



ANNUAL REPORT

2016



Sligro Food Group N.V.

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NET SALES
€2.8
BILLION



Net
PROFIT
€73
MILLION



Dividend
PER SHARE
€1.30

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ANNUAL REVIEW

2016

Economy

The Dutch economy bounced back in 2016. The recovery in levels of employment and consumer confidence had been evident for some time, but in 2016 it also translated into higher food and drink spending. In Belgium, there were also clear signs of a recovery, although the positive trend was abruptly disrupted by the terrible attacks in Brussels. We expect the economic recovery to continue in the Netherlands and Belgium, which will have a favourable impact on our sales markets.

The market

After a slightly hesitant start, the Foodservice market in the Netherlands continued to recover. There are still differences between the market segments, but growth was visible across the board. It is only the care sector where we have not seen a recovery and which will probably see limited contraction in 2017. We expect market growth in 2017 to be comparable to 2016. The underlying market trend in Belgium is expected to show a similar picture to the one in the Netherlands, but the introduction of the 'witte kassa' (a regulated cash register system to combat fraud) is expected to distort or even act as a brake on development.

We saw growth pick up further in the supermarket channel, too, although notable were the relatively large regional differences, explained by demographic variances as well as the different penetration speeds of online shopping across the country.

It is also becoming more and more difficult to define the pure foodservice and food retail markets because the advent of online shopping is increasingly blurring the traditional boundaries between the consumer and professional markets. In the retail sector, in particular, we are still seeing non-food and food sales moving to other retail channels.

Foodservice

We once again outperformed the market in the Netherlands, which we achieved organically, but which was also boosted by the acquisition of two De Kweker sites. Our total market share rose 0.4 of a percentage point to 24% and we saw our strongest growth in delivery services, but cash-and-carry sales also performed very well thanks to the boost from the 3.0 format. This made up for the absence of a 53rd week which we had in 2015, but we noticed that our customers were increasingly focused on price and promotions. We underlined that Foodservice is not just about 'benefitting' by opening our ZiN inspiration lab. ZiN is a unique concept for Europe and lies on the cusp of inspiration and innovation. We and our customers will increasingly bear the fruits of this venture in 2017.

We had hoped to open the doors of our first Sligro outlet in Belgium this year. Unfortunately, we will have to wait a little longer, but we took our first step outside the Netherlands this year with our acquisition of Java. And how! Combined with our existing sales to Belgian customers shopping in the



Netherlands, we estimate our market share to be around 3%, making us one of the top-five players in what is still a very fragmented Belgian market. We have made extensive preparations this year for further growth in 2017 and will be pursuing this aim vigorously.

De Kweker and Tintelingen

In January 2016, we announced the acquisition of the wholesale operations of De Kweker in Purmerend and on Texel. In 2016, the activities on Texel were merged with our Sligro outlet on the island. In Purmerend, the cash-and-carry outlet will remain in its current form for the immediate future and will trade under the name De Kweker. In 2017, this outlet will be relocated in Purmerend and open as De Kweker / Sligro 3.0.

In December 2016, we announced our acquisition of Tintelingen, which specialises in the 'select-your-own' Christmas gifts and supplies business with physical or digital gifts to mark special occasions. Tintelingen generated sales of €8 million in 2015/16 (non-calendar financial year Q2-15 to Q1-16) and has 11 employees (FTEs). It organised over 250,000 gifts to mark special occasions. Our aim is to formalise the transaction in June 2017, following the end of Tintelingen's 2016/2017 financial year.

Belgium

During the past year, we worked hard on all the preparations needed to open the doors of Sligro in Belgium. The back-office and sales and marketing departments have made great progress in preparing for this step. We are gaining more and more customers in Belgium, who we are currently serving in the Netherlands. The cooperation with Java, a top-five player among wholesale organisations in Belgium, that we acquired in early 2016, is a huge help in this.

Our original plan assumed that we would open our first outlet at the end of 2016 or early 2017. We had anticipated resistance from our competitors in the planning permission process. Unfortunately, they have decided to fight us primarily in this

way rather than in open competition on the market. Although we regret the way matters have progressed, we accept it and will defend our position with the resources available to us. We may, therefore, have to wait some time before we can enter the market with our own Sligro location and for the time being will use the Netherlands as a delivery site for our Belgian customers, but we are looking forward all the more to the time when we can face up openly to our competitors and also create new jobs in Belgium.

Java

In February 2016, we acquired Java in Belgium, taking our first step outside the Netherlands. Following the acquisition, Java had to adapt itself on several fronts to the ways of Sligro Food Group despite its relatively autonomous position. For example, existing management took over from the family and the coffee business (that has been retained by the family) had to be segregated from the rest of the business. In the meantime, the market was not particularly calm, not least as a result of the dreadful attacks in Brussels. Despite the challenges, our new colleagues at Java dealt well with all of this in close cooperation with Sligro colleagues and made great progress on all fronts. Consequently, sales remained up to the mark, performance improved and many of the expected synergies for the coming years were set up. Construction of a new frozen food distribution centre has started in Rotselaar and this will allow Java to grow further in the future. It will be commissioned in the first half of 2017 and the existing facilities will then be prepared for the next step in Java's development.

Acquisition of
Tintelingen
250,000
Gifts to mark
special occasions

Foodservice
Market
Share
24%

Acquisition
JAVA
YOUR BEST SOLUTION

ZiN

On 30 November 2016, we opened our ZiN inspiration lab in the presence of Her Majesty Queen Mathilde of Belgium. We have created an inspiration lab in a unique and inspiring 3,000 m² environment offering training, trend tours, seminars, events, commercial coaching, boot camps, high-quality market research and everything else to inspire our customers. We will follow our customers' careers: from a starters' academy through to business succession and all stages of growth in between and other phases that require attention as customers progress. E-learning and online communities will play a significant role alongside the physical presence in the inspiration lab. ZiN will have many external training partners and above all incorporate the cognitive and creative power of our customers. After all, together we know much more than any individual.

Online 3.0

For some years, our Foodservice delivery customers have been using Slimis, our online ordering module. But, as we wrote last year, what is good today will not be good enough tomorrow, and we are already seeing this in declining ratings for the platform. This is not strange given that developments in the online consumer world around us are moving so rapidly that it is natural that our professional customers expect similar service in the professional environment. We believe that our new Sligro 3.0 Online platform will do this.

In November 2016, the first version of our new ordering platform went live and the first one hundred customers or so are helping us to identify and resolve the final user issues. Although it took longer to go live than was initially planned, we did not want to take any risks with the continuity of our customers' businesses, after all the system processes a billion euros in sales every year!

During 2017, we will gradually transfer all our customers to the new environment so that the updated sligro.nl ordering environment will be rolled out in the Netherlands in the course of the year. 2017 will see continuous optimisation and additional services on the online platform. Various modules are already under construction.

Food Retail

For Food Retail, 2016 was dominated by the refinement and rollout of the new 3.0 format. Following an evaluation of the three pilot sites, we realised that a whole host of commercial and administrative improvements were possible and needed before we could accelerate the conversion. This is completely normal for a project of this size and simply takes time. Other players in the market have also been through the same process. The responses from our existing and new customers were very positive and that strengthens our belief that this new format is a good concept. We believe that in time it can translate into an improved return, although this has not yet emerged from this phase.

In 2016, we added three new stores and also welcomed a new franchise site. Our new sites will give us a strong local market position in 2017. The new stores included two city-centre supermarkets ('s Hertogenbosch and Eindhoven), where our 3.0 format was very successful. Sales at our outlets operating under the old format were under pressure, particularly as a result of their old-fashioned store image. Additional campaigns and promotions have been launched to close the market gap, but the structural solution is to convert the stores to 3.0. Not all sites are suitable for conversion and these will be exchanged or sold. In 2016, we closed one store.

EMTÉ 3.0

At year-end 2016, we had 15 new 3.0 format stores. After operating three pilot sites, at the end of the summer we converted a further eight existing stores to the 3.0 format. We applied what we had learnt in our evaluation of the pilot



stores to the conversion and this is also being reflected in performance. In addition, the four new stores we added were opened immediately in the 3.0 format. We took additional management measures to ensure we had better control of the 3.0 stores, particularly in the weeks following conversion. This will be expressed in 2017 in the performances of the converted stores in particular.

In the first quarter of 2017 we will yet be scaling up the rate of conversion. In the second quarter of 2017, we will undertake a comprehensive evaluation of the impact of the changes on the format and management organisation. Following the evaluation, we will decide how to implement the continued rollout and whether we can accelerate it.

CSR

As a centrally managed organisation we pursue a single sustainability policy for the Group. Our core themes, ambitions and targets accordingly apply to our activities in the Netherlands and at Java Foodservice in Belgium. There may be differences in the direction and method we use to achieve this in each country or part of the business. As in previous years, it is our practice to cover our financial and sustainability performances together in our annual report. This is the best match for our CSR vision. It means that we have also included the sustainability performance of Java for 2016 in our results. In 2011, we set out our core themes and goals for 2020, basing them on what we knew at the time and our estimate of the developments leading up to 2020. Every year, we benchmark our results against our targets and report on them in this annual report and on our corporate website. In 2016, we focussed intently on how we work and our core themes. The key question we asked was whether these themes were still sufficiently in line with the development of our business, our stakeholders and the world we live in. In other words, are our core themes sustainable enough for 2020-2025 and does our model offer sufficient prospects and challenges in the longer term? This more qualitative evaluation provided the

initial impetus for our next step. Our core themes and targets for 2020 remain unchanged and are the guiding principle in this process.

Risk management

In 2015, we started to put the risk management of our business on a more formal footing and continued this process in 2016. The continued growth of the business and the international expansion we started this year mean that this aspect is growing in importance. We are convinced that the balance between formalised systems and entrepreneurial spirit must be a healthy one if we want to continue to grasp the opportunities in the market. The intrinsic motivation of our employees to do the right thing is embedded in our culture. This year, we prepared a culture scan, which we will carry out in early 2017, to enable us to measure this more easily in our organisation.

Results

The combination of organic growth and acquisitions led to a sharp increase in our Foodservice sales and according to FSIN, our market share in the Netherlands increased to 24%. For the first time in our history, we made a foreign acquisition, putting us on the map in Belgium. In Food Retail, we were unable to keep pace with market growth and our market share declined to 2.6%. Operating profit before amortisation was €112 million, a decline of €10 million compared with 2015. At Foodservice, operating profit before amortisation fell by €2 million to €99 million and at Food Retail we saw a decrease of €8 million to €13 million. Sligro Food Group's net profit for 2016 was €73 million, which was 9.1% below the record profit generated in 2015, meaning that we did not perform as well as we had expected at the beginning of the year.



Dividend

Based on the result for 2016 and our continuing strong financial position, we propose increasing the dividend by €0.10 per share to €1.30 per share, made up of a regular dividend of €1.00 (2015: €0.90) and a variable dividend of €0.30 (2015: €0.30). The increase in the dividend payment to our shareholders is possible without the business having to limit the financing of its capital expenditure or possible acquisitions. An amount of €0.45 has already been paid as interim dividend. The final dividend for 2016 therefore amounts to €0.85.

2017

We expect the economic recovery to continue, and as a consequence, we also expect market growth in our sales markets to continue in 2017. We are therefore optimistic about 2017, when a further recovery in the market and the success of our formats will be the basis for outperforming the market in the Netherlands and Belgium. Everything in Food Retail is focused on making the transition to 3.0 a success and further restoring the performance of the 2.0 stores.

We will be intensifying our sales efforts in Belgium during the coming year and expect that this will allow us to outperform the market. We also expect to be able to successfully complete the planning permission and appeal procedures during the year and start construction of our first Sligro location there, and in that case to open in 2018.

In 2017, we will invest further in our ICT and data landscape and the related processes to make them ready for changes in customer requirements in the future. We are firm believers in the importance of master data management and, as always, a stable and robustly secured, but also increasingly flexible ICT organisation.

This calls for the continuous adaptation of our organisation, processes, systems and people and so we will continue to invest in them. Much work has been done during the past year but there is still a lot to do. Good and important work to keep Sligro Food Group in the best possible shape for the years to come. We call this 'Keep Building the Future!'

Koen Slippens
CEO





Sligro

LAURENTTIS

KEY FIGURES

(x € million)	2016	2015
Result		
Net sales	2,813	2,670
EBITDA	156	160
EBITA	112	122
EBIT	87	103
Profit for the year	73	81
Net cash flow from operating activities	153	140
Free cash flow	72	78
Proposed dividend	57	52
Equity and liabilities		
Shareholders' equity	627	606
Net interest-bearing debt	60	26
Total equity and liabilities	1,215	1,071
Employees		
Year average (full-time equivalents)	6,571	6,068
Salaries, social security charges and pension costs	272	253
Ratios		
Year-on-year increase in sales %	5.4	3.8
Year-on-year increase in profit %	(9.1)	17.4
As percentage of sales:		
Gross margin	22.9	23.2
Gross operating profit	5.6	6.0
EBITA	4.0	4.6
EBIT	3.1	3.8
Profit for the year	2.6	3.0
Return as % of average shareholders' equity	11.9	13.7
Operating profit as % of average net capital employed	12.6	15.7
Net interest-bearing debt/EBITDA as %	38.4	16.2
Shareholders' equity as % of total equity and liabilities	51.6	56.6
Figures per €0.06 share		
Number of shares outstanding at year-end (x 1,000)	43,880	43,790
(x €1)		
Shareholders' equity	14.29	13.84
Earnings	1.67	1.84
Proposed dividend	1.30	1.20
Year-end share price	33.08	33.30

PROFILE

SLIGRO FOOD GROUP ENCOMPASSES FOOD RETAIL AND FOODSERVICE COMPANIES THAT SELL DIRECTLY AND INDIRECTLY TO THE ENTIRE FOOD AND BEVERAGES MARKET. THE GROUP IS ACTIVE IN FOODSERVICE AS A WHOLESALER AND IN FOOD RETAIL AS A WHOLESALER AND RETAILER.

Foodservice

In the Netherlands, Foodservice is the market leader with a nationwide network of 50 cash-and-carry and eight 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, small retail businesses and the institutional market. We trade under the Van Hoeckel name in the institutional market and under the Sligro name in other market segments. Sligro and Van Hoeckel each have a dedicated commercial organisation focusing on their specific markets but use the same delivery network for operations.

In Belgium, Java Foodservice is a top-five player in the Belgian foodservice market, concentrating on the institutional, company catering and hotel chain segments. The cash-and-carry and other hospitality markets are served using the Sligro format. This sector is being served from the Netherlands until the Sligro sites in Belgium open.

Food Retail

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

We also operate our own in-house production facilities for specialist convenience products, fish and patisserie and home caterer products, as well as a butchery centre focusing on the retail market. For meat, game and poultry, fruit and vegetables and bread and bakery products, we have participating interests in our Fresh Partners.

Our foodservice customers have the choice of around 75,000 food and food-related non-food items. We also offer a range of services.

CIV Superunie B.A., a leading purchasing cooperative with a share of almost 30% of the Dutch supermarket sector, handles most of Sligro Food Group's Food Retail purchases. As market leader in the sector, the Group primarily 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 are carried out by the various business units. Our aim is to increase our gross margins through joint purchasing, in combination with direct and detailed category and margin management.

Operating expenses are reduced through a joint, integrated supply chain and constant, strict cost control. Group synergy is further enhanced by centralised management of our ICT landscape, centralised design and control of Master Data Management and centralised talent and management development.

Sligro Food Group strives to be a high-quality company achieving steady, managed growth for all its stakeholders. Sales in 2016 totalled €2.8 billion, generating a net profit of €73 million. The average number of employees on a full-time basis was 6,600. Sligro Food Group shares are listed on Euronext Amsterdam.



Sligro Food Group corporate film



Important DATES

Financial calendar ¹⁾

Final 2016 sales	4 January 2017
Final 2016 figures	26 January 2017
Press conference (11.00 a.m.)	26 January 2017
Analysts' meeting (1.30 p.m.)	26 January 2017
Publication of annual report	3 February 2017
Record date	22 February 2017
2016 Annual General Meeting at the company's offices, Corridor 11, Veghel (10.30 a.m.)	22 March 2017
Ex dividend date final dividend 2016	24 March 2017
Record date final dividend 2016	27 March 2017
Final dividend 2016 available for payment	5 April 2017
Trading update	20 April 2017
2017 half-year figures	20 July 2017
Press conference (11.00 a.m.)	20 July 2017
Analysts' meeting (1.30 p.m.)	20 July 2017
Trading update	19 October 2017
Final 2017 sales	3 January 2018
Final 2017 figures	25 January 2018
Press conference (11.00 a.m.)	25 January 2018
Analysts' meeting (1.30 p.m.)	25 January 2018
Publication of annual report	2 February 2018
2017 Annual General Meeting (10.30 a.m.)	21 March 2018

1) Planned press releases will be published at 7.30 a.m.

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.

Corridor 11, P.O. Box 47, 5460 AA Veghel
Telephone +31 413 34 35 00/Fax +31 413 36 30 10
www.sligrofoodgroup.nl



SLIGRO SHARES

SLIGRO FOOD GROUP'S SHARES ARE TRADED ON THE EURONEXT AMSTERDAM N.V. STOCK EXCHANGE.

SLIGRO FOOD GROUP IS INCLUDED IN THE AMX INDEX.

Movements in shares (x 1,000)	2016	2015	2014
Issued shares as at start of year	44,255	44,255	44,255
Shares repurchased (cumulative) ¹⁾	(375)	(465)	(570)
Shares outstanding as at year-end	43,880	43,790	43,685
Average shares outstanding	43,858	43,764	43,689

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

There were 43,880,415 shares in issue at year-end 2016, an increase of 90,400 on year-end 2015. The increase is attributable to the sale of shares that had been repurchased for the option plan. Earnings per share are calculated on the basis of the average number of shares in issue, as explained on page 131.

Sligro Food Group seeks to pay a cash dividend of approximately 60% of the profit after tax (excluding extraordinary items) on a regular basis. A proposal may be made to declare a variable dividend, depending on the capital ratio and liquidity position. The dividend is paid in two instalments, an interim dividend in the second half of the year and a final dividend after the Annual General Meeting.

The dividend proposed for 2016 is €1.00 per share, which equates to a pay-out ratio of 60%. In addition, it is proposed to pay a variable dividend of €0.30 per share, thus bringing

the total dividend for the year to €1.30 per share. An interim dividend of €0.45 per share was paid on 3 October 2016 and so the final dividend will be €0.85.

In cash terms, a dividend totalling €1.25 per share was paid in 2016, made up of the final dividend for 2015 of €0.80 and the interim dividend for 2016 of €0.45.

Sligro Food Group's website (www.sligrofoodgroup.nl) includes information on the Group, its shares, financial position, press releases, Articles of Association, remuneration, directors' shareholdings and share transactions and corporate governance. This information is available in both Dutch and English. Visitors can download annual reports from this site and also subscribe to press releases.



eerlijk & heerlijk

Share of sales

8%

Organic, sustainable, fair trade, local

Tobacco

Share of sales

11%

All products containing tobacco

KEY FIGURES

per share

Key figures per share (x €1)	2016	2015	2014
High	35.85	39.25	32.65
Low	31.26	30.95	26.85
Year-end	33.08	33.30	31.25
Earnings per share	1.67	1.84	1.58
Dividend	1.30	1.20	1.10
Market capitalisation as at year-end (x € million)	1,452	1,458	1,365

TRANSACTION

information

Transaction information	2016	2015	2014
Total value of shares traded (x € million)	90	156	104
Volume traded (x 1,000)	2,689	4,519	3,482
Number of transactions (single counting)	24,831	40,140	22,016

These figures are based on information provided by Euronext Amsterdam. The month with the highest number of traded shares in 2016 was November (0.4 million) and the month with the lowest number was August (0.1 million).

Alcohol

Share of sales

9%

All products containing alcohol that are suitable for consumption

Pork

Share of sales

4%

Pork products from the meat/butchery and processed meat departments (fresh meat)

CO₂ emissions
per €100 sales

-17,4%

Compared with 2010

DISCLOSURE

of major shareholdings

Stichting Administratiekantoor Slippens	33.95 %
APG Asset Management N.V.	10.03 %
Darlin N.V.	6.12 %
NN Groep N.V.	5.70 %
Stichting Administratiekantoor Arkelhave B.V.	5.06 %
Boron Investments B.V.	5.03 %
Beleggings- en Exploitatiemaatschappij De Engh B.V.	5.01 %
Stichting Werknemersaandelen Sligro Food Group	3.94 %



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 actual number of free-float shares. Where possible, this double counting has been corrected in the table below. 115,622 shares in the holding of Stichting

Werknemersaandelen Sligro Food Group are held by members of the Executive Board. These are itemised on page 120.

Market information has been used to estimate the geographical distribution of share capital at year-end 2016. This information covers 87% of the capital in 2016 (2015: 86%).

Geographical distribution of share capital (%)

	Private investors		Institutions		Total	
	2016	2015	2016	2015	2016	2015
Netherlands	55	53	20	18	75	71
UK			5	4	5	4
USA			6	9	6	9
Other countries			1	2	1	2
Total	55	53	32	33	87	86





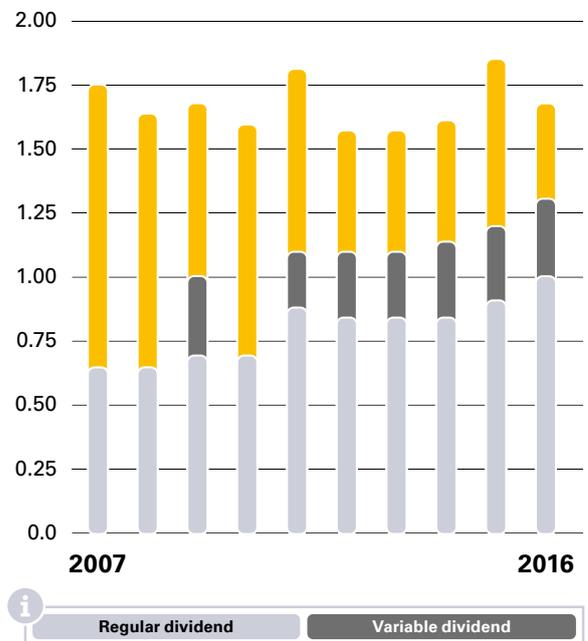
SHARE PRICE

2012-2016



EARNINGS PER SHARE

2007-2016



DIRECTORS

And management

Supervisory Board

A. Nühn, chairman (63)
J.H. Kamps (57)
B.E. Karis (58)
M.E.B. van Leeuwen (55)
F. Rijna (61)

Group Executive Board

K.M. Slippens, CEO (49)
R.W.A.J. van der Sluijs, CFO (40)
W.J.P. Strijbosch, Foodservice director (48)

Company Secretary

G.J.C.M. van der Veeken (55)

Executive Board of Sligro Food Group Nederland B.V.

Group Executive Board together with

A.E. Bögels, Purchasing and Product Range (44)
J.G.M. de Bree, Human Resources (59)
G. Buitenhuis, Supply Chain (52)
J.H.A. van Heerebeek, Food Retail Sales (50)
D.J. van Iperen, Foodservice Delivery (42)
K. Kiestra, Food Retail Operations (48)
M.M.PH.L. van Veghel, ICT (44)

Works Council

R. Heijberg, chairman
T. Bouman, secretary
E. Beernink
D. van der Does
Y. El Adel
D. de Fijter
E. Goedhart-Joosten
T. Hendriks
M. Jans
D. Kleijer
F. van der Lelij
R. Lobker
T. van de Meerakker
G. Noord
J. Pennings
G. Rozema
F. Schalken
W. van Schijndel
S. Sillen-van der Velden
R. Stockmann
C. Thijssen
H. Verbraak
R. van Vliet
H. Waninge
J. van Zon





STRATEGY

In outline

Sligro Food Group sells directly and indirectly to the entire food and beverages market, providing a comprehensive package of food and food-related non-food products and services. Our business units focus primarily on our customers and each has its own clear profile in the market. They are managed at Group level and supported by a professional, efficient and fully-integrated back-office organisation. The various operations work very closely together to maximise the benefits from internal synergy.

The organisation is driven by our culture, our 'Green Blood', which has its key focus on customers and our shared passion for tasty, good and honest food. Safeguarding and promoting this particular culture, therefore, has our specific attention in a steadily growing organisation.

The Group operates in a competitive environment where there is limited scope to translate cost increases into higher selling prices. We absorb the impact of cost increases by constantly increasing the efficiency of our operations, for example by ensuring that our distribution, communications, data and information systems are as effective as possible.

To be sure of wielding sufficient purchasing power in the market, our food retail purchases are handled by cooperative purchasing organisation Superunie, which has a share of approximately 30% of the Dutch food retail sector. We handle much of our own purchasing for our foodservice business, which is the market leader in the foodservice sector.

We aim for average annual growth in like-for-like sales over an economic cycle of around 3%, assuming annual inflation of approximately 1.5%. We also intend, and expect, to grow through acquisitions, although such growth is, by its very nature, less gradual than organic growth. Given the level of fragmentation that still exists in the Dutch foodservice market, we think it is likely that acquisitions can also be made in the coming years. Our international expansion is focused entirely on

foodservice, preferably in relatively smaller Western economies with a well-developed foodservice market. In Belgium, we are aiming for a combination of organic growth and acquisitions to achieve a leading position in the foodservice market. Once we have built a strong organisation and position there, we will explore opportunities in other countries.

One of the ways in which we seek to be an attractive partner for our customers is by providing excellent service at competitive prices. Our international 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 fully aware of the importance of food safety. It goes without saying that we regard complying with all external quality standards as a minimum performance level.

We aim for profit growth that, on average, equals or outstrips our growth in sales. We can, furthermore, offer shareholders attractive returns over the longer term by controlled exploitation of the assets at our disposal. We aim to operate in a socially responsible manner and we report our performance in this area. For a listed family business such as ours, economic and social gains go hand in hand.

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

COMMERCIAL

Developments

Goals

- Increase Group like-for-like sales by an average of 3% per annum, with growth through acquisitions on top of this.
- Grow Foodservice in the Netherlands to a market share of 30%.
- Achieve a top-3 position for Foodservice in Belgium as a second home market.
- Achieve a distinctive position for EMTÉ in the supermarket landscape in the Netherlands.
- Maximise the potential for internal synergy and exchange of know-how between Group activities.
- Achieve competitive and permanent margin management in combination with cost control.
- Provide high-quality service, always with a view to maximising customer loyalty.

Strategic implementation

- Continually renew and improve our commercial concepts, formats and distribution channels with an omni-channel approach.
- Optimise the network of Sligro and EMTÉ outlets in the Netherlands; build up a solid structure for Sligro outlets in Belgium.
- Optimise synergy behind the scenes while the commercial formats present distinct identities front of house.
- Focus on the big picture to avoid unnecessary complexity.
- Decisive and efficient operational management of retail and foodservice outlets.
- Establish a more differentiated positioning for 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'.
- Strengthen customer relationships through loyalty programmes, events, private labels and our range of fresh produce and unique products from our own production kitchens.
- Further expand the package of physical and online services aimed at B2B customers in both Foodservice and Food Retail in order to support them in their day-to-

day commercial and operational endeavour.

- Further increase our expertise, customer focus and entrepreneurial culture through ongoing employee training programmes.
- Continually champion the typical Sligro Food Group 'Green Blood' culture in a growing organisation.
- Make the best possible use of that distinctive element of the corporate culture of our company, namely our employees: their expertise, their passion and their unmatched commitment to our customers.
- Capitalise on acquisition opportunities satisfying our criteria.

The food market

Sligro Food Group focuses on the market for food and beverages. In the Netherlands, Sligro Food Group is active in all significant segments of the food market. This market comprises both the 'out of home' or foodservice channel and the 'at home' or food retail channel. In Belgium, Sligro Food Group focuses only on the foodservice market.

We are dependent directly or indirectly on consumer spending on food. Economic indicators such as consumer confidence and unemployment figures are, therefore, significant predictors of developments in our markets although this correlation seems to be weaker than it used to be.

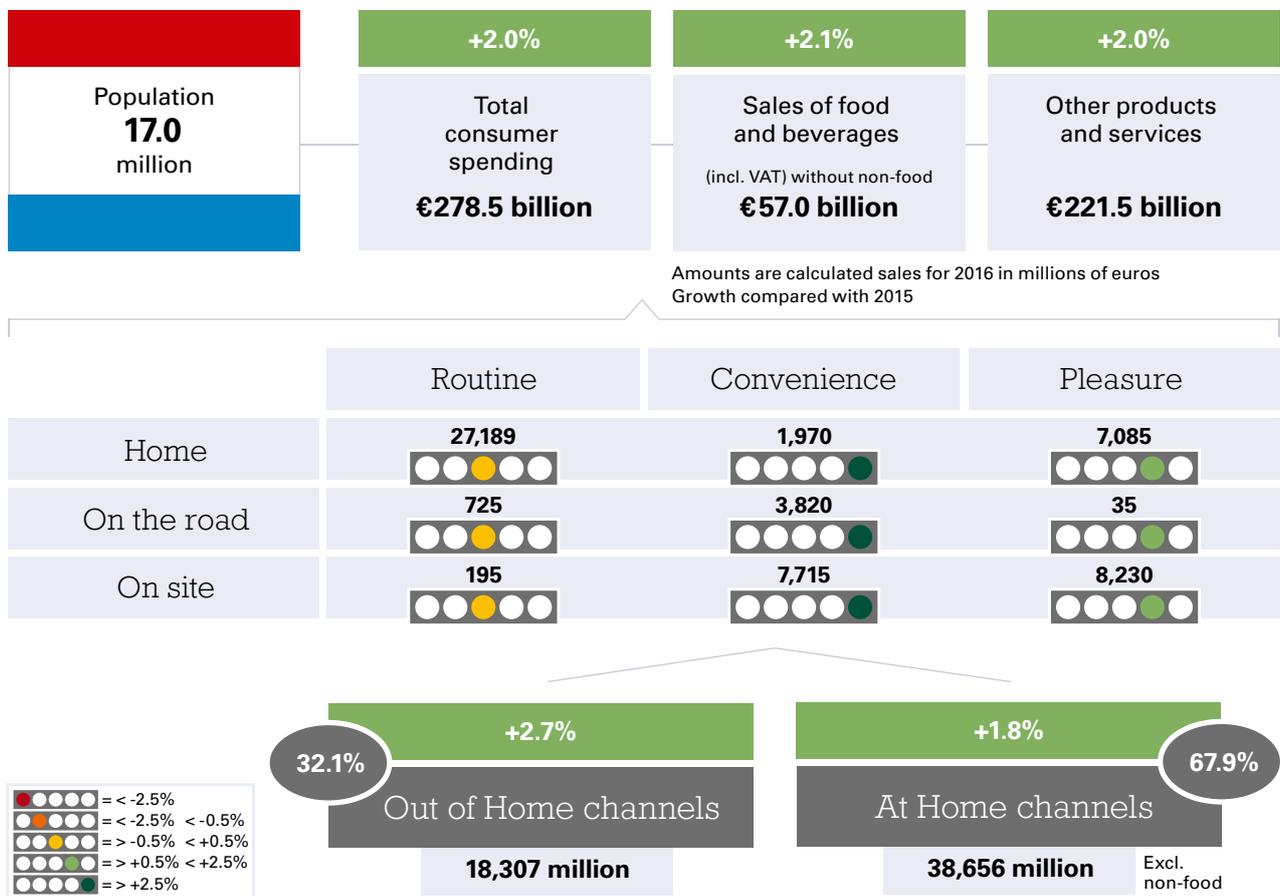
An analysis of total consumer spending on food and beverages is presented in the diagram on page 23. This diagram has been taken from the Foodservice Beleidsmonitor report, compiled on behalf of the Dutch Foodservice Institute (FSIN), which provides an overview of the Dutch foodservice sector and developments 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 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 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 fact that, in addition to the hospitality sector, the overall foodservice market includes the care segment, company catering, sports clubs and such like often serves to make comparisons difficult. A recent CBS report indicates growth of some 7% (Q3: 8.8%) for the hospitality sector in the first three quarters of 2016 compared with 2015, being price rises of around 2.7% and a volume component of some 4.3%.

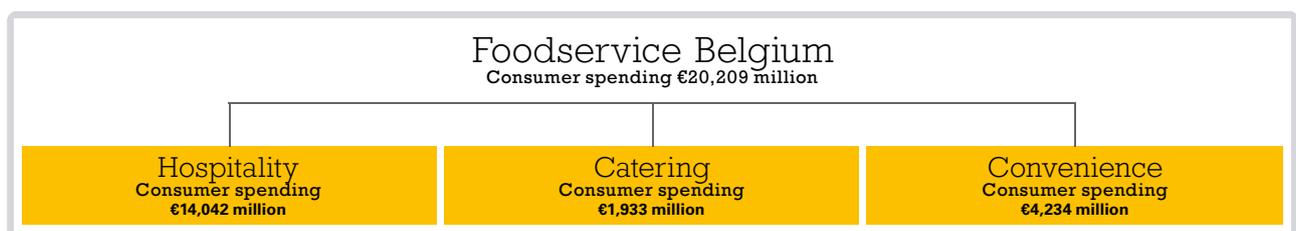
FSIN puts foodservice growth in 2016 at 2.7% and 2.4% for 'classical hospitality'. FSIN finds that 'convenience', including fast-food, in particular is growing rapidly by 3.9% while

'catering' lags behind as a result of adverse trends in health-care, with growth of only 1.7%.

Foodservice Alliance estimates consumer spending in the Belgian foodservice market in 2016 at €20.2 billion, which makes the Belgian market appear larger than the Dutch market, however, the definition is not comparable with that in the Netherlands. Belgium is a growth market in which almost every market segment and underlying sub-segment is growing compared with 2015.



Source: FSIN



Source: Jaarmonitor Foodservice Channel Insights 2017, Foodservice Alliance

Market approach

The chart below shows which Group operating companies target the various segments of the food market. Although activities focusing primarily on customers are performed separately, and therefore with 100% focus, everything is closely managed, behind the scenes, from the centre, wherever possible. This synergy, in both 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

Head office and central distribution centre in Veghel		
Food Retail	Foodservice	
The Netherlands		Belgium
EMTÉ	Sligro / Van Hoeckel	Sligro / Java
Retail to consumers and wholesale to franchisees	Delivery and cash-and-carry wholesale to large and small-scale hospitality sector, leisure, caterers, forecourt outlets, large-scale users, institutional	
133 supermarkets and two distribution centres in south and east of the Netherlands	National network of 50 cash-and-carry outlets and 8 delivery-service outlets	1 delivery-service outlet in Flanders and delivery and cash-and-carry service from the Netherlands
Sligro Fresh Partners: specialised production facilities for convenience products (Culivers), fish (SmitVis) and meat (retail), patisserie/home caterer (Maison Niels de Veye) and four fresh-produce associates and professional kitchens (Bouter)		

We are the foodservice market leader in the Netherlands with a market share of 24% (source: FSIN). In Belgium, we have already acquired a top-five position through Java and deliveries to Belgian foodservice customers from the Netherlands. We only operate in food retail in the Netherlands and have a market share of 2.6% (source: IRI and Nielsen).

Analysis of sales

Sligro Food Group focuses, directly or indirectly, on the food and beverage appetites of consumers. In the Netherlands, consumer shopping is catered for on a self-service basis by the EMTÉ supermarkets whereas foodservice customers in the Netherlands and Belgium have the option of cash-and-carry or delivery or a mix of the two. The cash-and-carry outlets are typically used by smaller or secondary customers, possibly in response to promotions and larger customers visit them for inspiration and information or because they prefer to select their products themselves. The latter are often also foodservice customers who receive regular supplies from a range of over 75,000 items held at our delivery-service locations. On average 75% of the delivery customers visit a cash-and-carry outlet twice per month.

Belgium

While we are dealing with planning permission procedures in Belgium, deliveries to Sligro customers are currently being made from the Netherlands. Our Java customers are being served from Rotselaar where construction of a new frozen food distribution centre has recently started and the dry goods and fresh produce distribution centre is being expanded. Both will be handed over in 2017 and will allow us to facilitate further growth of Java Foodservice. Many of Sligro's Belgian cash-and-carry customers are frequent visitors to our Dutch cash-and-carry outlets close to the border. We expect to create jobs when our own Sligro outlets open in Belgium.

The sales and sales trends in countries where we operate as well as of the three channels, (supermarkets, Foodservice cash-and-carry and Foodservice delivery) are shown in the chart. This indicates that we grew fastest in delivery in recent years (like-for-like and through acquisitions). We expect that we will benefit most from this part of the market in the next few years. Our new online route, increasingly professional logistics by the specialised delivery operations and the range and image spin-off from the cash-and-carry outlets and 3.0 positioning are clearly bearing fruit.

Net sales by segment

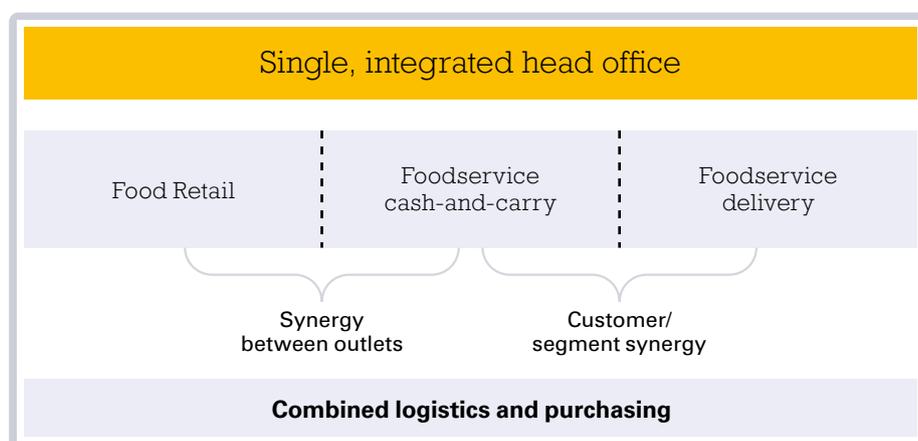
(x € million)

Net sales	Foodservice		Food Retail		Total	
	2016	2015	2016	2015	2016	2015
Netherlands	1,841	1,792	827	841	2,668	2,633
Belgium from Netherlands ¹⁾	39	37	0	0	39	37
Belgium from Belgium ²⁾	106	0	0	0	106	0
Total	1,986	1,829	827	841	2,813	2,670

1) This relates to delivery sales from the delivery centres in the Netherlands to customers in Belgium as well as sales to Belgian customers from close to the border who buy supplies in the Dutch cash-and-carry outlets.
2) This relates to sales reported by Java in the period March to the end of December 2016.

Synergy

The diagram below shows the links and the synergy between the three channels. Instead of operating as a group of businesses, Sligro Food Group is a single, integrated business with overlapping types of customers and distribution methods. The strong competition coupled with the availability and use of market data means that the Dutch food retail market is much more professional than the foodservice market. Our Foodservice organisation can learn a great deal from this. Food Retail in turn can learn a great deal from our Foodservice operation, as the market leader that prides itself on its service and customer loyalty, not to mention the broadest range on the Dutch market. Although there are many cultural and preference differences between the foodservice markets of the Netherlands and Belgium, we see many similarities and opportunities for synergy gains. We are already using our entire network to serve many customers in both countries. We can, therefore, make widespread use of the knowledge and skills of our Dutch and Belgian employees in the organisation.



SINGLE INTEGRATED business

SLIGRO FOOD GROUP IS NOT A GROUP OF COMPANIES, BUT A SINGLE INTEGRATED BUSINESS ENJOYING HIGH LEVELS OF SYNERGY BETWEEN THE THREE CHANNELS TO THE MARKET.

Our central distribution centre plays a key role in the efficiency and effectiveness of the logistics in the Group and helps us convert the critical mass that we create with different routes to the market into cost benefits. Geographical proximity means that the network can also be used for our Foodservice activities in Belgium. The same applies for the central structure and systems such that the departments and processes are structured, where this makes sense, so that they operate as a whole for the Group. In addition, this means that the best use is made of shared knowledge and synergies. The integrated back-office and related systems and data are a good example of how Foodservice and Food Retail can use each other's knowledge to improve insight and management.

As well as learning from each other, the sum of the various activities front of house is an interesting indicator for the overheads that running our business involves. Thanks precisely to these shared activities, we are able to make investments in people and systems where this can make a difference, such as purchasing and product range management, quality, data and supply chain.

Our membership of Superunie ensures that we can operate in a competitive retail market, but it also offers us benefits in part of the Foodservice product range. Combined with our own purchasing department in Sligro Food Group, we form a strong purchasing block in the market. We definitely view this as a strength and not as power since, after all, we are creating value and not diminishing or destroying it. As a result, with our own production facilities and Fresh Partners, we are able to offer distinctive products to all our customers. We will be focusing in the coming years on more and faster innovation so that we can continue to inspire our customers. In November 2016, in the presence of Her Majesty Queen Mathilde of Belgium, we opened the ZiN inspiration lab, which is unique in Europe, above our new cash-and-carry outlet in Veghel. This has created an environment where, working with many partners, we intend to help our foodservice customers to perform better in their own businesses, and to train, inspire and help them in starting up and innovation.

The strength of our unique corporate culture is a key distinction in both the foodservice and the food retail markets. The passion for food and beverages and customer focus are in our genes and not learnt. This makes them 'real' and diffi-

cult to copy. And it is appreciated by our customers. We are proud of this and we are succeeding in explaining it better outside the organisation. This is no coincidence but a consistent cultural programme coming from leadership, management development and recruitment and selection. Our many listings as a popular employer confirm our belief that our authentic and sincere culture, our Green Blood, is not only appreciated by customers but also by our colleagues.

Our commercial systems and data can be used in all channels, although we serve customers' requirements in markedly different ways in the different segments. We can, however, still make many improvements and learn from each other in the various segments. The supporting technology and data management are now highly centralised and we will continue to make major investments in this in the next few years as we expect that leadership in data management will be a crucial competitive factor in the future.



LEMON
fruit pepper

BROOD & PATISSERIE



FOODSERVICE

Developments

Key figures

(x € million)	2016	2015
Net sales	1,986	1,829
EBITDA	131	129
EBITA	99	101
Free cash flow	42	51
Net capital employed ¹⁾	563	486
EBITDA as % of sales	6.6	7.0
EBITA as % of sales	5.0	5.5
EBITA as % of average CE	18.9	21.3

1) Excluding associates.

Market developments

We use information from the Dutch Foodservice Institute (FSIN) on developments in the foodservice market in the Netherlands. FSIN makes its market assessments using consumer spending and expresses the market in terms of wholesale prices based on this. The difference between consumer spending and wholesale prices represents VAT and the added value of the wholesale customers; in other words, our customers. The movements in consumer spending and wholesale value do not therefore by definition have to run exactly parallel as they are different units. The added value included in consumer spending differs strongly by segment (care institutions, restaurants, company catering, sports clubs) within the foodservice market.

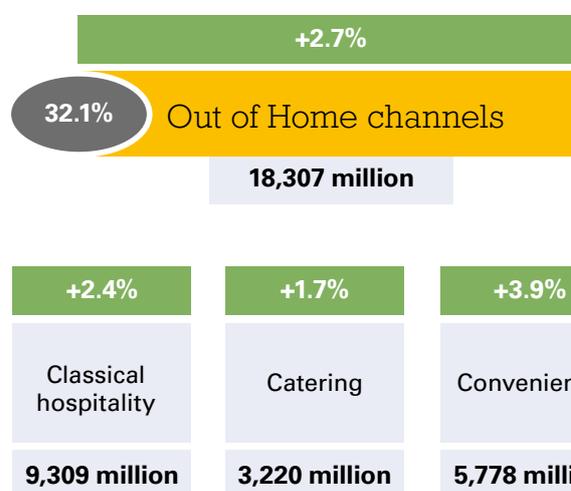
The FSIN figures show that growth in the Dutch foodservice market is expected to pick up by 2.7%. 'Classical hospitality' is expected to increase by 2.4% and 'Convenience' by 3.9% compared with the previous year while 'Catering' will lag a little at 1.7%. This is mainly because of the ongoing decline in the care sector, which has been suffering from austerity measures for some years, which is clear in its spending on food. The pressure on the care market is expected to continue in the coming years.

In Belgium, we use information from Foodservice Alliance to monitor trends in the market.

Market €6.7 billion at wholesale prices

FSIN estimates that the foodservice market at consumer prices rose by 2.7% in 2016 compared with the previous year, measured on a calendar year basis. The consumer spending market was, therefore, some €18.3 billion or about €6.7 billion at wholesale prices.

We, and FSIN, estimate that we will again beat the market, including like-for-like. Together with sales following the acquisition of the De Kweker sites, this has led to our market share rising once again.



Source: FSIN

Market shares

(in %)

Foodservice market places ¹⁾	Market share in the Netherlands		
	2016 ²⁾	2015 ³⁾	2014 ³⁾
Sligro Food Group	24.0	23.6	23.2
Lekkerland	13.2	13.1	12.7
Deli-XL	10.8	11.1	11.0
Hanos/ISPC	7.6	7.5	7.4
Makro (Metro)	5.9	6.3	6.7
Total other beverage wholesalers	13.3	13.4	13.8
Other Maxxam (VHC, Horesca, Topclass Groep)	6.1	6.0	6.2
Supertrade (Digross, Interkring, De Kweker, Huuskes)	4.7	5.1	5.1
Other	14.4	13.9	13.9
	100	100	100

1) Source: Foodservice Beleidsmonitor 2017 2) 2016 figures based on wholesalers' statements and expert assessments 3) Figures restated by FSIN further to new methodology.

The market shares are based purely on food sales to foodservice customers. FSIN makes its own estimates of the share of non-food and sales to non-foodservice market customers (by its definition) in cash-and-carry. This explains the difference between the market share figures presented by FSIN and the Foodservice sales reported by Sligro Food Group.

Once again this year, FSIN estimated the market shares of the wholesalers in the Netherlands. It bases them on statements by the wholesalers, to the extent that they cooperate, and experts who know and study the market. Unfortunately, not all the wholesalers are equally transparent and so part of this information is based on FSIN's own calculations.

As well as the estimates for the current year, FSIN also reviews the previous year and attempts to refine its earlier estimates from available financial publications. This has led to Sligro Food Group's 2015 market share being adjusted upwards from 23.1%, as reported last year, to 23.6%. The 23.1% was an estimate by FSIN in May 2015 which was adjusted in 2016. For 2016, FSIN expects a market share of 24.0% and so we have made further progress. Although this affects the interpretation of individual years, we believe that the long-term trend, where we are winning market share, is an accurate picture. This trend continued this year.

Foodservice

- Sligro cash-and-carry
- Sligro delivery service
- Sligro cash-and-carry/delivery service
- Van Hoeckel
- Production facilities
- Bouter
- Veghel head office/central distribution centre
- Java



LOCATIONS



Belgian market

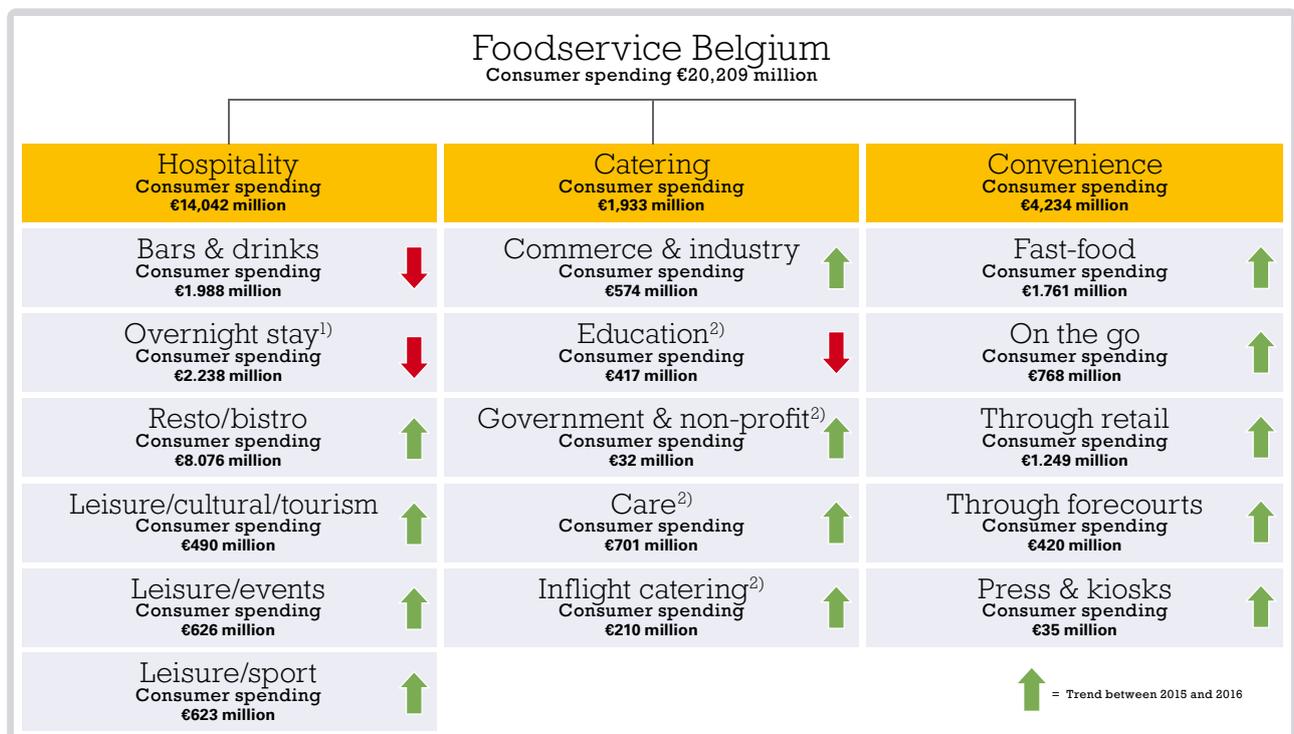
Foodservice Alliance estimates consumer spending in the Belgian foodservice market at €20.2 billion for 2016. Consumer spending in the market appears to be greater than in the Netherlands, however, a substantially different definition of the market is used. According to our estimate, the Belgian market is about €5.4 billion at wholesale prices. Based on our presence in Belgium with Java and deliveries to Belgian customers from the Netherlands, we estimate our market share at about 3%.

Outlet network

The acquisition of the De Kweker outlet in Purmerend in 2016 expanded our nationwide cash-and-carry network to 50 locations. The site acquired on Texel was merged with our existing location on the island. These sites focus completely on the Dutch market. Closer to the border we receive Belgian Sligro customers every day, partly because we do not yet have our own Belgian outlets. In addition, we have eight distribution centres for deliveries to foodservice customers. Three of the 50 cash-and-carry locations now also offer delivery (the Open Delivery Service) and that is mainly to do with specific regional and seasonal peaks. The strength of the network is mutual cooperation. 75% of our delivery customers visit the cash-and-carry wholesale

outlets once every two weeks on average for inspiration, advice and items they have forgotten. The cash-and-carry wholesale outlets are perfect showrooms and collection centres for smaller foodservice customers who, as they grow, can, if they wish, transfer seamlessly to delivery services. And so, although we separate the operations with a view to efficiency and the needs of our customers, commercial cooperation is strongly embedded.

In Belgium, we have set up our first distribution centre with Java to serve foodservice customers. We also serve customers in Belgium from the Dutch distribution centres. After the first Sligro outlets open in Belgium, these distribution sales will be relocated.



Source: Jaarmonitor Foodservice Channel Insights 2017, Foodservice Alliance. 1) Spending on food and beverages only (excludes accommodation). 2) Excluding spending by staff (included in Commerce & industry).

Belgium is a growth market in which almost every segment and underlying sub-segment is growing compared with 2015.

External rating

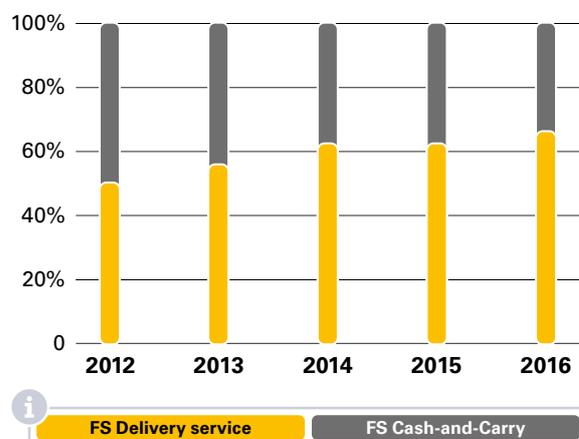
Sligro wants to position itself as a partner for food professionals. We do this every time we come into contact with our customers. We place the emphasis in the Foodservice strategy on a superlative form of customer leadership. In the end, it is the customer who decides how successful we are in this. We not only examine our own performance but also benchmark the result against our competitors.

As in 2015, Sligro carried out a customer value survey with the aim of gaining insight into customers' loyalty and 'customer value'. It also looked at those aspects that particularly affect loyalty, and where Sligro's priorities should be to raise customer loyalty and value. Sligro's survey uses a customer value model that not only shows how satisfied customers are but also how loyal they are and the value this offers to Sligro. The model delivers specific management information.

The NPS score is one of three variables in the model that determine customer value, the other two look at the frequency of purchases and when the last purchase was made.

Our NPS score for cash-and-carry has slipped a little compared with the previous year but it is still good at 29. Customers are loyal and satisfied with the level of service. We note that although we are scoring lower on creativity and passion, importantly customers already visiting a Sligro 3.0 environment are rating us much higher on these points and this gives us confidence that this picture will improve in the coming years. The rollout of 3.0 to our Type I outlets and the opening of ZiN will certainly contribute to this.

NET SALES Foodservice



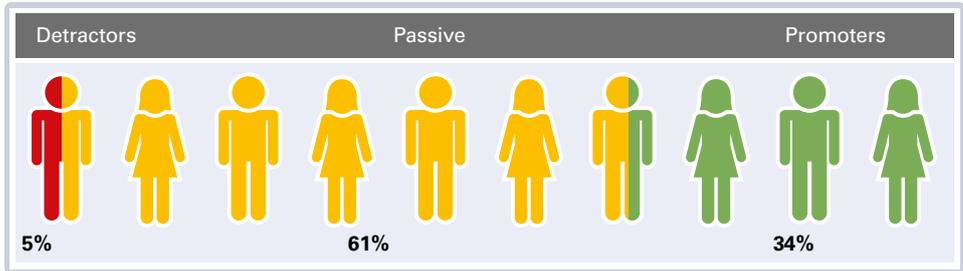
We also saw a slight fall in the score for deliveries. A notable point is the figure for satisfaction with the ordering process. Last year this had a very good rating but it is now markedly lower. We had foreseen this and so accelerated the implementation of online 3.0, but the tempo at which we have dropped from very satisfied to less satisfied, without any changes to the system, is remarkable. The outside world is not standing still and business customers expect the features that B2C sites offer in the B2B market too, and rightly so. We believe that the launch and continuous improvement in our new ordering platform is key to improving customer satisfaction on this point in future years.

	Outlets year-end		x 1,000 m ² floor space year-end	
	2016	2015	2016	2015
2.0 style				
Type I	12	13	50	51
Type III	25	27	179	191
Type IV	1	2	11	25
Total	38	42	240	267
3.0 style				
Type I	1		4	
Type III	7	4	54	30
Type IV	4	3	44	37
Total	12	7	102	67
Total Cash-and-Carry	50	49	342	334

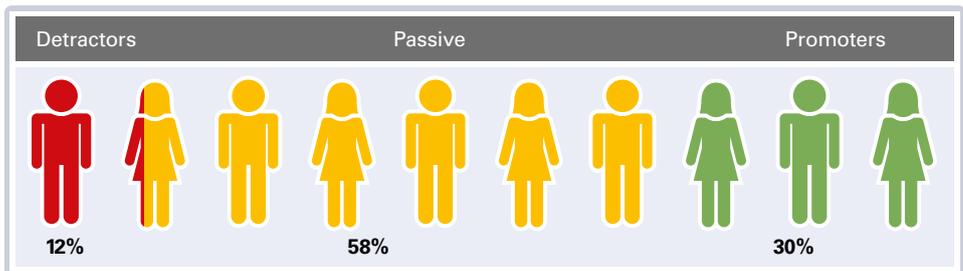


NET PROMOTER SCORE

Sligro
Cash-and-Carry:
29



Sligro
Delivery service:
18



Sligro 3.0

Sligro 3.0 is not a static concept and so it underwent further development during 2016. We regard it as our platform for the next few years in both the Netherlands and Belgium. This is clear from the steady roll-out and refinement of 3.0 in the cash-and-carry network but also from increasingly refined and personal communications with our customers.

This year we have been translating our 3.0 format for our Type I outlets and so we were very proud to open our first 3.0 outlet in a Type I environment (which has no fresh produce) in Sittard during the autumn. Initial reactions by our customers lead us to think that we have found the right tone.

Tastier, more personal, cheaper and more inspirational are the four pillars supporting Sligro 3.0 or as we call them the 'four sides??' of Sligro. Our customers work long hours in an intensive industry and there is not always much time for inspiration and reflection. As market leader in foodservice, we believe it is our business to deliver properly to customers and generally play a role in saving them work, remembering their profitability and also renewal. This is fine work that also, of course, gives us a great picture of current thinking in the market and among our customers. Increasingly, the issue is no longer the old-fashioned route of selling by product-place-price. The point is not what something costs but the return that our customer can make with a concept.

Of the four pillars – tastier, more personal, cheaper and more inspirational – the last one received a great deal of attention in 2016. The opening of our ZiN inspiration lab was a high point as we explain below.

Our vision

Tasty, good and honest food is increasingly important.

Our mission

We want to make tasty, good and honest food available to all Dutch food professionals and their customers.

Our role

Sligro allows people to enjoy tasty, good and honest food by delivering excellent products and services to food professionals. We serve all segments of the foodservice market. Our most distinctive feature is our people, who are close to our customers and help them with solutions for perfect service for their customers and guests. We help food professionals in all parts of their business that deal with the food and beverages for customers, guests or employees.

Our strengths and opportunities

Sligro is a powerful leader in the Dutch foodservice market and has grown faster than the market for many years. As market leader we are excellently positioned to benefit from the recovery in the foodservice market in the Netherlands. Further consolidation in the market is expected and, thanks to its size and financial strength, Sligro is excellently positioned to play a leading role in this.



With our extensive national network of cash-and-carry outlets and delivery locations which work intensively with each other, we are close to our customers and can offer a reliable, high quality service. We see some scope for further refinement of the network and opportunities for increasing economies of scale to improve efficiency and returns. The market has not been easy for our customers and demand for further support and service is increasing. Our experience and knowledge of our customers' markets and the business show there are many ways to help them. With a wide product range, our own brands, production facilities and cooperation with Fresh Partners, we can offer our customers new concepts. In recent years, we have looked at a number of neighbouring countries and see that we can also make a difference there with the Sligro concept provided we adapt appropriately to local conditions. We are currently focusing in particular on Belgium where we are already noticing that large numbers of customers appreciate our offering.

Our weaknesses and challenges

Market conditions have improved slowly but steadily in recent years, but we are seeing the market around us changing. There are new physical and online players (and players from the retail sector) who want to address niches in the foodservice market. Larger customers are always looking for the best possible structure for purchasing and logistics and are challenging us to think and move with them. Prices and price perceptions in cash-and-carry are important points for attention. This is partly because

of increasing transparency in prices and the search for offers and promotions that has come across from food retail. As a result, it is increasingly important to explain the difference in the quality of the range and service properly and also to prove this to our customers. Different customers require different service levels and Sligro's delivery service can improve in this respect. During the past year, we have taken significant steps to address this and we will continue to work on more differentiated service levels that will also be reflected in pricing.

Although we have a strong purchasing organisation, our own production facilities and many Fresh Partners who ensure innovation in the product range, we believe that the speed and number of innovations must increase. Our customers are demanding different solutions and concepts and we have to continue responding to this better in future years, in part with our new online platform and our ZiN inspiration lab.



Sligro Online 3.0

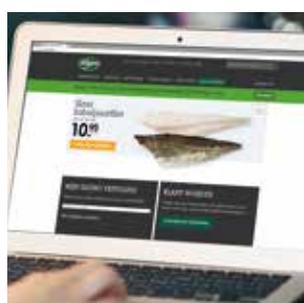
For some years, our Foodservice delivery customers have been using Slimis, our ordering module, that received very high ratings last year and which processes almost all our online delivery sales. But, as we wrote last year, what is good today will not be good enough tomorrow, and we are already seeing this in declining ratings for the platform. This is not strange given that developments in the online consumer world around us are moving so rapidly that it is natural that our professional customers expect similar service in the professional environment. We believe that our new Sligro 3.0 Online platform will do this.

50 outlets



**500,000 invoices
per month**

sligro.nl



**500,000 visitors
per month**

The first version of our new ordering platform went live in November 2016 and about a hundred customers are helping us identify and resolve the final user issues. Updates are released every three weeks. The environment is built as a modern e-commerce platform and so cash-and-carry customers who want to orientate themselves online as well as with regard to our cash-and-carry outlets can benefit from the new environment where customers:

- can see illustrations of products with clear descriptions and allergy and nutritional information;
- have clear navigation and extensive search functionality;
- can easily select an alternative product or date for a product;
- have an environment that operates along modern e-commerce lines on tablets and mobile phones;
- can create and calculate menus;
- see invoices and manage employees' purchasing rights in 'my account'.

Although it took longer to go live than was initially planned, we did not want to take any risks with the continuity of our customers' businesses. Extensive testing and rectifying what did not work properly or quickly enough took a lot of time and attention. There is no scope for experimentation at the customers' expense.

During 2017 we will gradually transfer all our customers to the new environment so that the updated sligro.nl ordering environment will be rolled out in the Netherlands in the course of the year. During this time, we will of course always give priority to the continuity of our customers' businesses.

2017 will see continuous optimisation and more services on the online platform, such as simply scanning items using a mobile phone and immediately adding them to the order or substitution of items with a sustainable alternative.

The product catalogue will increasingly be available in the outlets in the form of touch screens, tablets and, of course, on customers' mobile phones.

ZiN

On 30 November 2016, we opened our ZiN inspiration lab in the presence of Her Majesty Queen Mathilde during the state visit of the King and Queen of Belgium to the Netherlands. We have created an inspiration lab in a unique and inspiring 3,000 m² environment offering training, trend tours, seminars, events, commercial coaching, bootcamps, high quality market research and everything else to inspire our customers. We will follow our customers' careers: from a starters' academy through to business succession and all stages of growth in between and other phases that require attention as customers progress. We do this through management and development courses but there will also be a focus on technical matters such as catering techniques, product knowledge and barista training. E-learning and online communities will play a significant role alongside the physical presence in the inspiration lab. We want to encourage the sharing of knowledge and so ZiN will have many external training partners and, above all, incorporate the cognitive and creative power of our customers. After all, together we know much more than any individual.

Cash-and-carry

The acquisition of De Kweker Purmerend, explained in more detail below, introduced a fiftieth outlet in the Netherlands in 2016. This site is operating temporarily as a hybrid of De Kweker and Sligro 2.0 and will be relocated during 2017 to a new site in Purmerend, which is currently being built. The site acquired on Texel was merged with our existing location on the island.

Driven in part by the conversion to 3.0, we are seeing success in the cash-and-carry market in the Netherlands and that growth continues in the long term following conversion. At the end of 2016 we had 12 3.0 outlets and we will continue the conversions as we had originally planned.



ZiN inspiration lab



Up to now, Type III & IV outlets have been converted to the 3.0 concept. The dominant presence of fresh produce was a major role in this. As we do not have fresh produce in our Type I outlets, we had to revise the concept for this module. We were proud to open the first Type I 3.0 outlet in Sittard in the autumn.

Delivery service

We estimate that 60% of the foodservice market in the Netherlands consists of delivery and 40% of cash-and-carry. The delivery market is growing faster and, furthermore, we have relatively more market share to gain than in cash-and-carry. We expect that our ambition of growing market share to 30% will, therefore, come mainly from growth in delivery services. With this in mind, as well as addressing growth in delivery services, we are looking for an improvement in the relative returns. In 2016 we were, therefore, able to continue the cost-saving campaigns of the previous year and again increase the return on the delivery service. Increasing scale certainly assisted with this and will also offer scope in the future to make further cost savings in the supply chain in particular. This year we also introduced a logistics menu that gives our customers more differentiated choice with related pricing.

Sligro Belgium

During the past year, we worked hard on all the preparations needed to open the doors of Sligro in Belgium. The changes to ICT and data are proceeding and the supply chain is being set up to offer our Belgian outlets and customers the high level of quality that we are used to offering in the Netherlands. Purchasing is making steady progress on supplementing the range to meet local requirements in Belgium. In the meantime, Marketing and Sales have been actively approaching customers and attracting them to Sligro in Belgium. We are gaining more and more customers in Belgium, who we are currently serving from the Netherlands. The cooperation with Java, that we acquired in early 2016 (see below), is a huge help in this.

Our original plan assumed that we would open our first outlet at the end of 2016 or early 2017. We had anticipated resistance from our competitors in the planning permission process. Unfortunately, they have decided to fight us primarily in this way rather than in open competition on the market. We believe that Belgian food professionals will benefit far more from this than from the strategy of holding us back for as long as possible. Although we regret the way matters have progressed, we accept it and will defend our position with

the resources available to us. We may, therefore, have to wait some time before we can enter the market with our own Sligro location and for the time being will use the Netherlands as a delivery site, but we are looking forward all the more to the time we can face up openly to our competitors.

Acquisitions

In addition to organic growth, we also want Foodservice to grow through acquisitions. We still see scope for further consolidation in the Netherlands and are well positioned to play a prominent role in this. Our international expansion concentrates entirely on foodservice and we are focusing primarily on Belgium. The unique market conditions and geographical proximity offer us opportunities to build up an autonomous position in Belgium that we can strengthen through acquisitions.

We cannot set the pace on our own. Only a very few candidates have appeared on the market in recent years, and they have to meet our criteria:

- first and foremost an appropriate customer base/mix that, when combined with our business, creates synergy;
- a culture that does not present an obstacle;
- particular size or specialisation;
- strengthening our presence at a regional or national level;
- acceptable in terms of market position and competition.

The acquisitions of Java, the De Kweker sites in Purmerend and on Texel and Tinteligen met these criteria.

Java

In February 2016, we acquired Java in Belgium, taking our first step outside the Netherlands. Java Foodservice is a top-five player in the Belgian foodservice market, focusing specifically on the institutional and company catering market segments and several hotel chains. Our ambition is that Java will grow further in its existing markets in Belgium over the next few years under the Java name. Java is also acting as a shared service centre providing purchasing, HR, supply chain, ICT and finance activities to support the start-up of Sligro activities in Belgium. Java's sales were €129 million in 2015 and it employs 280 staff on a full-time basis.

2016 was a challenging year for Java in many ways. Following the acquisition, it had to adapt on several fronts to Sligro Food Group ways despite its relatively autonomous position, existing management took over from the family and the coffee business (that has been retained by the family) had to be segregated from the rest of the business. In the meantime, the market was not particularly calm, not least as a result of the dreadful attacks in Brussels. Despite the challenges, our new colleagues at Java dealt with all this well in close cooperation with Sligro colleagues and made great progress on all fronts so that sales remained up to the mark, performance improved and many of the expected synergies for the coming years were set up. Construction of a new frozen food distribution centre has started in Rotselaar and this will allow Java to grow further in the future. It will be commissioned in 2017 and the existing facilities will then be prepared for the next step in Java's development. It will be taken into use in 2017 and the existing facilities will then be prepared for the next step in Java's development.

De Kweker sites

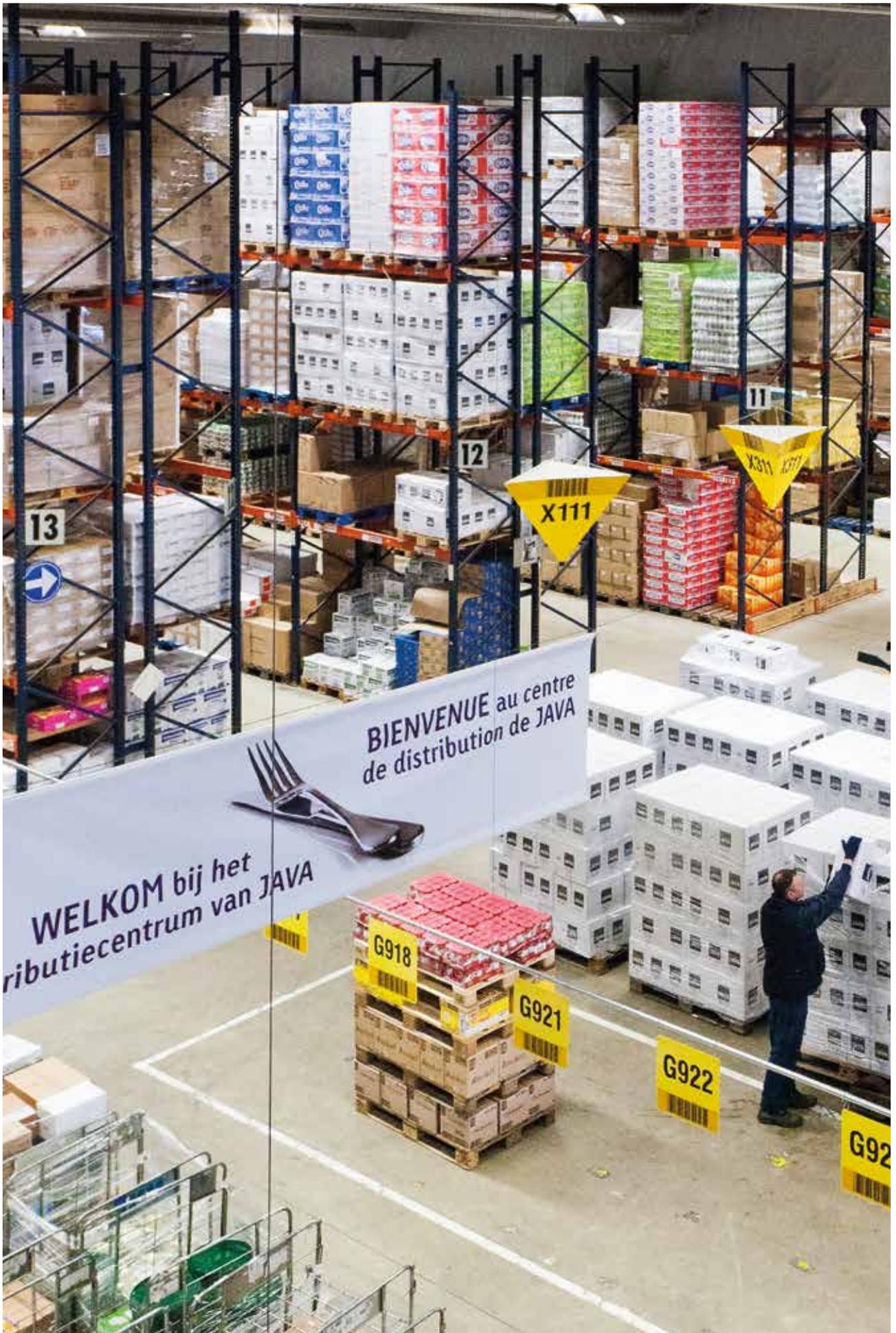
In January 2016, we announced the acquisition of De Kweker's wholesale activities in Purmerend and on Texel. This involved the cash-and-carry warehouse in Purmerend and a delivery wholesaler on Texel. De Kweker generated sales of €17 million from these activities in 2015. It has some 35 staff on a full-time basis. De Kweker focuses on restaurants, cafés and small-scale catering outlets from these locations and is a seamless fit with Sligro Food Group's foodservice activities.

The activities on Texel were integrated with the Sligro site there in 2016. For the time being, the cash-and-carry site in Purmerend is continuing in its current form, retaining the De Kweker name. The outlet will be relocated to a new site in Purmerend and open as De Kweker/Sligro 3.0 in 2017.

Tintelingen

In December 2016, we announced the acquisition of Tintelingen, which specialises in the 'select-your-own' Christmas gifts and supplies businesses with physical or digital gifts to mark special occasions. Employees can receive a fully personalised gift card, which they can use to place an order in a personalised online shop. Tintelingen surprises the recipients with optimum gift concepts, giving the employer total peace of mind. Tintelingen generated sales of €8 million in 2015/16 (non-calendar financial year Q2-15 to Q1-16) and has 11 employees (FTEs). It organised over 250,000 gifts to mark special occasions.

We aim to formalise the transaction in June 2017 following the end of Tintelingen's 2016/17 financial year. Tintelingen launched in 2003 and is one of the largest Dutch providers of online, select-your-own Christmas gifts. Tintelingen is recognised in the market for its wide range of gifts, experiences, good causes, gift cards and a range of personalised special occasion offerings that changes every year and also guarantees its customers total peace of mind. Self-selected Christmas gifts can be ordered from Tintelingen starting with as few as ten recipients using a personalised gift card and online shop.





FOOD RETAIL

Developments

Key figures

(x € million)	2016	2015
Net sales	827	841
EBITDA	25	31
EBITA	13	21
Free cash flow	30	27
Net capital employed ¹⁾	105	127
EBITDA as % of sales	3.0	3.7
EBITA as % of sales	1.5	2.5
EBITA as % of average CE	10.9	15.6

1) Excluding associates.

Market developments

To assess the trends in the retail market we make use of information from GfK, Symphony IRI and AC Nielsen. The last two organisations access market data from the supermarket chains that are 'affiliated' to them. These chains cover around 80% of the total market. GfK bases its data on consumer surveys. In our eyes, GfK is a specialist in data in which the link to consumer characteristics and profiles is of great importance. The scan data collected by IRI and Nielsen is much more reliable for overall market figures, such as sales trends, market shares and 'fair share' positions (a format's market share in a particular product category), than the random sampling and individual consumer responses used by GfK.

As in past years, we have taken the arithmetic mean of the IRI and Nielsen figures to build up a picture of the market in 2016. Obviously, the scan data submitted to the two organisations for the 80% of the market covered was the same in each case. The difference is attributable to the other 20% of the market, in particular that part occupied by Aldi and Lidl. The estimates made by IRI and Nielsen for this part of the market differ sharply. Building up a picture of the market is also difficult owing to e-commerce and to retailers expanding their ranges into other segments.

Market size €35.6 billion

Taking the arithmetic mean of the IRI and Nielsen figures as a basis, the market grew by 2.7% in 2016 to €35.6 billion. This has been calculated on a 52-week basis for both years and so week 53 in 2015 has been ignored.

(in %)	Market share		
Market players	2016	2015	2014
Supermarkets ¹⁾			
Albert Heijn	35.3	35.0	34.1
Jumbo	18.4	17.5	14.0
C1000 ²⁾	0.0	1.0	5.8
Plus ³⁾	6.2	6.2	5.9
Aldi/Lidl	16.6	16.6	16.4
Sligro Food Group ³⁾	2.6	2.7	2.7
Other ⁴⁾	20.9	21.0	21.1
	100	100	100

1) Source: Sales figures from the companies themselves. Market definition according to Nielsen and IRI. 2) Taken over by Jumbo in 2012. 3) Member of Superunie purchase cooperative. Superunie members have a total market share of approximately 30%. 4) Almost all in the 'other' category are members of Superunie.



The food retail market continues to be challenging. While there is some growth in the market, new and existing players are joining the market with online initiatives and we are seeing traditionally non-food retailers attempting to move into food. It is, therefore, remarkable that supermarkets' floor area is continuing to increase despite these developments. We are also increasingly seeing relocations of 'traffic-generating' supermarkets to sites outside existing retail areas, where non-food retailing is already suffering, reinforcing their decline. Although local authorities are aware of this, they are taking only limited action.

There are clear regional differences in market developments in the Netherlands, partly as a result of the trends in online selling. This explains a significant part of the increased growth in the Randstad conurbation, where online sales form a larger part of the market than in the rest of the country, while this is less evident in other regions. We are, however, seeing online selling taking off in those other regions and it will take a small but clearly growing position in the market.

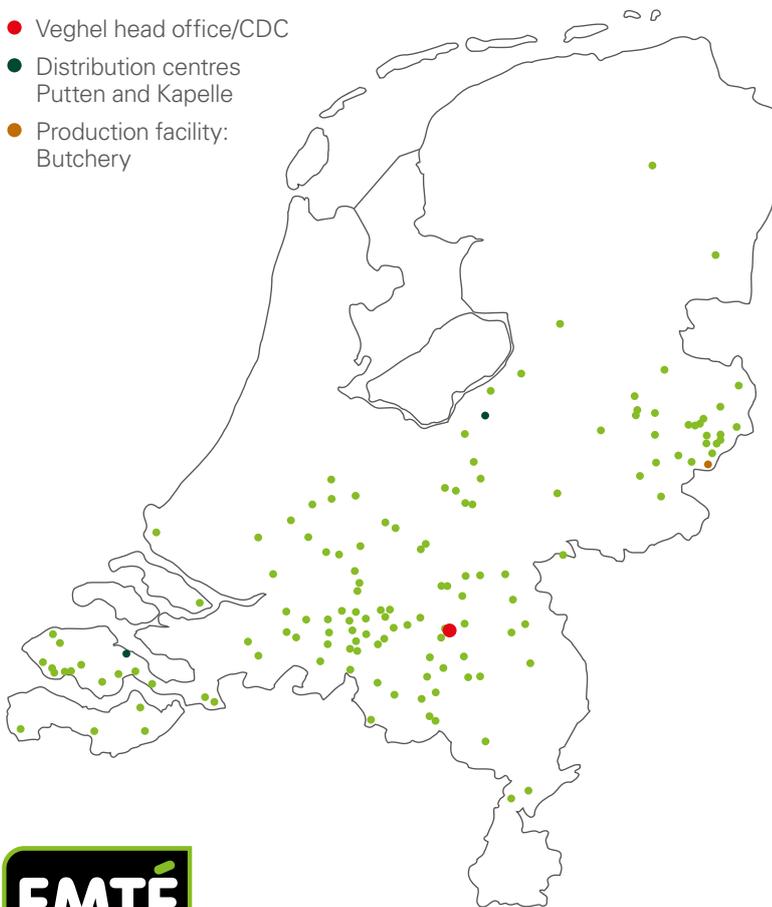
Procurement market

The Dutch procurement market is supplied by five purchasing organisations. These are Ahold, the Superunie purchasing cooperative (which represents the relatively small players who are, however, regionally very strong), Jumbo and Aldi and Lidl (both supplied to a very great extent from outside the country).

In 2016, the shares of the procurement market represented by the first three once again showed very little change, with Ahold at around 35%, Superunie about 30% and Jumbo some 18%. Superunie and its thirteen members provide Dutch consumers with a wide choice of supermarket formats, in contrast to the rest of Western Europe, where around five large retailers dominate the market in each country.

Food Retail

- EMTÉ
- Veghel head office/CDC
- Distribution centres Putten and Kapelle
- Production facility: Butchery



LOCATIONS



Store network

At the end of 2016, we had 133 EMTÉ supermarkets, of which 34 were operated by independent retailers. Our market share represented by these supermarkets is 2.6% but, as the map shows, our stores are not spread evenly throughout the country and so our regional market shares are much higher (between 5% and 10%).

Number at year end		x 1.000 m ² retail space at year-end		Consumer sales ¹⁾ x € million		Index of like-for-like sales (52 weeks)	
2016	2015	2016	2015	2016	2015	2016	2015
133	130	144	139	959	975	99	100

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

This year, the decrease of 1.4% in our like-for-like sales lagged behind growth in the market. The like-for-like figures ignore the effects of week 53 in 2015 and changes in the store portfolio. Since we added three new stores and a new franchise location to our network and closed one small site mid-year, the difference between like-for-like and organic trends is relatively large.

The volatility in sales compared with the market did fall somewhat this year, but we lag structurally behind growth in the market. A major reason for this is the relatively old branch network in a market where very many sites have been updated in recent years following format changes. Dependence on campaigns and successful promotions also makes sales growth volatile.

One peculiarity is that, according to IRI, during the past year EMTÉ maintained or even increased its market share in most regions where it operates while we lost market share at a national level. This is explained by lower growth in areas where we operate in comparison with the Randstad conurbation and the national average. These national differences and the diversity in demographic trends are key inputs for our EMTÉ 3.0 strategy and rollout programme.

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

(x € million)	Net sales		Share of sales as %	
	2016	2015	2016	2015
Company-operated supermarkets	650	666	79	79
Independent retailers	177	175	21	21
Total	827	841	100	100

Total Food Retail sales fell by 1.7% compared with the previous year, partly as a result of the effect of the 53rd week that added €16 million in sales in 2015. We adjusted for the 53rd week in 2015 in our like-for-like sales and this leads to 0.2% growth in like-for-like sales for the year.

External rating

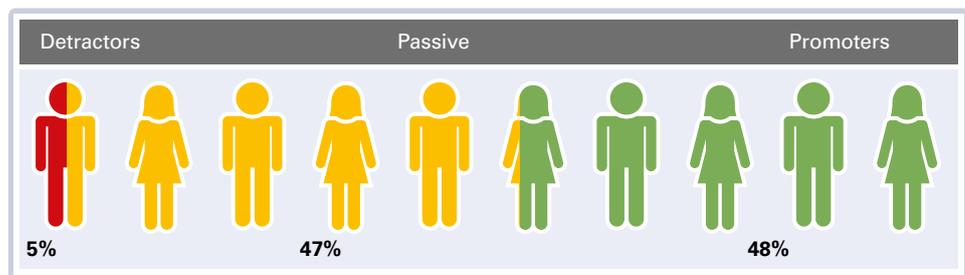
At EMTÉ we have focused for many years on our fresh produce departments and they are getting an even greater opportunity to shine in the EMTÉ 3.0 format. This permanent focus has also been appreciated by customers for many years as shown in various reports from market researchers. EMTÉ's butchery department came first in its category for the seventh time in the GfK vote for Beste Vers Supermarkt ('Best Fresh Produce Supermarket'). In 2016, we also won awards for the best cheese department and best processed meat department for the third year running. Overall we came second in the GfK fresh produce report, and so we have maintained our familiar top three position.

The most important reports in our sector are the Zomer- en Kerstrapport ('Summer and Christmas Reports') published by GfK. Last year we achieved an excellent third place for customer rating in the Christmas report and this year we

were in first place in the Summer report and rose to second in the Christmas report. We were ranked twelfth for performance (determined in part by factors such as acquisitions) in the Christmas report, the same as last year, after we had slipped back slightly in this respect in the Summer report. Overall, therefore, we were in sixth place in the Christmas report (Christmas 2015: fourth place). We believe that the success of our format has to be based on customer rating and so we are very pleased with the high scores we achieved. In due course this will be reflected in the performance score.

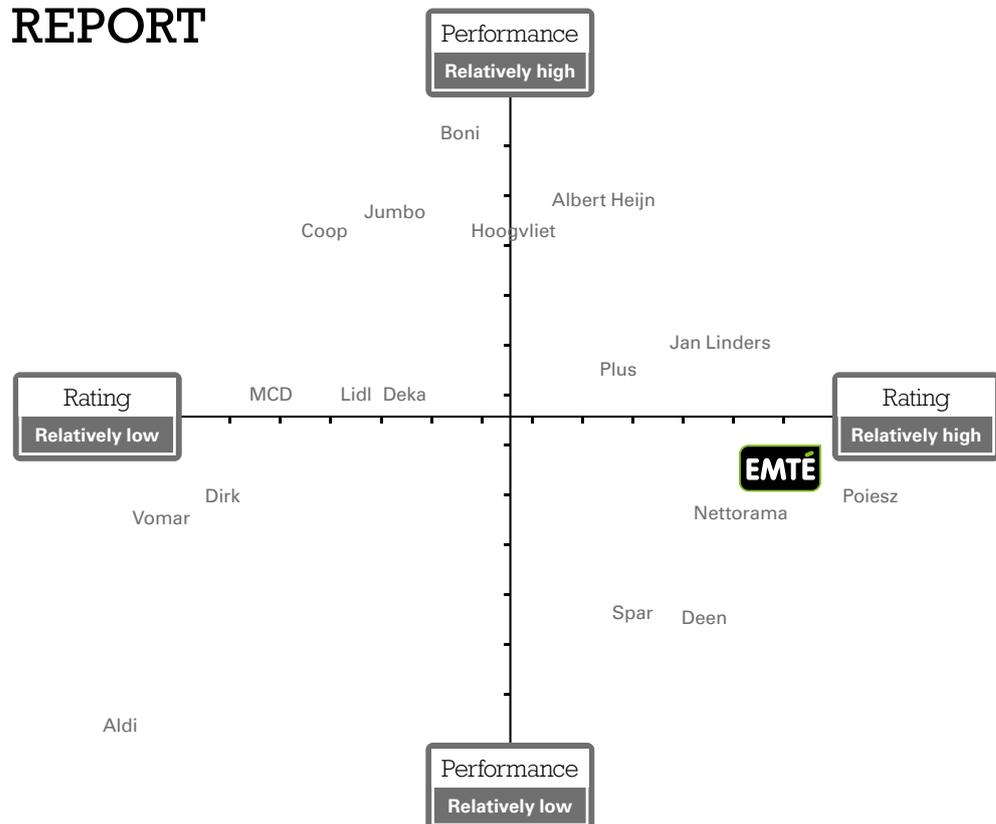
We also frequently measure customer satisfaction ourselves, using the Net Promoter Score (calculated as promoters less detractors). The 2016 survey showed that 48% of EMTÉ's customers were Promoters, 5% Detractors and 47% Passive. This gives us an NPS of +43 (2015: +35), which is very good for our industry.

EMTÉ'S
NET
PROMOTER
SCORE: 43



CHRISTMAS REPORT 2016

Source: GfK December 2016





EMTÉ 3.0

In recent years, we have been developing a new brand strategy for EMTÉ in response to the question of how it can continue to generate growth in this challenging market.

This was needed because we believed our format was not sufficiently distinctive in the very competitive mid-market and as a result it was increasingly difficult to keep up with growth in the market. Our competitors are investing strongly in their formats, new players are entering the market and traditionally non-food players are expanding into food. In addition, after more than seven years in the current format, our supermarkets are out of date and need to be refreshed.

Our customer base is very satisfied but is too small and is declining and so it is essential to use new positioning to retain existing customers but also mainly to attract new customer groups.

The needs of our customers are also changing. They are increasingly opting for convenience, shopping more often during the week and in smaller quantities and expecting more inspiration and service from their supermarket. Sustainable and responsible shopping is on the rise and good, healthy food is generating a lot of interest. Customers have also become more aware of prices and

the price-quality ratio in recent years. While all chains have regularly been shouting about the latter point, distinctiveness with respect to quality, inspiration and innovation has actually declined in the recent past and so therefore the mid-market is becoming more crowded.

Our vision

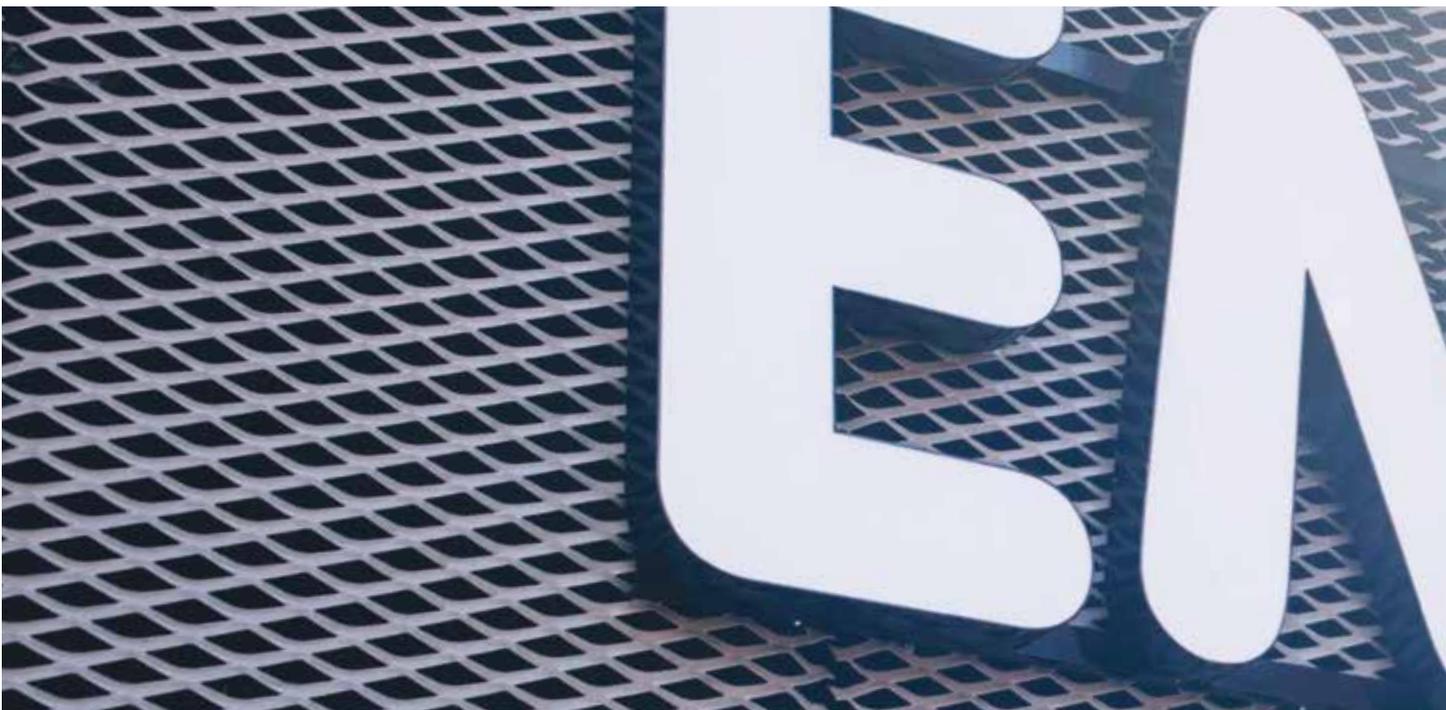
Good (healthy, high-quality and sustainable) and tasty food is becoming more important. This is a real challenge for many families every day.

Our mission

We have challenged ourselves to become 'Simply the tastiest supermarket in the Netherlands'. Every day and for special occasions.

Our role

In a changing landscape, we see it as EMTÉ's role to let our customers enjoy good, tasty food. We are using the synergies within Sligro Food Group more clearly than in the past while remaining close to the needs and wishes of EMTÉ's customers. The focus is mainly on delicious and authentic everyday products including concepts such as tasty, healthy and sustainable. The average supermarket customer only considers seven recipes for evening meals and so we have set ourselves the target of expanding their 'taste vocabulary'. This is not primarily about increasing their culinary aspirations but about



preparing a good, varied and tasty meal every day. For special occasions, but also during the week. We want to create more experiences to surprise our customers and challenge them to try something new.

Our strengths and opportunities

We know that EMTÉ has a strong fan-base among its primary customers, for example from the ratings in the GfK Summer and Christmas Reports. For many years, we have had the best butchery, processed meats and cheese departments and a good bakery and they have won awards. We can use this to pave the way to being the tastiest supermarket in the Netherlands. Our supermarket is accessible, our staff are friendly and EMTÉ is recognised for its strong promotions. The synergy within Sligro Food Group and the purchasing power of Superunie and Sligro Food Group offer a major basis to being a player in the competitive supermarket environment. Our EMTÉ 3.0 offering is greatly appreciated by our customers and in our opinion is a response to many of the trends seen in the market. In the coming year, the format will also have to prove itself in financial performance to be able to make a sustainable difference.

Our weaknesses and challenges

Despite the loyal base, our customer group is too small, including in comparison with other supermarkets. This is reflected in a shortfall in sales per square metre

which must be reversed. EMTÉ 2.0's store image is old-fashioned while the pressure in the market is increasing as competitors invest in modernisation. As a result, the strong elements of our format are unknown beyond our regular customer base and as a format we are insufficiently unique. We score less well on price perception, in particular among secondary and tertiary customers, who think we are more expensive than we actually are. We are strong in fresh produce but not yet in fruit and vegetables. We believe that with our new EMTÉ 3.0 format generation, we have found suitable answers to many of these challenges. This will have to be demonstrated further in the coming year. Online is continuing to grow and will form a significant part of the market. We do not yet have online ordering functionality for EMTÉ but we will be developing and implementing one in the next few years. The introduction of online will put pressure on in-store sales while at the same time there is no profitable online offering in the market. The challenge, therefore, is to introduce a sound omni-channel offering that is successful in both the physical and online environments.



Status of 2.0

The full extent of what we had already concluded when implementing the plan for our new generation format became apparent in 2016. Our dated stores were suffering compared with a number of competitors and could not keep up with the market. In retrospect it has to be admitted that we should have started the transformation earlier, but no further conclusions can be drawn at this stage. In recent years we have been taking many managerial steps at EMTÉ and are now seeing some offsetting effects from them. As a result of the decline in sales, we also have to manage staff costs and stock control and we have succeeded in this although, of course, these cannot make up fully for the lost sales and gross profit. In the short term, we have focused in particular on additional campaigns and promotions. This has only had a limited effect since they already had a high share in the market and at EMTÉ.

We are currently looking at the rate at which we can convert stores from 2.0 to 3.0 and the possibility of accelerating this. In the end, this is the most structural way of restoring sales and margin. To that end, we first want a convincing picture of the operation of the new format and to master its management in the same way as for 2.0 in recent years. This takes time and is a question of continuous commercial and operational adjustments until the format is exactly right. With a group of fifteen new and converted 3.0 stores, we believe we now have a sufficiently representative sample to carry out the optimisation. Unfortunately, the costs precede the benefits. Only then will the rate of conversion increase, although we quite clearly are not wasting any time in this regard.

Progress on 3.0 conversion

After conversion, we allowed a few months to monitor progress at our three pilot stores in Dieren, Uden and Nieuwegein. Customer responses were very positive and the trend in sales was very encouraging in the opening stage. Thereafter, however, we still had to refine the format and it became clear that it still has insufficient resilience to maintain sales at the desired level with significant changes in the market (new competitors). During the summer we made further adjustments to the format and in particular changed the organisation to get a better handle on operational management. Since the summer, we have converted a further eight stores to the new format.

Not every site in our store network is suitable for full conversion to 3.0. We have used extensive environmental scans to establish the potential of each location under 3.0. Where it

is not completely right, we will exchange or dispose of the site. There is definite potential in some places but we do not regard every module and concept in 3.0 as promising and so we have started adapting 3.0 into several modules that are better suited to local market conditions for these stores.

During the first half of 2017 we will use the results in these locations to analyse the extent to which the changes we have implemented have had the intended effect. We will use these analyses to decide on whether and how we will structure the further rollout.

Changes in store portfolio

In 2016, we added a total of four new outlets, all of which were immediately converted to the new 3.0 format. At the start of the year we took over the Van Heinde location in 's-Hertogenbosch and a few months later opened EMTÉ 's-Hertogenbosch, a new city-centre supermarket. We also opened a new EMTÉ in Berlicum and later also one in a new housing estate in Eindhoven. After the summer we welcomed a new franchise in Montfort which was the first to open in the EMTÉ 3.0 format.

As explained above, we will identify sites where we do not believe a 3.0 variant will succeed in future and attempt to exchange or sell them to another format. We stopped running our outlet in Tilburg Rooi Pannen in 2016.

EMTÉ Online

Although still small in food, there is no doubt that online is becoming a major feature in our market and this is only set to increase in the next few years. Online is, therefore, firmly on our agenda although in 2016 we gave priority to developing our new brand strategy and new format generation. Our original intention to develop plans in 2016 for combining a physical store with an online environment at EMTÉ proved too ambitious and this has been moved to 2017.

In 2016 we did, however, make progress on a number of preconditions such as developing master data management and the quality of our data. Furthermore, we started to extract value from the data by converting customer insights from the Fijnproevers and a number of partners in the industry into specific personalised offers. Currently, some 1.9 million individual offers are sent to 285,000 Fijnproever customers each week (representing about 6 or 7 offers to each customer each time). This allows us to make offers to our customers that are more relevant to their needs and to give our partners a platform to address new products to the right end-users.

Spar

For some years, our associate, Spar, in which we have a 45% interest, has been working on implementing its medium-term plan. The market, especially in the specific segment where Spar operates, is stagnating and suffering from falling volumes. On the other hand, demographic changes and a thinning out of stores in villages offers opportunities for the future. The measures that Spar has taken up to now are bearing fruit and the recovery in profitability that was clear in 2015 seems to have continued in 2016. As a shareholder we support the path that Spar is taking and are confident that it will find the right balance between customer, business and shareholder returns.





ORGANISATION

And employees

Goals

- Establish long-term employment relationships, consistent with our status as a reliable and professional employer.
- Encourage relatively long-lasting service in key activities within the company in order to maximise the payback from investments in training, corporate culture and commitment.
- Uphold employees' pride in Sligro Food Group through intensive communication and enabling them to share in the Group's success.
- Create a safe and pleasant working environment in which employees from different backgrounds can all feel at home.
- Ensure cooperation and partnership as a means of achieving targeted synergistic benefits for the Group.
- Embed our culture, our 'Green Blood', in our organisation through a structured programme in order to continue ensuring entrepreneurialism and employee engagement in a growing and increasingly international organisation.
- Create a leadership style reflecting our culture.
- 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.
- Maintain and continue promoting customer-oriented and customer-friendly practices as the norm for all our employees.
- Anticipate the challenges in the marketplace and our ambitions for the future through a group-wide quality drive in the organisation.
- Consistently strive to improve employees' performance by providing structured and challenging opportunities for training and management development.

Corporate culture

Our distinctive culture and the standards and values embedded in it are key pillars of our way of doing business and give it colour. Although culture is an abstract term, it is very real when you experience it. Our culture cannot be 'arranged' but is the logical corollary to the way in which we work together over time. However, this demands a structured approach in a growing and, recently, also an international organisation and

so Green Blood is part of training courses, recruitment and selection, management development and above all leadership style.

Our natural inclination is to keep things informal; we are averse to status, have short, direct communication lines and build on trust. On the other hand, society is becoming more formalised and so more activities have to be arranged formally and legally. The challenge is to find a balance between properly organising formal matters while holding on to our informal culture. Things are not automatically better just because they are put down on paper and certainly not if this blurs matters such as entrepreneurialism and the associated relationships that 'come from the heart'.

Our entrepreneurialism has a socially responsible basis. As a listed family business, this comes naturally to us. We are well aware that we are part of a community and so are happy to account for our way of doing business. We do not see that as an obligation, however, but are happy to explain what we do and how we do it.

When we looked closely during our acquisition of Java, we found a strong culture with distinctive standards and values that were a close fit with those of Sligro Food Group. This linkage is necessary to achieve proper cooperation. Culture is expressed in part in behaviour and it is important to closely examine the underlying values in order to understand behaviour. A distinctive culture, therefore, leads to distinctive behaviour.

In recent years, a number of employees have been taken on at tactical and strategic management levels. They first learn a lot about the 'not-very corporate' nature of our organisation. It is very important for success to discover and understand what that means for operations and management at Sligro Food Group. Considerable attention was given to this when getting to know our colleagues from Java, De Kweker, Van Heinde and Tintelingen. Attention to culture as a management mechanism does not mean we have to use exactly the same

words everywhere. There may, for example, be differences in the way things are expressed in the Netherlands and Belgium.

At the tactical level, we are working on further strengthening our organisation so that we can properly interpret the ambitious strategic plans in operations, including the need to speed up.

We aim for an open communication culture, addressing good and bad behaviour immediately, but with respect for the individual. We call this Consciously Direct and our Belgian colleagues do this well. Understanding each other's way of speaking creates clarity. Language is a specific part of culture.

You have to have passion if you are dealing, directly or indirectly, with tasty food and beverages every day and we encourage this passion for food in many ways. These include through internal communication but also by organising small or large events – sometimes for more than 20,000 people, for example, at fairs in the Netherlands and Belgium. These always involve our own staff. Pure Passionate Pride.

Investing in the right places and at the same time implementing a challenging Kicking Costs programme is what we call Cost Awareness, just one part of our Green Blood. Being responsible for managing our resources carefully contributes to stable growth and investing in the future.

Organisations are dependent on smart ICT applications, a good and inspiring product range, a promotions policy tailored to customers' wishes and a surprising environment where they can shop. These elements are, however, relatively easy to copy and so by definition not permanently distinctive. Ultimately, there is one single moment when the difference is made and that is the moment of genuine personal contact between our employees and customers. This is not a trick that you can teach people but is a natural outcome of our culture. Attention to employees leads to the employees' attention to both external and internal customers. Strength in unity.

Thus, a culture in which we like to be a little perverse and encourage people to express their opinions and keep their doors open. We regard a Healthy Belief in Ourselves as a strength of the organisation, naturally, with respect for each other and for decisions made. But, at the strategic level, we believe you have huge strength if you regularly take stock at the operational level where there is a lot of know-how and customer contact.

Labour market

In our opinion there are very few opportunities for managing the labour market. There is a reason it is called a 'market' and it has many influences. Governments should think more about facilitating the operation of the market than about stimulating measures for their own political purposes. The effect of those measures is very limited. Companies do not create work where it is not necessary. Growth comes from working hard and intelligently and that creates more jobs.

Naturally, we make use of subsidies but the subsidy landscape is very varied and some are arranged very locally. We use start-up schemes for new activities, and this also applies in Belgium. Nevertheless, the consideration is always whether the benefits are proportionate to the desired quality and the amount of work and reporting that is often involved.

It is noticeable that the labour market is picking up, but we can still find the right employees. This is something that requires more and more attention. The challenge is to be an attractive employer and that can be different in different industries and regions. You have to communicate the advantages properly. We expect that the fight for talent will only intensify in the coming years, so it makes sense for us to have everything in order as an employer. This relates to recruitment but much more to creating an environment in which people are happy, feel at home and have every opportunity to develop.

Nowadays almost the entire recruitment process takes place on the internet and so it is important to have an online presence and be distinctive in attracting attention. Our third place in the national rankings as a good employer on Glassdoor and seventh on Effectory help us attract attention.

We develop a vision for labour market communications and the associated instruments centrally but they are implemented differently in different countries. Java's knowledge of the Belgian labour market is helping us to set the right tone and select the right channels to find new people for our ambition to expand both Java and Sligro Belgium.

In the Netherlands, we are working on a state-of-the-art recruitment and selection tool. There are many developments in this area from automated selection tools to video interviews, automated processing and on-boarding tools. It makes sense to use these tools when you are dealing with 40,000 applicants each year.

Flexibility

We like to organise our labour force ourselves. We believe that our culture is a strong source of our success and so it is not appropriate to work with large numbers of temporary staff or flexible labour. We have a small number of flexible workers so that we can deal with weekly and seasonal peaks. We critically consider what types of activities this 'DIY' approach covers. You have to assess the extent to which non-core activities affect your identity. If they do not, outsourcing them to specialised partners is often a better solution. Sometimes you need temporary extra specialist know-how in specific areas and in such cases using partners is a much better approach than building up that knowledge yourself as this often takes a lot of time. This type of cooperation will increase in the future and so it is important to gain experience and knowledge of managing it.

Vision on organising

We are convinced that our type of activities benefit from central management. This makes work duplicable and scalable. Strategy is set centrally and adopted at Executive Board level, a small tactical layer translates this into specific practices and it is implemented locally. This of course requires good knowledge of operations. Information from below is vital. Knowing what is going on is essential to the people dealing with strategic issues or making them operational. By applying this organisational principle strictly, everyone can concentrate on their own roles and do what they do well.

Organising and supporting work requires more and more knowledge. Using smart ICT applications, properly coordinated supply chains, data management and analyses, combining online and more traditional marketing principles requires a larger number of very well qualified knowledge workers at the central level. Translating this into what are apparently simple applications in working practices adds a lot of value.

In recent years we have worked on adapting the level of our central departments accordingly, with an inflow of new people and the development of our own staff with potential. For a few of them, our move abroad means that they will literally have to look across frontiers. We are making sure that internationalisation only affects those employees who actually must contribute.

Health and safety

It is important that employees feel happy in a safe and healthy working environment. Consequently, we pay a lot of attention to them if an incident occurs in the form of an industrial accident.

Absenteeism is a measure of employees' health and safe working conditions but also of engagement and the responsibilities arising from this. From that perspective, we go further in our responsibilities as an employer than is strictly necessary although our experience is that often the legislation does not assist in this since it focuses more on protecting privacy and does not particularly address the effects of absence on well-being and the relationship with the employer.

Close attention to absenteeism reduces its rate and means problems can be discussed. This benefits the atmosphere at work and cuts the cost of absenteeism.

Ongoing employability is a key theme given the ageing workforce as a result of the rising retirement age. During the autumn we held an inspiration meeting on this for a broad group of 150 managers and others called "About Life, about Work!". As well as raising awareness, it brought forward ideas that can be developed for practical application.

Workforce and diversity

We divide our workforce into four categories, Food Retail, Foodservice, Head office and Java Foodservice, and have analysed our employees by type of contract, gender and age.

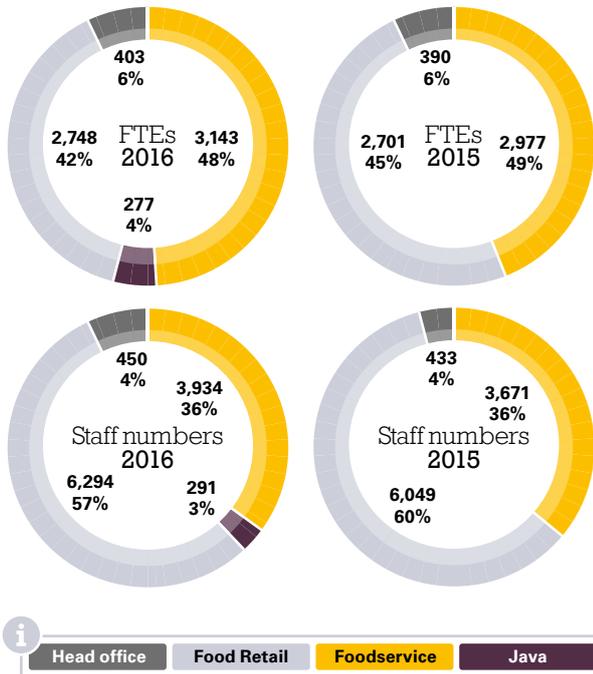
Our supermarket staff include many part-timers, including many women who combine this work with caring for the family. There are also many young people on part-time contracts.

By contrast, given the nature of the work, we mainly employ full-timers in Foodservice. Logistics work is usually performed by men. The workforce is, therefore, different from that at Food Retail. The workforce at Java is similar to that in our delivery logistics operation. In addition, we have a small general staff there which serves, where possible and practical, as a shared service centre for our Sligro Belgium activities. In Belgium too, we want to work with an integrated back office. We are convinced of the benefits of this.

In the supermarkets, the work is manual and service oriented. Our cash-and-carry outlets require more qualified staff to advise professional customers. It is noticeable that the number of support positions in the head office is declining as a result of automation. The type of work performed at head-office level is not really gender-specific but the nature of the industry we are in means that men are over-represented. This is also the case with us. We are pleased that over time the number of women in management positions has increased.



WORKFORCE and diversity



For historical reasons, the membership of the Executive Board is three men and this is unlikely to change as we prefer to work with long-term employment contracts at management level. The Supervisory Board consists of four men and one woman.

Diversity is a matter for pragmatic and open discussion at our organisation. It is not an artificial process driven by targets. We attach much more importance to the right competences and culture match when selecting candidates. We subscribe fully to the general opinion on this subject and believe it is important to achieve this balance gradually. Intrinsic reasons work better here than quotas.

Learning and development

An organisation develops in part as a result of the development of its staff and so we have training programmes for all levels in our organisation with each getting its own approach. We use new techniques in e-learning to offer very short training courses. Practice shows that employees who are less used to courses can handle very frequent training lasting up to ten minutes. Courses offered to employees who are better trained in cognitive learning are more tailored to them. Many courses are digitised, sometimes to make it easier to keep the content up to date and sometimes specifically for e-learning. E-learning is an excellent way to offer fast, short

courses or to teach a specific subject. This way of learning is part of the everyday lives of our assistants, many of whom are school and college students. It is less of a burden, certainly if it takes up less time, for employees on part-time contracts to study at home when it suits them.

We have developed a really impressive virtual reality film as part of the familiarisation programme and to introduce the organisation. It not only welcomes our new colleagues but also gives them a complete tour of Sligro Food Group. Before they start work, new employees get customised glasses to watch the film and learn about Sligro Food Group in 3-D.

As well as supervisor training courses, which are the same in the Netherlands and Belgium, we have developed three leadership programmes. One at secondary vocational level (Jong Oranje), one at higher vocational level (Sligro's Ondernemers Programma SOP) and one at graduate high-potential level (Sligro's Jonge Intelligente Denktank SJID). Each course focuses on challenging the participants to develop through an attractive offering.

We regard attention to learning and development as very important and we organise a range of events such as the Learning Hero (Leerheldendag) ceremony to celebrate large groups of employees who have followed a course. For some years, we have presented the 'Jan Hoenselaar Award' for a dissertation or work placement report by an employee or an employee's family member.

Works council

Employee consultation in the form of a works council is a legal requirement but we embrace it with great conviction. Representative negotiations make matters transparent and make the consultation clear. By approaching this constructively while going further than the minimum legal requirements, you can share and examine a lot. Key signals from the employee representatives that help to detail and implement policies can be given in this open confidential atmosphere.

The works council in the Netherlands decided against setting up an international works council as this would not be in the tradition of consultation being organised as close as practical to implementation in a single council. As a result, we put forward the proposal to acquire Java to a special consultative meeting and in this case did not call for a recommendation. Naturally, we set out our plans for Belgium extensively and the proposal was, of course, put to the Java works council and later shared at a meeting attended by representatives of the trade unions.

We of course abide by the law when it comes to matters of authority but we handle them in the way we regard as desirable. This is only possible if both sides are happy with this approach. Fortunately, this is possible everywhere such discussions are held.

The matters discussed are often complex and, while the works council is of course not responsible for the decisions that are taken, it wants to take account of the consequences for employees, which may be adverse and stir up emotions. Employee engagement expressed as membership of the works council, therefore, deserves particular respect. A new works council was elected in Belgium in 2016 and there will be an election in the Netherlands in 2017.

Development of HRM in the organisation

The acquisition of Java in Belgium, with its own HRM department, immediately brought the necessary expertise in-house that is helping us to understand the details of the Belgian HRM landscape properly. Not just specific regulations, but in particular finding a path through them, how relationships work, and how to approach the labour market. The cooperation has been very pleasant and extremely constructive from the start.

Working with nearly 11,000 employees brings many obligations. Some to keep matters manageable and some to perform the role of employer properly. This is a huge administrative task, certainly given these numbers including a large number of temporary assistants. As a result, it was

decided some years ago to digitise these processes further and major steps have been taken. In 2016 we took the first steps to introduce a digital platform 'bijSligro', which is initially an information and communications platform.

Standard personnel processes are started up by managers who receive a request or who take the initiative, and then are processed largely automatically. In addition to this Management Self-Service, the system also supports management duties. For example, formats for interviews help prepare for appraisal discussions with employees.

As the platform is available on all devices and is location independent, we also have a solution for staying in contact with all employees. As a large majority of employees do not have a workplace computer or the ability to log in elsewhere to our systems, we still have to do a lot of traditional communication. Purchasing this system allows us to change that and adapt to today's world. This means being able to arrange things at home or on the road.

In 2016, we made preparations for replacing our old processing system with this new platform so that we can take the next steps for digitising the HRM processes and make more forms of management self-service and employee self-service available.

Our international ambitions were taken into account when the platform was bought. Its use depends on whether it actually adds value in the local situation and managing it can be done without taking up an unreasonable amount of time.

Employment terms and conditions

We are in line with the various industries on general employment terms and conditions. We do not want a company-specific collective labour agreement as this would mean having to build up a lot of in-house knowledge of employment terms and conditions and having to negotiate with the trade unions, while this is done perfectly well at the industry level. Furthermore, given the types of work we offer and the type of organisation we are, there is no need for specific employment terms and conditions.

In the Netherlands, we apply the collective labour agreements for the Food Wholesale Sector, Large Food Retailers and those for butchery.

We aim to make all the employment terms and conditions we set for ourselves the same for all employees. There may be differences depending on what is possible and customary in a country. Tax regulations considerably limit the ability to offer perks.

The remuneration policy for a large proportion of our staff is set by the collective labour agreements. Where we do not have to follow such an agreement we offer a competitive average salary and so we are well able to attract the right people.

We have a bonus system for certain, usually commercial, positions. The bonus is 'nice to have but not essential' and so does not create perverse incentives. Furthermore, in many situations the targets are of a collective nature.

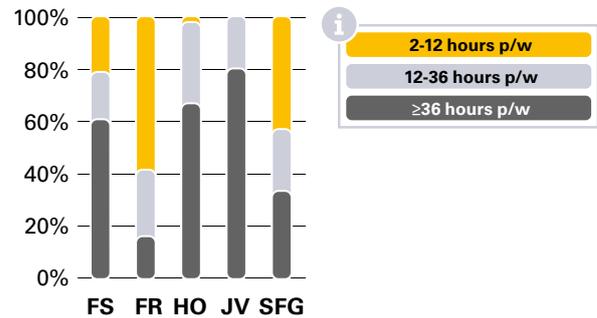
Pensions and pension fund

Sligro Food Group has its own company pension fund that includes the employees in the Netherlands covered by the wholesale sector collective labour agreement. We offer a collective defined contribution scheme. The employer's contributions paid by the Group are equal to the charge shown in the profit and loss account and the contribution rate was fixed for both employer and employee for five years from 1 January 2015. The pension landscape is changing all the time and this is set out in a separate pension fund report.

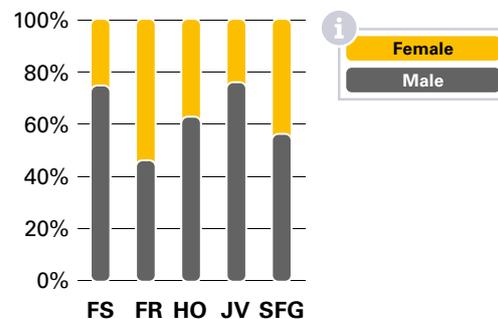
Employee share ownership

We have been encouraging share ownership by employees ever since the flotation of our company in 1989. We believe in the added value it offers and are proud that we have a scheme for all employees in the Netherlands. This has led to almost 4% of the shares being owned by the employees. The original scheme became too expensive as a result of changes in tax regulations. The costs were becoming more and more disproportionate to the income for the employees. In 2015, we introduced a new scheme under which both shares and 'Green Blood Certificates', which are a type of option, were available. Unfortunately, this too is under pressure as a result of an unintended side effect of legislation aimed primarily at preventing excessive enrichment. When we contacted them, the politicians who can change the legislation were sympathetic to our arguments but, given its limited size (Sligro Food Group's scheme is unique), this is not a priority. This is incomprehensible given that our scheme can count exclusively on sympathy from right left across the political spectrum. Unfortunately, our approach of 'growth by staying small' is for the time being not finding any resonance in The Hague. We will continue to try to mitigate this unintended side effect of what is in itself a well-intentioned law.

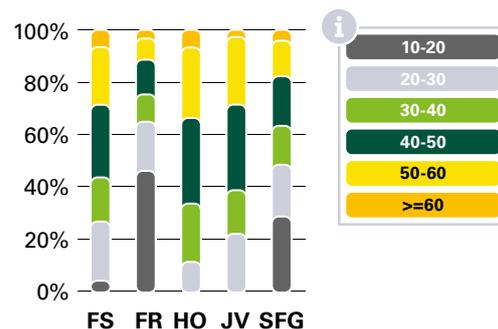
STAFF by contract



STAFF by gender



STAFF by age



FS: Foodservice HK: Head office
FR: Food Retail SFG: Sligro Food Group
JV: Java

CORPORATE

Social Responsibility

Our vision of CSR; how we operate

At Sligro Food Group, corporate social responsibility and commercial returns go hand in hand. For us, corporate social responsibility is simply a key element of professional and sustainable business practice. That stems from the roots of our family business, with its stock market listing. As a family business you simply want to do the right thing by the people who work for you and for the wider world, now and with a view to the future. It is part of our 'Green Blood' as it were.

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. Corporate social responsibility sits naturally in our integrated business vision, whereby we create value at the economic (Profit), environmental (Planet) and social (People) levels. With this in mind, we view the OECD guidelines as a natural reference framework for our corporate social responsibility policy.

One business, one policy

As a centrally managed organisation we pursue a single sustainability policy for the Group. Our core themes, ambitions and targets accordingly apply to our activities in the Netherlands and Belgium. There may be differences in the direction and method we use to achieve this in each country or part of the business.

In foodservice, for example, Sligro is market leader in the Netherlands (approximately 24% market share), demanding that:

- We encourage innovation.
- We are open to experiment.
- We assume the role of value chain orchestrator.
- We seize upon sustainability initiatives as a matter of course.

In food retail, EMTÉ is a small player (2.6% market share). A somewhat more modest and more practical role is therefore appropriate:

- We tend to follow rather than initiate,
- Except with respect to EMTÉ's trump card: fresh produce.

We have a presence in quite a few links of the food supply chain. Our production company SmitVis processes primary products; Culivers, Maison Niels de Veye and EMTÉ Vleescentrale all produce on behalf of the Group; Sligro, Java, Van Hoeckel and EMTÉ have wholesale operations; and, with our EMTÉ supermarkets, we serve the end consumer. That makes the scope of our sustainability activities both wide and complex.

About this report

As in previous years, it is our practice to cover our financial and sustainability performances together in our annual report. This is the best match for our CSR vision, avoids many duplications and makes the report easy to read. In this section, we report on the results achieved and the most significant developments in 2016 in relation to our core themes and the associated goals. Our 'people issues' are

Sligro Food Group IN THE FOOD SUPPLY CHAIN



described in the 'Organisation and employees' section of this report. Specific sections are also devoted to information and key figures relating to the Group's organisation. A change we have made to this year's report is that we are posting specific cases for illustration purposes on our corporate website. We update this information throughout the year.

The report has been compiled in accordance with the Global Reporting Initiative (GRI) G4 Guidelines Core level. The GRI table can be found on our website, www.sligrofoodgroup.nl.

Please address any questions, comments or suggestions to: mvo@sligro.nl.

How we work and implementation in the organisation

The Group makes use of a CSR Steering Group. The composition of this Steering Group has been matched to the CSR 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 decisions and the individual members implement them at operational level within their respective areas. The CSR Steering Group is chaired by the chairman of Sligro Food Group's Executive Board. The CSR Steering Group met on six occasions in 2016. 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 2016 and regular presentations on that subject were given at those meetings.

Towards 2020 and beyond

In 2011, we set out our core themes and targets for 2020, basing them on what we knew at the time and our estimate of the developments leading up to 2020. Every year, we benchmark our results against our targets and report on the status and progress. This is the quantitative part of the report.

In 2016, we held a 'CSR away day' during which we focused on how we work and our core themes. The key question we asked was whether these themes were still sufficiently in line with the development of our business, our stakeholders and the world we live in. In other words, are our core themes sustainable enough for 2020-2025 and does our model offer sufficient prospects and challenges in the longer term? We were supported and advised in this more qualitative evaluation and the initial impetus for our next step by an external expert, Jan Jonker, professor of Sustainable Business

at Radboud University, Nijmegen. We found it to be a very useful and inspiring exercise, which we will develop further in 2017 to produce our CSR roadmap for 2025.

Stakeholder dialogue

We engaged with various stakeholders in 2016. It is noticeable that our transparent and clear-cut sustainability choices provide an incentive and an invitation to enter into dialogue. Customers ask to help them make sustainable choices in our product range and this is of huge value to us, too. By creating a sense of involvement and by listening we are able to gain an insight into the expectations and needs of our customers. We also take steps with our suppliers back in the chain. This collaboration often extends further than the classic product supply and demand. The dialogue is more about coordination and collaboration, for example on sustainable packaging, smarter logistics and a joint market approach with the aim of improving the balance between financial and social returns. And more and more shareholders are showing an interest in our sustainable vision and approach and are asking us questions. For example, VDBO has been a regular attendee at our General Meeting of Shareholders and plays an active role in the meeting.

While we are engaging more with NGOs, in some cases this remains very difficult and relatively one-dimensional. This is not a dialogue, but a set of mandatory requirements, largely in the field of animal welfare. No other view is accepted. For example, the Natuurvlees beef we sell at EMTÉ is valued for its very high degree of animal welfare. Our cattle are raised in natural herds and live in the peace and space of Dutch nature reserves, including those managed by the National Forest Service in the Netherlands (Staatsbosbeheer). In collaboration with affiliated farmers, Staatsbosbeheer and the Natuurvlees Coöperatie Nederland, a very high degree of animal welfare is guaranteed. More information can be found on www.natuurvlees-nederland.nl. Unfortunately, our unique collaboration does not fit the model of the Dutch Society for the Protection of Animals, which means that our Natuurvlees has not received 'Beter Leven' recognition in the form of one, two or three stars. We regret that fitting a model is considered more important than a genuinely high degree of animal welfare, even though this is what several NGOs are pursuing and promoting. This is particularly the case when 'counting stars' is the only way of communicating the degree of animal welfare, as the Wakker Dier publication does and then abuses it for unjustified naming and shaming. Fortunately, on the other hand, more and more consumers are no longer

being guided by this and are deliberately choosing the quality of Natuurvlees and genuine animal welfare. Furthermore, we are noticing that more and more NGOs are willing to view sustainability in a wider context and are talking to us so that together we can improve the balance between financial and social returns. We are open to this dialogue.

Affiliations and administrative involvement

In addition to being a member of sector-specific organisations, as a major player in the food market we also have a duty to help with administrative functions and to demonstrate an active involvement in these organisations. Details of our memberships can be found on our corporate website.

CSR certification

We have doubts about the true added value of CSR certification in practice, which is why we are very reluctant to get involved in initiatives. However, stakeholder dialogue with our major foodservice customers has revealed a need for a quantification model. To meet this need, in March 2015 we obtained our FIRA 'bronze registration', which was renewed in 2016.

Transparency Benchmark

This transparency benchmark of the Ministry of Economic Affairs, Agriculture and Innovation is an annual survey of the content and quality of social reporting by Dutch companies. The benchmark gives us an idea of how our transparency in relation to sustainability compares with that of other companies. A total of 483 companies are officially included in the Transparency Benchmark and, in 2016, no fewer than 304 companies did not appear in the rankings because of a 'zero score' or a failure to publish information.

With a score of 131 points out of a possible 200 we finished in 98th place out of the 483 companies that were assessed.

	2016	2015	2014	2013
Score:	131/200	112/200	120/200	138/200
Overall ranking:	98/483	112/461	100/409	97/500

Materiality analysis

There are three core themes to our CSR policy, covering 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 our product range. We have formulated qualitative and quantitative ambitions for each of these themes.

Our core themes

PEOPLE	THE ENVIRONMENT	OUR PRODUCT RANGE
 <p style="text-align: center; margin-top: 10px;"> Our employees Our customers Our community </p>	 <p style="text-align: center; margin-top: 10px;"> CO₂ Energy Packaging Waste </p>	 <p style="text-align: center; margin-top: 10px;"> Sustainable Health Food waste </p>

Ambitions, goals and management approach for each core theme

Our core themes 'People'

Goal

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 also about resolving problems. Customer satisfaction for us is a measure of the extent to which customers perceive us as treating our customers well. We have therefore set ourselves the goal of keeping our Net Promoter Score (NPS) at a high level.

Our employees

Definition and delineation

When considering our employees we obviously also appreciate that they have a private life as well. In day-to-day operations, for example, in the organisation of the work, we allow for a proper work-life balance, but we also take account of families in exceptional circumstances.

Importance

We are acutely aware that the way in which we organise the work, how we manage the business by setting KPIs instead of simply setting budgets and therefore the way in which our staff work are anchored in our 'Green Blood' culture. Our corporate culture is, we believe, the most robust and durable special success factor of our business.

Approach

Because of the importance and the reach of this aspect we devote a separate section of this report to 'Organisation and employees'. Starting on page 53 you can read all about our approach and our results.

Evaluation

Working solely with target figures is not appropriate for our process-managed organisation. Naturally, however, we report by publishing personal key figures. We attach a great deal of importance to the three-yearly job satisfaction survey and each quarter the Executive Board receives a report on the latest figures for sickness absence and any industrial

accidents. Once a year we evaluate the top 100 senior staff in our company and measure the number and the results of the performance interviews.

External and independent polling of employee satisfaction says something about your general image as an employer. Despite the fact that such surveys, like those conducted by Incompany and Glassdoor, for example, are limited in scope, the fact that they are independent is welcome, especially if your score improves each year and is among the best in the Netherlands.

The unique character of our company means that evaluating the results relating to 'employees and organisation' against a market benchmark and deducing target figures from this is quite tricky. We are at the same time a supermarket company and a provider of logistics services and a production company and a food wholesaler and a head office with a large group of highly educated staff. There is no comparable company in the Netherlands and Belgium.

That is why we attach so much importance to a narrative report that is supported by figures.



Our customers

Definition, importance and evaluation

Excellent customer satisfaction lies at the heart of our marketing approach, in both food retail and foodservice. This is covered in detail in the sections dealing specifically with 'Food Retail' and 'Foodservice', commencing on page 29. To measure and evaluate customer satisfaction we use what is known as the Net Promoter Score (NPS). The NPS for Foodservice and Food Retail can be found on pages 33 and 46.

Our community

Definition and delineation

In the present context, our community comprises the people forming a particular social grouping who in that sense live, work, follow their leisure pursuits and reside in the towns and villages where Sligro Food Group is active.

Importance

Our presence in a local, regional or national community automatically means that we form part of that community and therefore not only have a functional role, for example as employer, but also bear a responsibility for the surroundings in which people live and the way in which activities can contribute to the quality of the community as a whole. Our supermarkets are not merely a distribution point for our daily bread but also fulfil an important social function.

Approach

We have made a conscious decision to lend our long-term support to a number of specific social/societal, people-orientated activities or good causes, in order to prevent the resources earmarked for this purpose from being diluted across a whole range and variety of projects. Those resources may take the form of money, goods, services or a combination of these things.

Our detailed sponsorship policy can be found on our corporate website.

Evaluation

We start by examining whether there is a logical link between what we are sponsoring and Sligro Food Group as a whole or a particular part of the business. Sponsorship must provide relevant added value for both parties on the principle of 'you scratch my back and I'll scratch yours'. Since the sponsorship takes a specific form in most cases, it is easy to measure in retrospect whether both sides of the agreement have been honoured. On top of that, 'society' has its own dynamics and that requires us to act as part of society when it comes to the policy we adopt and the choices we make.

Our core themes '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 returns in balance while remaining aware of our stewardship responsibilities. As a measure of the success of our efforts, we calculate our CO₂ emissions. To relate our CO₂ emissions to the growth of our business in the coming years, we express them as a percentage of sales.

Goal

We aim to cut our CO₂ emissions per sales euro by 20% between 2010 and 2020, which is why we refer to it as our '20-20 target'

CO₂

Definition and delineation

The scope of our efforts concerns emissions of CO₂ from using gas and electricity and from the distance travelled in connection with movement of goods by road to and from all wholesale outlets, stores, corporate customers, distribution centres and production sites in the Netherlands and Belgium. The CO₂ emissions are related to the fixed conversion parameters with a 2010 baseline, enabling us to effectively monitor the annual reduction in CO₂ emissions that we achieve relative to 2010.

Importance

We have promised our stakeholders to do all we can to reduce our CO₂ emissions, our carbon footprint, by 20% per sales euro relative to 2010 by 2020.

Approach

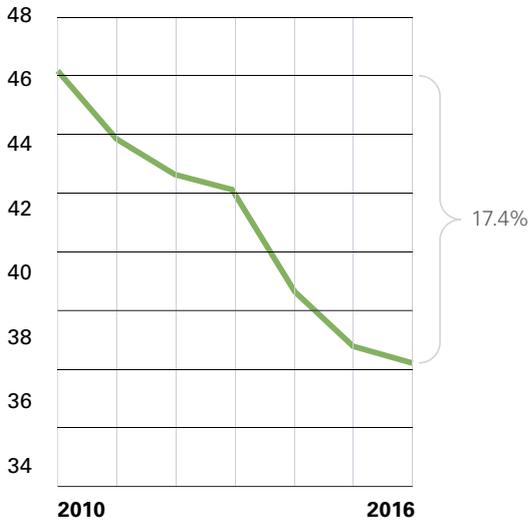
Numerous opportunities to reduce CO₂ emissions are investigated on an ongoing basis in the various parts of the business and, if they meet our goals, they are implemented. A CO₂ report is produced and discussed every six months. Wherever the results are not in line with the achievement of our 20-20 target, the matter is taken up with the relevant person responsible for electricity and gas consumption or transport usage. The same is done for the actions undertaken in relation to transport (logistics).

Evaluation

The six-monthly CO₂ emissions reports are evaluated by the person with responsibility for CO₂ emissions and are then discussed with the Executive Board. An annual progress report is published as part of the annual report, including an explanation of the figures.

CO₂ EMISSIONS

Per €100 of sales 2010-2016



The CO₂ emissions figure relative to sales in 2016 fell by 1.4% compared with 2015. After six years, we have achieved an improvement of 17.4 % compared with 2010. The target by 2020 is for a 20% reduction in CO₂ emissions relative to 2010.

Energy

Definition and delineation

Energy covers electricity, gas and fuel purchased by Sligro Food Group and used in connection with all its wholesale, retail, office, distribution and production activities as a vital part of current operations, in the Netherlands and Belgium.

Importance

Use of energy is essential to operations at all our sites. Within Sligro Food Group, energy is an important topic, partly because it represents a substantial cost item each year and partly because energy consumption has a major impact on the environment.

Approach

All our new sites employ the latest energy installation solutions. Similar solutions are also adopted at existing sites wherever possible on an ongoing basis. Typical energy-related improvements are the use of LED lighting, CO₂-based refrigeration systems, optimised control systems, effective use of the heat produced by refrigeration systems for space heating (heat recovery), fitting of covers on chilled-food and frozen-food chests and shelf units, movement sensors to switch lighting on and off and heating systems employing heat pumps. A quarterly report is produced of total energy consumption. This report provides an insight into the outcomes of the energy-saving campaigns. If the figures do not tally, a detailed review is carried out to establish the cause of the discrepancy, with remedial action taken wherever possible so that the promised savings are indeed achieved.

Evaluation

Energy consumption is regularly monitored and this information is also used for taking additional management action to reduce our electricity and gas consumption. Our energy expressed in absolute units of kWh and m³ gas does not provide an insight into our relative improvement as a consequence of our energy-saving measures. This is why we offset consumption against realised sales. This key figure is a better measure of input (energy) versus output (sales) and allows us to translate measurements of CO₂ emissions per €100 sales.

You can find breakdowns of our consumption of gas, electricity and fuel in relation to our goods transport movements and the long-term trends on our corporate website.

Gas

Gas consumption expressed in m³ per €100 sales fell to 0.169 (2015: 0.182)

This saving is primarily the result of the further transformation of our buildings into 'gasless' buildings, for example the Sligro cash-and-carry outlets in Veghel, Rotterdam Spaanse Polder, the new distribution centre in Veghel and four EMTÉ stores. This resulted in an additional 40,000 m² of 'gasless' floor area. Almost 200,000 m² of gross floor area is now virtually gasless, with 11 wholesale outlets, 4 delivery service/distribution centre locations and 7 EMTÉ supermarkets. The new frozen food distribution centre with accompanying office space, which is currently being constructed for Java, will be delivered 'gasless'.

Electricity

Electricity consumption expressed in kWh per €100 sales fell to 5.66 (2015: 5.79). The conversion to the new 3.0 format is generating significant savings for the EMTÉ supermarkets and the Sligro cash-and-carry wholesale outlets. Overall electricity consumption increased in 2016, mainly as a result of the addition of new sites, such as the Sligro cash-and-carry wholesale outlets in Utrecht, Almere and Purmerend (De Kweker) as well as the EMTÉ stores in Berlicum, Eindhoven and 's-Hertogenbosch. The acquisition of Java Foodservice (Belgium) has also contributed to increased electricity consumption.

Waste

Definition and delineation

All waste streams within Sligro Food Group categorised as either cardboard, spoiled food, C3 waste, vegetable kitchen and food waste, glass, mixed waste paper and cardboard, film and waste deep-fryer oil that can be used for processing.

Importance

Waste separation and recycling is better for the environment: waste that does not have to be incinerated is being used increasingly as a raw material (for new products) or for green energy. This helps to reduce CO₂ emissions. The second important point concerns the scarcity of raw materials. Waste is converted into valuable raw materials by means of separation and recycling.

Approach

We are reducing our waste by offering our separated waste for recycling so that it can be reused as a raw material or converted into green energy. We have the following separated waste streams:

- The entire stream of waste paper and cardboard, Styrofoam/EPS, glass and film for recycling is returned to the processing industry.

- All products beyond their sell-by date, from both wholesale and retail channels, go for anaerobic digestion.
- Outdated and waste food from our production kitchens also goes for anaerobic digestion.
- All fats and oils are collected for the biodiesel industry.
- All meat, fish, poultry and game waste and products beyond use-by date/BBD are always collected as Category 3 ABP waste so it can be used for the animal feeds industry.

Evaluation

We publish the CO₂ reduction we achieve by sending our separated waste for processing, rather than processing unseparated waste. This reduction in CO₂ emissions is calculated on the basis of the 2014 conversion factors for each waste stream as used by the waste processing company, Van Gansewinkel. The CO₂ factors used have been calculated under the responsibility of the TNO Research Institute, in accordance with ISO 14040/14044 procedures and guidelines. This approach is supported by the LCA (Life Cycle Assessment) platform of the European Commission and other organisations.

The stated CO₂ reduction is the reduction for the entire chain as a result of waste separation. This CO₂ saving in the chain is not part of our 2020 target for our 'in house' CO₂ emissions as a result of transport plus gas and electricity consumption.

Our CO₂ reduction in the chain due to waste separation (in tonnes):

2016	2015	2014	2013	2012	2011
5,786	5,288	5,214	3,668	3,700	3,395



Our core themes 'Our product range'

Our product range and where we source our products lie at the heart of our business. It is our responsibility to assist and motivate our customers to make sustainable and healthy choices. We accordingly believe it is important for us to be able to offer our customers quality products produced with due regard for people, the environment and health. The standards we set ourselves are contained in our suppliers' handbook. This covers such things as product and food safety, BSCI certification, product traceability, packaging, the quality management system, incident management & recalls, audits and our ethical choice label eerlijk & heerlijk (honest & delicious). With our unique eerlijk & heerlijk concept we have been putting our sustainable product range firmly on the map since 2010 and helping our customers to make the right choices.

Goal

Our target is to be achieving at least 10% of sales from our sustainable product range by 2020.

In 2017, we will focus more on this target. For the Purchasing & Product range management department, this will mean taking significant steps to make our own brands more sustainable. The focus will therefore be on making critical raw materials more sustainable, including soy, palm oil and cocoa.

Definition and delineation

The frameworks and starting points for our sustainable range are anchored in our eerlijk & heerlijk concept and as a result of our participation in BSCI.

Eerlijk & heerlijk

To enable customers to see the wood for the trees in the forest of labels that is out there, when we launched eerlijk & heerlijk in 2010, we identified four pillars that would form the basis of our sustainable product range: – Organic – Sustainable – Fair trade – Local. For each of these pillars, there is a whole palette of carefully selected quality labels providing assurances that the product concerned genuinely makes a sustainable contribution. Since 2014, the eerlijk & heerlijk range has been expanded to include sustainably produced non-food items, too. Our corporate website contains a list of the certification marks accepted by eerlijk & heerlijk.

Importance

We are seeing a continuous increase in the demand for sustainable products. On a global scale, the world faces huge social and environmental problems, including climate change, the loss of biodiversity, poor working conditions and animal

welfare. In this context, the food chain is still regularly seen as part of the problem instead of part of the solution. As a major player in the Dutch food market with a highly complex network of around 1,850 suppliers, we are aware that our activity has an impact on the natural world, domestic animals and people.

Approach

For us, it is not just about what ends up 'on the plate'; increasingly we are studying the journey these products have made to get there. For example, we work with suppliers who champion products that are better for the customer and better for the environment. We engage with suppliers, producers and farmers on matters such as animal welfare, crop protection and sustainable packaging. We also focus on the social conditions of our suppliers' employees. Our requirements are set out in our suppliers' handbook and in our terms of business for procurement.

Evaluation

We benchmark our development against the share in net sales of our eerlijk & heerlijk range. The sales of eerlijk & heerlijk have grown to €229 million (2015: €209), representing a share in net sales of 8.2%, an increase of 0.4% compared with 2015.

Working conditions - BSCI

We believe it is important to know where our products come from so that we can be sure that what we are selling has been produced in a safe manner without giving rise to harmful working conditions. This is why we have been a member of the Business Social Compliance Initiative (BSCI), an initiative of the Foreign Trade Association (FTA), since 2010. The BSCI is a business-driven platform which encourages members and their supply chain partners to make concerted efforts to improve working conditions. We ask our suppliers to commit to the BSCI standards as a precondition and this is explicitly stated in our suppliers' handbook and in our terms of business for procurement. Audits of suppliers are also carried out in high-risk countries to ensure that acceptable working conditions are maintained.

Since 2016, one of our employees has been working on a project looking at all non-food imports from outside the EU. This employee, who is based in Hong Kong, aims to put the purchasing process for the Far East on a formal and efficient footing to ensure increased intrinsic product and process quality. The responsible employee also acts as a gatekeeper at the front of the chain. BSCI is part of this portfolio.

Health / healthy eating

Definition and delineation

Unfortunately, there is no unequivocal and comprehensive definition of 'healthy eating'. There are various things which together make for good health but sometimes they also completely conflict with each other. We do not see it as our duty to add a new interpretation or dimension, but to make product information clear, inform the customer and actually offer a choice. We take the World Health Organisation (WHO) guidelines as our starting point. These guidelines have a scientific basis and serve as a global guide for compiling national food policy and are free of interpretations.

WHO guidelines:

- Energy intake versus energy consumption
- Limit fat intake
 - Less saturated fat, more unsaturated fat
 - Less trans fats
- Limit intake of free sugars
- Limit salt intake

Importance

We are becoming more and more knowledgeable and aware of the impact of good food on human health. We see it as our responsibility to assist and motivate our customers to make healthy choices.

Approach

We have set out our vision in five promises.

1. Persuade customers to vary their diets. Variety is important to take in as many different healthy nutrients as possible. It is our task to introduce newer, healthier products to our customers.
2. Give customers choice. It is our task to make product information clear (both online and on the actual product) so that the customer can make an informed choice about his or her own health. We list the following product characteristics:
 - Total calories
 - Saturated and unsaturated fat
 - Sugar
 - Fibre
 - Sodium
 - 14 allergens that we are required to list by law
3. Encourage the customer to choose fresh and unprocessed foods more often. Fresh and unprocessed foods contain no unnecessary additives not originally found in the product.

4. Encourage customers to choose the following product groups more often¹⁾:
 - Fruit and vegetables
 - Nuts and seeds
 - Wholegrain products and pulses
 - Fish
 - Water

1) WHO advice

5. Ingredients of our own brands. Our exclusive brands give us direct control over what goes into our products. We follow the 'Akkoord Verbetering Productsamenstelling' (Agreement on the Improvement of Product Ingredients) and make adjustments where possible or desirable. We focus on the following across all product groups:
 - Artificial colours
 - Flavourings
 - Flavour enhancers
 - Sugar and sweeteners
 - Salt

Evaluation

We are currently involved in defining programmes and projects (scope: up to 2020) that contribute to adherence to our five promises. We ensure that all our goals can be measured in terms of quality and quantity, for example using customer surveys and specific reports. A baseline measurement will take place in 2017.

Food waste

Definition and delineation

Reducing food waste is high on the public's agenda and we also believe it is important to play our part. Despite the fact that supermarkets account for only a small amount of overall food waste, supermarkets are still throwing away food that they can no longer sell. This could be because of breakage (damaged packaging), products that are no longer up to our quality standards and products that are out of date (best before/use by dates).



Importance

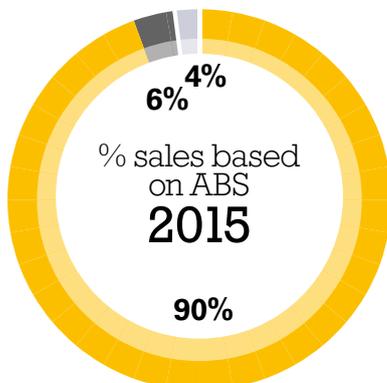
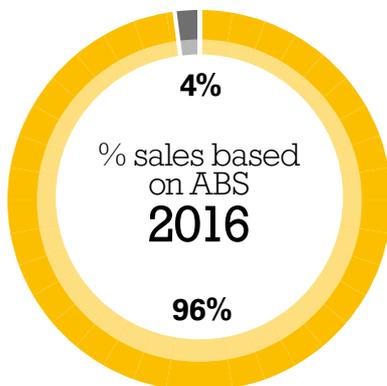
Apart from the associated costs, it is socially irresponsible to waste food.

Approach

By purchasing smart, planning well and reducing prices on time, we are trying to keep the number of unsold products to a minimum. An important tool used to achieve this is our automated stock replenishment system (ABS), which calculates the timings and volumes of restocking orders, based on such aspects as rate of sales, existing stock levels and shelf life of the products.

Evaluation

In 2016, we successfully rolled out our automated stock replenishment system to all product range groups. The system can play a role in improving stock management in stores.



Yes

No

Planning

Chain cooperation

The initiative launched by Hutten's De Verspillingsfabriek is an example of chain cooperation in reducing food waste. We were one of the few supermarkets to start working with this organisation in 2016 to contribute to the value creation of waste streams. Waste streams involve products that are rejected for a variety of reasons, often visual, such as small potatoes or onions, or discoloured peppers or apples. They are normally classed as rejects and taken away to be used as animal feed or for biogasification. De Verspillingsfabriek in Veghel is where these products are processed into new, tasty products. EMTÉ's label 'Barstenvol' has added four high-quality soups produced by De Verspillingsfabriek to its range.



RISK

And risk management

In note 25 to the financial statements on page 133, consideration is given to a number of specific risks to which the Group is exposed. 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 magnitude. Where relevant, the Group is insured against a number of the customary risks so that the financial consequences of calamities are covered as far as possible.

In a structured process, the more significant risks with a potential impact on the achievement of our strategic objectives are assessed at Executive Board level. We assess the risk appetite with respect to these risks and their probability and impact. We also assess the extent to which we as Sligro Food Group can exercise influence over them. This gives the following picture:

Sligro Food Group risks	Category	Probability	Influence	Risk acceptance	Impact
Maintaining Sligro Food Group's culture after internationalisation	Strategic	0000	00000	00	000
New business models and retailers expanding their ranges	Strategic	00000	0	00	0000
Change of management model after internationalisation	Strategic	00000	00000	00	0000
Cybercrime	Operational	00000	000	0	00000
Data quality issues	Operational	000	00000	0	00000
ICT continuity	Operational	000	00000	0	00000
Ageing workforce	Operational	00000	000	000	00
Unsuccessful acquisitions	Financial	000	00000	000	0000
Authorities/NGOs/Regulators	Compliance	000	0	0000	0000
Food safety	Compliance	00	000	0	00000

0 = low, 00000 = high

Maintaining the culture

The organisation is driven by our culture, our 'Green Blood', which has its key focus on customers and our shared passion for tasty, good and honest food. Safeguarding this particular culture is, therefore, a key area for attention in a steadily growing organisation that is now also expanding internationally. A consistent cultural programme covering leadership, management development and recruitment and selection ensures that culture is maintained. We will also give this the right weight and implement it in an international context. As well as being the driving force behind our business, our culture is also a key risk

management control. In an informal organisation, confidence that employees will act with integrity is a major asset and this is embedded in the culture as part of doing the right thing.

In 2017, we will carry out a 'culture scan' to make this often intangible theme more concrete. This will enable us to identify where our culture is strongest but also where we need to invest more in specific programmes to maintain it.

New business models

Our markets have been recovering for some years but competition remains fierce and the market landscape has become more complex and challenging. The boundaries between foodservice and food retail are blurring. There are more and more new physical and online players and existing players are expanding their horizons towards adjacent niche markets. We believe these trends offer us many opportunities to strengthen our position and, specifically in this context, to further exploit the combination of foodservice and food retail under one roof. We have the advantage that we operate in and are very familiar with both market segments.

We are closely monitoring different initiatives and assessing the extent to which they affect the line that we as Sligro Food Group have set out. Where the market is developing faster than expected, for example online, we have sufficient flexibility and scope to accelerate this in our strategy. Above all, we opt to follow our own path and create solutions that suit us rather than always reacting to new competitive forces.

Change of management model

A growing business must regularly assess whether its management model is still compatible with the Group structure. The model in which the commercial formats present their own image towards customers with full centrally-managed integration behind the scenes is still an excellent fit with the activities in the Netherlands. Following our first foreign acquisition, however, we realise that this model may not automatically work well elsewhere. Greater autonomy at a distance will require changes to our organisational model, management and monitoring.

We will be communicating the policy, redefining responsibilities as centralised or local and setting up stricter monitoring and control in the next few years. We will also make certain changes to the management structure under the Executive Board to give the international activities their proper place and better address the challenges that this entails. We also intend to set up an internal audit department in the course of 2017. Until 2016 we did not regard this as a high priority given our centralised management and the absence of far-reaching local authority.

Cybercrime, data quality and ICT continuity

Effective ICT systems combined with data quality are the lifeblood of our business. Managing the risks in these systems involves far more than merely safeguarding the continuity of data processing. It also means protecting the integrity of data and software and the associated decision-making process. The numbers of customers, products, sites and suppliers and the way in which they interrelate make this a complex system but at the same time it is systems of this kind which give us a clear competitive edge. Systems failing to work or not operating well can threaten the continuity of the whole business within a relatively short period of time. We therefore take extensive measures to minimise the risk of such failures. For example, in an emergency either of our data centres can take over all the activities needed to guarantee continuity. We also test such scenarios on a regular basis by actually shutting down one of the data centres. We have a national firewall structure, providing a high standard of protection against external attack.

Data and data quality are of major importance for smooth operations and for the information we exchange with our customers, suppliers and other stakeholders. On top of that, there are strict legal requirements relating to data and data privacy and so data protection also receives a great deal of attention.

We invest considerable time and resources every year in the further optimisation and security of the central, integrated ICT back office, focusing on continuity, stability and the ability to upscale operations flexibly. This applies to both standard applications and customised applications developed in-house. An ongoing theme in this context is the need for external and internal security in a world which is becoming increasingly digitalised. The measures we have taken provide our systems and data with reasonable protection against the many forms of cybercrime. We were subject to a cyber-attack during the year and were able to identify and mitigate the risk in good time.

We are working on the future enterprise architecture, which will combine ICT, data and business architecture and further refine the continuity of data processing and data security. During the coming year, we will again engage an external party to test our security and advise us on any further preventive and detective measures.

Ageing workforce

The average age of our workforce is increasing and the retirement age for our staff is being steadily raised. This situation makes the ageing of our workforce an increasingly important consideration for us, especially against the background of the demanding physical work that goes on in large parts of our organisation.

We already invest in the fitness and health of our staff and in making the people who work for us more aware of the risks but more targeted action will be needed to address all the implications of this ageing trend. In 2016, we organised a special day on this theme for 150 employees and the combination of younger and older colleagues came up with many new initiatives to address this challenge. We believe that involving our employees in this issue is itself an important step in the right direction.

In the years ahead, therefore, we shall be intensifying our efforts in this area by providing lots of programmes aimed at keeping our staff physically and mentally fit, so that we can carry on responsibly employing people who are capable of doing their jobs and pulling their weight for longer.

Acquisitions

Despite all precautions and due diligence, acquisitions usually involve greater risk than organic growth. We see acquisitions as an essential part of our strategy, not least for growth. We mitigate the risks inherent in acquisitions as far as possible by always following a careful takeover process, including preliminary exploration, and devoting careful attention to the post-acquisition phase. Many risks along with their financial and other impacts can be limited in this way.

Every acquisition is different but we always apply the same high standards to the takeover process. The aim of that process is to identify the risks and opportunities at an early stage. A due diligence investigation, in which we are supported by outside consultants, always forms part of the preliminary exploration in order to avoid the risk of unpleasant surprises later on. We will therefore then only proceed with acquisitions if we can fulfil the duty of care that we have set ourselves.

We immediately set up a multidisciplinary integration team comprising our own people and people from the business that has been taken over. In this part of the process, consideration is given to all stakeholders. A key element of the integration is to inculcate the cultural values of Sligro Food Group into the acquired business. Basically, we transfer the back office of

the company we have taken over to the central organisation and back-office systems of the Group as far as possible.

About a year after an acquisition, we assess whether it and the subsequent integration went well, whether we achieved the synergy objectives and whether our customers, suppliers and employees are satisfied after this initial phase. This gives us confidence in the quality of our acquisitions process but always has lessons for improvement.

Authorities / NGOs / Regulators

Public authorities on occasion take drastic action which can have a major impact on operations and results. Such actions can become a threat to a particular part of the business over a relatively short time horizon. Environmental measures and opportunistic spending cuts in particular can have a serious effect. Intervention by regulators can also have a serious impact on operating processes.

We have limited control over such developments and, although we try to obtain a picture of what new legislation and that in the pipeline will mean at an early stage, we generally have little option but to accept the implications. Political decisions are sometimes scarcely predictable, too.

An illustration of the effect of government action on our market and organisation are the changes to the healthcare system. These are having a long-term depressing effect on the care market which Foodservice supplies, changing what was a sector that was relatively unaffected by economic conditions into a shrinking market.

Food safety

Since the Group is primarily engaged in the food supply and processing chain, food safety is crucial. The food safety precautions we take are mainly aimed at preventing risks for our customers and our employees. We accordingly observe strict food safety practices as regards both food processing and the products themselves throughout the various links in the organisation. With a well-equipped quality assurance department we are rigorous in our quality checks. Our procurement department also insists on the same high quality standards and quality assurance procedures among our suppliers and we monitor compliance with these standards both directly and indirectly, through specialist institutions. Additionally, our staff training programme devotes considerable attention to food safety and proper handling of food.

Risk management and control systems

We are convinced that risk management has to be part of the mind-set and working methods of all the staff in our company on a day-to-day basis, not compulsorily but because it automatically seems to be the right approach. Actually being in control is therefore what matters to us but being in control on paper is not an end in itself. There are plenty of examples of companies where all the right measures were in place but which still lost control in practice.

In a growing organisation like ours, however, we recognise the need for a more formalised approach but that means it is important that we maintain the right balance between formalised systems and the informal hands-on entrepreneurial spirit that exists within the company. After all, we want our people to continue thinking for themselves and not blindly following checklists and procedures; we want them to continue to see both risks and opportunities. Fortunately this is an inherent part of our corporate culture and it is that culture that we accordingly view as our most important 'soft control', protecting us from within from numerous risks and forms of fraud. In a steadily expanding organisation with ambitions of international growth as well we accordingly devote a great deal of attention to preserving our culture.

We are increasingly organising risk management at the strategic level, with subsequent translation of the strategic requirements to processes, people and systems at the operational level. On the other hand, we are documenting the existing, operational, risk management measures along structured lines, coupling them to the strategic risks and enhancing the controls where useful.

In 2015, we identified the main risks we face and our specific risk appetite, with an eye to our strategic goals. We updated that process in 2016 and linked it to our strategy update and so embedded it in our structural process. The results of this were also presented to and discussed with the Supervisory Board.

In 2016, we worked on an appropriate Internal Control Framework and structured it for some of our business activities. We opted for a more bottom-up approach but in retrospect this proved to be less efficient, although this does not mean that these efforts had no effect, on the contrary. Nevertheless, during the coming year we will focus initially on an overall framework to which we can add details at a later stage.

We have a special department focusing 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. Using advanced analytical tools, this department detects exceptional patterns or numbers/trends. All our business units have been integrated into the Group's central information and control system. During the coming year we will carefully examine how we can use this data for further or more efficient management of our processes. In the spring, we will launch a feasibility study of process mining in our organisation.

As the Group has similar operations at many different sites, we 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.

For many years, we have had a long-term general back-office plan in place, deliberately integrating the business and the back-office agendas in an effort to ensure that business plans are practicable in terms of processes, systems and staffing and that proper consideration is given to the related necessary controls. As coordination is increasingly important in a large business, in 2016 we set up a new Programme and Process Management department which apart from programme management also works on safeguarding and continuous improvement of business processes.

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'. Regular reporting has been shown to provide reliable information on business performance. The acquisitions of Bouter in 2015 and Java in 2016 have added operating activities that have not been fully integrated. We are making changes in our control model and management organisation to retain the same degree of control here too. We regard improving the reliability of our management information and, more importantly, ensuring that it becomes increasingly specific and targeted, as an ongoing process.

CORPORATE

Governance



GIVING EQUAL WEIGHT TO ALL THE GROUP'S STAKEHOLDERS, AS REQUIRED BY THE LAWS OF THE NETHERLANDS AND BY THE DUTCH CORPORATE GOVERNANCE CODE, HAS ALWAYS FORMED AN IMPORTANT BASIS FOR OUR CORPORATE POLICY. SLIGRO FOOD GROUP EMBRACES THE ONE SHARE/ONE VOTE PRINCIPLE AND DOES NOT HAVE ANY ANTI-TAKEOVER MECHANISMS OR CHANGE OF CONTROL PROTECTIONS 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, particularly when it comes to potential acquisitions.

There were no transactions with Executive or Supervisory Directors in 2016 that involved a possible material conflict of interest, nor was any transaction conducted with shareholders owning more than 10% of the shares.

The new Corporate Governance Code was presented in December 2016. In our 2017 annual report we will be accountable on the basis of the new code.

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 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, their candidature having been proposed by the Supervisory Board. Supervisory Board members retire at the latest at the close of the first general meeting following the day marking 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.

The Supervisory Board has appointed an Audit Committee, made up of two Supervisory Board members. Audit Committee meetings are also attended by the CFO, the Accounting & Reporting Manager and the external auditor.

The Supervisory Board has appointed a Remuneration and Appointments Committee, made up of two Supervisory Board members.

General meeting

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 23 September 2017 to issue shares as yet unissued).
- Repurchase and cancel shares (the Executive Board has been granted powers until 23 September 2017 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 departures that are still relevant can be found on the website and relate to the following:

- The 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 managers who are on the same level in the same manner.
- No agreements have been reached on the level of any severance pay. Legislation limiting severance pay to a maximum of one year's salary came into force on 1 July 2015.
- 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 its shares are priced correctly.

CAPITAL EXPENDITURE

Goals

- Maintain the Group's average net capital expenditure at about 2.5% of sale in the longer term.
- Invest continuously in developing our commercial formats over a roughly 7-year cycle.
- Invest continuously in developing our online activities and master data management.
- Optimise the network of Sligro and EMTÉ outlets in the Netherlands.
- Organic growth in the number of Sligro outlets in Belgium.
- Invest continuously in automation and efficiency-enhancing technology in order to maintain our position as a cost leader.

In 2016, we invested €80 million, or 2.9% of sales, in intangible assets and property, plant and equipment. Key investments were:

- €27 million to upgrade cash-and-carry outlets to Sligro 3.0.
- €2 million to purchase land in Purmerend where a completely new Sligro 3.0 will be built in 2017. We will

close the current outlet in Purmerend that we took over from De Kweker.

- €3 million in the entirely new ZiN inspiration lab.
- €15 million on the conversion of EMTÉ supermarkets to EMTÉ 3.0.
- €5 million on three entirely new EMTÉ supermarkets in Berlicum, 's-Hertogenbosch and Eindhoven.
- €7 million in our central distribution complex in Veghel to allow further efficiency improvements over the next few years.
- €13 million on ICT software and hardware for our online programmes and master data management.

The table below analyses net capital expenditure together with the related amortisation and depreciation.

(x € million)	Foodservice		Food Retail		Total	
	2016	2015	2016	2015	2016	2015
Intangible assets (software)	7	7	0	0	7	7
Property, plant and equipment	52	45	26	6	78	51
Investment property	0	0	0	2	0	2
Disposals of assets held for sale	0	(0)	(5)	(0)	(5)	(0)
Net capital expenditure	59	52	21	8	80	60
Depreciation and impairments	(32)	(28)	(12)	(10)	(44)	(38)
Amortisation of software	(8)	(5)	(0)	(0)	(8)	(5)
Subtotal	(40)	(33)	(12)	(10)	(52)	(43)
Net movement	19	19	9	(2)	28	17

Segmentation of net capital expenditure, amortisation and depreciation.

The presentation of the cost of software licences was changed in 2016. Until 2015, this was recognised as an expense over the term of the licence. From 2016, these licences are being capitalised and amortised over the term of the licence. This has raised the investment in software by €3 million and amortisation of software by €3 million in 2016.

We had intended to start construction of our first Sligro outlet in Antwerp in 2016 but the process of obtaining planning permission has required more time as our competitors have taken every opportunity to lodge objections and delay the process. Although we would have preferred to start building work sooner rather than later, we respect the processes and procedures in Belgium and are defending our position with the resources available to us. We have a long-term plan for Belgium and are not discouraged by the expected opposition in the short term. In fact, as a result of this opposition, we are looking forward all the more to the time we can enter an open competitive endeavour.



RESULTS

Goals

- Increase sales organically by 3% a year and take advantage of acquisition opportunities as they present themselves. Ensure that the increase in net profit matches or exceeds sales growth.
- Distribute about 60% of the year's profit as a regular dividend and pay a variable dividend on top of that, reflecting the financial position.

Financial policy

Sligro Food Group has a 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

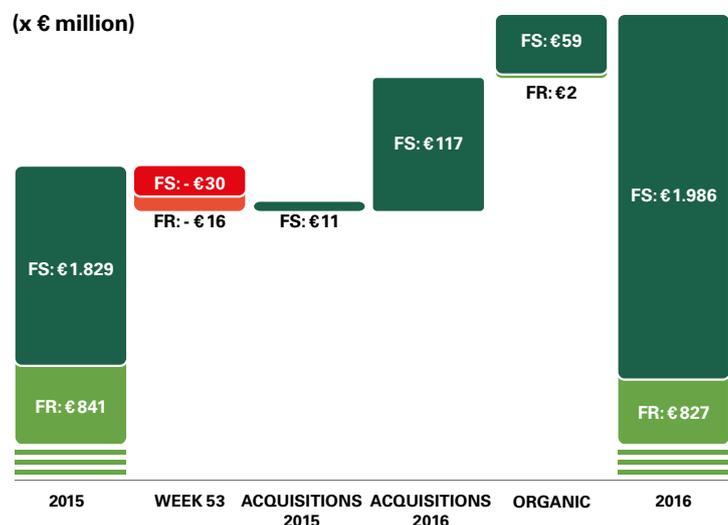
established a method of allocating their costs and revenues but are aware that there will be a cost to be borne by the group results.

We use a series of detailed management reports on operations that show the actual developments and trends in our activities from various perspectives. They focus on process-based performance indicators rather than financial key figures. The performance indicators are defined clearly and relate to the activities that the user can directly affect. As we perform similar work at several locations, we make extensive use of internal benchmarking. This creates focus and encourages the feeling of the continuous improvement and healthy competition we are aiming for.

Consequently we do not use budgets as a management tool, not least because there is no delegation of authority or spending powers in the conventional sense. We draw up an annual budget which is revised each quarter in line with developments during the year in the form of moving forecasts. These reports in turn serve as the basis for any adjustments and amendments needed in operations.

NET SALES Sligro Food Group

	SFG	FS	FR
Net sales	5.4%	8.6%	(1.7%)
Organic	2.3%	3.3%	0.2%



Once each year the correlation between the performance indicators 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. As a family business with a stock-market listing 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			
	2016	2015	2016	2015
Net sales	2,813	2,670	100.0	100.0
Cost of sales	(2,168)	(2,050)	(77.1)	(76.8)
Gross margin	645	620	22.9	23.2
Other operating income	4	2	0.1	0.1
Total operating expenses excluding depreciation, amortisation and impairments	(493)	(462)	(17.4)	(17.3)
Gross operating profit (EBITDA)	156	160	5.6	6.0
Depreciation and impairments	(44)	(38)	(1.6)	(1.4)
Operating profit before amortisation (EBITA)	112	122	4.0	4.6
Amortisation of intangible assets	(25)	(19)	(0.9)	(0.8)
Operating profit (EBIT)	87	103	3.1	3.8
Net finance income and expense	4	2	0.1	0.1
Profit before tax	91	105	3.2	3.9
Income taxes	(18)	(24)	(0.6)	(0.9)
Profit for the year	73	81	2.6	3.0

In 2015, our financial year included a 53rd week which generated €46 million of additional sales for the Group. In 2016, the financial year was again 52 weeks but we have more than made up for the sales in the extra week of the previous year. The Group's net sales increased by €143 million or 5.4% compared with 2015. The acquisitions of Java and the De Kweker sites added €106 million and €11 million to sales, respectively, in 2016 and Bouter, which was acquired in 2015, generated a non-organic increase in sales of €11 million. Adjusted for sales from acquisitions and week 53, like-for-like growth was 2.3%.

Like-for-like growth was 3.3% at Foodservice and 0.2% at Food Retail. Like-for-like consumer sales at EMTÉ were

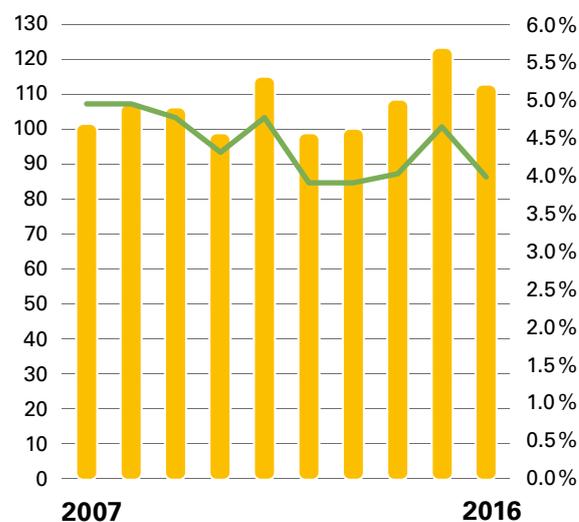
down 1.4%. The difference between organic and like-for-like is explained by changes in the outlet portfolio during the year. On balance, the addition of three stores and one franchise location and the end of operations at one site generated the additional organic growth.

Gross margin fell by 0.3% of sales compared with 2015. We saw a strong increase in the share of promotions, in particular in cash-and-carry. We used additional campaigns and promotions in Food Retail in the second half of the year to reverse the trend in sales.

Expenses (including depreciation and amortisation) as a proportion of sales increased by 0.4% to 19.9%. Amortisation rose partly as a result of the acquisitions in 2015 and 2016 and depreciation was up because of the conversion operations in both commercial formats. Other expenses increased as a result of the expansion of our outlet and store network where expenses had already been added but sales are still building up. The start-up costs in Belgium are depressing the result but are at a comparable level to the previous year and in 2016 we incurred certain non-recurring costs related to acquisitions and their integration.

EBITDA fell by €4 million to €156 million. For some years, we have used EBITA as a key measurement as we believe that it gives a better view of the operational performance of the business units. EBITA does, however, exclude amortisation of software and maintenance contracts which are a real part of operational performance. If we exclude amortisation of other intangible assets only, the following picture emerges:

EBITA 2007-2016



(x € million)	Foodservice		Food Retail		Total	
	2016	2015	2016	2015	2016	2015
EBIT	82	89	5	14	87	103
Amortisation of other intangible assets	9	7	8	7	17	14
EBITA, including amortisation of software and maintenance contracts	91	96	13	21	104	117

EBITA adjusted for amortisation of software and maintenance contracts fell by €13 million to €104 million. This is explained in part by the absence of the 53rd week, which added above average profits in addition to additional sales in 2015.

On balance, there was higher net finance income compared with 2015. The main explanation is that the results of associates improved compared with the previous year.

The tax burden was considerably lower than in 2015 when there had been a non-recurring prior-year charge relating to our employee participation scheme.

The overall effect of the above was that the net profit for 2016 was €73 million, a decrease of €8 million or 9.1%. Earnings

per share, calculated on the average number of shares in issue, were €1.67 compared with €1.84 in 2015.

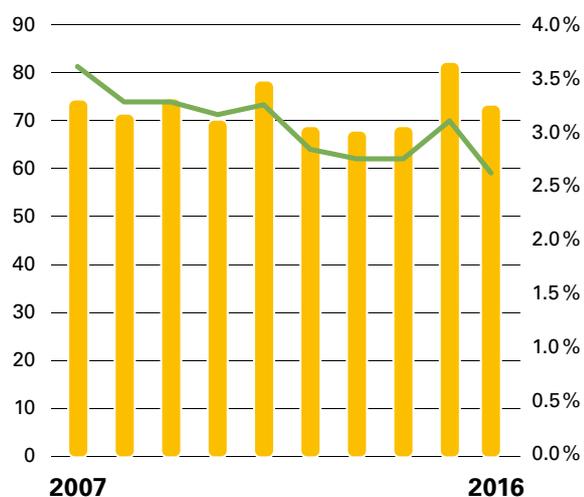
Based on the result for 2016 and our continuing strong financial position, we propose increasing the dividend by €0.10 per share to €1.30 per share. In accordance with our dividend policy, this will be made up of a regular dividend of €1.00 (2015: €0.90) and a variable dividend of €0.30 (2015: €0.30). An amount of €0.45 has already been paid as interim dividend. The final dividend for 2016 therefore amounts to €0.85.

The segment analysis of results below shows figures for Foodservice and Food Retail.

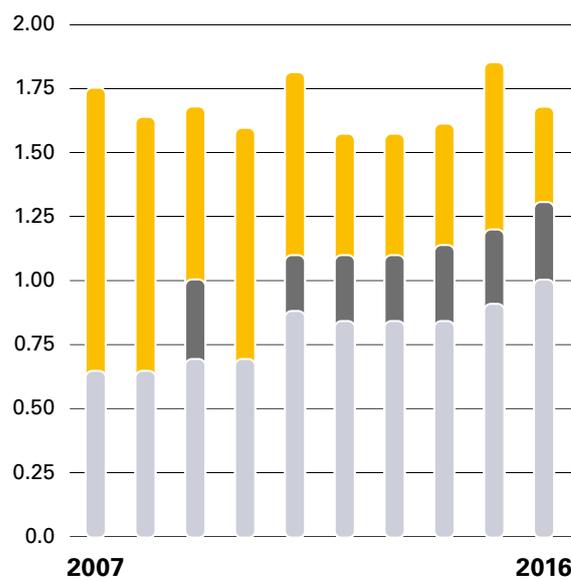
(x € million)	Foodservice		Food Retail		Total	
	2016	2015	2016	2015	2016	2015
Net sales	1,986	1,829	827	841	2,813	2,670
Other operating income	0	1	4	1	4	2
Gross operating profit (EBITDA)	131	129	25	31	156	160
Operating profit before amortisation (EBITA)	99	101	13	21	112	122
Operating profit (EBIT)	82	89	5	14	87	103
Net capital employed at year-end ¹⁾	563	486	105	127	668	613
EBITDA as % of sales	6.6	7.0	3.0	3.7	5.6	6.0
EBITA as % of sales	5.0	5.5	1.5	2.5	4.0	4.6
EBIT as % of sales	4.1	4.9	0.6	1.6	3.1	3.8
EBITA as % of average net capital employed	18.9	21.3	10.9	15.6	17.5	20.0
EBIT as % of average net capital employed	15.6	18.9	4.1	10.1	13.5	16.9

1) Excluding associates.

NET EARNINGS 2007-2016



EARNINGS PER SHARE 2007-2016



FINANCING

In outline



Goals

- Ensure that sufficient finance is available under long and short-term credit facilities, maintaining a wide margin with respect to the related financing covenants.
- Shares may also be issued to provide financing but only if the target margins with respect to the financing covenants are insufficient as a result of major acquisitions.
- Limit working capital to no more than 10 days' sales.

We prefer to call on the capital markets rather than the money market for our financing. We permanently investigate the different types of financing that the market can offer us.

Currently, our long-term financing is through US private placements. Two tranches of the US private placements dating from 2010 had a value of €142 million on the reporting date. There was a swap value of €23 million against this, €10 million of which is recognised in other financial fixed assets and

€13 million in other current assets. These loans have maturities of one and four years.

In 2016, we entered into a US Private Placement Shelf Facility with a three-year framework agreement and an uncommitted facility of up to €100 million which can be drawn in tranches. In April 2016, we drew a seven-year loan of €30 million under this facility at an interest rate of 1.33% per annum.

At year-end 2016, we had short-term financing in the form of overdraft facilities of €98 million, of which €42 million is committed. We are not currently drawing on these facilities.

We do not expect any problems attracting financing if the opportunity of an acquisition should arise.

The Group's strong free cash flow was €72 million, as shown in the abridged statement below.

Total working capital fell once again in 2016. The programmes for structurally improving the working capital position are succeeding. In 2016, we achieved a further reduction in working capital following the introduction of our Supply Chain Finance programme in November 2015. The programme will

continue to make a contribution to reducing working capital in the coming years.

As explained on page 76, the level of capital expenditure is increasing with the ongoing roll-out of Sligro 3.0, conversion to the new format generation at EMTÉ and our move into Belgium. We invested €80 million or 2.9% of sales during the past year.

ABRIDGED cash flow statement

(x € million)	2016	2015	2014	2013	2012
Net cash flow from operating activities	153	140	147	133	129
Net cash flow from investing activities, excluding the net effect of acquisitions and the investment in Superunie	(81)	(62)	(69)	(32)	(33)
Free cash flow	72	78	78	101	96
For comparison purposes: net profit	73	81	69	68	69
Cash conversion in %	97	96	113	148	140
The free cash flow was used to fund:					
Net acquisitions/Superunie	(49)	(11)	(22)	(19)	(1)
Payment of dividend and repurchase of own shares	(54)	(47)	(64)	(49)	(50)
Net change in debt and cash	31	(20)	8	(33)	(45)
	(72)	(78)	(78)	(101)	(96)

EVOLUTION OF working capital

(x € million)	2016	2015	2014	2013	2012
Current assets, excluding cash and cash equivalents	453	377	376	345	335
Current liabilities, excluding interest-bearing items	(381)	(298)	(287)	(231)	(204)
	72	79	89	114	131
In days' sales revenue	9	11	13	17	19

BUSINESS PREMISES

And IFRS 16

Sligro Food Group has an extensive network of outlets, mainly supermarkets, cash-and-carry outlets and distribution centres, some of which are owned while others are leased. There is a list on page 126. We are comfortable with significant property holdings but do not have a specific target for the proportions of owner-occupied and leased properties. In the supermarket industry in particular, acquiring the right location is a very important determinant of value and we will not readily leave a good location; there are also specific laws and regulations for the supermarket industry with protective clauses and government restrictions relating to opening new outlets.

As a result of IFRS 16 'Leases', which was published in January 2016, almost all leases will have to be recognised on the balance sheet. The current reporting model for lessees, which differentiates between finance and operating leases, lapses under IFRS 16. If adopted by the EU, this standard will apply to Sligro Food Group from 1 January 2019.

Under the current leasing standard (IAS 17), we disclose the obligation for future minimum lease payments for operating leases (virtually all of which relate to business premises) not recognised on the balance sheet (see page 137). Under IFRS 16, however, these leases will have to be recognised on the balance sheet.

Consequently, we expect that IFRS 16 will have a significant impact on our financial statements and ratios and so we started an impact analysis of this new standard in 2016. The

initial impact analysis shows that a number of assumptions (estimate of the expected lease term, fixed or variable payments, the discount rate used and the transition options and exemptions offered by IFRS 16) may strongly affect the impact on the transition date. Without knowledge of the differences in assumptions made, it is not possible to make a proper comparison between businesses.



Assumption used

Lease term	Remaining term at 31 December 2016; for open contracts we have taken the average remaining lease terms for property as an estimate
Discount rate	2.0%
Date of calculation	31 December 2016

The estimate of the lease term in particular has a significant impact on the final lease obligation. A large proportion of our property contracts are for an open period or give the option to extend a lease. Under IFRS 16, this has to be translated into a quantitative estimate of the lease term. By way of illustration, the following table shows the impact on the lease obligations if we take the remaining term of the lease as an estimate and also the amount of the lease obligation if we estimate the lease term for all leases as, say, twenty years.

The impact analysis shows that if Sligro Food Group had applied IFRS 16 at the end of 2016, a lease obligation of between €241 million and €808 million would have had to be recognised in the balance sheet, at a discount rate of 2% and depending on the assumptions used. The table below shows that the discount rate also has a significant impact on the lease obligation.

(x € million)

Expected lease obligation	2%	5%
Remaining lease term	241	213
Remaining lease term + 20 years*	808	581

**Renewal for 20 years only applied to property leases.*

In addition to a shift from operating lease costs to depreciation and interest expense, it is expected that the total lease costs for the term of the lease will show a declining pattern under IFRS 16. As a result, EBITDA for 2016 would have been some €34 million higher if Sligro Food Group had applied the new leasing standard in 2016.

In 2017, Sligro Food Group will make detailed impact analyses and refine the assumptions and then decide on a transition. In addition, given the large number of contracts, during 2017 we will examine how we can use an automated solution for efficient, effective and transparent reporting of leases under the new standard.

This impact also affects the ratios we report and our financing covenants. We have provided for this in our financing agreements, which include provisions so that our covenants are not breached as a result of applying the new standard.





OUTLOOK

The Dutch economy is recovering and this is reflected in higher levels of employment and rising consumer confidence. As a result of this we saw growth pick up in both our market sectors in 2016 and we expect this to continue in 2017. This will be seen in almost all Foodservice market segments except the care sector, where we again expect limited contraction in 2017 as a result of government austerity measures. In Food Retail, as well as relatively large regional differences, we expect a further shift to online, where growth will be significantly higher than in the traditional supermarkets.

In Foodservice, in the Netherlands we expect the trend of recent years to continue and that we will again outperform the market. The acquisition of the De Kweker sites will contribute about €2 million extra to sales in the first two months of the year. We will be intensifying our sales efforts in Belgium during the coming year and expect that this will allow us to outperform the market. In addition, the acquisition of Java will contribute about €20 million extra to sales in the first two months of the year.

Price continues to be important and we see the significance of promotions increasing, especially in cash-and-carry. As market leader in Foodservice, this is to some extent in our own hands and we will increasingly be offering our customers differentiated services and associated pricing. As well as offering our customers keen pricing, we are also investing in the quality of our services and inspiration for our customers. The development of programmes at ZiN and the rollout of our new online ordering platform will play a key role in this.

In Belgium, we expect to be able to complete the planning permission and appeal procedures during the year and start construction of our first Sligro location there, which will probably open in early 2018.

Everything in Food Retail is focused on making the transition to 3.0 a success and further restoring the performance of the 2.0 stores. Thanks to the insights we gained during 2016, we have been able to refine the 3.0 format and manage it better. We will be implementing this in the first half of 2017 in the stores that have already been converted and evaluating the effect on the results. Only after a positive evaluation will we drive further rollouts and the intended acceleration of the conversions. The focus for the 2.0 stores will mainly be on reducing the gap between their sales and the trend in the market.

In 2017, we will invest further in our ICT and data landscape and the related processes to make them ready for changes in customer requirements in the future. This is being reinforced by the Group's further international growth and the increasing importance of online in our markets. We will also continue to invest in the conversion of our commercial formats and the logistics infrastructure.

We are optimistic about 2017, when a further recovery in the market and the success of our formats will be the basis for outperforming the market in the Netherlands and Belgium. We realise, however, that rapidly changing market conditions require continuous adaptation of our organisation, processes, systems and people and so we will continue to invest in them. Much work has been done during the past year but there is still a lot to do in the period ahead - good and important work to keep Sligro Food Group in the best possible shape for the years to come. We call this 'Keep Building the Future!'

As usual we refrain from making any definite forecasts.



DIRECTORS'

Statement of responsibilities

As required by the relevant statutory provisions, the directors state that, to the best of their knowledge:

1. The financial statements, as shown on pages 100-147 of this report, give a true and fair view of the assets, liabilities, financial position and profit for the financial year of Sligro Food Group N.V. and the enterprises included in the consolidated financial statements;
2. The directors' report, as shown on pages 21-87 of this report, gives a true and fair view of the position of Sligro Food Group N.V. and its consolidated enterprises on the reporting date and of the course of their affairs during the financial year. The directors' report describes the material risks to which Sligro Food Group N.V. is exposed.

Veghel, 27 January 2017

K.M. Slippens, CEO

R.W.A.J. van der Sluijs, CFO

W.J.P. Strijbosch, Foodservice director

CORPORATE GOVERNANCE

Statement

This statement is included pursuant to Section 2a of the Decree on Additional Requirements for Directors' Reports (Vaststellingsbesluit nadere voorschriften inhoud bestuursverslag) of 20 March 2009 (the 'Decree') and is also publicly available in digital form in the corporate governance section of www.sligrofoodgroup.nl. The information that is to be included in this statement pursuant to Sections 3, 3a and 3b of the Decree can be found in the following sections of the 2016 Directors' Report and is deemed to be included and repeated here:

- information on compliance with the principles and best-practice provisions of the Code (page 74 'Corporate Governance');
- information on the principal features of the management and control system in connection with the Group's financial reporting process (page 70 'Risk management and control systems');
- 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 75 'General meeting of shareholders');
- information on the composition and functioning of the Executive Board (page 18 'Directors and management', page 74 'Executive Board' and page 94 'Executive Board conditions of employment');
- information on the composition and functioning of the Supervisory Board (page 96 'Directors and management' and page 90 'Report of the Supervisory Board');
- information on the rules for appointing and replacing members of the Executive Board and Supervisory Board (page 74 'Executive Board' and page 75 'Supervisory Board');
- information on the rules for amending the company's Articles of Association (page 75 'General meeting of shareholders');
- information on the powers of the Executive Board to issue and repurchase shares (page 75 'General meeting of shareholders');
- information on 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 132;
- information on transactions with related parties (page 74 'Corporate Governance' and page 140 'Related-party disclosures').

REPORT OF THE Supervisory Board

The Dutch economy is recovering and this was also reflected in growth in Sligro Food Group's markets. The recovery is expected to continue in 2017, creating a sound basis for the further growth of the Group's commercial formats. There was also a clear recovery in Belgium, although it was abruptly disrupted at the beginning of the year by the dreadful attacks in Brussels. Further recovery is also expected in Belgium in 2017 although the introduction of the 'witte kassa' (a regulated cash register system to combat fraud) will in our opinion have a disruptive effect and possibly depress market growth.

Sligro Food Group's Foodservice activities once again outperformed the market in the Netherlands and market share increased to 24%. The Group made its first acquisition abroad and this has led to a market share of some 3% in Belgium. Food retail had a difficult year. Although the excellent new 3.0 format was rolled out further it faced inevitable start-up problems and, in addition, the stores operating under the old format could not keep up with the market.

Sligro's preparations for opening its first outlet in Belgium are at an advanced stage. Support from Java, which has been part of the Group since the beginning of the year, has been very helpful. The planning permission and appeal procedures are taking longer than expected but will not affect the course we have chosen.

The Group's net profit fell by €8 million in 2016 to €73 million. Sales developed well but the relative gross margins were under pressure and there was a relatively stronger increase in expenses. Unlike in 2015, when there was a record profit, there was no 53rd week (which brings higher than average profits) this year. There were also acquisition and integration costs which have reduced the result somewhat and new outlets operating under both formats had a relatively major effect on costs. Partly as a result of the success of the Supply Chain Finance programme, free cash flow was again strong at €72 million for 2016.

These figures are presented in the 2016 financial statements prepared by the Executive Board, with which we are in agreement. For 2016, it is proposed to pay a regular dividend of €1.00 per share (2015: €0.90), representing a pay-out ratio of 60%. In addition, it is proposed to pay a variable dividend of €0.30 per share (2015: €0.30), making the total dividend for the year €1.30 (2015: €1.20). This anticipates a change to the dividend policy that will be submitted to the General Meeting of Shareholders in which we propose raising the target pay-out ratio from 50% to 60%. The subsequent increase in the profit distribution to our shareholders is possible without the business having to limit the financing of its capital expenditure or possible acquisitions.

Supervision

In 2016, the Supervisory Board met in formal session on five occasions. The Audit Committee also held five formal meetings in 2016. The Remuneration and Appointments Committee met four times, with three of those meetings focusing on the recruitment of the new Supervisory Director.

In addition to the scheduled meetings, the chairman of the Supervisory Board holds regular talks with the Executive Board. In addition to the five meetings mentioned above, the Supervisory Board met on three occasions, including one in-depth meeting on the new EMTÉ 3.0 format generation with the Executive Board. The Supervisory Board met alone on the other two occasions. The Supervisory Directors also held individual meetings with key company staff in consultation with the Executive Board.

In 2016, a member of the Supervisory Board was present as observer at a consultative meeting 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.

Mr Kamps (chairman) and Mr Rijna are the members of the Audit Committee. Mr Karis (chairman) and Mr Nühn are the members of the Remuneration and Appointments Committee.

Mr Rijna and Ms van Leeuwen joined the Supervisory Board following their appointment during the General Meeting of Shareholders on 23 March 2016 and have participated in meetings since then.

First meeting

The first meeting of 2016 examined and discussed at length the 2015 results, proposed dividend and results press release. The auditor commented on the audit and reported that there were no material audit issues or other significant remarks requiring immediate follow-up on the part of the Executive Board and/or Supervisory Board.

The chairman of the Audit Committee reported on its first meeting, which had also focused on the 2015 results. The 2015 financial statements and report were examined and discussed, with emphasis on technical matters. The auditor also commented on and discussed the main findings in a status report.

The chairman of the Remuneration and Appointment Committee reported on its first meeting, which discussed the proposed appointment of Ms van Leeuwen and Mr Rijna as new supervisory directors and the reappointment of Mr Karis. 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 a year earlier. The remuneration policy and proposed changes to it were discussed.

The preparations for the general meeting of shareholders were also on the agenda.

In-depth meeting

This meeting evaluated the 2013-2015 medium-term plan and discussed developments in EMTÉ 3.0 with members of the EMTÉ board. There were joint visits to a number of EMTÉ stores under the old and new format generations ahead of this meeting.

The EMTÉ board presented an evaluation of the 2013-2015 medium-term plan setting out what had been achieved in respect of each part of the plan by the end of in 2015. After extensive discussion, it was concluded that the financial goals had been achieved but that the full potential of the proposed actions in the medium-term plan had not been utilised.

It was concluded from the EMTÉ board's subsequent commentary and discussion on the development of EMTÉ 3.0 that the right path had been taken with the conversion to EMTÉ 3.0. Broad support was expressed for the conver-

sion programme and the business case for an improvement programme for stores with the 2.0 format.

Second meeting

The second meeting looked at the results for the first quarter and the acquisitions of Java, De Kweker in Purmerend and Texel and Van Heinde earlier in the year. The medium-term capital expenditure plan for Sligro Food Group, covering the main investments in the commercial formats of Sligro and EMTÉ, Belgium, the logistics infrastructure and ICT and data for the coming years, was discussed and explained.

The chairman of the Audit Committee reported on the meeting of the Audit Committee, which had addressed the technical settlement of the acquisitions, the improvement plan for managing supplier bonuses, promotional payments and payment discounts and the new Shelf Facility and the first drawing under it. The Audit Committee regularly considers developments in the different back-office departments. This meeting looked specifically at the staffing and improvement agenda for the finance department for the next few years which is focused in particular on the further internationalisation of the business.

The HR director addressed the regular evaluation of the Sligro Food Group management teams which pays great attention to the assessment of the quality of the staffing of the various teams and departments and the action taken to develop talent and succession within those teams and departments.

Third meeting

The third meeting was devoted to the 2016 half-year results and the associated press release. The proposal for the interim dividend was also discussed and adopted. The discussion of the figures for the first half of the year specifically addressed the development of the sites that had been converted to the new Sligro 3.0 and EMTÉ 3.0 generation commercial formats.

The chairman of the Audit Committee reported on the meeting of the Audit Committee, which had also examined the half-year figures, but with greater focus on technical matters. This meeting had also discussed progress on the follow up to the findings in the 2015 management letter. These points were being assessed and tackled in a planned way and there was regular reporting on progress to the Audit Committee. Specific consideration was given to ICT-related issues and this part of the meeting was attended by the ICT director. The auditor presented and commented on the 2016 audit plan and the fee, which was agreed for the coming years. Other items discussed at this meeting were investor relations and pensions.

Beet!

PORTIEMIX ←

PORTIONMIX



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Beet!
PORTIEMIX ←

Beet!

SWEETMANGO ←

Mix van gedroogde mango
& rozijnen



The Executive Board presented a progress report on the Group's medium-term strategy linked with an update on risk management. This meeting also considered the composition of the peer group for the option scheme. Alternatives were added to the peer group as some of the companies in the original group are no longer listed on the stock exchange. Sligro Food Group's relative position within the group did not change materially as a result. Finally, the CSR policy was explained and discussed along with progress on the goals.

The members of the Board continued the meeting alone to discuss filling the position on the Supervisory Board vacated by Mr Nühn, who will have served the maximum term of office in 2017. The possible membership of the committees in the new situation was discussed.

Fourth meeting

During the fourth meeting, the Purchasing and Product Range director gave a presentation on his department and its plans for the next few years. He reported on progress on the Supply Chain Finance programme rolled out in November 2015.

The chairman of the Audit Committee reported on the meeting of the Audit Committee, which had made a final evaluation of progress on the ICT-related points in the 2015 management letter. It had been concluded that a major step on professionalising and improving internal control at Sligro Food Group had been taken. The auditor reported on progress on the work in the audit plan. The meeting also held preliminary discussions on the annual evaluation of the Internal Audit department. This developed the process and input so that the Supervisory Board could make a balanced recommendation later in the year. Finally, the long and short-term financing of Sligro Food Group was addressed.

The chairman of the Remuneration & Appointments Committee reported on the process for recruiting a new supervisory director. The committee had met three times on this. A suitable candidate for this position had been found after a careful process working with a specialist agency and interviews with various acceptable candidates.

Finally, the report on fraud risk management was discussed and the amendments to the 'Regulations on ownership and transactions in Sligro Food Group financial instruments' were adopted.

Fifth meeting

The board started its fifth and final meeting of the year alone. The auditor commented on the management letter and

addressed the fraud analysis. The Executive Board had taken major steps to improve the ICT environment during 2016 but the auditor re-emphasised the importance of ongoing improvements. The internal controls on price and conditions systems remain on the agenda in view of their complexity. In addition, the impact of the internationalisation of the organisation as a whole was identified as a major theme, and this too has the attention of the Executive Board. The Board assessed the performance of the Executive Board and its own performance using evaluation forms. Once again, the conclusion was that there was a very good working relationship both within the Executive Board and the Supervisory Board and between the two bodies.

The meeting continued with the Executive Board in attendance and first of all the Supply Chain director gave a presentation on his department and its long and short-term plans. Thereafter the auditor's management letter, as previously discussed by the Supervisory Board and the auditor, was briefly addressed. The dividend and the dividend policy were discussed in preparation for the year end.

The chairman of the Audit Committee reported on the meeting of the Audit Committee, which had discussed developments at the Sligro Food Group pension fund and new European regulations on auditors' independence. The current service from the auditors fits well within this framework. An important theme of this meeting was consideration of whether to set up an internal audit department for Sligro Food Group. The Audit Committee had discussed the arguments for and against at length and considered the way in which it could be structured at Sligro Food Group and with what scope.

Following the report of the Audit Committee, the Executive Board and Supervisory Board discussed the internal audit department further and it was decided to set up a department at Sligro Food Group in 2017. Finally, the 2017 budget was adopted after lengthy commentary and discussion.

First meeting 2017

The first meeting of 2017 focused on the financial statements and Executive Board report for 2016. These were explained and discussed at length.

The chairman of the Audit Committee reported on the meeting of the Audit Committee, which had also focused on the 2016 results and, in particular, technical aspects of the financial statements.

The auditor reported that there were no material audit issues requiring follow-up on the part of the Executive Board

and/or Supervisory Board. The Board concurred with the conclusions of the Executive Board on risk management and the internal control systems as set out on page 73.

The chairman of the Remuneration and Appointment Committee reported on its first meeting of 2017, which had discussed the proposal to appoint Mr van de Weerdhof as a new supervisory director as well as the future composition of the committees and the appointment of Mr Rijna as the new chairman of the Supervisory Board following the retirement of Mr Nühn. The meeting also fixed the amount of the variable remuneration for the Executive Board members, based on the criteria and approved remuneration policy adopted a year earlier. The remuneration policy and remuneration report were also discussed.

Finally, preparations for the general meeting of shareholders were also on the agenda.

Executive Board conditions of employment

The policy on Executive Board remuneration is published on the company's website. There were no changes in this policy during the year. The Executive Board's remuneration is set out each year in the financial statements.

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 converted into shares;
- defined-contribution pension scheme;
- various other fringe benefits.

Once every three years, the remuneration package is benchmarked against a reference group of some twenty companies.

Both the short-term and long-term bonus plans pay out amounts equal to 30% of fixed salary if targets are met. In 2016, achievement of the forecast profit counted 50% towards the bonus, the remaining 50% depending on implementation of

the 2016 Kicking Costs programme, progress on the plans for Sligro Belgium and related organisational changes, changes to the back-office structure, including setting up Programme Management and progress on EMTÉ 3.0.

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.

In 2016, the variable remuneration was 50% (2015: 110%) of the 'at target' level. The main reason the 'at target' level was not reached was that the profit and achievement of the goals of the 2016 Kicking Costs programme had not met the target. Although rollout of EMTÉ 3.0 had started and there was clear progress during the year, we do not believe it adequately proved itself in 2016 and so this target was also not achieved. The agreed progress had, however, been made on the organisational structure and preparations in Belgium, the back-office changes and the introduction of Programme Management. Details of Executive Board remuneration are contained in note 6 of the financial statements on page 119.

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 was approved by the general meeting of shareholders on 30 March 2005, is consistent with our aim of offering comparable members of management similar remuneration packages and, wherever possible, facilitating recruitment from within the organisation. The period of notice which Executive Board members are required to give is three months. By law, the minimum notice which the company can give is six months. The conditions of employment for Executive Board members do not contain any severance pay clauses. This has to do with the longer period of notice for the company. A change in the law has limited termination payments to a maximum of one year's salary with effect from 1 July 2015. The general meeting of shareholders has also approved this departure from the Code.

Board changes

Mr Nühn will be retiring from the company's Supervisory Board at the General Meeting of Shareholders on 22 March 2017, having served the maximum term of office of eight years pursuant to the Articles of Association. We owe him a very considerable debt of gratitude for the contribution he has made to the further development of Sligro Food Group over the past eight years, not just with his strategic and technical insights but also certainly in the role of coach for the management team from which a CEO and a CFO were appointed during his term of office.

In view of the retirement of Mr Nühn, Mr Rijna has been appointed the new chairman of our Board and Mr van de Weerdhof is being proposed for appointment to the Board.

Mr van de Weerdhof was CEO of RFS Holland Holding/ Wehkamp B.V. from 2013 to 2016 and he had previously been an executive director at Esprit and Pearl. He is currently a supervisory director of Wereldhave. Mr van de Weerdhof will be a good candidate for the vacant position on the Board, bringing added value with his experience in online, retail, food and internationalisation. A more extensive CV will be attached to the agenda of the General Meeting of Shareholders which will be published on 8 February 2017.

Financial statements

The 2016 financial statements have been prepared by the Executive Board. The financial statements were discussed at a meeting attended by the auditor, who provided further information on them. The financial statements have been audited by Deloitte, whose unqualified audit report can be found in 'Other Information' on page 148.

We invite you to:

- adopt the 2016 financial statements;
- adopt the proposed profit distribution;
- ratify the Executive Board's conduct of the company's affairs;
- ratify the supervision exercised by our Board.

The theme of 2016 was 'Building the Future'. As in many construction projects, costs precede the benefits. Much of the scaffolding was erected in 2016 and clear progress was made on several fronts, but this has not yet been reflected positively in the results. The move into Belgium on the acquisition of Java is a notable point in Sligro Food Group's history and heralds a new phase for the business. We are indebted to the Executive Board and the workforce for the huge effort that was required to tackle all the initiatives and projects in the past year. In 2017, the Executive Board will 'Keep Building the Future!' and complete much of what was started in 2016.

Veghel, 27 January 2017

A. Nühn, chairman
J.H. Kamps
B.E. Karis
M.E.B. van Leeuwen
F. Rijna

SUPERVISORY BOARD

A. Nühn, chairman (63)

Supervisory Director, Dutch nationality (m). Appointed in 2009 until 2013, reappointed to 2017 and not eligible for reappointment thereafter. Supervisory Director of HG International, Anglovaal Industries, Cloetta, Takeaway.com NV (chairman) and member of the Board of Trustees of WWF-Netherlands (World Wide Fund for Nature) and the CBR (agency for driving proficiency).

J.H. Kamps (57)

Supervisory Director, Dutch nationality (m). Appointed in 2015 for a term of office of four years and eligible for reappointment thereafter. CFO of Boskalis.

B.E. Karis (58)

Supervisory Director, Dutch nationality (m). Appointed in 2012 and reappointed in 2016 for a second and final term of office of four years. Chairman of the Executive Board of Zeeman textielSupers.

M.E.B. van Leeuwen (55)

Supervisory Director, Dutch nationality (f). Appointed in 2016 for a term of office of four years and eligible for reappointment thereafter. Chair of the Supervisory Board of AEB Amsterdam, Supervisory Director of Sonepar Nederland/Technische Unie and Supervisory Director of ANP and chair of AVV Zeeburgia

F. Rijna (61)

Supervisory Director, Dutch nationality (m). Appointed in 2016 for a term of office of four years and eligible for reappointment thereafter. Chairman of the Supervisory Board of Holland Opera.

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.

From left to right: B.E. Karis, M.E.B. van Leeuwen, F. Rijna, A. Nühn, J.H. Kamps







FINANCIAL STATEMENTS

2016



Sligro Food Group N.V.



Consolidated PROFIT AND LOSS ACCOUNT

for 2016

(x € million)

	Note	2016	2015	2014 ¹⁾
Net sales	2, 3	2,813	2,670	2,572
Cost of sales		(2,168)	(2,050)	(1,976)
Gross margin		645	620	596
Other operating income	4	4	2	5
Staff costs	5	(303)	(281)	(271)
Premises costs		(62)	(59)	(62)
Selling costs		(23)	(23)	(24)
Logistics costs		(82)	(79)	(77)
General and administrative expenses		(23)	(20)	(18)
Impairments		(2)	(0)	(3)
Depreciation of property, plant and equipment	11	(42)	(38)	(40)
Amortisation of intangible assets	10	(25)	(19)	(17)
Total operating expenses		(562)	(519)	(512)
Operating profit	2	87	103	89
Finance income and expense	8	(4)	(4)	(4)
Share in results of associates	13	8	6	1
Profit before tax		91	105	86
Income taxes	9	(18)	(24)	(17)
Profit for the year		73	81	69
Attributable to shareholders of the company		73	81	69
Figures per share		€	€	€
Basic earnings per share	20	1.67	1.84	1.58
Diluted earnings per share	20	1.67	1.84	1.58
Proposed dividend	19	1.30	1.20	1.10

1)) This concerns the comparative figures for the year taken from the 2015 financial statements.

Consolidated statement OF RECOGNISED INCOME AND EXPENSE for 2016

(x € million)

	2016	2015	2014 ¹⁾
Profit for the year	73	81	69
Items never recognised in the profit and loss account:			
Actuarial gains and losses on defined-benefit plans, net of tax			(3)
Items recognised or which may be recognised in the profit and loss account:			
Effective part of movements in the fair value of cash flow hedge of long-term loans, net of tax	0	2	(2)
Reclassified to consolidated profit and loss account			0
	0	2	(2)
Income and expense recognised directly in shareholders' equity	0	2	(5)
Recognised income and expense for the year	73	83	64
Attributable to shareholders of the company	73	83	64

1) This concerns the comparative figures for the year taken from the 2015 financial statements.

Consolidated CASH FLOW STATEMENT

for 2016

(x € million)

	Note	2016	2015	2014 ¹⁾
Receipts from customers		3,102	2,953	2,845
Other operating income		<u>2</u>	<u>2</u>	<u>1</u>
		<u>3,104</u>	<u>2,955</u>	<u>2,846</u>
Payments to suppliers		(2,557)	(2,439)	(2,344)
Payments to employees		(169)	(157)	(148)
Payments to the government		<u>(197)</u>	<u>(196)</u>	<u>(184)</u>
		<u>(2,923)</u>	<u>(2,792)</u>	<u>(2,676)</u>
Net cash generated from operations	30	181	163	170
Interest received and paid		(4)	(4)	(4)
Dividend received from associates	13	5	3	4
Corporate income tax paid		<u>(29)</u>	<u>(22)</u>	<u>(23)</u>
Net cash flow from operating activities		<u>153</u>	<u>140</u>	<u>147</u>
Acquisitions/investments	1	(49)	(11)	(17)
Capital expenditure on property, plant and equipment/ investment property/assets held for sale	11	(74)	(51)	(60)
Receipts from disposal of property, plant and equipment/ investment property/assets held for sale		6	0	7
Capital expenditure on intangible assets	10	(12)	(11)	(16)
Investments in/loans to associates	13	(1)	(0)	(5)
Repayments by associates	13	0	0	0
Net cash flow from investing activities		<u>(130)</u>	<u>(73)</u>	<u>(91)</u>
Proceeds from long-term borrowings	22	30		
Repayment of long-term borrowings		(1)		(53)
Change in own shares		1	1	(1)
Dividend paid		<u>(55)</u>	<u>(48)</u>	<u>(63)</u>
Net cash flow from financing activities		<u>(25)</u>	<u>(47)</u>	<u>(117)</u>
Movement in cash, cash equivalents and short-term bank borrowings		(2)	20	(61)
Opening balance		<u>94</u>	<u>74</u>	<u>135</u>
Closing balance		<u>92</u>	<u>94</u>	<u>74</u>

1) This concerns the comparative figures for the year taken from the 2015 financial statements.

Consolidated BALANCE SHEET

as at 31 December 2016 before profit appropriation

(x € million)

ASSETS	Note	31-12-2016	02-01-2016	27-12-2014¹⁾
Goodwill	10	145	126	126
Other intangible assets	10	76	67	72
Property, plant and equipment	11	361	315	295
Investment property	12	20	19	15
Investments in associates	13	51	48	45
Other financial assets	13	17	25	9
Total non-current assets		670	600	562
Inventories	14	245	220	213
Trade and other receivables	15	179	144	146
Other current assets	16	24	9	9
Corporate income tax	9	2		0
Assets held for sale	17	3	4	8
Cash and cash equivalents	18	92	94	74
Total current assets		545	471	450
Total assets		1,215	1,071	1,012
EQUITY AND LIABILITIES	Note	31-12-2016	02-01-2016	27-12-2014
Paid-up and called capital		3	3	3
Reserves		624	603	567
Total shareholders' equity attributable to shareholders of the company	19	627	606	570
Deferred tax liabilities	9	28	25	27
Employee benefits	5	5	4	4
Other provisions	21	0	0	0
Bank borrowings	22	103	138	124
Total non-current liabilities		136	167	155
Current portion of long-term borrowings	22	71		
Bank borrowings	22	0	0	0
Trade and other payables	31, 32	294	207	200
Corporate income tax	9	0	6	0
Other taxes and social security contributions	23	24	26	33
Other liabilities, accruals and deferred income	24	63	59	54
Total current liabilities		452	298	287
Total equity and liabilities		1,215	1,071	1,012

1) This concerns the comparative figures for the year taken from the 2015 financial statements.

Consolidated statement of CHANGES IN EQUITY

for 2016 before profit appropriation

(x € million)

	Paid-up and called capital	Share premium	Other reserves	Revaluati- on reserve	Hedging reserve	Treasury shares reserve	Total
Balance as at 27 December 2014	3	31	552	4	(6)	(14)	570
Transactions with owners							
Share-based payments			0				0
Dividend paid			(48)				(48)
Change in own shares						1	1
	0	0	(48)	0	0	1	(47)
Total realised and unrealised results							
Profit for the year			81				81
Investment property			(0)	0			
Cash flow hedge					2		2
	0	0	81	0	2	0	83
Balance as at 2 January 2016	3	31	585	4	(4)	(13)	606
Transactions with owners							
Share-based payments			2				2
Dividend paid			(55)				(55)
Change in own shares						1	1
	0	0	(53)	0	0	1	(52)
Total realised and unrealised results							
Profit for the year			73				73
Investment property			(0)	0			
Cash flow hedge					0		0
	0	0	73	0	0	0	73
Balance as at 31 December 2016	3	31	605	4	(4)	(12)	627

NOTES

to the consolidated financial statements

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A. General

Sligro Food Group N.V. is based in Veghel, the Netherlands. The consolidated financial statements comprise the financial information of the company itself and that of its subsidiaries (referred to together as the Group).

B. Financial year

Under the Articles of Association, the financial year coincides with the calendar year. The year is actually closed on the last Saturday of the financial year in accordance with the international system of week numbering and thus on 31 December 2016 in the year under review. The 2016 financial year has 52 weeks. The comparative figures for the 2015 and 2014 financial years relate to 53 and 52 weeks respectively. The 2017 financial year will consist of 52 weeks.

C. Compliance with IFRS

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS). The financial statements were authorised for issue by the Executive Board on 27 January 2017.

D. Accounting policies used in the preparation of the consolidated financial statements

The financial statements are presented in millions of euros, except where otherwise indicated. The euro is the functional currency. The percentages are calculated on the underlying figures in thousands. The historical cost convention has been applied except for investment property and derivative instruments, which are stated at fair value. Assets held for sale are recognised at the lower of their existing carrying amount and fair value, less costs to sell.

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable in the circumstances. Their outcome forms the basis for the judgement on the carrying amounts of assets and liabilities which cannot easily be determined from other sources. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision only affects that period, or in the revision period and any future periods affected if the revision affects the current and future periods.

The carrying amounts of qualifying assets are tested regularly for indications of impairment. If there are any such indications, the recoverable amount of the asset is estimated on the basis of the present value of the expected future cash flows or the fair value less costs to sell. An impairment loss is recognised if the carrying amount is higher than the recoverable amount. The accounting policies set forth below have been consistently applied relative to 2015.

E. New standards and interpretations

The Group has elected not to apply the new standards IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases ahead of time. IFRS 9 and IFRS 15 are not expected to have any significant impact on the Group's financial statements. IFRS 16 will have a significant impact. The assessment of the impact of this standard is explained further on page 84 of this report.

F. Specific choices under IFRS

In some instances, IFRS permits various options in the application of accounting principles. The most important choices are explained below:

MEASUREMENT OF FAIR VALUE

A number of accounting policies and disclosures require the measurement of fair value.

The Group periodically reviews significant changes in value. Where fair value measurement is based on external information, the Group assesses the documentary evidence of fair value obtained from the third parties concerned to verify that the amounts arrived at satisfy IFRS requirements, including the hierarchical level of the fair values into which such measured amounts are classified. More information on the assumptions underlying the measurement of fair value is contained in the following notes:

Accounting policy	
Investment property	F
Other financial assets, fair value hedge	H ₂
Assets held for sale	H ₁₃
Bank borrowings	H ₂

PROPERTY, PLANT AND EQUIPMENT

IFRS allows the option of measuring property, plant and equipment (or individual assets) at either cost or fair value. Sligro Food Group opted for cost-based treatment since this involves a more straightforward calculation in our specific business.

INVESTMENT PROPERTY

IFRS allows the option of measuring investment property at either cost or fair value. The investment property comprises supermarket premises leased to Group franchisees. In contrast to the other property included in property, plant and equipment, the fair value is unequivocal. Moreover, the Group may not be the owner of these premises but may be subletting them. This property accordingly has the nature of a financial investment and the fair value provides a more accurate view of the economic performance. The existence of a transparent property market for supermarket premises means that the fair value can be calculated by applying a typical market capitalisation factor to the rental income.

CASH FLOW STATEMENT

IFRS allows the cash flow statement to be prepared using either the direct method or the indirect method, albeit with a preference for the direct method, and this is the method adopted by the Group as it provides the most accurate view of the actual cash flows. A reconciliation with the indirect method is included in note 30.

G. Accounting policies of a more critical nature

G₁ NET SALES

This is the proceeds from the sale of goods and services to third parties, net of value added tax, volume, other discounts and the value of loyalty programmes. Sales made in partnership with suppliers of fresh produce are also included. Some product lines are supplied directly to the stores of supermarket franchisees. However, since the contract terms, commercial management and financial settlement are arranged by the Group, the amounts concerned are included in the Group's revenue. Sales are recognised when the significant risks and rewards of ownership have been transferred to the purchaser or the service has been performed.

G₂ COST OF SALES

This is made up of the cost of purchasing the goods supplied. Bonuses, promotional payments and payment discounts received from suppliers are deducted from the purchase cost. Various types of compensation are received from suppliers, the two main ones being:

- i** Temporary price reductions, usually relating to special offers to customers with the aim of increasing direct sales volumes. In most cases, the supplier actually charges the lower purchase price for the agreed period but sometimes the normal price is charged and the discount is invoiced separately by the Group, based on the quantities sold. The benefit of temporarily lower

purchase prices is reflected directly in the cost of sales and therefore at least partially offsets the lower selling prices charged to customers.

- ii** Bonuses, usually based on annual agreements. Sometimes the bonus is a fixed or graduated percentage of the purchase value of total purchases (or an increase therein). Usually, advance payments on the bonus are received. As well as bonuses, the annual agreements frequently contain arrangements on promotional payments, usually subject to various forms of commercial collaboration. Promotional payments may be either absolute amounts or fixed or graduated percentages of the purchase value. Where receipt of a bonus can be expected with reasonable certainty, it is reflected in the carrying amount of inventories. Promotional payments are not deducted from inventories because they are intended to cover the selling costs.

G₃ GOODWILL AND OTHER INTANGIBLE ASSETS

All acquisitions are accounted for using the purchase method. With effect from 2010, goodwill is recognised in respect of the difference between the fair value of the purchase price payable and the initially recognised amount (generally the fair value) of the identifiable assets and liabilities acquired.

In the case of acquisitions prior to 28 December 2003, goodwill is the amount calculated according to the previously applicable accounting standards. Goodwill is carried at cost less any cumulative impairment losses. Goodwill is allocated to cash-generating units. Goodwill is not amortised but tested for impairment annually, or at other times when there is an indication of impairment. In the case of associates, the goodwill is reflected in the carrying amount of the investment. All other intangible assets are carried at cost less straight-line amortisation over the estimated useful life of the assets concerned. For the supermarket stores, the useful life has been estimated at ten years. For the customer bases in Foodservice, the useful life has also been estimated and currently ranges between 5 and 20 years. Where long-term customer accounts stem from specific sign-up fees with customers, the life of the asset is the same as the period of the contract. Impairment tests are performed when there are indications that they are required. The cost of internally generated goodwill and trademarks is expensed. Software developed by third parties is capitalised at cost, provided its technical feasibility has been demonstrated. Internally developed software, provided it satisfies a number of criteria including technical feasibility, is similarly capitalised. Software maintenance costs are expensed. Capitalised software is amortised over three years using the straight-line method.

G₄ PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are carried at cost less straight-line depreciation based on the estimated useful life of the assets concerned. Cost includes directly attributable finance costs where the effect is material as regards amount or term to maturity. Where assets are made up of parts with different useful lives, each part is treated as a separate item (component approach). The maximum depreciation period for alterations to rented premises is the remaining term of the lease. Where necessary, impairment losses are recognised. As a result of improved records of the work of our buildings department, we have been able to allocate the costs of construction and production to individual projects since 2016. These costs are capitalised and depreciated in property, plant and equipment as part of the buildings/alterations category.

The applicable depreciation percentages are:

Land	Nil
Buildings/alterations	3 to 12 ½
Retail premises	3 1/3
Plant and equipment	12 ½ to 33 1/3
Other	20 to 33 1/3

H. Other accounting policies

H₁ FOREIGN CURRENCY

Transactions denominated in foreign currencies are translated at the spot rate on the transaction dates. Receivables and payables are translated at the exchange rate on the balance sheet date, with exchange differences recognised in the profit and loss account. As all the Group's subsidiaries, associates and joint ventures are Dutch or Belgian companies there is no translation risk. The treatment of financial derivatives is described below.

H₂ FINANCIAL INSTRUMENTS

Non-derivative financial instruments

Non-derivative financial instruments comprise other financial assets, trade and other receivables, other current assets, cash and cash equivalents, bank borrowings, trade and other payables and other liabilities and accruals.

Derivative financial instruments

The Group makes use of financial derivatives to hedge the exchange rate and interest rate risks associated with its operating and financing activities. In accordance with its treasury policy, the Group neither holds nor issues derivatives for trading purposes. However, derivatives which do not meet the criteria for hedge accounting are treated as trading instruments. Derivative financial instruments are recognised

at fair value. The gain or loss on revaluation to fair value is recognised immediately in the profit and loss account. If derivatives do, however, meet the criteria for hedge accounting, recognition of any resulting gain or loss depends on the nature of the item that is hedged, as explained below.

The fair value of forward interest rate and exchange rate contracts is the estimated amount that the Group would have to pay or would receive if the instruments were cancelled on the balance sheet date. This information is provided by statements obtained from reputable financial institutions which act as the counterparties. A positive fair value of derivatives is recognised as other financial assets and a negative fair value is included in long-term debt.

Hedging

Cash flow hedge

When a derivative financial instrument is designated as a hedge associated with the variability of the cash flows (due to interest rates and exchange rates) from a recognised liability, the effective portion of a gain or loss on the derivative financial instrument is recognised in equity (via the statement of recognised income and expense). This item is transferred to the profit and loss account in the same period or periods in which the underlying liability affects the result. The ineffective portion of any gains or losses is recognised immediately.

Hedging monetary assets and liabilities

Where a derivative financial instrument is used to hedge the currency risk on a recognised monetary liability, hedge accounting is in principle not used, meaning that the gain or loss on exchange is recognised in the profit and loss account.

H₃ OTHER OPERATING INCOME

This item includes rental income from investment and other property. It also includes any gains and losses in the fair value of investment property and book profits or losses on the sale of such property and on the disposal of assets included in property, plant and equipment, together with similar income.

H₄ EXPENSES GENERAL

The presentation of expenses is based on classification by nature. The same classification is used for internal reporting purposes. Expenses are recognised in the year to which they relate. Rents and operating lease instalments are charged to the profit and loss account on a straight-line basis over the periods of the contracts concerned.

H₅ EMPLOYEE BENEFITS

i Defined-contribution plans

Pension scheme contribution liabilities under defined-contribution plans are recognised as an expense in the profit and loss account when the contributions fall due. This is the case for almost all of the Group's schemes providing privately insured benefits to top up state benefits including the schemes provided by EMTÉ Supermarkten and for certain groups of employees, such as fruit and vegetable and meat department staff, which are covered by industry pension funds. These arrangements are classed as a defined-contribution plan because the Group is only under obligation to pay the agreed level of contributions and does not bear any additional actuarial or other risks in respect of the accrued length of service.

ii Defined-benefit plans

The new pension scheme provided by Stichting Pensioenfonds Sligro Food Group replaced the old defined-benefit pension arrangements, with effect from 1 June 2014, and qualifies under IAS 19 as a collective money purchase arrangement, i.e. defined-contribution plan. The old scheme was terminated at the end of May 2014, resulting in a non-recurring accounting (i.e. non-cash) gain on pensions of €4 million before tax in 2014. The new scheme has minimal impact on the cost of the actual pension contributions borne by the Group.

iii Other long-term employee benefits

The Group's net obligation in respect of long-service benefits is the amount of the future benefits attributable to employee service in the reporting period and prior periods. The obligation is measured using the projected unit credit method and calculated at present value.

iv Option rights

The share option plan in force until 2014 gave a broad group of employees the option of acquiring Sligro Food Group N.V. shares. The fair value of the share options is accounted for as staff costs, with a corresponding addition to shareholders' equity and liabilities. Since the options are granted unconditionally, the fair value of the options is expensed in the year in which the options are granted. The options are payable half in shares and the other half in either shares or cash. The first 50% is therefore treated as being 'equity settled', with the cost expensed and a corresponding addition to shareholders' equity, with no further adjustments. The second 50% is treated as being 'cash settled', with the cost expensed and a corresponding increase in the liabilities, this latter item being adjusted each year through profit or loss, depending on the movements in the fair value of the position.

A change was made to the share option plan with effect from 2015, award of the options (Groen Bloed Certificaten 'Green Blood Depository Receipts') becoming conditional on continued service from 2015 onwards. The fair value of the options is amortised on a straight-line basis over the vesting period of the option rights. Profit-sharing granted with effect from 2015 is payable entirely in shares. These shares are then frozen for one year for staff and for four years in the case of management. These options are treated as 'equity settled' in their entirety.

H₆ FINANCE INCOME AND EXPENSE

These items are interest and similar costs payable to third parties and interest receivable from customers in respect of loans granted and/or deferred payments. The calculation is made using the effective interest method.

H₇ SHARE IN RESULTS OF ASSOCIATES

This concerns the Group's share in results of associates.

H₈ INCOME TAXES

The tax charge shown in the profit and loss account comprises the corporate income tax payable for the year together with any movements in deferred tax except where such liabilities relate to items that are accounted for directly in equity. The corporate income tax payable for the year is the expected amount of tax payable on the taxable profit, taking account of any adjustments in respect of the tax liability in preceding years. The tax burden is affected by tax facilities and costs which are not deductible or only partially deductible for tax purposes.

The provision for deferred tax liabilities results from temporary differences between accounting policies used for tax purposes and for reporting purposes. No provisions have been formed in respect of goodwill that is not tax-deductible and in respect of investments in associates qualifying for the substantial-holding exemption. The amount of the provision is calculated at the tax rate applicable on the balance sheet date or the rate (substantively) enacted at the balance sheet date.

H₉ INVESTMENT PROPERTY

Investment property is carried at fair value, which is based on the market value, as derived from a capitalisation factor applied to the rental income, and also depending on the expected long-term continuity as supermarket premises. The capitalisation factor applied is generally between 10.5 and 13 times the rental income but, in the case of some less viable premises, a lower valuation may be applied. The internally determined capitalisation factor is regularly reviewed by reference to external market data, such as external appraisals. As already disclosed in H₃, rental income and any fair value gains and losses are included in other operating income.

H₁₀ FINANCIAL ASSETS

Investments in associates are accounted for using the equity method and, at initial recognition, are stated at cost, including goodwill, but excluding associated transaction costs, with a carrying amount of not less than nil, unless the Group is under an obligation to absorb losses either partially or entirely or has given rise to genuine expectations that it will do so. Unrealised intragroup results are eliminated. Other financial assets mainly comprise interest-bearing loans to customers and loans to associates. The loans are carried at amortised cost less any impairment losses.

H₁₁ INVENTORIES

Inventories are carried at the lower of cost, using the FIFO method, or market value, which is taken as being the estimated sales value in normal circumstances, less selling costs. The carrying amount includes allowances for internal distribution, whereas bonus discounts are deducted.

H₁₂ TRADE AND OTHER RECEIVABLES AND OTHER CURRENT ASSETS

Trade receivables are initially carried at fair value and subsequently at amortised cost less any impairment losses.

H₁₃ ASSETS HELD FOR SALE

Assets held for sale are recognised at the lower of carrying amount or fair value, less costs to sell. On classifying assets as being held for sale, any impairment losses are taken to the profit and loss account. If necessary, valuation is based on external appraisals.

H₁₄ CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances, credit balances at banks and deposits and are carried at face value. Overdrafts forming an integral part of the Group's cash management and payable on demand are included in the cash flow statement in the movement in cash, cash equivalents and short-term bank borrowings.

H₁₅ PROVISIONS

The provision for deferred tax liabilities is included at face value calculated at the prevailing or, if known, future tax rate and has already been explained in H₈.

The provision for employee benefits is explained in H₅. The other provisions relate to existing obligations connected to risks relating to franchises and guarantees carried at the amounts estimated as probably being payable in the future. Where the effect is material, the carrying amount of the future obligation is discounted.

H₁₆ INTEREST-BEARING DEBT

Interest-bearing debt is initially recognised at fair value less related transaction costs. The liabilities are subsequently carried at amortised cost determined using the effective interest method.

H₁₇ OTHER LIABILITIES, ACCRUALS AND DEFERRED INCOME

These are carried at amortised cost.

I. Basis of consolidation

Subsidiaries are those entities over which Sligro Food Group N.V. has control. Subsidiaries are fully consolidated. Sligro Food Group N.V. is the holding company for the following wholly-owned subsidiaries:

Foodservice

- Sligro Food Group Nederland B.V., Veghel.
 - Sligro B.V., Veghel.
 - De Dis B.V., Ter Apel (86%).
 - Van Hoeckel B.V., 's-Hertogenbosch.
 - Horeca Totaal Sluis B.V., Sluis.
 - D'Hoore Huur en Verhuur B.V., Sluis.
 - Bouter B.V., Zoetermeer.
- Sligro Food Group International B.V., Veghel.
 - Sligro België N.V., Antwerpen.
 - Bejaco N.V., Rotselaar.
 - Java B.V.B.A., Rotselaar.
 - Freshtrans B.V.B.A., Rotselaar.

Food Retail

- Sligro Food Group Nederland B.V., Veghel.
 - EMTÉ Franchise B.V., Veghel.
 - EMTÉ Supermarkten B.V., Veghel.
 - EMTÉ Vleescentrale B.V., Veghel.
 - EMTÉ Vastgoed B.V., Veghel.
 - EETnl Holding B.V., Veghel.
 - Van Heinde Holding B.V., 's-Hertogenbosch.
 - Van Heinde 's-Hertogenbosch B.V., 's-Hertogenbosch.

The effectiveness of the Group's legal structure is appraised each year with a view to simplification where appropriate.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the share in the results of associates measured using the equity method. Subsidiaries and associates are included in the consolidation from the date on which control or significant influence is obtained to the date on which it ceases.

Intercompany items and any unrealised gains and losses on such transactions are eliminated in the preparation of the consolidated financial statements.

J. Segment information

Sligro Food Group reports its results according to the main segments of foodservice and food retail. This segmentation matches that of internal management information precisely.

In attributing the results to the main segments, a distinction is made between directly attributable income and expenses and assets and liabilities and those which are not directly attributable, the latter mainly concerning the Group's integrated back-office activities, which are attributed to the main segments using reasonable and consistently applied allocation methods.

K. Earnings per share

The Group reports both basic and diluted earnings per share (EPS). The net result per ordinary share is calculated on the basis of the profit attributable to the shareholders of the Group divided by the weighted average number of ordinary shares in issue during the year. In calculating the diluted earnings per share, the profit attributable to the shareholders of the Group and the weighted average number of ordinary shares in issue during the year are adjusted for the potential dilutive effect on the number of ordinary shares of share options awarded to staff.

NOTES

to the consolidated financial statements

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1. Acquisitions, investments and disposals

Three acquisitions were made in 2016. In January we acquired the wholesale activities of De Kweker in Purmerend and Texel. De Kweker generated sales of €17 million from these activities in 2015 and has some 35 staff on a full-time basis. The acquisition was completed on 29 February 2016 and incorporated in the Group's figures from 1 March 2016 and added €11 million to sales in 2016.

On 16 February 2016, we acquired Java in Belgium by purchasing the entire share capital of Bejaco N.V. Java is a top-five player in the Belgian foodservice market focusing specifically on the institutional and company catering market segments and several hotel chains. Java's sales were some €129 million in 2015 and it employs about 280 staff on a full-time basis. This acquisition has also been incorporated in the Group's figures from 1 March 2016 and added €106 million to sales in 2016. The goodwill recognised below relates to this acquisition.

Also in February 2016 we acquired the entire share capital of EETnl Holding B.V. which operated the Van Heinde trading style in 's-Hertogenbosch. This was an acquisition focusing on the store that we reopened a few months later as EMTÉ 's-Hertogenbosch.

An analysis of the acquired assets and equity and liabilities is as follows:

(x € million)

	2016	2015
Goodwill	19	
Intangible assets	20	4
Property, plant and equipment	16	4
Inventories	7	4
Trade and other receivables	23	5
Cash and cash equivalents	2	0
Non-current liabilities	(1)	
Deferred tax liabilities	(8)	(1)
Employee benefits	(2)	(0)
Trade and other payables	(25)	(5)
Total identifiable net assets	51	11
Less: cash and cash equivalents	(2)	(0)
Debt-free purchase price	49	11

At the end of 2016, we announced the proposed acquisition of the entire share capital of Tintelingen B.V., which specialises in 'select-your-own' Christmas gifts and supplies businesses with physical or digital gifts to mark special occasions. Tintelingen generated sales of some €8 million in the 2015/16 financial year and has 11 employees on a full-time basis. This transaction is expected to be completed in June 2017 and Tintelingen will be incorporated in the Group's figures from July 2017.

2. Segment information

The results and net capital employed can be analysed by segment as follows:

(x € million)

	Foodservice		Food Retail		Total	
	2016	2015	2016	2015	2016	2015
Net sales¹⁾	1,986	1,829	827	841	2,813	2,670
Other operating income	0	1	4	1	4	2
Total income	1,986	1,830	831	842	2,817	2,672
Operating profit	82	89	5	14	87	103
Finance income and expense					(4)	(4)
Share in results of associates	3	2	5	4	8	6
Income taxes					(18)	(24)
Profit for the year					73	81
Segment assets	829	698	220	213	1,049	911
Associates	14	13	37	35	51	48
Unallocated assets					115	112
Total assets	843	711	257	248	1,215	1,071
Segment liabilities	267	213	114	86	381	299
Unallocated equity and liabilities					834	772
Total equity and liabilities	267	213	114	86	1,215	1,071
Net capital employed ²⁾	563	486	105	127	668	613
Net interest-bearing debt ³⁾ , provisions and associates					(41)	(7)
Group equity					627	606
Staff costs	200	180	103	101	303	281
Number of employees ⁴⁾⁵⁾	3,823	3,367	2,748	2,701	6,571	6,068
Capital expenditure ⁶⁾	59	52	27	8	86	60
Disposals ⁶⁾	(0)	(0)	(6)	(0)	(6)	(0)
Investment in customer bases	4	3	1	1	5	4
Depreciation ⁷⁾ and amortisation software	40	33	12	10	52	43
Other amortisation	9	7	8	7	17	14

1) There are no transactions between the segments. 2) Excluding associates. 3) Interest-bearing debt less freely available cash and cash equivalents and the fair value of derivatives. 4) Certain head office staff who perform activities on behalf of the Group as a whole have been included in the Foodservice activities. 5) Figures for the preceding year have been restated, owing to a change in definitions. 6) Involving property, plant and equipment, investment property, assets held for sale and software (at transaction level). 7) Including impairments.

3. Net sales

This is very largely made up of sales of food and food-related non-food articles to consumers and retail traders (Food Retail), institutional customers, the hospitality sector, company restaurants and other large-scale caterers (Foodservice) in The Netherlands and Belgium.

The analysis of revenue by activity is as follows:

(x € million)

	2016	2015
Foodservice	1,986	1,829
Food Retail	827	841
	2,813	2,670
Goods/services		
Goods supplied	2,789	2,648
Services rendered	24	22
	2,813	2,670

4. Other operating income

(x € million)

	Note	2016	2015
Investment property rental income	12	2	2
Fair value adjustments on investment property	12	1	(0)
Other rental income		0	1
Book profit (loss) on sale of property, plant and equipment and other incidental gains and losses	11	1	(1)
		4	2

5. Employee-related items

5.A. STAFF COSTS

Staff costs are made up as follows:

(x € million)

	Note	2016	2015
Salaries		217	204
Social security contributions		37	32
Net benefit expense on defined-benefit plans	5.c	17	17
Share-based payments	5.e	1	0
Contract/temporary staff		15	12
Other staff costs		16	16
		303	281

5.B. EMPLOYEE BENEFITS PROVISION

This provision can be analysed as follows:

(x € million)

	Note	2016	2015
Post-employment benefits	5c	0	
Long-service benefits	5d	5	4
		5	4

5.C. PENSIONS AND PENSION FUNDS

Within the Group there are basically two pension schemes, connected with the two principal collective labour agreements covering the Group's activities.

There were changes to all the pension schemes mentioned below in 2015, in line with the new statutory rules, to bring the contribution rates within the band between permitted minimum and maximum pension base percentages.

Food Retail Chains CLA

The staff of EMTÉ Supermarkten come under this CLA. The pension scheme is administered by the Food Industry Pension Fund. It is an indexed average pay scheme, with indexation conditional on satisfactory funding. This arrangement is classed as a defined-contribution plan because the Group is only under obligation to pay the agreed level of contributions and does not bear any additional actuarial or other risks in respect of the accrued length of service. The industry pension fund has a reserve deficit. EMTÉ Supermarkten does not have any obligation beyond the payment of contributions. The level of contributions is linked to the pension base and is calculated in the same manner for all companies affiliated to the Pension Fund.

Other CLAs/industry-wide pension funds

A small proportion of the Group's employees is covered by other industry pension funds. The schemes are conditional indexed average pay schemes and the related pension funds also have reserve deficits. These arrangements, too, are classed as a defined-contribution plans because the Group is only under obligation to pay the agreed level of contributions and does not bear any additional actuarial or other risks in respect of the accrued length of service.

Food Wholesale Sector CLA

The other staff within the Group come under this CLA. The pension scheme for these employees is administered by Stichting Pensioenfonds Sligro Food Group. In 2014, agreement was reached on a new pension scheme for these employees. The treatment as a defined-benefit plan was discontinued at the end of May 2014 and has been treated as a defined-contribution plan since that date. The new scheme came into operation on 1 January 2015, with the contribution rate fixed for five years. The Group does not have any obligation beyond the payment of the agreed level of contributions.

5.D. LONG-SERVICE BENEFITS

(x € million)

	2016	2015
Opening balance	4	4
Benefits paid	(0)	(0)
Benefit expense for the year	1	0
Actuarial result (also expensed) for the year	0	0
Closing balance	5	4

5.E. SHARE-BASED PAYMENTS (SHARE OPTION SCHEME)

The target group for the share option scheme in force until 2014 comprised approximately 40 individuals, awarded unconditional share options which vest immediately and can be exercised after 4 years. With effect from 2015, the award of share options for this group of individuals becomes conditional on continued service. The exercise price is the first ex-dividend price after the grant date. Under the share option scheme rules, at least 50% of any net gain (after tax) must be used to buy Sligro Food Group shares, which in turn will be locked up for four years. The number of share options awarded to Sligro Food Group N.V Executive Board members will be based on a fraction of their average base salary and the award ratio multiplied by a factor depending on the development in the total shareholders' return relative to a peer group, varying between 0% and 150%. The composition of the peer group forms part of the scheme, as approved by the General Meeting of Shareholders and published on the website. The peer group benchmarking in 2016 gives a factor of 50% (2015: 75%). The other members of the target group will receive, depending on category, 50% or 25% of the award made to the Executive Board members.

A change was made to the share option plan with effect from 2015, award of the options (Groen Bloed Certificaten – 'Green Blood Depository Receipts') becoming conditional on continued service from 2015 onwards. The fair value of the options is amortised on a straight-line basis over the period for which the option rights are valid. Profit-sharing granted with effect from 2015 is payable entirely in shares. These shares are then frozen for one year for staff and for four years in the case of management. These options are treated as 'equity settled' in their entirety.

Additionally, the target group for these options has been increased as from 2015. For many years, Sligro Food Group has had a share ownership plan for all its employees. Depending on the profit as a percentage of Group sales, staff receive a profit share as a percentage of their gross pay up to a maximum gross salary of €50,000, payable in the form of shares (50% of the profit share) and share options (50% of the profit share). Profit-sharing granted with effect from 2015 is payable entirely in shares. These shares are then frozen for one year for staff.

Prior to year-end 2014, shares were repurchased to match all options in issue as at the date of award, the shares concerned then being held by the foundation managing employee shares. From 2015, this is being done on the basis of expectations arrived at by applying the Black & Scholes formula explained below.

Movements in the number of options in issue were as follows:

	2016	2015
Opening balance	842,885	570,000
Exercised	(137,200)	(147,000)
Awarded	512,587	419,885
Closing balance	<u>1,218,272</u>	<u>842,885</u>

The exercise price for the options exercised in 2016 was €24.13. The actual share price at the time of exercise was €34.12.

The analysis of the share options in issue as at year-end 2016 is as follows:

	Maturity	Exercise price	Number
22 March 2013	1 April 2017	24.64	122,000
21 March 2014	1 April 2018	28.63	163,800
20 March 2015	1 April 2019	38.41	419,885
29 March 2016	1 April 2020	34.35	512,587

For disclosures relating to the number of options awarded to the individual members of the Executive Board, reference is made to note 6.

The gross costs connected with this scheme have been calculated by independent experts, using the Black & Scholes Model and, for the award made in March 2016, amount to €0.9 million (2015: €1.8) over the entire vesting period of 4 years. The net allocation for 2016 amounts to €0.5 million (2015: €0.3).

The calculations are based on the following assumptions:

- Risk-free interest rate: -0.02% (2015: 0.17%).
- Volatility: 15%, based on a 4-year historical average (2015: 19%).
- Dividend yield: 3.2% (2015: 2.9%).
- Vesting period: 4 years (2015: no change).

6. Remuneration of Executive Board and Supervisory Board

The remuneration charged to the profit and loss account for the company's Executive Directors in 2016 amounted to €1,897 thousands (2015: €2,366). The remuneration can be analysed as follows:

(x € 1,000)

	K.M. Slippens		R.W.A.J. van der Sluijs ¹⁾		W.J.P. Strijbosch		H.L. van Rozendaal ²⁾	Total	
	2016	2015	2016	2015	2016	2015	2015	2016	2015
Fixed salary	469	438	332	257	408	380	117	1,209	1,192
Short-term bonus	70	145	50	85	61	126	-	181	356
Long-term bonus	70	145	50	85	61	126	-	181	356
Pension contribution and compensation	96	103	49	45	83	89	38	228	275
Value of options	14	33	14	33	14	33	33	42	132
Voluntary social security contributions	11	11	8	4	10	9	1	29	25
Statutory social security contributions	9	9	9	9	9	9	3	27	30
Total	739	884	512	518	646	772	192	1,897	2,366

1) Refers to the whole of 2015.

2) Refers to the period January-April 2015.

The short-term and long-term bonuses are based on performance in the year in question and are paid in the following year. These bonuses are 50% (2015: 50%) determined by the extent to which the budgeted profit target is achieved. If less than 90% of the target is reached, the bonus is nil, whereas achieving the target will lead to a short-term bonus of 15% of the fixed salary (2015: 15%). If the target is exceeded, the bonus is increased in line with the percentage outperformance. For 2016, the other 50% depends on the progress in the plans for Sligro Belgium and aligning of the organisation and governance structure with further growth and internationalisation, the revision of the back-office structure and the introduction and design of the management programme, progress on EMTÉ 3.0 and the achievement of the 'Kicken op Kosten' cost-saving targets. The long-term bonus is equal to the short-term bonus but has to be used to purchase Sligro Food Group shares that then have to be held for at least four years. The 2016 bonuses were calculated at 50% of the target level (2015: 110%).

The value of the options concerns the number of options awarded in the year multiplied by the value of each option based on the formula stated in note 5.e. In relation to share and share option transactions, the acquirers are bound by insider trading rules. Additionally, transactions in shares are only allowed in the two weeks following publication of the results for the year, the interim results and the shareholders' meeting and on condition that there is no suggestion of inside information.

Voluntary social security contributions includes incapacity benefit plan insurance premiums. The members of the Executive Board are also able to claim expenses and a mileage allowance for using their own cars in connection with the business. Since these benefits serve to cover actual costs incurred and are not considered to form part of the remuneration as such, they have not been included in the above totals.

The annual remuneration for the chairman of the Supervisory Board, A. Nühn, was €50 thousands (2015: €48) and that of the other members of the Supervisory Board €35 thousands (2015: €34). The remuneration of the supervisory directors who resigned in 2016 was €9 thousands. The remuneration of the supervisory directors who were appointed in 2016 was €26 thousands. Members of the Supervisory Board also received attendance fees totalling €45 thousands (2015: €35). The remuneration is not performance-related. The total remuneration amounted to €235 thousands (2015: €211). No options have been awarded to the Supervisory Board, nor have any loans, advances or guarantees been granted to either the Executive Board or the Supervisory Board.

Movements in share and option ownership were as follows:

Equities	Exercise price	K.M. Slippens	R.W.A.J. van der Sluijs	W.J.P Strijbosch
Opening balance		96,082	2,411	6,611
Purchase		4,148	1,917	4,453
Sale				
Closing balance		100,230	4,328	11,064
Options				
Opening balance		35,900	19,350	35,900
Exercised		(9,800)	(2,450)	(9,800)
Awarded		7,800	7,800	7,800
Closing balance		33,900	24,700	33,900

The actual share price at the time of exercise in 2016 was €34.12.

The number of options in issue as at year-end can be analysed as follows:

maturing on 1 April 2016	24.64	8,000	4,000	8,000
maturing on 1 April 2017	28.63	10,400	5,200	10,400
maturing on 1 April 2018	38.41	7,700	7,700	7,700
maturing on 1 April 2019	34.35	7,800	7,800	7,800
Closing balance		33,900	24,700	33,900

None of the members of the Supervisory Board owns any shares in the company or options to acquire the company's shares (2015: no change).

7. Audit fees

The fee for auditing the financial statements has been included in general administrative expenses and in 2016 amounted to €375 thousands (2015: €280). The increase is related to the expansion of the audit work to Belgium following the acquisition of Java earlier in the year. The 2016 fees include an amount of €15 thousands in respect of additional costs relating to the audit of the preceding financial year (2015: €30). Other assurance-related services performed by the external auditors mainly concern other activities, including scrutiny of customer-related contracts, for which fees charged in 2016 by the auditors amounted to €25 thousands (2015: €45). The auditors are not engaged to perform consultancy work.

8. Finance income and expense

(x € million)

	2016	2015
Finance income from loans granted to customers and late payment credit charges received from customers, plus interest on tax paid in advance	0	0
Finance expense for finance-related obligations	(4)	(4)
	(4)	(4)

9. Income taxes

9.A.1. TAX (CORPORATE INCOME TAX)

We believe that paying our way in society in the form of taxes according to the agreed rules is important and part of doing business fairly. We take advantage of tax facilities and allowances but without attempting to test the limits. Where appropriate, we approach the relevant authorities proactively and for some years we have formalised this on the basis of a tax agreement, referred to as Horizontal Supervision, with the Dutch Tax and Customs Administration. This 'covenant' involves reciprocal agreements on the way in which the company and the tax authorities deal with each other in a transparent manner.

Although there is no Horizontal Supervision concept in Belgium, we are already seeking negotiations with the competent authorities there with the aim of avoiding possible tax risks ahead of starting our activities and furthermore to create a relationship with the tax authorities analogous to the situation in the Netherlands.

The Dutch and Belgian tax systems recognise a difference between the reported commercial profit and taxable profit arising from differences between the carrying amount and tax base of intangible assets, property, inventories, receivables and provisions.

The tax charge in the profit and loss account can be analysed as follows:

(x € million)

	2016	2015
Tax for the year	21	25
Prior-year adjustments	(0)	2
Tax liability for the year	21	27
Taxes accounted for directly in recognised income:		
Movement in cash flow hedge of long-term loan	(0)	(0)
	(0)	(0)
Movement in deferred tax liabilities	(3)	(3)
Tax shown in the profit and loss account	18	24

9.A.2. EFFECTIVE TAX BURDEN

The effective tax burden can be analysed as follows:

(x € million)

	2016	2015
Profit before tax	91	105
Tax burden at the standard rate (Netherlands 25.0%, Belgium 34.0%)	23	26
Prior-year adjustments	(0)	2
Innovation allowances	(3)	(3)
Energy and other capital expenditure allowances	(1)	(1)
Other, including tax facilities, non deductible expenses and tax-exempt income, including tax-free results of associates	(1)	0
Effective tax burden 19.2% (2015: 22.8%)	18	24

Since 2010 we have used innovation allowances for our proprietary paperless order collection system. We have a ruling that we could use these allowances for this innovation up to year-end 2016.

9.B. CURRENT TAX ASSETS AND LIABILITIES

The following current tax items were included as at year end:

(x € million)

	2016	2015
Assets	2	
Liabilities	0	6

As at year-end 2016, all wholly owned subsidiaries in the Netherlands, with the exception of EMTÉ Vastgoed B.V., were included in the tax group for corporate income tax purposes. Tax is levied on the tax group as if it were one company. Implicit in this is that all the companies making up the tax group bear joint and several liability for the tax liabilities of the group. The year-end position relates to the financial year concerned.

9.C. DEFERRED TAX LIABILITIES

These can be analysed as follows:

(x € million)

	2016	2015
Intangible assets	9	5
Property, plant and equipment	18	19
Inventories	1	1
Net liability	28	25

The deferred tax liabilities mainly relate to the recognition of intangible assets from acquisitions and to different carrying amounts for property, to which special tax rules apply. In addition, in past years, tax facilities allowing accelerated depreciation of capital expenditure as part of the measures to address the financial crisis were utilised. Investments of more than 5% in the share capital of other companies qualify for the substantial-holding privilege, under which profits and/or dividends are not taxed (and losses are also not deductible). The difference in the carrying amounts of such investments is therefore not taken into account in the calculation of the deferred tax liabilities.

Movements during the year were as follows:

(x € million)

	2016	2015
Opening balance	25	27
Acquisitions	7	1
Movements during the year	(3)	(3)
Movements in previous years	(1)	
Closing balance	28	25

There are no deferred tax liabilities or assets that have not been recognised in the balance sheet.

10. Goodwill and other intangible assets

Movements in this item were as follows:

(x € million)

	Goodwill		Other intangible assets	
		Store locations and customer bases	Software	Total
At cost	130	137	25	162
Accumulated amortisation	(4)	(71)	(19)	(90)
Balance as at 27 December 2014	126	66	6	72
Capital expenditure		4	7	11
Disposals				
Acquisitions		3	0	3
Amortisation		(14)	(5)	(19)
Total movements	0	(7)	2	(5)
At cost	130	144	33	177
Accumulated amortisation	(4)	(85)	(25)	(110)
Balance as at 2 January 2016	126	59	8	67
Reclassification			1	1
Capital expenditure		5	8	13
Disposals				
Acquisitions	19	20	0	20
Amortisation		(17)	(8)	(25)
Total movements	19	8	1	9
At cost	149	170	40	210
Accumulated amortisation	(4)	(103)	(31)	(134)
Balance as at 31 December 2016	145	67	9	76

ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS

Goodwill is allocated to cash-generating units as follows:

(x € million)

	2016	2015
Food Retail	30	30
Foodservice	115	96
	145	126

The cash-generating units are identified using the classification the Group applies to its operating segments. Java is part of the Foodservice segment.

The recoverable amounts of the Foodservice and Food Retail cash-generating units are based on a calculation of the value in use arrived at by taking the net present value of the estimated future cash flows that will be generated by the continued use of these cash-generating units. Based on this calculation, it has been concluded that the recoverable amount of both the Foodservice and Food Retail cash-generating units is considerably higher than the carrying amount and that therefore no impairment loss needs to be recognised (2015: no change).

IMPORTANT ASSUMPTIONS USED IN THE ESTIMATES OF THE NET PRESENT VALUE OF THE CASH FLOWS

The basis is the average operating profit before amortisation (EBITA) in the preceding year and the budget for the current year, the reasonableness of the assumption being tested against the operating profits in earlier years. The main assumptions used in calculating the recoverable amount are the discount rate, the terminal growth rate and the rate of growth in EBITA, which are as follows:

DISCOUNT RATE 9% (2015: 9%)

The discount rate before tax used for the Foodservice and Food Retail activities has been derived from the weighted average cost of capital (WACC) as used by financial analysts, adjusted to reflect a normalised capital structure.

TERMINAL GROWTH RATE 1% (2015: 1%)

For the Foodservice and Food Retail activities, the net present value model is based on estimated cash flows over a period of five years. The terminal growth rate is derived from the nominal GDP growth rate in the Netherlands.

ESTIMATED EBITA GROWTH RATE 1% (2015: 1%)

The estimated growth in EBITA is given by the compound annual growth over the first five years of the plans used for impairment testing and also takes account of past experience.

SENSITIVITY ANALYSIS

A sensitivity analysis has been performed on the assumptions used to estimate the net present value of the cash flows. If the discount rate is increased by 2%-points or the terminal growth rate is reduced by 1%-point, there is still ample headroom between the net present value and the carrying amount. If EBITA growth is cut to 0%, there is still ample headroom in the case of Foodservice and the gap for Food Retail is still just on the plus side.

11. Property, plant and equipment

Movements in this item were as follows:

(x € million)

	Land and buildings	Plant and equipment	Other assets	Assets under construction ¹⁾	Total
At cost	408	71	247	1	727
Accumulated depreciation	(158)	(55)	(219)		(432)
Balance as at 27 December 2014	250	16	28	1	295
Capital expenditure	21	8	18	4	51
Disposals	(0)	(0)	(0)		(0)
Acquisitions	4		0		4
Transfer ²⁾	3				3
Depreciation	(16)	(6)	(16)		(38)
Total movements	12	2	2	4	20
At cost	436	79	264	5	784
Accumulated depreciation	(174)	(61)	(234)		(469)
Balance as at 2 January 2016	262	18	30	5	315
Capital expenditure	33	12	28	5	78
Disposals	(0)		(0)		(0)
Acquisitions	10	0	6		16
Transfer ²⁾	(4)	(0)	(0)		(4)
Depreciation	(17)	(7)	(18)		(42)
Impairments	(2)	(0)	(0)		(2)
Total movements	20	5	16	5	46
At cost	466	85	291	10	852
Accumulated depreciation	(184)	(62)	(245)		(491)
Balance as at 31 December 2016	282	23	46	10	361

1) The capital expenditure is the net investment in the year under review plus transfers to property, plant and equipment during the year.

2) Transferred from and to investment property and assets held for sale.

The increase in capital expenditure is discussed on page 76 of the Executive Board report.

LEASED ASSETS

The Group has entered into finance lease contracts for assets in property, plant and equipment with a carrying amount of €9 million as at 31 December 2016 (2015: nil).

ASSETS UNDER CONSTRUCTION

The Group is constantly acquiring, expanding and upgrading stores and distribution centres. On completion of a project, assets under construction are transferred to the relevant category of property, plant and equipment.

WHOLESALE OUTLETS, RETAIL STORES AND DISTRIBUTION CENTRES

Land and buildings can be analysed as follows:

(x € million)

	2016	2015
Land	77	75
Supermarket store premises	21	23
Buildings	122	107
Subtotal of properties owned	220	205
Land occupied by leased premises	3	3
Leasehold improvements	59	54
	282	262

The area of land totals 883,000 m² (2015: 855,000 m²), of which 285,000 m² (2015: 285,000 m²) is accounted for by the central complex.

Company-owned premises can be specified as follows:

	Number		x 1,000 m ²		x € million	
	2016	2015	2016	2015	2016	2015
Cash-and-carry wholesale outlets	26	26	171	169	92	83
Customer distribution centres	5	5	82	82	32	34
Production companies	3	3	15	15	9	10
Central complex	1	1	140	136	47	42
Supermarkets operated by the Group	20	20	25	28	28	32
Other	6	4	21	10	12	4
	61	59	454	440	220	205

12. Investment property

(x € million)

	2016	2015
Opening balance	19	15
Capital expenditure	0	2
Transferred from property, plant and equipment		2
Fair value adjustments	1	(0)
Closing balance	20	19

The investment property includes 8 (2015: 8) supermarket premises leased to franchisees on operating leases. The gross floor area amounted to 12,141 m² (2015: 11,869 m²). The rental income is disclosed in note 4. The future minimum lease payments under non-cancellable leases are disclosed in note 26. The direct costs associated with the investment property amounted to €13 thousands (2015: €13). The leases are on normal terms. External appraisals were conducted in 2016 for validation purposes.

13. Investments in associates and other financial assets

(x € million)

	Note	2016	2015
Associates		51	48
Other financial assets			
Loans to associates		1	0
Loans to customers		6	7
Fair value of derivatives	22	10	18
		17	25

ASSOCIATES

The investments in associates are as follows:

(in %)

	2016	2015
Foodservice		
O. Smeding & Zn. B.V., Sint Annaparochie	49	49
M. Ruig & Zn. B.V., Oostzaan	25	25
G. Verhoeven Bakkerij B.V., Veldhoven	25	25
Slagerij Kaldenberg B.V., Herwijnen	33	33
Vemaro B.V., Venlo	40	40
Coöperatieve Inkoopvereniging Superunie B.A. ¹⁾ , Beesd		
BLOC Groepering voor Samenaankoop en Invoer CVBA ¹⁾ , Strombeek		
Food Retail		
Spar Holding B.V., Waalwijk	45	45
Super Direct Retail B.V. ²⁾ , Zaltbommel	37	37

1) Concerns purchase organisation memberships

2) In insolvency.

The carrying amounts of the investments in associates derive from the most recently published figures. All the investments, with the exception of that in Super Direct Retail B.V., are of a strategic nature. Voting rights are equal to the percentage interest in each case.

Movements in investments in associates were as follows:

(x € million)

	2016	2015
Opening balance	48	45
Acquisition	0	
Investments and disposals	(0)	(0)
Share in results	8	6
Dividend	(5)	(3)
Closing balance	51	48

The summarised financial information for the associates, on the basis of a 100% interest as shown by their most recent financial statements (i.e. 2015 or 2014), is as follows:

(x € million)	Spar Holding B.V.		Other associates	
	2016	2015	2016	2015
Assets	79	77	72	68
Liabilities	46	49	56	55
Shareholders' equity	33	28	16	13
Net sales	439	439	923	924
Net earnings	6	1	7	5

OTHER FINANCIAL ASSETS

The loans to customers have maturities averaging several years and are usually at market interest rates, although some are interest-free.

14. Inventories

Inventories were made up as follows:

(x € million)	2016	2015
Central distribution centre	73	64
Stores and regional distribution centres	161	146
Packaging deposits	8	8
Stock in transit	3	2
	245	220

In the carrying amount of inventories a provision for obsolescence is included for an amount of €4 million (2015: €6).

15. Trade and other receivables

(x € million)	2016	2015
Trade receivables	119	88
Suppliers	60	56
	179	144

Receivables from suppliers represent bonuses, promotional allowances and credit notes not yet settled. The carrying amount of the trade receivables has been written down to fair value by an amount of €4 million (2015: €4).

The movements in this item were as follows:

(x € million)	2016	2015
Opening balance	4	4
Accounts written off	(0)	(1)
Charged to the result	0	1
Closing balance	4	4

16. Other current assets

(x € million)

	Note	2016	2015
Fair value of derivatives	22	13	
Other amounts receivable and prepaid expenses		11	9
		24	9

The other amounts receivable and prepaid expenses include staff loans and receivables in respect of investment projects.

17. Assets held for sale

(x € million)

	2016	2015
Property	3	4

This concerns 4 (2015: 7) real estate projects. The premises concerned are for sale with immediate possession. Also recognised as assets held for sale are premises which have been on the market for longer than one year. Despite this, the intention is still to sell these premises in the short term. Four properties were sold during the year. Five properties were transferred from and four were returned to property, plant and equipment during the year.

(x € million)

	2016	2015
Opening balance	4	8
Transfer	4	(4)
Impairments	(0)	(0)
Disposals	(5)	
Closing balance	3	4

18. Cash and cash equivalents

(x € million)

	2016	2015
Cash balances and cash in transfer	18	17
Freely available bank balances	69	72
Time deposits	5	5
	92	94

The maturity of the time deposit is 30 September 2017 and is associated with guarantees provided by a financial institution.

19. Shareholders' equity

PAID-UP AND CALLED CAPITAL

The authorised capital amounts to €12,000,000 divided into 200,000,000 shares with a nominal value of 6 euro cents each. The issued and paid-up capital as at 31 December 2016 amounted to €2,655,300.90 (as at 2 January 2016: €2,655,300.90).

Movements in the number of shares in issue were as follows:

(x 1,000)

	2016	2015
Opening balance	44,255	44,255
Movements	0	0
Closing balance	44,255	44,255
Repurchased	(375)	(465)

All shareholders are entitled to dividends as declared from time to time and have the right to cast one vote per share in shareholders' meetings. The overall changes in equity are analysed in greater detail on page 104.

SHARE PREMIUM

This includes amounts paid in on the shares over and above the nominal value.

OTHER RESERVES

An amount of €11 million of the other reserves (2015: €8) is not freely distributable and relates to the difference between the retained profits calculated on the basis of the parent company's accounting policies plus the movements accounted for directly in the equity of the companies invested in (resulting from revaluations) and the part thereof that is distributable to the parent.

REVALUATION RESERVE

Where recognition of investment property at fair value leads to a positive adjustment of the carrying amount, a revaluation reserve is formed of the same amount, after allowing for deferred tax liabilities. This reserve is not freely distributable.

HEDGING RESERVE

This comprises the effective part of the cumulative net movement in the fair value of cash flow hedges of long-term loans. This reserve is not freely distributable.

TREASURY SHARES RESERVE

This represents the purchase price of the 374,600 of the company's own shares repurchased in connection with the share option programme.

UNAPPROPRIATED PROFITS/DIVIDEND

Since the balance sheet date, the Executive Board, with the approval of the Supervisory Board, has proposed the following profit appropriation:

(x € million)

	2016	2015
Addition to other reserves	16	29
Interim dividend paid (2016: €0.45 per share; 2015: €0.40)	20	17
Available for regular (final) dividend (2016: €0.55 per share; 2015: €0.50)	24	22
Available for variable dividend (2016: €0.30 per share; 2015: €0.30)	13	13
	73	81

This proposed profit appropriation, except for the interim dividend, has not been reflected in the balance sheet and does not affect the corporate income tax on profits.

20. Earnings per share

Weighted average number of outstanding shares during the year:

(x 1,000)

	2016	2015
Opening balance	43,790	43,685
Effect of repurchase of own shares	68	79
Average number of shares in issue	43,858	43,764

(x € 1)

	2016	2015
Basic earnings per share	1.67	1.84
Diluted earnings per share	1.67	1.84

The staff share options awarded, the exercise price of which is below the average share price for the year, have been included in the calculation of the diluted earnings per share.

21. Other provisions

The other provisions mainly relate to franchise risks and are connected with guarantees and repurchase commitments given to financial institutions on behalf of franchisees.

22. Long-term and short-term borrowings

LONG-TERM LIABILITIES

(x € million)

	Remaining term (years)	2016	2015
3.55% USD 75 million loan (bullet loan)	1	71	69
4.15% USD 75 million loan (bullet loan)	4	71	69
1.33% €30 million loan (bullet loan)	6	30	
Fair value of derivatives		2	
		174	138
Amounts falling due within one year		71	
Amounts falling due after more than one year		103	138
Amounts falling due after more than five years		30	

The Group uses cross-currency interest rate swaps to manage interest rate and foreign currency risks of the USD loans in accordance with its treasury policy. This means that the result on exchange on the USD loans, amounting to €5 million negative (2015: €14 negative), and that on the swaps, amounting to €5 million positive (2015: €14 positive), cancel each other out completely. The term of the swaps is the same as that of the loans. The hedging of the outstanding USD loans has been treated as a cash flow hedge.

The 3.55% USD loan and the 4.15% USD loan have been effectively converted by means of cross-currency interest rate swaps into euro loans at 3.46% and 3.96%, respectively. The amortised cost of these loans is translated at the dollar exchange rate ruling on the balance sheet date. The fair value of the swap relating to the 4.15% USD loan is €10 million positive (2015: €8 positive), which has been included in other financial assets. The fair value of the swap relating to the 3.55% USD loan is €13 million positive (2015: €10 positive) and has been included in current assets as its maturity is less than one year.

During the year, the Group entered into a shelf facility in the form of a US Private Placement. This is an uncommitted facility of up to €100 million which the Group can draw on over three years. The Group can set the size of the loan (with a minimum of €10 million) and the maturity (with a minimum of 7 years) for each drawing under this facility. The interest rate depends on the market rate at the time of the drawing. In April 2016, the Group drew an initial loan of €30 million under this facility, with a term of 7 years and at a fixed interest rate of 1.33% per annum. Consequently, the Group can still draw up to €70 million up to the end of March 2019.

BANK BORROWINGS

Security

As at year-end 2016, the Group had overdraft facilities totalling €98 million, which had not been drawn on. An amount of €42 million of the facility is committed. Security totalling €4 million has been provided for current and long-term bank borrowings. Sligro Food Group was required to satisfy the following ratio as at year-end 2016 in respect of both the long-term debt and the overdraft facilities:

	Required	Actual
Net interest-bearing debt/operating profit before depreciation and amortisation	< 3,0	0,4

The requirement was therefore comfortably met. In the event of failure to satisfy the agreed ratio, the lenders have the right to impose further requirements.

23. Other taxes and social security contributions

(x € million)

	2016	2015
VAT, excise duty and waste management contribution	16	19
Payroll tax and social security contributions	8	7
Pension contributions	0	0
	24	26

24. Other liabilities, accruals and deferred income

(x € million)

	2016	2015
Employees	27	27
Customer bonuses	11	9
Packaging deposits	8	6
Loyalty scheme liabilities	7	6
Other	10	11
	63	59

The employees item includes liabilities in respect of profit-sharing, accrued paid annual leave plus holiday allowances.

25. Risk management

The Group is exposed to credit, liquidity and market risks (interest rate, exchange rate and other risks) in its ordinary operations. There have been no changes in the Group's risk policy or in the management of these risks compared with the preceding year.

CREDIT RISK

The Group is exposed to a variety of credit risks connected with its operations. In the case of the food retail activities, the supermarkets sell exclusively for cash or using guaranteed payment methods and so there is essentially no credit risk. The largest credit risk for the Group is concentrated among supermarket franchisees in that, for some of the Group's customers, in addition to the usual suppliers' credit terms, there is a credit risk associated with the financing of independent store operators. This can take the form of direct loans, included in financial assets, or guarantees/repurchase commitments for credit lines provided by financial institutions. The risks are minimised by assessing the profitability of individual stores and their independent operators. A store's assets also provide security. Each project is carefully considered in 'store network consultation' project meetings and the outstanding receivables are monitored daily. Periodic assessments of the viability of stores are also performed. As at year-end 2016, the receivables from food retail customers included in other financial assets totalled approximately €1 million (2015: €3) and in trade receivables totalled approximately €8 million (2015: €8).

The aging of these trade receivables is as follows:

(x € million)

	< 1 month	1-3 months	3-12 months	> 12 months	Total
2016	8	0	0	0	8
2015	8	0	0	0	8

In the case of the foodservice activities, some supplies are made without guaranteed advance payment. However, payment for goods and services is largely by direct debit (Dutch payment product name: Bedrijven Euro-incasso) and customers only initiate payments to a limited extent. Although direct debit does not guarantee payment, should a customer have insufficient funds, experience has shown that, owing to the diversification provided by a large customer base and the short payment period allowed, the credit risk in relation to the volume of foodservice supplies made on credit is fairly minor. As at year-end 2016, the receivables from food retail customers included in other financial assets totalled approximately €5 million (2015: €4) and in trade receivables totalled approximately €111 million (2015: €80). The trade receivables aged longer than three months relate to Bouter and are associated with the project-based nature of its activities.

The aging of these trade receivables is as follows:

(x € million)

	< 1 month	1-3 months	3-12 months	> 12 months	Total
2016	108	2	1	0	111
2015	80	0	0	0	80

As at year-end 2016, the Group had receivables from suppliers totalling €60 million (2015: €56), mainly relating to agreed annual purchase volumes, which are paid after the end of the year. If a supplier should default on these payments, the Group would generally be able to recover the amount receivable by setting it against accounts payable to the supplier concerned.

LIQUIDITY RISK

The Group aims to hold sufficient liquid funds (including in the form of commitments by financial institutions) to meet its financial liabilities at any time. This is achieved in part by financing operations to a relatively large extent by medium and long-term credit lines with different repayment schedules. Moreover (partly in view of the changes in credit market conditions), the availability of €42 million of the short-term facilities is legally enforceable.

Given below is an analysis of the financial liabilities, including estimated interest payments.

(x € million)

	Carrying amount	Contractual cash flows	< 1 year	1 - 5 years	> 5 years
Non-current liabilities ¹⁾	103	103	4	68	31
Current liabilities	452	452	452	—	—
	555	555	456	68	31

1) Contractual cash flows are included at the swap rate on the maturity date of the liabilities.

MARKET RISK (INTEREST RATE AND EXCHANGE RATE RISKS)

The risk of volatility in exchange rates and interest rates is partly hedged by means of derivatives.

Interest rate risk

Note 22 provides an analysis of the long-term financing and associated interest rate terms.

Currency risk

The Group is exposed to an exchange rate risk on loans and on goods purchases. This mainly concerns the US dollar. As mentioned in the accounting policies under heading H₂, the exchange risk on the loans is entirely hedged. The Group also hedges a proportion of its dollar purchase obligations by means of forward currency contracts. The policy is to hedge transactions where settlement will be more than two months ahead and not to hedge transactions due for earlier settlement. The annual dollar purchase volume is approximately USD 25 million, with an average term of approximately two months. Hedge accounting is not applied to forward currency contracts for purchase obligations. The effect of exchange rate movements is included in the cost of sales.

Capital management

The Group attempts to make maximum use of its available credit lines for funding purposes, provided the stipulated ratio can be comfortably met. The Group does not have a specific target return on capital employed. The aim is to achieve average growth in net profit which at least keeps pace with the target average rate of revenue growth.

Fair value

The carrying amount of financial instruments is almost the same as the fair value. Financial instruments carried at fair value are included in the category 'level 2', which means that the valuation is based on amounts provided by a financial institution, which are derived from market data and other sources. The property investments are also measured at fair value and are included in 'level 3' (own valuation method based on knowledge available within the Group, as disclosed under F in the accounting policies).

SENSITIVITY ANALYSES

In 2016, we expanded our sensitivity analyses somewhat and tested them in cooperation with an external party. A number of external factors were identified where a change could affect the Group's profit before tax. This included an extensive scenario analysis. The following table summarises the results:

Parameter	Rate of increase	Impact on profit before tax in € million
Interest rate	1%-point	nil
Foreign currency (USD)	1%	nil
Salaries	1%	2 reduction
Oil/energy	5%	1 reduction
Rents	5%	2 reduction

OTHER RISKS

General

Like any other business, the Group faces the usual risks associated with its commercial activities. Those risks which affect the Group more particularly are considered in greater detail below and comprehensive risk disclosures can be found on pages 70 et seq.

Maintaining the culture

The organisation is driven by our culture, our 'Green Blood', which has its key focus on customers and our shared passion for tasty, good and honest food. Safeguarding this particular culture is, therefore, a key area for attention in a steadily growing organisation that is now also expanding internationally.

New business models

Our markets have been recovering for some years but competition remains fierce and the market landscape has become more complex and challenging. The boundaries between foodservice and food retail are blurring. There are more and more new physical and online players and existing players are expanding their horizons towards adjacent niche markets. We believe these trends nevertheless offer us many opportunities to strengthen our position and, specifically in this context, to further exploit the combination of foodservice and food retail under one roof. We have the advantage that we operate in and are very familiar with both market segments.

Change of management model

A growing business must regularly assess whether its management model is still suitable to the Group structure. The model in which the commercial formats present their own image towards customers with full centrally-managed integration behind the scenes is still an excellent fit with the activities in the Netherlands. Following our first foreign acquisition, however, we realise that this model may not automatically work well elsewhere. Greater autonomy at a distance will require changes to our organisational model, management and monitoring.

Cybercrime, data quality and ICT continuity

Effective ICT systems combined with data quality are the lifeblood of our business. Managing the risks in these systems involves far more than merely safeguarding the continuity of data processing. It also means protecting the integrity of data and software and the associated decision-making process. The numbers of customers, products, sites and suppliers and the way in which they interrelate make this

a complex system but at the same time it is systems of this kind which give us a clear competitive edge. Systems failing to work or not operating well can threaten the continuity of the whole business within a relatively short period of time. We therefore take extensive measures to minimise the risk of such failures.

Data and data quality are of major importance for smooth operations and for the information we exchange with our customers, suppliers and other stakeholders. On top of that, there are strict legal requirements relating to data and data privacy and so data protection also receives a great deal of attention.

Ageing workforce

The average age of our workforce is increasing and the retirement age for our staff is being steadily raised. This situation makes the ageing of our workforce an increasingly important consideration for us, especially against the background of the demanding physical work that goes on in large parts of our organisation.

Acquisitions

Despite all precautions and due diligence, acquisitions usually involve greater risk than organic growth. Yet we see acquisitions as an essential part of our strategy, not least for growth. We mitigate the risks inherent in acquisitions as far as possible by always following a careful takeover process, including preliminary exploration, and devoting careful attention to the post-acquisition phase. Many risks along with their financial and other impacts can be limited in this way

Authorities / NGOs / Regulators

Public authorities on occasion take drastic action which can have a major impact on operations and results. Such actions can become a threat to a particular part of the business over a relatively short time horizon. Environmental measures and opportunistic spending cuts in particular can have a serious effect. Intervention by regulators can also have a serious impact on operating processes.

Food safety

Since the Group is primarily engaged in the food supply and processing chain, food safety is crucial. The food safety precautions we take are mainly aimed at preventing risks for our customers and our employees.

26. Operating lease and rental obligations

Contracts under which the Group is lessee:

(x € million)

	2016	2015
Operating lease obligations		
< 1 year	1	0
1-5 years	1	0
> 5 years		
Expense in the year	1	1
Rental obligations for premises occupied by the Group		
< 1 year	35	34
1-5 years	106	106
6-10 years	79	72
> 10 years	26	18
Expense in the year	35	34
Present value	213	215
Rental obligations on behalf of customers		
< 1 year	4	4
1-5 year	9	8
6-10 year	3	3
> 10 year	1	
Present value	14	13

The operating lease obligations relate mainly to ICT systems. The rental obligations for premises occupied by the Group concern 118 premises (2015: 111). The rental obligations on behalf of customers are matched by leases entered into by the customers for almost exactly the same amounts. There is a broad variety as regards rental obligations, frequently including the option for the tenant to renew the lease. The present value stated above is the face value of the rents concerned plus expected annual increases calculated using a discount rate of two percentage points above the risk-free interest rate.

Contracts under which the Group is lessor:

(x € million)

	2016	2015
Investment property		
< 1 year	2	2
1-5 years	5	3
6-10 years	4	2
> 10 years	0	
Other property		
< 1 year	1	1
1-5 years	2	3
> 5 years	0	0

The investment property relates to property owned by the Group that is leased to franchisees of the Group. Other property includes items relating to the partial subletting of property used by the Group. This may relate to property owned by the Group and property which the Group rents.

27. Investment obligations

As at year-end 2016, there were investment obligations totaling approximately €22 million (2015: €15).

28. Contingent liabilities

Repurchase commitments

Repurchase commitments have been given to financial institutions in respect of credit lines granted to retail customers involving a total exposure of €3 million (2015: €3). Store alterations, inventories and shop fittings funded by the loans and advances have been furnished as security for these repurchase commitments and so they will not normally give rise to any material financial losses. Where the need nevertheless arises, provisions are made to cover possible losses.

Claims

Claims have been filed against Sligro Food Group and/or Group companies. These claims are being contested, despite none of them being of material significance.

29. Management estimates and assessments

Goodwill

Note 10 contains information about the measurement of goodwill and the impairment tests that are performed.

Credit, liquidity and other market risks

Note 25 contains information on these risks, together with a sensitivity analysis.

Receivables from suppliers

This concerns an estimate of the payments expected from suppliers as disclosed in note 15.

Provision for obsolete inventories

An estimate based on historical write-offs of inventories is made of the potential obsolete items in the inventories at year end.

Property, plant and equipment, investment property and assets held for sale

The Group owns a relatively large amount of property used by the Group itself, investment property which it leases to customers and assets held for sale. As at year-end 2016, these items, excluding capital expenditure on leased premises, totalled approximately €243 million (2015: €228).

An assumption has been made of continuing use for the existing purpose unless the assets concerned have been classified as held for sale. Any changes in this assumption, for example as a result of relocations, can lead to an adjustment of the carrying amount down to a lower fair value less costs to sell. It may also be found that the fair value less costs to sell is higher than the carrying amount.

30. Cash flow statement

The cash flow statement has been prepared using the direct method. The cash flow statement includes receipts and payments rather than income and expenses. Acquisitions are accounted for in the cash flow statement at the purchase price net of cash and cash equivalents. The debt-free amount and the purchase price of acquisitions and investments are disclosed in note 1. Receipts from customers are sales including VAT and the movement in receivables from customers. Payments to the government include both those for VAT and excise duties as well as payments of payroll deductions, social security contributions and pension contributions. The corporate income tax paid is shown separately.

The following table shows the reconciliation of the cash generated from operations and the operating profit:

(x € million)

	2016	2015
Operating profit	87	103
Depreciation and amortisation	67	57
Impairments	2	(0)
EBITDA	156	160
Other operating income included in cash flow from investing activities	(1)	1
	155	161
Changes in working capital and other movements:		
Inventories	(18)	(3)
Trade and other receivables and other current assets	(15)	4
Current liabilities	58	(1)
Provisions	0	0
Shareholders' equity	1	2
	26	2
Net cash generated from operations	181	163

The item cash, cash equivalents and short-term bank borrowings can be reconciled with the balance sheet as follows:

(x € million)

	2016	2015
Cash and cash equivalents	92	94
Bank borrowings	0	0
	92	94

31. Related-party disclosures

In the field of short-life perishables, the company operates in partnership with and has investments in the fresh produce suppliers listed in note 13. In 2016, this business represented a combined purchase volume at market prices of €232 million (2015: €214). As at year-end 2016, the amount owed to these companies in connection with trading was €25 million (2015: €14). In view of the nature of the liabilities, they have been treated as ordinary trade payables.

For tobacco products, the Group has an alliance with a partner in the form of its 40% stake in Vemaro B.V. Vemaro B.V. also has a loan facility from the Group under which borrowing amounted to €1 million (2015: nil). This loan is included in the other financial assets. The Group also guarantees certain of Vemaro's receivables from certain customers. As at year-end 2016, the amount owed to Vemaro in connection with trading was €8 million (2015: €6). In view of the nature of the account, it has been included in trade payables.

The Group is a member of the Superunie purchase cooperative, which looks after the procurement of the food retail products. The purchase volume in 2016 amounted to €1,007 million (2015: €954). As at year-end 2016, the amount owed in connection with trading was €95 million (2015: €75). In view of the nature of the liabilities, they have been treated as trade payables.

The Group (and more specifically Java) is a member of the purchase combine BLOC. The purchase volume in 2016 amounted to €9 million. As at year-end 2016, the amount owed to suppliers was €0 million and this is included in trade payables.

The transactions and relations with Stichting Pensioenfonds Sligro Food Group and the Executive and Supervisory Boards are explained in notes 5 and 6.

In 2016, 90,400 Sligro Food Group shares were sold (2015: 105,000 sold) at market price in transactions with Stichting Werknemersaandelen Sligro Food Group.

32. Supply Chain Finance

In 2015, a Supply Chain Finance programme was established and was rolled out in the closing quarter of the year. This programme enables participating suppliers to discount their invoices with a participating bank at an interest rate of 0.9% points above 1-month Euribor. The trade payables item as at year-end 2016 includes an amount of €49 million (2015: €7) relating to the participating suppliers. The method of preparation of the cash flow statement remains unchanged compared with preceding years. Sligro Food Group receives a (small) compensation from this programme that is recognised in other operating income.

Company PROFIT AND LOSS ACCOUNT for 2016

(x € million)

	2016	2015	2014
Finance income and expense	0	0	0
Share in results of subsidiaries	73	81	69
Profit before tax	73	81	69
Income taxes	(0)	(0)	(0)
Profit for the year	73	81	69

Company BALANCE SHEET

as at 31 December 2016 before profit appropriation

(x € million)

ASSETS	31-12-2016	02-01-2016	27-12-2014
Intangible assets	8	8	8
Financial assets	624	603	562
Total non-current assets	632	611	570
Total assets	632	611	570
EQUITY AND LIABILITIES	31-12-2016	02-01-2016	27-12-2014
Shareholders' equity			
Paid-up and called capital	3	3	3
Share premium	31	31	31
Other reserves	505	479	459
Legal reserves	15	12	8
Unappropriated profit	73	81	69
	627	606	570
Payables to group companies	5	5	0
Total current liabilities	5	5	0
Total equity and liabilities	632	611	570

NOTES

to the company financial statements

(amounts in millions of euros unless stated otherwise)

General

The company financial statements have been prepared in accordance with Part 9, Book 2, of the Netherlands Civil Code, applying the accounting policies defined in section D of the accounting policies for the consolidated financial statements, with carrying amounts of investments in companies where the company has significant influence measured using the net asset value and applying the accounting policies of the consolidated financial statements.

Intangible assets

GOODWILL

(x € million)

	2016	2015
Opening balance		
Acquisition cost	10	10
Accumulated amortisation	(2)	(2)
	8	8
Disposals		
Closing balance	8	8
Acquisition cost	10	10
Accumulated amortisation	(2)	(2)

Financial assets

(x € million)

	2016	2015
Investments	595	574
Receivables from group companies	29	29
	624	603

INVESTMENTS

This relates to the wholly-owned subsidiaries Sligro Food Group Nederland B.V. and Sligro Food Group International B.V.

Movements were as follows:

(x € million)

	2016	2015
Opening balance	574	537
Result	73	81
Investments		1
Share-based payments	2	0
Income and expense recognised directly in equity	0	2
Change in own shares	1	1
Dividend	(55)	(48)
Closing balance	595	574

RECEIVABLES FROM GROUP COMPANIES

This item includes two loans for a combined amount of €29 million (2015: €29). One loan is for €25 million (2015: €25), maturing on 1 January 2023 and the other is for €4 million (2015: €4), maturing on 1 January 2021. These loans are redeemable in full on maturity. Both loans bear interest at a rate of 1% per annum.

Shareholders' equity

Changes in equity are presented in greater detail on page 104 and further information on shareholders' equity is given in note 19 to the consolidated financial statements.

Reconciliation of the reserves in the company financial statements with those in the consolidated financial statements is as follows:

(x € million)

	2016	2015
Consolidated		
Other reserves	605	585
Hedging reserve	(4)	(4)
Treasury shares reserve	(12)	(13)
Revaluation reserve	4	4
	593	572
Company		
Other reserves	505	479
Unappropriated profit	73	81
Legal reserves	15	12
	593	572

LEGAL RESERVES

This item comprises the legal reserve for investments in subsidiaries/associates and the revaluation reserve.

Movements were as follows:

(x € million)

	2016	2015
Opening balance	12	8
Movement during the year	3	4
Closing balance	15	12

Of the legal reserves of €15 million (2015: €12), an amount of €11 million (2015: €8) relates to the difference between the retained profits calculated on the basis of the parent company's accounting policies plus the movements accounted for directly in the equity of the companies invested in (resulting from revaluations) and the part thereof that is distributable to the parent. The legal reserves are calculated on an individual basis.

PROPOSED PROFIT APPROPRIATION

As stated in note 19, the Executive Board, with the approval of the Supervisory Board, has proposed the following profit appropriation since the balance sheet date:

(x € million)

Addition to other reserves	16
Payment of interim dividend (€0.45 per share)	20
Available for regular (final) dividend (€0.55 per share)	24
Available for distribution as variable dividend (€0.30 per share)	<u>13</u>
	<u>73</u>

Article 46 of the Articles of Association contains the following provisions with regard to distributions and reserves:

- 1) The company may make distributions to shareholders and other parties entitled to the distributable profit only insofar as its shareholders' equity is greater than the paid-up and called capital plus the reserves required to be held by law or the Articles of Association.
- 2) Subject to the approval of the Supervisory Board, the Executive Board is authorised to add all or part of the profit to the reserves. Such an addition to the reserves may be reversed by a resolution supported by a majority of two-thirds of the votes cast at a general meeting at which more than half the issued capital is represented.
- 3) Any profit remaining after the addition to the reserves as referred to in the previous paragraph of this article shall be at the disposal of the general meeting.
- 4) Insofar as the general meeting does not resolve to distribute profit for any specific year, such profit shall be added to the reserves.
- 5) Subject to the approval of the Supervisory Board, the Executive Board may make interim distributions provided the requirement of paragraph 1 of this article has been met and is evidenced by an interim statement of assets and liabilities as referred to in Section 105(4), Book 2, of the Netherlands Civil Code. The company shall file the statement of assets and liabilities at the office of the Commercial Register within eight days of the date on which the resolution to make the distribution is published. The second sentence of paragraph 9 of this article is applicable mutatis mutandis to interim distributions.
- 6) On a proposal of the Executive Board which has been approved by the Supervisory Board, the general meeting may resolve to appropriate profit to a distributable reserve.

- 7) On a proposal of the Executive Board which has been approved by the Supervisory Board, the general meeting may, without prejudice to the provisions the Articles of Association relating to the issue of shares, resolve to distribute profit in the form of shares in the company or depositary receipts therefor
- 8) Profit distributions shall be made at a place and time to be determined by the general meeting but no later than one month after adoption of the relevant resolution by the general meeting.
- 9) Profit distributions not claimed within five years of the date on which they became payable shall revert to the company.
- 10) A loss may be charged to the reserves required to be held by law only insofar as permitted by law.

Other notes

CONTINGENT LIABILITIES

As part of the Sligro Food Group N.V. tax group, the company is liable for the tax payable by the tax group as a whole.

The company has assumed joint and several liability for debts arising from the legal acts of its direct and indirect subsidiaries, pursuant to Section 403, Book 2, of the Netherlands Civil Code, as stated on page 111.

POST-BALANCE-SHEET EVENTS

On 23 January 2017 we announced the expectation that agreement would be reached on the acquisition of the entire share capital of Exquisite Food N.V. and its subsidiaries ISPC International N.V., ISPC Gent N.V. and Océan Marée N.V., ISPC Gent N.V., Exquisite Seafood N.V. and Océan Marée N.V. together being known as ISPC, held by Alimax N.V.

ISPC is a leading Belgian wholesale supplier to the hospitality sector operating a combination of cash-and-carry and delivery outlets in Ghent and Liège. ISPC also has a fresh fish wholesale business in Brussels. In 2016, ISPC posted net sales of €86 million, generating that revenue with a workforce of 250. ISPC carries a splendid variety of items covering the entire product range, with particular emphasis on fresh produce. ISPC is mainly active in serving the more upmarket hospitality sector, with supplies to the healthcare sector as a spin-off. We expect the acquisition to contribute to earnings per share from 2018 onwards.

It is the aim of both parties to formalise the transaction in the first six months of 2017.

Duly signed for publication,

Veghel, 27 January 2017

Supervisory Board:

A. Nühn, chairman

J.H. Kamps

B.E. Karis

M.E.B. van Leeuwen

F. Rijna

Executive Board:

K.M. Slippens, CEO

R.W.A.J. van der Sluijs

W.J.P. Strijbosch

OTHER INFORMATION

Independent auditor's report

To the shareholders and the Supervisory Board of Sligro Food Group N.V.

Report on the financial statements 2016 included in the annual accounts

Our Opinion

We have audited the financial statements 2016 of Sligro Food Group N.V., based in Veghel, the Netherlands. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The consolidated financial statements included in these annual accounts give a true and fair view of the financial position of Sligro Food Group N.V. as at 31 December 2016 (before profit appropriation), and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- The company financial statements included in these annual accounts give a true and fair view of the financial position of Sligro Food Group N.V. as at 31 December 2016 (before profit appropriation), and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

1. The consolidated balance sheet as at 31 December 2016 (before profit appropriation).
2. The following statements for 2016: the consolidated profit and loss account, the consolidated statement of recognised income and expense, the consolidated statement of changes in equity (before profit appropriation) and consolidated cash flow statement.
3. The notes to the consolidated financial statements comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. The company balance sheet as at 31 December 2016 (before profit appropriation).
2. The company profit and loss account for 2016.
3. The notes to the company financial statements comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Sligro Food Group N.V. in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO)" and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at €6,9 million. The materiality is based on 7,5% of earnings before taxes. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Supervisory Board that misstatements, which are identified during the audit, would be reported to them, as well as smaller findings and observations, and smaller misstatements that in our view must be reported on qualitative

Scope of the group audit

Sligro Food Group N.V. is the head of a group of entities. The financial information of this group is included in the consolidated financial statements of Sligro Food Group N.V..

Our group audit focused on all entities included in the consolidated financial statements. We performed audit procedures ourselves at all Dutch group entities of Sligro Food Group N.V. and used the work of Deloitte Belgium for the audit of the Belgian activities (Java). We divided the group materiality over the Dutch and Belgian entities, provided our Belgian colleagues with audit instructions, and held several meetings with Belgian management and the Belgian audit team during the planning, interim, and year-end audit. We also reviewed the audit file and procedures performed by Deloitte Belgium.

By performing the procedures mentioned above at the group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

At the time of preparation of the Financial Statements of Sligro Food Group N.V., the audits of the company financial statements of the non-consolidated entities were not yet completed. Therefore we performed additional procedures on the work of the auditor of the associate, for example, regarding the share in Spar Holding B.V. (which has a bookvalue in the financial statements of Sligro Food Group N.V. of €37 million).

Our key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on

Description of the key audit matters	Bonuses and promotional contributions
<p>Bonuses and promotional contributions</p> <p>Suppliers' bonuses and promotional contributions are regular business practices in the sector. The share of supplier bonuses and promotional contributions to Sligro Food Group N.V.'s profit before tax is very substantial. The final agreements with the suppliers on these contributions are most often concluded in the year following the year of reporting. This leads to a management estimate in the financial statements. The Company discloses the relevant accounting policies in Note G2 to the consolidated financial statements.</p> <p>In summary:</p> <p>Sligro Food Group N.V. receives various types of compensation from suppliers, which can be divided into two main types:</p> <ol style="list-style-type: none"> i. Temporary price reductions ("promotions"), usually relating to special offers to customers with the aim of increasing direct sales volumes. In most cases, the supplier actually charges the lower purchase price for the agreed period. The benefit of the temporarily lower purchase prices is reflected directly in the cost of sales. ii. Bonuses, usually based on annual agreements ("bonuses"). <p>Reasonable foreseeable bonuses are included in the valuation of inventory. This does not apply to promotional contributions as these are intended to cover sales efforts.</p> <p>Management has used two methods to estimate the bonuses and promotional contributions. It made top-down as well as a bottom-up estimates. The estimates are prepared independently and evaluated with respect to each other.</p>	<p>Our audit focused on both testing the design and implementation of the internal control measures on behalf of the Executive Board (including the basis for the estimates, segregation of duties, contract management and authorization). Additionally we performed a number of substantive tests on both methods. The procedures performed consisted of auditing the outcome of the estimates of last year, reviewing the support of the estimates based on the contracts with the suppliers and confirmation of the agreed conditions with the supplier.</p> <p>Based on historical figures, test of details and analytical procedures we have audited the impact on the inventory valuation of the classification of contributions as promotions or bonuses.</p> <p>In the upcoming period, management will invest in further improvement of the structure, the management and electronic capturing of these conditions.</p>

Description of the key audit matters

Bonuses and promotional contributions

Sales contracts Foodservice activity

Sligro Food Group N.V. serves a large number of customers operating in different segments of the hospitality and service market. Depending on the nature and size of the activities of its customers, Sligro Food Group segments the customers in a number of different groups. It is possible that segments have different conditions for certain products. Applying the right contracts and conditions for the various customer groups is important and, as a consequence, a key audit matter for us.

Belgian Activities

During 2016, with the acquisition of Bejaco N.V. (also called "Java"), Sligro Food Group N.V. expanded internationally. Due to the acquisition of Java, Sligro Food Group N.V. has a relatively large independently operating foreign entity. Therefore, Sligro Food Group N.V. is, in relation to our audit, a "group" of companies. The acquisition has a number of implications for our audit. Firstly, auditing the determination of the purchase price, and the necessary "Purchase Price Allocation". In addition to auditing the transaction itself, we have to plan the nature, timing and extent of the audit of the Belgian activities and entities in accordance with the audit standard (the so called COS 600-group audit).

We have evaluated the internal controls of Sligro Food Group N.V. governing the classification of new customers in the relevant and appropriate groups as part of our audit procedures. We have performed control testing procedures to determine whether the different customer groups are invoiced based on the contractual agreed prices. We relied on companies internal controls and algorithms in the computer software. In case cost prices are important to determine the relevant selling prices, we have performed specific (substantive) analytical procedures in order to verify the proper application of contractual conditions.

Based on the requirements of IFRS 3, we audited the reporting for the acquisition. We used Deloitte experts on company valuations and real estate.

The key audit matters of the audit in relation to Java, focusses on the processing of the acquisition and a number of operational risks. Specifically, on the auditing of the supplier's bonuses and the prices charged to customers.

A detailed analysis has taken place on the internal control environment, for which a separate management letter was issued. The audit procedures relating to the supplier's bonuses and sales prices were mainly performed on a substantive basis by our Belgian colleagues. On group level, we additionally tested the design and implementation of internal control measures of the Belgian activities.

Report on the other information included in the annual accounts

In addition to the financial statements and our auditor's report, the annual accounts contain other information that consists of:

- Executive Board Report
- Other Information as required by Part 9 Book 2 of the Dutch Civil Code
- Other information, not belonging to the annual report.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of other information, including the Executive Board Report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Supervisory Board as auditor of Sligro Food Group N.V. on March 19, 2014, as of the audit for year 2014 and have operated as statutory auditor ever since that date.

Description of responsibilities for the financial statements

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions

of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements.

Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out

for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the

Eindhoven, 27 January 2017

Deloitte Accountants B.V.
Jan Hendriks

TEN-YEAR REVIEW

(x € million)⁹⁾

	2016	2015	2014	2013	2012
Results					
Net sales	2,813	2,670	2,572	2,498	2,468
EBITDA	156	160	149	143	142
EBITA	112	122	106	100	99
EBIT	87	103	89	88	89
Profit for the year	73	81	69	68	69
Net cash flow from operating activities	153	140	147	133	129
Free cash flow	72	78	78	101	96
Proposed dividend	57	52	48	46	46
Equity and liabilities					
Shareholders' equity ¹⁾	627	606	570	571	555
Net capital employed ²⁾	719	660	651	640	659
Total assets	1,215	1,071	1,012	1,006	968
Employees					
Year average (full-time equivalents)	6,571	6,068	5,834	5,829	5,848
Staff costs ³⁾	272	253	239	234	227
Capital expenditure					
Net capital expenditure ⁴⁾	80	60	60	36	33
Depreciation ⁵⁾	42	38	40	41	43
Ratios					
Increase in sales (%)	5.4	3.8	2.9	1.3	1.9
Increase in profit (%)	(9.1)	17.4	1.5	(0.9)	(12.3)
Gross margin as % of sales	22.9	23.2	23.2	23.1	22.6
EBITDA as % of sales	5.6	6.0	5.8	5.7	5.8
EBITA as % of sales	4.0	4.6	4.1	4.0	4.0
EBIT as % of sales	3.1	3.8	3.5	3.5	3.6
Profit after tax as % of sales	2.6	3.0	2.7	2.7	2.8
Return on average Shareholders' equity ⁶⁾	11.9	13.7	12.0	12.1	12.5
EBIT as % of average net capital employed	12.6	15.7	13.8	13.6	13.1
Shareholders' equity as % of total assets	51.6	56.6	56.3	56.8	57.3
Sales per employee (x €1,000)	428	440	441	429	422
Staff costs per employee (x €1,000)	41	42	41	40	39
Figures per share of €0.06⁷⁾ nominal value (in euros)					
Shares in issue (millions)	43.9	43.8	43.7	43.7	43.8
Shareholders' equity	14.29	13.84	13.05	13.07	12.65
Net earnings	1.67	1.84	1.58	1.55	1.56
Proposed dividend, as from 2014 including interim dividend of which variable dividend ⁸⁾	1.30	1.20	1.10	1.05	1.05
	0.30	0.30	0.30	0.25	0.25

1) Before profit appropriation. 2) Total assets less cash and cash equivalents and swaps, less short-term liabilities excluding interest-bearing portion. 3) Salaries, social security charges and net benefit expense. 4) See note 2, footnote 5. 5) Excluding impairments. 6) Calculated on profit for the year. 7) Prior-year figures restated for the share split in 2007. 8) 2009: Jubilee bonus. 9) Changes in accounting policies are only reflected in restatement of the figures for the preceding year which also appear in the main financial statements.

2011	2010	2009	2008	2007
2,420	2,286	2,258	2,168	2,066
159	146	149	147	135
115	99	106	107	101
105	91	98	99	96
78	70	74	71	74
124	107	123	103	83
76	66	73	74	8
46	31	44	28	28
541	500	482	426	375
692	689	645	644	645
931	937	852	875	858
5,880	5,513	5,552	5,600	5,083
217	203	197	191	171
46	41	47	36	82
44	47	42	40	34
5.9	1.3	4.2	4.9	24.4
11.4	(5.5)	4.2	(3.9)	19.5
23.2	23.1	23.3	23.8	22.9
6.6	6.4	6.6	6.8	6.5
4.7	4.3	4.7	4.9	4.9
4.3	4.0	4.3	4.5	4.6
3.2	3.1	3.3	3.3	3.6
15.0	14.3	16.4	17.8	21.6
15.2	13.6	15.2	15.3	15.8
58.1	53.3	56.6	48.7	43.7
412	415	407	387	406
37	37	36	34	34
44.0	44.1	44.3	43.7	43.1
12.30	11.34	10.90	9.75	8.69
1.78	1.59	1.68	1.63	1.72
1.05	0.70	1.00	0.65	0.65
0.20		0.30		

MANAGERS AND OFFICERS

Key staff The Netherlands

T. Arrachart	<i>assistant ICT manager, Sligro Food Group</i>
R. Barten	<i>assistant manager, support management department, Sligro Delivery Service</i>
J. van den Berg	<i>logistics manager, Sligro Food Group</i>
P. van Berkel	<i>production company manager, Sligro Food Group, general manager of Van Hoeckel</i>
M. Bogaers	<i>head of studio, Sligro Food Group</i>
D. Bögels	<i>purchasing and product range manager, Sligro Food Group</i>
G. Bos	<i>accounting & reporting manager, Sligro Food Group</i>
J. de Bree	<i>HR manager, Sligro Food Group</i>
M. van den Brink	<i>sales support department manager, Van Hoeckel</i>
G. Buitenhuis	<i>supply chain manager, Sligro Food Group</i>
J. Dekker	<i>assistant manager, production company operations, Sligro Food Group</i>
J. van Dijk	<i>ICT infrastructure and services manager, Sligro Food Group</i>
M. van Dinther	<i>account manager, Sligro Delivery Service</i>
D. Gruppen	<i>operations manager, Sligro Cash-and carry</i>
R. de Haas	<i>assistant sales manager, Van Hoeckel</i>
J. van Heerebeek	<i>marketing and sales manager, Food Retail</i>
J. van Heereveld	<i>head of accounting, Sligro Food Group</i>
F. Hofstra	<i>regional manager, Sligro Delivery Service - Amsterdam</i>
I. Huntjens	<i>head of quality department, Sligro Food Group</i>
D. van Iperen	<i>manager, Foodservice Delivery Service</i>
W. Jansen	<i>head of internal and external communication, Sligro Food Group</i>
H. Jaspers	<i>information and software architect, Sligro Food Group</i>
K. Kiestra	<i>operations manager, Food Retail</i>
M. Kivits	<i>head of purchasing and product range management - food, Sligro Food Group</i>
P. Lampert	<i>regional manager, Sligro - Vlissingen</i>
P. van den Langenberg	<i>head of HRM, Food Retail</i>
M. de Man	<i>assistant operations manager, Sligro Delivery Service</i>
T. Nillezen	<i>programme and process management, Sligro Food Group</i>
E. van der Pasch	<i>CRM manager, Sligro</i>
F. Punte	<i>head of property management, Sligro Food Group</i>
M. Rijnsburger	<i>purchase officer, non-resale goods, Sligro Food Group</i>
A. de Rooij	<i>head of purchasing and product range management - fresh produce, Sligro Food Group</i>
R. van Ruiten	<i>site manager, Retail DC Kapelle</i>
L. Rutten	<i>operations manager, Sligro Delivery Service</i>
N. van Sante	<i>assistant HR manager, Sligro Food Group</i>
B. Schapendonk	<i>head of purchasing and product range management - wines and spirits, Sligro Food Group</i>
H. Schipper	<i>manager, Sligro Cash-and carry</i>
G. Schneemann	<i>marketing and sales manager</i>
K. Slippens	<i>CEO, Sligro Food Group</i>
R. van der Sluijs	<i>CFO, Sligro Food Group</i>
B. Stapel	<i>national account manager, Sligro Delivery Service</i>
J. Storm	<i>manager of Bouter</i>
W.J. Strijbosch	<i>Foodservice director, Sligro Food Group</i>
G. van der Veeken	<i>company secretary, Sligro Food Group</i>
M. van Veghel	<i>ICT manager, Sligro Food Group</i>
A. Verlouw	<i>head of building works, Sligro Food Group</i>
S. van Vijfeijken	<i>head of GID/WID, Sligro Food Group</i>
W. van Wijk	<i>regional manager, Sligro - The Hague Forepark</i>
J. van der Wijst	<i>head of purchasing and product range management - non-food, Sligro Food Group</i>
E. Wildeman	<i>supply chain project coordinator, Sligro Food Group</i>
M. Wirken	<i>business control manager, Sligro Food Group</i>

MANAGERS AND OFFICERS

Key staff Belgium

B. Beerten	<i>head of HRM, Java</i>
W. Heylen	<i>ICT manager, Java</i>
R. Michel	<i>accounting & budgeting manager, Java</i>
P. Robberechts	<i>operations manager, Java</i>
C. Teugels	<i>CFO, Java</i>
E. Veyt	<i>COO, Java</i>

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Sligro Food Group N.V.
Corridor 11
5466 RB Veghel
Netherlands



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