Sligro Food Group N.V.

HALF-YEAR REPORT

Sligro Food Group 2017

SLIGRO FOOD GROUP NET PROFIT €28 MILLION

Sales in the first half of 2017 were €1,435 million, an increase of 5.9% on the corresponding period in 2016. On a like-for-like basis, sales growth was 3.3%. Operating profit rose €1 million to €35 million. Net profit for the first six months was €28 million, the same as last year.

Koen Slippens, CEO:

"As expected, improvements in employment levels and consumer confidence have translated into growing markets for both foodservice and food retail and this contributed to higher sales in both our business units in the course of the half-year.

At Foodservice, we concluded the acquisition of ISPC during the first half of the year and that of Tintelingen in early July. There was also dynamic progress on the strategic partnership with Heineken. The result at Foodservice for the first six months improved despite the non-recurring costs involved with these types of projects. We are pleased with this positive development.

At Food Retail, the first six months of the year were marked by the further rollout and optimisation of our 3.0 format and the evaluation of developments at this business unit. That evaluation showed that we can achieve the objectives of the EMTÉ 3.0 business case but that we will need more time for this. Nevertheless, we expect that, even after returning to good health in due course, the EMTÉ 3.0 format will have difficulty in keeping up with changes in the market in the future as a result of insufficient scale. Consequently, we will use the second half of the year to examine what alternative strategy will create the greatest value for our retail activities."

Key figures

(x € million)

	2017	**2016**	**Change %**
Net sales	1,435	1,355	5.9
Organic sales growth, Foodservice in %	4.6	2.6	
Like-for-like growth, EMTÉ in %	(0.3)	(2.2)	
Organic sales growth, Group in %	3.3	1.6	
Gross operating profit (EBITDA)	74	66	10.8
Operating profit before amortisation (EBITA)	48	46	4.1
Operating profit (EBIT)	35	34	1.6
Net profit	28	28	(2.1)
Free cash flow	16	19	(13.0)
Shareholders' equity (mid-year)	621	603	2.9
Net interest-bearing debt (mid-year)	123	92	34.2
Earnings per share (x € 1)	0.63	0.65	

Results

The gross margin increased by €23 million to €331 million. It rose by 0.3% to 23.1% of sales and grew in both business units.

Costs rose by €28 million to €303 million, an increase of 0.8% to 21.1% of sales. Costs related to acquisitions and the start-up of Sligro Belgium were €2 million up on last year. In addition there was a €3 million impairment of disused assets in Food Retail as a result of the conversion to 3.0.

Other operating income rose by €6 million compared with last year, mainly as a result of book profits on the sale of three EMTÉ stores. These properties are now being leased.

Operating profit before amortisation was €48 million and so is €2 million higher than last year. As a percentage of net sales the result remains at 3.4%.

Until last year we were able to use tax allowances in the Innovation Box. This came to an end in 2017 and so the effective tax rate in the Netherlands rose by over 2%.

Foodservice

Net sales for Foodservice were up 8.3% (Q2: 8.1%). The acquisitions in 2016 and 2017 added a total of €35 million and so organic growth was 4.6% (Q2: 5.2%).

Operating profit before amortisation increased by €3 million to €42 million. This improvement was driven primarily by the increase in sales. As the additional costs for acquisitions and the start-up of Sligro Belgium reduced the result by some €2 million compared with last year, the underlying improvement was even greater.

Heineken, ISPC and Tintelingen

In December 2016, we announced the acquisition of Tintelingen, which, as expected, was concluded in early July 2017. The acquisition of ISPC announced in January 2017 was concluded in early May. Over the next few years, we will integrate ISPC into a single platform and operation along with Java and Sligro's activities in Belgium. In May, we announced the proposed strategic partnership with Heineken. The process and negotiations to conclude this by the autumn of 2017 are progressing according to plan and in a good atmosphere.

Food Retail

Net sales at Food Retail increased by 0.5% (Q2: 1.2%) compared with last year. Like-for-like consumer sales were down by 0.3% in the first six months (Q2: 0.6% increase). There was 1.5% like-for-like growth in sales at the 3.0 stores if the weeks when they were closed are ignored, compared with a fall in like-for-like sales of 0.1% in the 2.0 stores.

Operating profit before amortisation fell by €1 million to €6 million. This included a net gain of €2 million made up of book profits on the sale of retail properties and impairment of disused assets resulting from the conversion to 3.0.

Food Retail evaluation

Our evaluation of the EMTÉ 3.0 format concluded that while the format is gathering admiration from customers, this has not been translated into sufficient growth in sales for the time being. Although growth is above the level of the 2.0 stores and has turned a fall in sales into growth, it is not yet enough to make up for the costs of conversion and the new elements added to the format. We have seen an improvement in sales growth during the past year, indicating that the optimisation is bearing fruit. It is, therefore, expected that it will take longer before we have achieved the objectives in our business case. We will complete the current conversion projects (four stores) over the next few months and then pause conversions. This will allow us to concentrate on improving profitability and further optimisation of the format.

As well as evaluating our new format, we also considered our future in Food Retail. It no longer seems that an autonomous future is the best strategy for our retail activities to create long-term value. In any case, it will be increasingly difficult for our EMTÉ format, with a modest market share of some 2.5%, to keep up with changes in the market.

For these reasons, we will examine what alternative strategy will create the greatest value for our retail activities. A consideration in this is that the combination of Foodservice and Food Retail gives us great synergy in many areas, as explained during the presentation to the General Meeting of Shareholders on 22 March 2017. We have identified that synergy in detail and concluded that it provides gains and cost savings of between €15 million and €20 million per year to Sligro Food Group as a whole. The combination also offers the Group more benefits of a qualitative nature such as distinctiveness and learning capacity within the Group.

During the evaluation, we concluded that a partnership would be a more attractive strategic option for our Food Retail activities than a sale, depending of course on the way it is structured. In a partnership, we would expect to be able to make up for the lack of scale and to retain much of qualitative and quantitative synergy gains referred to above for the Group. We will develop this and establish the details in negotiations with interested parties over the next few months. We will always take the interests of all our stakeholders into account in this as we arrive at a sound solution.

Dividend

Based on the half-year figures for 2017, it has been decided to pay an interim dividend. In principle, the interim dividend is set at half the regular dividend for the preceding year. The interim dividend is therefore €0.50 per share and will be made payable on Monday, 2 October 2017. The ex-dividend date will be Friday, 22 September 2017 and the record date is Monday, 25 September 2017.

Financial position

In 2017, we strengthened our long-term financing in the form of an 8-year US Private Placement of €40 million at an interest rate of 1.67% per year.
The Group's financial position remains as strong as ever, enabling us to invest sustainably in developing our commercial formats in the Netherlands and Belgium and the necessary ICT, data and supply chain infrastructure.

Outlook

We expect our markets to continue to grow and that growth in both markets for the whole of 2017 will exceed that of 2016. In Foodservice, we again expect to outperform the market, further reinforcing our leading position.

The acquisitions of ISPC and Tintelingen will contribute an additional amount of approximately €45 million to sales in the second half of the year. We expect to give the strategic partnership with Heineken its final shape and conclude the negotiations during the second half of this year, after which we will start the integration process immediately. In Belgium, we expect to start construction of our site in Antwerp in the second half of the year. We are also working on the further commercial, technical and operational integration of our activities in Belgium.

At EMTÉ, we will be focusing on improving the results of both the 2.0 and 3.0 retail operations. We will also use the second half of the year to develop and decide on alternative strategies for Food Retail.

We are not making any concrete predictions for the full-year results.

We described the main risks and uncertainties in our 2016 annual report. There have been no material changes in this regard.

A presentation of the half-year figures will be given in a press conference and a meeting for analysts today. The presentation can be found on our corporate website www.sligrofoodgroup.nl. The trading update on the third quarter is due to be published on 19 October 2017.

Veghel, 20 July 2017

On behalf of the Executive Board of Sligro Food Group N.V.

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CONTENTS

DIRECTORS' statement

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

1. The interim financial statements, as shown on pages 5-11 of this report, provide a true and fair view of the assets, liabilities, financial position and result for the first half-year of Sligro Food Group N.V. and its subsidiaries included in the consolidated statements.

2. The interim report, as shown on pages 1-3 of this report, provides a true and fair view of the position at the balance sheet date and the business conducted during the first half of the financial year of Sligro Food Group N.V. and its subsidiaries, details of which are contained in the interim financial statements. The interim report also provides a true and fair view of the expected course of business, the investments and the circumstances affecting sales and results.

K.M. Slippens, CEO

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

W.J.P. Strijbosch, Foodservice director

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the first half of 2017

(x € million)

	2017	2016	2015
Net sales	**1,435**	**1,355**	**1,274**
Cost of sales	(1,104)	(1,047)	(986)
Gross margin	**331**	**308**	**288**
Other operating income	**7**	**1**	**1**
Staff costs	(162)	(148)	(136)
Premises costs	(32)	(31)	(30)
Selling costs	(12)	(12)	(11)
Logistics costs	(42)	(40)	(38)
General and administrative expenses	(16)	(12)	(9)
Impairments	(3)		
Depreciation of property, plant and equipment	(23)	(20)	(19)
Amortisation of intangible assets	(13)	(12)	(9)
Total operating expenses	**(303)**	**(275)**	**(252)**
Operating profit	**35**	**34**	**37**
Finance income and expense	(2)	(2)	(2)
Share in result of associates	3	3	2
Profit before tax	**36**	**35**	**37**
Tax	(8)	(7)	(8)
Profit for the first half year	**28**	**28**	**29**
Attributable to shareholders of the company	**28**	**28**	**29**

Figures per share	**€**	**€**	**€**
Basic earnings per share	0.63	0.65	0.66
Diluted earnings per share	0.63	0.65	0.66

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the first half of 2017

(x € million)

	2017	2016	2015
Profit for the first half year	28	28	29
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	1	2
Income and expense recognised directly in shareholders' equity	0	1	2
Recognised income and expense for the first half year	**28**	**29**	**31**
Attributable to shareholders of the company	**28**	**29**	**31**

ABRIDGED CONSOLIDATED CASH FLOW STATEMENT
for the first half of 2017

(x € million)

	2017	**2016**	**2015**
Net cash generated from operations	78	79	67
Interest received	(2)	(2)	(2)
Dividend received from associates	3	3	1
Corporate income tax paid	(24)	(26)	(21)
Net cash flow from operating activities	**55**	**54**	**45**
Acquisitions/investments	(38)	(51)	0
Capital expenditure on property, plant and equipment/investment property/assets held for sale	(40)	(30)	(28)
Receipts from disposal of property, plant and equipment/investment property/assets held for sale	9	1	0
Capital expenditure on intangibles	(8)	(6)	(6)
Investments in/loans to associates	0	0	0
Repayments by associates	0	0	0
Net cash flow from investing activities	**(77)**	**(86)**	**(34)**
Proceeds from long-term borrowings	0	30	0
Repayment of long-term borrowings	(1)	0	0
Change in own shares	3	2	3
Dividend paid	(37)	(35)	(31)
Net cash flow from financing activities	**(35)**	**(3)**	**(28)**
Movement in cash, cash equivalents and short-term bank borrowings	**(57)**	**(35)**	**(17)**
Opening balance	92	94	74
Balance of the first half year	**35**	**59**	**57**

CONSOLIDATED BALANCE SHEET
as at 1 July 2017

(x € million)

ASSETS	01-07-2017	31-12-2016	02-07-2016
Goodwill	174	145	145
Other intangible assets	87	76	83
Property, plant and equipment	378	361	341
Investment property	19	20	19
Investments in associates	51	51	49
Other financial assets	13	17	22
Total non-current assets	**722**	**670**	**659**
Inventories	238	245	232
Trade and other receivables	176	179	160
Other current assets	24	24	12
Corporate income tax	17	2	13
Assets held for sale	3	3	4
Cash and cash equivalents	35	92	59
Total current assets	**493**	**545**	**480**
Total assets	**1,215**	**1,215**	**1,139**

EQUITY AND LIABILITIES	01-07-2017	31-12-2016	02-07-2016
Paid-up and called capital	3	3	3
Reserves	618	624	600
Total shareholders' equity attributable to shareholders of the company	**621**	**627**	**603**
Deferred tax liabilities	34	28	31
Employee benefits	4	5	4
Other provisions	0	0	0
Long-term borrowings	98	103	168
Total long-term liabilities	**136**	**136**	**203**
Current portion of long-term borrowings	73	71	
Bank borrowings	0	0	0
Trade and other payables	306	294	265
Corporate income tax	2	0	
Other taxes and social security contributions	23	24	21
Other liabilities, accruals and deferred income	54	63	47
Total current liabilities	**458**	**452**	**333**
Total equity and liabilities	**1,215**	**1,215**	**1,139**

CONSOLIDATED STATEMENT OF MOVEMENTS IN SHAREHOLDERS' EQUITY

for the first half of 2017

(x € million)

	Paid-up and called capital	Share premium	Other reserves	Revalua-tion reserve	Hedging-reserve	Reserve for own shares	Total
Balance at 02-01-2016	**3**	**31**	**585**	**4**	**(4)**	**(13)**	**606**
Transactions with owners							
Dividend paid			(35)				(35)
Change in own shares						3	3
	0	0	(35)	0	0	3	(32)
Total realised and unrealised results							
Profit for the first half year			28				28
Cash flow hedge					1		1
	0	0	28	0	1	0	29
Balance at 02-07-2016	**3**	**31**	**578**	**4**	**(3)**	**(10)**	**603**
Balance at 31-12-2016	**3**	**31**	**605**	**4**	**(4)**	**(12)**	**627**
Transactions with owners							
Dividend paid			(37)				(37)
Change in own shares						3	3
	0	0	(37)	0	0	3	(34)
Total realised and unrealised results							
Profit for the first half year			28				28
Cash flow hedge					0		0
	0	0	28	0	0	0	28
Balance at 01-07-2017	**3**	**31**	**596**	**4**	**(4)**	**(9)**	**621**

NOTES
to the interim financial statements 2017

General
Sligro Food Group N.V. is established in Veghel, Netherlands. The interim financial statements include the parent company and its subsidiaries (also referred to as the 'Group'). The interim financial statements cover the first 26 weeks of 2017, from 1 January 2017 to 1 July 2017, inclusive. The comparative figures cover the same period in 2016.

Statement of compliance
This half-year report has been prepared in accordance with the International Financial Reporting Standards, as adopted the European Union (EU-IFRS), and IAS 34 Interim Financial Reporting. It does not contain all the information required for full financial statements and should be read in conjunction with the 2016 consolidated financial statements.

Audit status
This half-year report is unaudited.

Accounting policies for the preparation of the half-year financial statements
The financial reporting policies applied by the Group in this half-year report are the same as those for the consolidated financial statements for 2016.

Seasonal influences
The foodservice activities show a seasonal pattern. Sales in the second half of the year are normally higher than those in the first half. This is mainly due to relatively high expenditure in the foodservice channel in the Christmas period, followed by relatively low expenditure at the start of the new year. Because this variation in sales is also accompanied by a shift in the sales mix, profitability in the second half is generally higher than in the first half. There is no significant seasonal pattern in the food retail business.

Acquisitions
The acquisition of the Belgian wholesaler ISPC, announced on 23 January 2017, was completed in May 2017. An analysis of the acquired assets and equity and liabilities is as follows:

(x € million)	**2017**
Intangible assets	45
Property, plant and equipment	3
Inventories	5
Trade and other receivables	9
Cash and cash equivalents	0
Short-term liabilities	(11)
Long-term liabilities	(1)
Deferred tax liabilities	(5)
Employee benefits	(2)
Trade and other payables	(12)
Total identifiable net assets	31
Add: net debt	12
Debt-free purchase price	**43**

The acquisition of online Christmas gift supplier, Tintelingen B.V., announced on 22 December 2016 was completed in July 2017.

Segmentation net sales

(x € million)

Net sales	**Foodservice**		**Food Retail**		**Total**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
The Netherlands	922	880	416	414	1,338	1,294
Belgium from The Netherlands[1)]	19	17			19	17
Belgium from Belgium[2)]	78	44			78	44
Total	**1,019**	**941**	**416**	**414**	**1,435**	**1,355**

1) This relates on the one hand to delivery sales from the Dutch delivery centres to Belgian customers. On the other hand, these are Belgian customers from the border region who shop in the Dutch cash & carry wholesale outlets.

2) This relates to the Java sales from January to June 2017 and for ISPC to May and June 2017. In 2016 this relates to the Java sales from March to June 2016.

SEGMENT INFORMATION
for the first half of 2017

(x € million)

	Foodservice		**Food Retail**		**Total**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Net sales	1,019	941	416	414	1,435	1,355
Other operating income	0	0	7	1	7	1
Gross operating profit (EBITDA)	60	55	14	11	74	66
Operating profit before amortisation (EBITA)	42	39	6	7	48	46
Operating profit (EBIT)	33	31	2	3	35	34
Net capital employed[1)]	629	565	102	118	731	683
EBITDA as % of sales	5.9	5.9	3.3	2.7	5.1	4.9
EBITA as % of sales	4.2	4.2	1.3	1.6	3.4	3.4
EBIT as % of sales	3.2	3.3	0.4	0.7	2.4	2.5
EBITA as % of average net capital employed	17.1	19.8	10.5	14.7	16.1	18.8
EBIT as % of average net capital employed	14.0	17.0	3.4	8.8	12.3	15.4
Free cash flow	10	3	6	16	16	19
Net capital expenditure[2)]	34	27	5	8	39	35

1) Excluding investments in associates and fair value of derivatives.

2) On property, plant and equipment, investment property, assets held for sale and intangible assets.

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. ISPC specialises in the catering sector and supplies high-quality, innovative food and non-food products to professionals in gastronomy. ISPC has combined cash-and-carry and delivery service outlets in Ghent and Liège and a fresh fish wholesale business in Brussels. 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.

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