-company agreement and, ultimately, more efficient and more effective processes involving reduced risks.

As a result of the centralised approach and very close management and monitoring of business activities by the Executive Board and central staff departments, Sligro Food Group is rarely faced with accounting 'surprises' relating to its activities that use the central information systems. Regular reporting has been shown to provide reliable information on business performance. There is no need for any significant changes. We regard improving the reliability of our management information and, more importantly, ensuring it becomes increasingly specific and targeted, as an ongoing process. As well as our own internal checks, the external auditors also examine the operation of the accounting and internal control structures as part of their audit of the financial statements. The auditors' findings are discussed with the Executive Board, and also in a private session with the Supervisory Board. They show that the accounting organisation is of a good standard. Based on the above summary, we believe that our internal risk management and control systems provide a reasonable degree of certainty that the financial statements do not contain any material misstatements and that these systems functioned properly during the year under review. We also refer to the directors' statement of responsibilities on page 80. We have no indications to suggest that these systems will not function properly during the current financial year.

"Here, it feels like my own greengrocers."

Anita Matthijssen

Corporate GOVERNANCE

Dutch law and the Dutch Corporate Governance Code seek to balance the interests of all the Group's stakeholders, and this has always been an important part of our policy. Sligro Food Group supports the principle of one share/one vote and has no anti-takeover or other protection measures in place.

Although we subscribe to the Corporate Governance Code and the other rules relating to business, we note that the playing field on which we are competing is sometimes anything but level when compared with some family businesses or private-equity-owned companies. The problem is not primarily one of a lack of regulation, but rather one of compliance with existing regulations and the absence of effective sanctions in the event of non-compliance. This puts us at a competitive disadvantage, specifically with regard to potential acquisitions.

There were no transactions with executive or supervisory directors in 2013 that involved a possible material conflict of interest, nor was any transaction conducted with shareholders owning more than 10% of the shares.

Main points of corporate governance structure

Sligro Food Group is a dual-board company, with an Executive Board and an independent Supervisory Board ('two-tier management structure'). The main points of the current structure are set out below.

Executive Board

The Executive Board is responsible for managing the company, for its strategy and for its use of human and other resources. The Executive Board keeps the Supervisory Board informed of progress, consults the Supervisory Board on all significant matters and submits important decisions to the Supervisory Board and/or the general meeting of shareholders for approval.

The Supervisory Board notifies the general meeting of proposed appointments to the Executive Board.

The Supervisory Board appoints the Executive Board and may suspend or dismiss an Executive Board member at any time. The remuneration and other terms and conditions of appointment of each Executive Board member are set by the Supervisory Board, based on the policy adopted by the general meeting. Decisions on material matters are always made jointly, and all members have shared responsibility.

Supervisory Board

The Supervisory Board supervises the policy of the Executive Board and the general affairs of the company. It supports the Executive Board with advice. In the performance of their duties, the Supervisory Board members are guided by the company's interests. The Executive Board provides the Supervisory Board promptly with the information it needs to perform its duties.
The members of the Supervisory Board are appointed by the general meeting of shareholders, their candidature having been proposed by the Supervisory Board. Supervisory Board members retire at the close of the first general meeting following the fourth anniversary of their most recent appointment and may be reappointed once. The remuneration of each member of the Supervisory Board is set by the general meeting. The Supervisory Board appoints a chairman and a deputy chairman from its members. It also appoints a secretary who may, but need not, be one of its members. As the Supervisory Board consists of four people, the Board as a whole per-

forms the duties of the two key committees (the audit committee and the remuneration, selection and appointments committee).

General Meeting of Shareholders

The annual general meeting is held within four months of the end of each financial year. Extraordinary general meetings may be called as necessary by the Supervisory Board, the Executive Board or one or more shareholders jointly representing at least 10% of the issued share capital. The agenda of the annual general meeting covers the items stipulated by the Articles of Association and other resolutions proposed by the Supervisory Board, the Executive Board or shareholders jointly representing at least 1% of the issued share capital.

The principal powers of the general meeting are the rights to:

- Appoint supervisory directors and determine their remuneration;
- Adopt the financial statements and ratify the actions of the Executive Board in respect of its management and the Supervisory Board in respect of its supervision during the previous year;
- Resolve to amend the company's Articles of Association or wind up the company;
- Issue shares and restrict or exclude shareholders' pre-emptive rights (with the approval of the Supervisory Board, the Executive Board has been granted powers until 20 September 2014 to issue shares as yet unissued);
- Repurchase and cancel shares (the Executive Board has been granted powers until 20 September 2014 to purchase fully paid shares either on the stock exchange or privately up to a maximum of 10% of the issued share capital, as stipulated in the Articles of Association, for a price no more than 10% above the market price at the time of the transaction);
- Approve decisions by the Executive Board on any substantial change to the identity or character of the company or the business.

Departures from the Corporate Governance Code

The departures from the Dutch Corporate Governance Code were approved by the shareholders' meeting on 30 March 2005. Sligro Food Group consequently complies fully with the Code. Details of the departures currently still relevant can be found on the website and relate to:

- Hhe appointment of members of the Executive Board for unspecified periods rather than for periods of four years. The main reason for this departure is our aim to appoint people to executive positions from within the Group and to remunerate directors of the same level in the same manner.
- No agreements have been reached on the level of any severance pay. The reason for this departure also relates to our wish to provide equal treatment and remuneration of directors in comparable circumstances.
- Sligro Food Group maintains contacts with investors by means of one-on-one meetings and group presentations. These one-on-one meetings are an important way for Sligro Food Group to attract and retain the attention of institutional investors and thus help to ensure correct pricing of its shares.

“It’s wonderful to be busy
renewing products all the time.”

George Kuijer

Capital expenditure

Goals

- → To maintain average net capital expenditure at about 2% of sales.
- → To increase the number of Sligro and EMTÉ outlets by one or two a year, excluding acquisitions.
- → To invest continuously in efficiency gains in order to maintain our position as a cost leader.

In 2013 we invested a net amount of € 36 million (2012: € 33 million), which was well below our target. This is largely down to the food retail side of the business, where there was a relatively high level of disposals. That included one supermarket store (already included in assets held for sale) and the conclusion of a sale-and-lease-back transaction relating to another store. In addition, the operation of one store was sold to a franchisee. The following statement analyses the net capital expenditure together with the related depreciation and software amortisation charges.

With respect to foodservice investments, the new Delivery Service Centre in Venray accounted for approximately € 4 million, which it should be noted concerns expenditure on rented premises. The Sligro outlets in Gorinchem and Hilversum were revamped and expanded, respectively. The largest single investment concerned the new outlet in Maastricht due to open in 2014. Here we have invested in company-owned premises, with a total project expenditure of € 9 million.

Considerable investments were also made in IT software and hardware in 2013, together accounting for almost € 8 million. In this area we are engaged in implementing a long-term project running until 2016. In 2014 we shall be investing in a new Delivery Service Centre in Lansingerland among other projects, which will be comparable to that in Venray. We will be acquiring two stores which are currently rented: one supermarket and one cash-and-carry outlet. We are also going to open a new supermarket in a recently acquired store property. The Sligro outlet in Gouda will be relocating in 2014 to a new site where we will also own the property concerned.

The Sligro 3.0 Project means that some projects were delayed in 2013. It is hoped to recover lost ground in 2014. As a consequence, total capital expenditure in 2014 will be substantially higher than in 2013. Even so, there will not be any major departure from our investment target of 2% of sales.

	Foodservice		**Food retail**		**Total**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Intangible assets (software)	4	3			4	3
Property, plant and equipment	30	23	4	13	34	36
Disposals of assets held for sale	0	(2)	(2)	(4)	(2)	(6)
Net capital expenditure	**34**	**24**	**2**	**9**	**36**	**33**
Depreciation	(28)	(28)	(13)	(15)	(41)	(43)
Amortisation of software	(3)	(3)			(3)	(3)
Subtotal	**(31)**	**(31)**	**(13)**	**(15)**	**(44)**	**(46)**
Net movement	**3**	**(7)**	**(11)**	**(6)**	**(8)**	**(13)**

Analysis of the net capital expenditure and the related depreciation and software amortisation charges.

Results

Goals

- → To increase sales, including acquisitions, by an average of 10% a year, with at least a comparable increase in net profit. In the present economic climate that is an extremely tough challenge.
- → To distribute about 50% of the year's profit as a normal dividend, as well as a variable dividend reflecting the financial position.

Financial Policy

Sligro Food Group has a very high degree of back-office integration. We believe in the strength of the group as a whole and in seeking to achieve group synergy. We consequently focus primarily on overall results rather than on the results of the underlying parts of the business. We encourage our employees to think on a group-wide basis and strive to ensure that we do not frustrate this by imposing complicated internal administrative procedures.

The Group Executive Board is actively involved in setting and implementing policies throughout the business. Our head office houses many management and administrative functions for the overall business activities. We have established a method of allocating their costs and benefits, but are aware that this will be a cost to be borne by the group results. We do not operate a traditional budgeting cycle because there is no delegation of authority or spending powers in the conventional sense. Instead we use a series of detailed management reports that show the actual developments and trends in our activities from various perspectives.

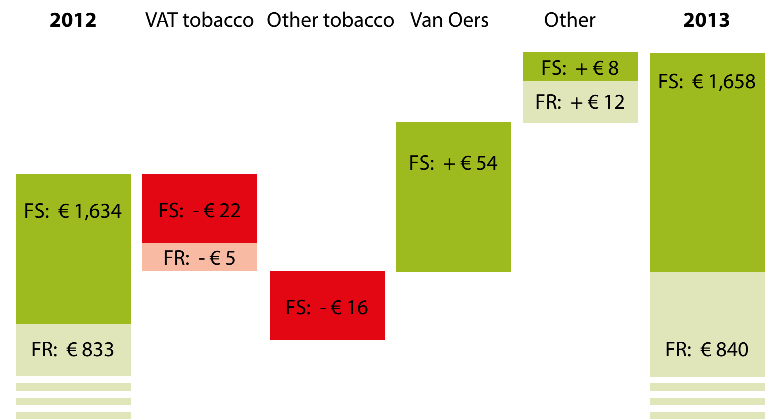
These reports in turn serve as the basis for any adjustments and amendments needed in our forecasts. Most of this work is performed by central management support departments. Using management by results, the individual business units have a constant incentive to get the best out of the activities by reference to key performance indicators combined with internal benchmarking. Indirectly, therefore, everyone is working to optimise the overall group result. Once each year the correlation between the KPIs and the financial results is examined. This detailed management information provides us with the basis for investment decisions. We attach greater value to this information than we do to classical investment calculations. We believe that this approach is far more suited to our entrepreneurial business culture. We strive to maintain a balance between achieving results in the short term and achieving results in the medium to longer- term future. We regard pressure to achieve good results in the short term as useful and challenging but do not allow it to divert our attention from decisions where the value and benefits only become visible at a later stage.

The profit and loss account can be summarised as follows:

	x € million		As % of sales	
	2013	**2012**	**2013**	**2012**
Net sales	2,498	2,467	100,0	100,0
Cost of sales	(1,920)	(1,909)	(76.9)	(77.4)
Gross margin	578	558	23.1	22.6
Other operating income	4	3	0.1	0.1
Total operating expenses excluding depreciation and amortisation	(440)	(419)	(17.5)	(16.9)
Gross operating profit (EBITDA)	142	142	5.7	5.8
Depreciation of property, plant and equipment	(41)	(43)	(1.7)	(1.8)
EBITA	101	99	4.0	4.0
Amortisation of intangible assets	(12)	(10)	(0.5)	(0.4)
Operating profit (EBIT)	89	89	3.5	3.6
Net financial income and expense	(1)	0	(0.0)	0.0
Profit before tax	88	89	3.5	3.6
Tax	(20)	(20)	(0.8)	(0.8)
Profit for the year	**68**	**69**	**2.7**	**2.8**

Net sales rose 1.3% to €2,498 million in 2013. The increased sales revenue can be analysed as follows:

Sligro Food Group Net Sales



*amounts * € million*

	SFG	FS	FR
• Net sales	+ 1.3%	+ 1.5%	+ 0.8%
• Like for like, excluding tobacco	+ 0.9%	+ 0.6%	+ 1.3%
• Like for like, including tobacco	+ 0.1%	+ 0.5%	+ 1.3%

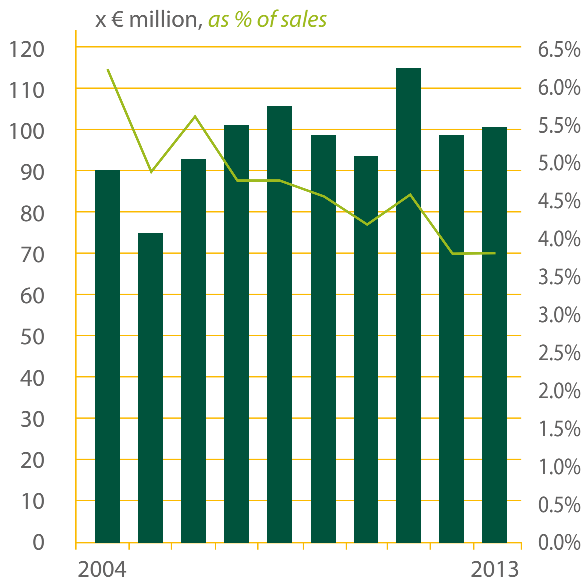
As this table shows, there were two effects relating to tobacco products. A change in VAT legislation on tobacco products came into operation on 1 July 2013. Prior to that date, VAT was levied directly on the manufacturers along with excise duty. Since 1 July 2013, VAT has been levied in the normal way. It should also be noted that the VAT rate went up from 19% to 21% on 1 October 2012. Sales of tobacco products also fell in 2013 by €16 million. This was partly due to the increase in excise duty as from 1 January 2013, which, in the regions bordering other countries, has led to a significant decline in sales.

In the first half of 2013, Van Oers customers were gradually transferred to the Group's distribution centres. This accounted for an increase of €54 million in 2013. Over a full year, Van Oers represents sales of approximately €75 million.

Like-for-like sales growth for the Group (excluding the effects of tobacco products) was 0.9%. Foodservice growth amounted to 0.6% and the figure for food retail was 1.3%. The growth in like-for-like consumer sales at EMTÉ came in at 1.9%, which is slightly better than the market average.

The gross margin as a proportion of sales revenue increased by 0.5 percentage points to 23.1%. This increase is largely attributable to the previously mentioned effect on tobacco products, on which a very low gross margin is achieved. Taking into account both the VAT effect and the decline in sales of tobacco products we estimate the impact this had at around 0.4 of a percentage point. The increase can also be explained by price recovery in food retail in the first three quarters of 2013.

EBITA



On the cost side, there is a comparable effect of 0.4% attributable to tobacco products. Added to this, there has been a change in the sales mix between lines of business within foodservice, with growth in delivery services at the expense of cash-and-carry sales. The new revenue brought in by Van Oers also concerned delivery services. And the cost element is higher for delivery services than for cash-and-carry. There was also an increase in costs due to higher pension costs and higher ICT costs. The costs of the defined benefit plans have also increased by almost €4 million as a consequence of changes in actuarial assumptions, while the pension contributions payable have hardly changed. Overall this leads to a gross operating profit (EBITDA) that is almost unchanged.

We believe that the EBITDA figure provides the most accurate view of the trend in results. EBITDA increased by €2 million to €101 million, amounting to an unchanged 4.0% of sales revenue.

The amortisation of intangible assets is made up of two components:

	x € million	
	2013	**2012**
Amortisation of software	3	3
Other amortisation	9	8
	12	11

Only the amortisation of software has matching investments (including replacement investments). The other amortisation is connected with the acquisition of store locations and customer accounts and concerns a fairly conservative accounting calculation. Overall the above leads to an unchanged operating profit of €89 million.

Net finance income and expense increased owing to a lower share in the results of associates, concerning one of our associates, along with the start-up losses for Superdirect.

The table on the following page shows that the operating profit before amortisation on the foodservice business was down slightly but we believe this to be a creditable performance, given market conditions. Food retail saw its operating profit before amortisation increase strongly, even if performance did tend to plateau as the year progressed. The improvement was largely attributable to the implementation of the medium-term plan.

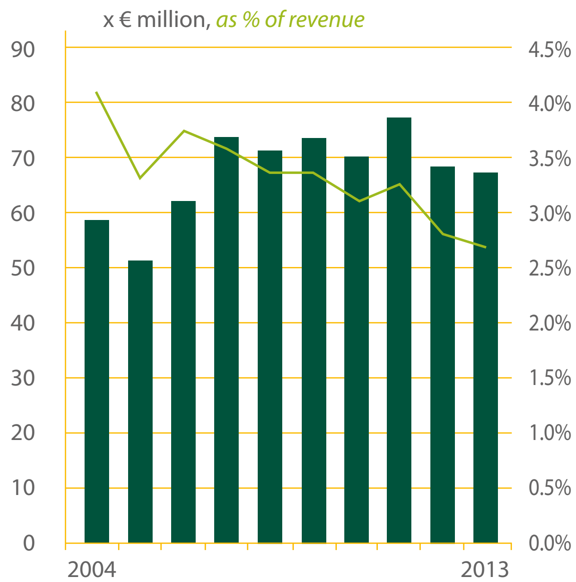
(x € million)	Foodservice		Food retail		Total	
	2013	2012	2013	2012	2013	2012
Net sales	1,658	1,634	840	833	2,498	2,467
Other operating income	1	2	3	1	4	3
Gross operating profit (EBITDA)	114	115	28	27	142	142
Operating profit						
Operating profit before amortisation (EBITA)	86	88	15	11	101	99
Operating profit (EBIT)	81	85	8	4	89	89
Net capital employed						
Net capital employed year-end) [1]	426	424	172	191	598	615
EBITDA as % of sales	6.9	7.1	3.3	3.2	5.7	5.8
EBITA as % of sales	5.2	5.4	1.8	1.4	4.0	4.0
EBIT as % of sales	4.9	5.3	0.9	0.5	3.5	3.6
EBITA as % of average net capital employed	20.2	20.4	8.3	5.7	16.6	15.7
EBIT as % of average net capital employed	19.1	19.7	4.1	1.9	14.6	14.0

1) Excluding associates.

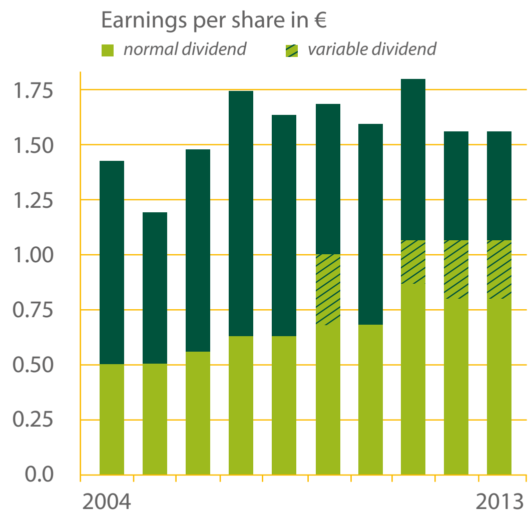
The overall effect of the above was that the net profit increased by 0.9% to € 68 million. Earnings per share, calculated on the average number of shares in issue, was € 1.55 compared with € 1.56 in 2012.

It is proposed that the dividend should remain unchanged at € 1.05, meaning a regular dividend of € 0.80 plus a variable dividend of € 0.25. This is in line with the dividend policy. It is also proposed that, commencing in 2014, dividends should be paid in two instalments: in other words, that an interim dividend should be paid. It is accordingly proposed that the amount of the interim dividend should be fixed at half the amount of the regular dividend for the preceding year. In 2014, that means an interim dividend of € 0.40.

Net earnings



Per share



Financing

Goals

- → To ensure that sufficient finance is available under credit facilities and that the company comfortably meets the stipulated ratios.
- → To limit working capital to 15 days' sales.
- → To issue shares only for major acquisitions that immediately contribute to earnings per share.

There is a sharp divide in the business community when it comes to finance. Small businesses, which depend on bank borrowings, are finding it difficult to obtain credit. But if, like us, you have access to the capital market, quite the opposite is true. A sound corporate entity like Sligro Food Group, with its excellent business and IR track record, is in fact able to meet its financing requirements on very attractive terms. That applies to both borrowing capacity and interest rates. Our 'problem', however, is that we need very little in the way of borrowings because we generate a substantial free cash flow. This enables us to finance acquisitions, continue to pay off our debts and increase payouts to shareholders.

In 2013, the free cash flow reached an all-time high. With a figure of € 101 million, the cash flow broke through the € 100 million barrier for the first time, as can be seen in the summary below. We have therefore decided not to renew a portion of the committed bank facilities. There is no point in paying a fee for something we do not need. The net cash flow from operating activities increased by € 4 million to € 133 million. The acquisition of Van Oers had the effect of depressing the cash flow by approximately € 5 million. Because we only took over the activities and not the working capital, we had to inject working capital ourselves. The accounting rules require that item to be included in the cash flow from operating activities rather than the cash flow from investing activities, despite the fact that the amount concerned was known at the time of the acquisition. There will be a similar situation with the Rooswinkel deal in 2014 but for Horeca Totaal Sluis the working capital will be included in the purchase price.

We were particularly successful in 2013 in reducing the level of inventories in the distribution centres as a result of supply chain improvements. That yielded more than € 18 million. On the other side of the coin, trade receivables were up by € 24 million, with € 15 million of this being due to the implementation of the B2B SEPA direct debit system. The new direct debit rules mean that funds do not appear in our account until two business days later. That reduces liquidity by approximately € 5 million. On the other hand, the fact that Christmas fell on a Wednesday and Thursday brought in an extra € 10 million, especially since sales peak just before Christmas. The € 5 million cost represents a structural increase in our receivables whereas the extra € 10 million is transient, although it does coincide with the balance sheet date. The same calendar effects meant a corresponding increase in trade payables. The cash flow from investing activities was relatively low since some planned investments have been delayed in connection with the Sligro 3.0 Project.

Last year we announced that we thought it might be possible in due course to reduce the working capital to € 100 million for the same volume of business. This year we accordingly changed our working capital target to less than 15 days' sales in which acquisitions are automatically covered.

Summary of the cash flow statement

x € million	2013	2012	2011	2010	2009
Net cash flow from operating activities	133	129	124	107	123
Net cash flow from investing activities, excluding net effect of acquisitions	(32)	(33)	(48)	(41)	(50)
Free cash flow	101	96	76	66	73
Net profit for comparison purposes	68	69	78	70	74
Cash conversion in %	148	140	98	94	98
The free cash flow is used as follows:					
Net acquisitions	(19)	(1)	0	(41)	1
Payment of dividend and repurchase of own shares	(49)	(50)	(34)	(48)	(19)
Net change in debt and cash	(33)	(45)	(42)	23	(55)
	(101)	(96)	(76)	(66)	(73)

Working capital has developed in line with sales in recent years, as this analysis shows:

x € million	2013	2012	2011	2010	2009
Current assets, excluding cash and cash equivalents	346	335	324	316	304
Current liabilities, excluding interest-bearing items	(231)	(204)	(178)	(178)	(182)
	115	131	146	138	122
In days' sales revenue	17	19	22	22	20

“Working at EMTÉ is nice because it’s so cheerful.”

Jacqueline van Limbeek

Outlook

Although there are signs of economic recovery we do not expect it to translate into an increase in consumer spending. The recovery is too fragile for that. Moreover, unemployment continues to rise and we have not yet seen the end of all the austerity cuts.

In 2013 we even saw a downward trend in consumer spending in the markets relevant to us. 2014, therefore, will be another sluggish year. Supermarkets are expected to show very modest growth in sales revenue but a slight downturn in volume. For the foodservice market we are even expecting another year of falling sales, though there could be somewhat less of a decline than in 2013. In such market conditions there is always pressure on prices. On the plus side, however, there are not expected to be any particular cost increases either. We shall simply have to do our best in this difficult market, as has been the case in recent years as well.

As regards our own prospects we are more positive. We expect to outperform the market in both segments in which we are active as we did last year. Pricing pressures are largely external forces which we cannot do much about. In the retail market we are price followers.

Although we have more clout in the foodservice market, the price squeeze here is partly due to the ongoing pressure on sales volume faced by our customers. Moreover, our own pricing policy is intended to support our efforts to win market share organically – by placing additional pressure on our competitors. Since we have done a lot of preparatory work for our 'Click on Costs' programme in 2013 we expect to begin to see the benefits in 2014.

As mentioned above, we do not expect external factors to have a strong upward pressure on the cost base. Only the pension costs are set to increase by another two million euros but that is purely an accounting matter and will not result in any additional cash outflow, so that the benefit expense and actual expenditure in 2014 will be more or less unchanged. The full-year impact of the Van Oers acquisition and the takeovers of Rooswinkel and Horeca Totaal Sluis are expected to generate additional revenue of approximately €55 million. The effect bottom line will be limited because we will also have the costs of integrating Rooswinkel and to a lesser extent Horeca Totaal Sluis.

The impact of the VAT changes on tobacco products will depress revenue in the first half of the year by in excess of €25 million, of which more than €20 million will be felt by our foodservice business. As previously explained, the effect is again purely on an accounting level.

In short, there will not be that much change in 2014 compared with 2013. At EMTÉ we shall be able to take the improvements contained in the medium term plan another year forward. For Sligro, 2014 will be marked by the takeovers of Rooswinkel and Horeca Totaal Sluis, the completion of the logistics infrastructure , the 'Click on Costs' programme and, above all, by our revitalisation project Sligro 3.0, although that is only expected to begin having a financial impact from 2015 onwards.

It will again be a year of striking a balance between the interests of all our stakeholders, between the short term and the medium to long term, between cost savings and customer leadership and between short-term profitability and investments in the future. We aim to strike the right balance. However, since the scales could tip either way we refrain from making any definite forecasts.

“Meeting customers and giving them advice, that’s the best part of my work.”

Ed van Arkel

Directors’ STATEMENT OF RESPONSIBILITIES

In accordance with the statutory provisions, the directors state that, to the best of their knowledge:

1. The financial statements, included on pages 89-138 of this report, provide a true and fair view of the assets, liabilities, financial position and profit for the year of Sligro Food Group N.V. and its subsidiaries included in the consolidated financial statements.

2. The Executive Board report, included on pages 15-79 of this report, provides a true and fair view of the position as at balance sheet date and the performance during the year of Sligro Food Group N.V. and related parties whose information is included in the financial statements. The Executive Board report describes the material risks to which Sligro Food Group is exposed.

K.M. Slippens, Executive Board Chairman
H.L. van Rozendaal, CFO
W.J.P. Strijbosch, Foodservice Director

Corporate governance STATEMENT

This statement is given pursuant to Section 2a of the Decree on Additional Requirements for Annual Reports (Vaststellingsbesluit nadere voorschriften inhoud jaarverslag) of 20 March 2009 (the 'Decree') and is also publicly available electronically on www.sligrofoodgroup.com under 'Corporate governance'. The information required to be included in this corporate governance statement pursuant to Sections 3, 3a and 3b of the Decree can be found in the following sections of the 2013 annual report and is deemed to be included and repeated here:

→ the information on compliance with the principles and best-practice provisions of the Code (page 69 'Corporate Governance');
→ the information on the principal features of the management and control system relating to the Group's financial reporting process (page 60 'Risk management and control systems');
→ the information on the functioning of the annual general meeting of shareholders and its principal powers and on the rights of shareholders and how these can be exercised (page 69 'Annual general meeting of shareholders');
→ the composition and functioning of the Executive Board (page 13 'Directors and management', page 68 'Executive Board' and page 85 'Executive Board conditions of employment');
→ the composition and functioning of the Supervisory Board (page 13 'Directors and management' and page 82 'Report of the Supervisory Board');
→ the rules for appointment and replacement of members of the Executive Board and Supervisory Board (page 68 'Executive Board' and page 68 'Supervisory Board');
→ the rules for amendment of the company's Articles of Association (page 69 'Annual general meeting of shareholders');
→ the powers of the Executive Board to issue and repurchase shares (page 69 'Annual general meeting of shareholders');
→ the change of control provisions in important contracts: a change of control provision applies in the case of the US dollar loans referred to on page 125;
→ transactions with related parties (page 68 'Corporate governance' and page 133 'Related party disclosures').

Report of the SUPERVISORY BOARD

Consumers are increasingly beginning to feel the pinch of cost increases. Previously it was generally believed that consumers simply tended to save more in uncertain times but it is becoming increasingly clear that large groups in society have had to trim their spending patterns drastically in line with reduced disposable incomes.

In view of the market in which it operates, Sligro Food Group is particularly affected by this. Against this economic background, Sligro Food Group is not doing badly at all in the foodservice business, compared with its competitors. A substantial proportion of the sector is either struggling to remain in the black or is already in the red. Although the Group's results have come under pressure, profitability is still reasonable and market share is steadily expanding. Indeed, market share should receive a boost from the acquisition of Van Oers in 2013 and the acquisitions of Rooswinkel and Horeca Totaal Sluis in 2014 which have been announced.

In food retail, the Group is focusing on the implementation of the medium-term plan launched at the beginning of 2013 with the primary aims of strengthening the basis of the business and creating growth. Although the price war intensified sharply in the second half of 2013, the Group still managed to make progress. That success is also clearly reflected in the improved rankings for EMTÉ in various consumer surveys and votes. We are confident that the medium-term goals can be achieved even though this will depend to some extent on the state of the market.

The Group's net profit for 2013 was down by 0.9% at €68 million. Apart from the difficult market conditions already referred to, there was a twofold increase in pension costs on an accounting basis. The 2013 result accordingly came in below expectations. Fortunately, the free cash flow did not reflect the profit trend: cash conversion (the ratio of the free cash flow to net profit) actually increased to 148% (2012: 140%).

These figures are presented in the 2013 financial statements prepared by the Executive Board, with which we are in agreement. For 2013, it is proposed to pay a normal dividend of €0.80 per share, representing a payout ratio well in excess of 50%. In addition it is proposed to pay a variable dividend of €0.25 per share, bringing the total dividend for the year to an unchanged €1.05 per share. In order to spread the cash flow, with effect from 2014, it is proposed that an interim dividend shall be paid amounting to half of the normal dividend for the preceding year. This means that an additional €0.40 per share will be made payable in 2014.

Supervision

In 2013, the Supervisory Board met on eight occasions (with all members present on each occasion) in formal session. The first meeting, in January 2013, was not a regular meeting and was entirely devoted to the food retail medium-term plan and the position of food retail within the Group. The Executive Board's plans for food retail, which were explained in detail in the 2012 annual report, received our support. That included the proposal not to fill the vacancy on the Executive Board having specific responsibility for food retail. As a consequence, the two members of the Executive Board with responsibility for EMTÉ will in future report directly to the Executive Board chairman.

The second meeting of the year discussed at length the 2012 results, the directors' report and the results press release. The auditors also reported on their audit findings at this meeting and we were pleased to note that the auditors did not have any material audit misstatements to

From left to right:
Ronald Latenstein van Voorst, Adriaan Nühn,
Dorine Burmanje and Bart Karis

report or any other comments of an important nature requiring follow-up on the part of the Executive Board and/or Supervisory Board. The same meeting also fixed the amount of the variable remuneration for the Executive Board members, based on the criteria and approved remuneration policy adopted one year previously. Also on the agenda where the preparations for the general meeting of shareholders and the proposed selection procedure for a change of auditors.

The third meeting was again not one of the regular meetings. At this meeting, the Executive Board along with outside consultants presented a plan for an international acquisition, including the organisational implications thereof. Our Board agreed to the non-binding bid that was made. Ultimately, however, the plan came to nothing.

The fourth meeting, in May, was once again a scheduled meeting. The business of this meeting ranged over the figures for the first quarter and the trading update, among other things, and the Executive Board gave an update on the progress with the integration of Van Oers and possible takeover opportunities.

At the fifth meeting, the half-year results were discussed. Based partly on the observed developments, the Executive Board gave an insight into the 'Click on Costs' project which had been launched. In addition, the long-term view of ICT was discussed, following a presentation by the ICT manager. As at most meetings, an update regarding takeover opportunities was also given.

The sixth meeting was the annual in-depth meeting. In 2013, the focus was on the cash-and-carry operations. With the entire management team from this part of the business in attendance, there was a comprehensive discussion of the activities, including management information, management tools and controls. Additionally, an initial insight was given into the Sligro 3.0 revitalisation plan. The aim of the in-depth meetings is to have a thorough review of all the key parts of the Group in turn on a three or four-year cycle.

At the seventh meeting, in October, a presentation was given on the important developments on the personnel and organisation front, including management development for the top 50 in the company and diversity. The meeting also discussed progress with the CSR agenda and how the organisation was handling this aspect. Insight was also given into the tax situation of the Group and the talks being conducted with the tax authorities for the purpose of arriving at 'horizontal supervision'.

"The best thing is advising your customers and sharing your knowledge with them."

Arie Jansen

The final meeting of the year evaluated the Supervisory Board and its own functioning on the basis of individual written evaluation forms containing specific and general questions. This exercise did not result in the need for any significant action.

The Supervisory Board also evaluated the Executive Board in the absence of the Executive Board members, again on the basis of evaluation forms. We decided that there was a good working relationship both within the Executive Board and the Supervisory Board and between the two governing bodies. There were no indications of inadequate performance, structural disagreement or conflicts of interest. Additionally, the Supervisory Board looked at the question of succession within the Executive Board and the Supervisory Board with a view to ensuring that appropriate candidates will be lined up in good time. This process will be further formalised in the future.

The eighth meeting also gave detailed consideration to the management letter from the auditors, both without the Executive Board present and with the Executive Board in attendance. Apart from a few minor points of a financial nature, it was mainly the IT environment that merited the attention of the auditors. It was observed that considerable attention had been devoted to IT and the Control of Processes, that a great deal of progress had been made in this field in recent years but that there was still scope for further improvements. This was at the top of the agenda for the Executive Board (particularly the director with special responsibility for IT). The meeting also decided that an internal audit function made little sense, given the structure of the Group. We took a proactive part in the pilot conducted by the NBA (Netherlands Institute of Chartered Accountants) regarding the format of an auditors' report giving more information. The result can be found on page 139. As always, the budget for the new year was also a prominent item on the agenda in December. In conjunction with this, the Executive Board presented its plans for the new year.

The Supervisory Board also took cognisance of the major changes affecting payments as a consequence of the problems created by SEPA. For the Group, the main issue is the business-to-business direct debit system. Finally, the possibility of splitting the dividend payments into an interim and final dividend was discussed.

The first of the 2014 meetings discussed the results for 2013. The auditors have not reported any material audit misstatements requiring follow-up on the part of the Executive Board and/or Supervisory Board with respect to

this year either. We endorse the conclusions of the Executive Board regarding the risk management and control systems, as described on page 70.

In addition to the eight meetings referred to above, the Supervisory Board meets on two occasions without anyone else in attendance. The chairman of the Supervisory Board also has periodical discussions with members of the Executive Board and/or Supervisory Board members.

In 2013, a member of the Supervisory Board was present as observer at one of the consultative meetings with the Works Council. As usual in the case of the Group, we are pleased to report that the Executive Board and Works Council conduct their meetings in a frank and constructive atmosphere. In the language and culture of Sligro Food Group, the saying is 'Worked out together, won together'.

Executive Board conditions of employment

The policy on Executive Board remuneration is set out in more detail in a remuneration report, the full text of which is available on the company's website. There were no changes in this policy during the year.

Its main points are that:
- the remuneration policy is drawn up by the Supervisory Board and adopted by the general meeting of shareholders;
- the policy must make it possible to attract qualified people as members of the Executive Board;
- the remuneration policy is performance-related, but must also be reasonably in line with that applying to other managers.

The remuneration package consists of:
- a fixed annual salary;
- a short-term bonus plan;
- a long-term bonus plan, which has to be converted into shares;
- a long-term share option plan, which also has to be partly converted into shares;
- a defined-contribution pension scheme;
- various other fringe benefits.

Once every three years, the remuneration package is benchmarked against a reference group comprising around 20 companies. This is part of the remuneration policy. With effect from 1 January 2013, the fixed annual salary of the Executive Board members was adjusted to the market rate, whereas there had not been any revision for the previous six years. In fixing the salaries, the Supervisory Board was supported by a firm of outside consultants and the Group's HR manager. The new level of remuneration remains well within the target set in the remuneration report.

Both the short-term and long-term bonus plans pay out amounts equal to 30% of fixed salary if targets are met. In 2013, achievement of the budgeted profit counted towards half of the bonus, the remaining 50% depending equally on the achievement of the CSR agenda, the successful integration of Van Oers, the achievement of the 2013 food retail targets and a detailed agenda regarding control of working capital. The ratio of total bonus to fixed salary represents an appropriate level of incentive. The remuneration policy is based on the principle that the variable component of an individual's salary should not be disproportionate to the fixed component or the total remuneration. As bonuses under the long-term bonus plan and the option plan have to be taken in shares that are subject to transfer restrictions, the variable element of the remuneration package also focuses on the creation of long-term value.

The variable remuneration in 2013 amounted to 81% (2012: 50%) of the 'on target' bonus. As in the preceding year, the main reason for failing to hit the target level lay in failure to achieve the targeted profit, although the Executive Board did set the bar for itself relatively high. More information on remuneration can be found in note 6 on page 112 of the financial statements.

Departures from the corporate governance code

The members of Sligro Food Group's Executive Board have contracts for indefinite periods of time, in contravention of the Dutch Corporate Governance Code. This departure from the Code, which has been approved by the general meeting of shareholders, is consistent with our aim of offering equivalent Executive Board members similar remuneration packages and, wherever possible, facilitating recruitment from within the organisation. The periods of notice required to be given by Executive Board members are three or six months, while the statutory periods applying if the company gives notice are twice as long. Consistent with the objective referred to above, the employment contracts of Executive Board members make no provision for severance pay. The general meeting of shareholders has also approved this departure from the Code.

Change of auditors

There is a legal requirement for the Group to change its auditors from time to time. Also, since the period of engagement of the KPMG partner responsible for the Group expires in 2014 according to the independence criteria laid down by the NBA, it has been decided to take the opportunity of making a complete break. The General Meeting of Shareholders held on 20 March 2013 delegated the power to appoint the new auditors to the Supervisory Board and Executive Board. On the basis of the mandate thus granted, a selection process was embarked upon involving PwC, EY and Deloitte.

The Executive Boards of these three firms were approached with a detailed request to make a formal submission, including the basis on which it was made. Invitations were then extended to these three firms and they were simultaneously provided with comprehensive information. Each of the three had the opportunity to obtain additional information with a view to enabling them to submit a non-binding bid. Three bids were received. After evaluation, it was decided to take the process further with two of the firms. A more in-depth selection process was then followed involving the financial and ICT teams, theirs being the disciplines on which an audit primarily focuses. This also gave the opportunity to form an impression of the team members concerned. Both firms then availed themselves of the opportunity to talk to KPMG without the involvement of the Group. A binding final proposal was subsequently received from the two firms and these were provisionally evaluated (in a written report) by the financial and ICT teams. Two members of the Supervisory Board together with the Executive Board chairman then had exhaustive discussions with the preferred candidate and confirmed the evaluation finding. The main selection criteria where the extent to which agreements had been adhered to in the whole process, the price, the composition of the audit team and personal compatibility. There then followed an extra examination to allow the new auditors to obtain a detailed insight into the accounting policies applied in preparing the 2012 financial statements in order to obviate possible 'surprises' as far as possible. This process ultimately led to the decision to appoint Deloitte to audit the 2014 financial statements.

Board changes

At the General Meeting of Shareholders, Mr A. Nühn was reappointed to the Supervisory Board and as its chairman for a second and final term of office.

Financial Statements

The 2013 financial statements have been prepared by the Executive Board. The financial statements were discussed at a meeting attended by the auditors, who provided further information on them. The financial statements have been audited by KPMG Accountants N.V., whose unqualified audit report can be found in 'Other Information' on page 139.

We invite you to:
→ adopt the 2013 financial statements;
→ adopt the proposed profit appropriation;
→ ratify the Executive Board's conduct of the company's affairs;
→ ratify the supervision exercised by our Board.

It was again not an easy year for Sligro Food Group. The ongoing downward trend in consumer spending left its mark, even if the Group did manage to minimise the impact pretty well compared with the competition. A great deal of effort is being invested in the 'Switched on' programme with the object of profiting to the utmost from the opportunities presented by the new economic climate in the years ahead. We are indebted to the Executive Board and the workforce for the huge effort that has been required.

Veghel, 23 January 2014
A. Nühn, Chairman
Th.A.J. Burmanje
B. E. Karis
R.R. Latenstein van Voorst

Supervisory Board

A. Nühn (60)
Supervisory Director, Dutch nationality (m). Appointed in 2009 until 2013, and reappointed in 2013 and not eligible for reappointment. Supervisory Director of Stern Groep N.V., Anglovaal Industries, Cloetta, Plukon Food Group and Kuoni AG and member of the Board of Trustees of WWF-Netherlands (World Wide Fund for Nature).

Th.A.J. Burmanje (59)
Supervisory Director, Dutch nationality (f). Appointed in 2008 and reappointed in 2012 until 2016 and not eligible for reappointment. Chair of the Dutch Land Registry Board. Member of the Supervisory Board of Deltares and a Governor of the Netherlands School of Public Administration. Supervisory Director of ARN B.V. and chair of the Supervisory Board of Canissius Wilhelmina Hospital.

B.E. Karis (55)
Supervisory Director, Dutch nationality (m). Appointed in 2012 and eligible for reappointment. Chairman of the Executive Board of Zeeman textielSupers.

R.R. Latenstein van Voorst (49)
Supervisory Director, Dutch nationality (m). Appointed in 2008 and reappointed in 2012 until 2016 and not eligible for reappointment. Independent consultant.

The composition of the Supervisory Board is consistent with the required profile. All the members of the Supervisory Board are independent in accordance with the best-practice provisions of article III.2.2 of the Dutch Corporate Governance Code.

Acknowledgements

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The 2013 annual report of Sligro Food Group N.V. is available in Dutch and English. The original financial statements were drafted in Dutch. In case of any discrepancies between the English and the Dutch text, the latter will prevail. Copies of the annual report in Dutch and English are available on request from Public Relations Department, Sligro Food Group N.V., Veghel, Netherlands.

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Annual report 2013