Annual Report 2017

Sligro Food Group

Sligro Food Group N.V.

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NET SALES
€2.97
BILLION

NET
PROFIT
€81
MILLION

DIVIDEND
PER SHARE
€1.40

CONTENTS

Sligro Food Group and HEINEKEN: a beautiful partnership of two market leaders.

ANNUAL REVIEW 2017

Economy

The economy has returned to growth, and this can be seen in higher employment and consumer confidence. We saw growth in our markets in both the Netherlands and Belgium. This was largely driven by inflation and prices, but there was also volume growth. We expect growth to continue in 2018 at a similar rate to the past year.

Market

Our markets are moving closer together, making the division between Foodservice and Food Retail less clear. Hospitality has been added to retail outlets, while Foodservice players are purchasing through supermarkets and retailers are using online to enter parts of the Foodservice market. We saw growth in all market segments of Foodservice, including in the healthcare market which had been contracting for some years. In monetary terms, the consumer market grew by 4.1% in the Netherlands. The wholesale market grew by 2.9% in the Netherlands, according to FSIN, and by 2.4% in Belgium, according to Foodservice Alliance.

There was also growth in Food Retail, and it is notable that, in this economic climate, the Food Retail market is still growing faster than that of Foodservice. Based on an average of IRI and Nielsen figures, the retail market in the Netherlands grew by 3.6%. We think that the higher growth compared with Foodservice can be explained by price effects. The online channel continues to gain ground and so is adding to pressure on traditional supermarkets.

Foodservice

Foodservice again outperformed the market with organic growth of 3.0%, and once sales from acquisitions are included, total sales in the Netherlands rose by 3.9%. Consequently, our market share in the Netherlands increased to 24.4% according to FSIN.

In Belgium, we also outperformed the market, growing by 59.0%. Underlying growth in our Belgian activities was 2.8% meaning that organically we outperformed the market. Our market share in Belgium was about 3.4% according to estimates of Foodservice Alliance, although it should be noted that the definitions and players in the market in Belgium are different from those in the Netherlands.

In the Netherlands, we devoted much time and attention to completing the acquisitions and the start-up of the integration of HEINEKEN. In Belgium, the acquisition of ISPC brought a fine business that we will be integrating

keep building THE FUTURE!

Market share Foodservice in the Netherlands 24.4%

EMTÉ most customer-friendly supermarket format in the Netherlands into Sligro Food Group Belgium along with JAVA Foodservice and our Sligro site under construction in Antwerp.

We are still not satisfied with the extent to which we have been able to convert growth in 2017 into improvements in results. We will energetically tackle achieving cost efficiency from increased economies of scale in 2018.

Integration and growth in Belgium, migration to a new IT platform and restructuring our organisation to make it fit for our domestic and international ambition will be the main themes for 2018, alongside the integration of HEINEKEN. We will also be developing our cash-and-carry outlets and the network into the role we see for them in our omnichannel foodservice proposition for the future.

ISPC and Tintelingen

We announced the acquisition of ISPC in Belgium in January 2017 and were able to announce that it had been completed, as planned, in May 2017. ISPC has been consolidated into the Group's figures since May 2017, and it had a good year during which it made an immediate contribution to the group's result. In due course, Ghent and Liège and the new outlets, including Antwerp, will operate under the Sligro-ISPC name. JAVA Foodservice will continue to operate autonomously under its own name in the Belgian market with a specific focus on institutional and catering customers.

We announced the acquisition of Tintelingen in December 2016 and were able to announce that it had been completed, as planned, in July 2017. Tintelingen has been consolidated into the Group's figures since July 2017. Tintelingen again saw growth in sales in 2017 and also contributed to the group's results. There was energetic co-operation with Sligro's Christmas gifts team this year, and this will only intensify as time goes on.

HEINEKEN

In May 2017, we announced the proposed strategic partnership between Sligro Food Group and HEINEKEN, including the acquisition of HEINEKEN's wholesale activities. We were able to announce that the partnership and acquisition have been completed, as planned in December 2017. Since December 2017, wholesale revenues have been consolidated in the Group's figures, our beer and cider deliveries turnover has been transferred to HEINEKEN and Sligro has started logistics services for HEINEKEN. A fine partnership between two market leaders with an initial term of 15 years. During the past year, we made major preparations for starting the integration and expect to complete the initial phase during the first half of 2018. In 2018 we will also start the physical integration of the HEINEKEN activities in our infrastructure. This is expected to take three to four years and to lead to a state-of-the-art delivery network using our new online ordering platform. The cost of the acquisition process meant that there was a negative contribution to profit for the year. We expect a positive contribution in 2018.

ZiN

We now have more than a year's experience with ZiN as a physical environment, but also as an online presence focused on inspiring our professional customers. We have welcomed over 15,000 visitors and trained more than 1,000 customers in several modules. ZiN is not, however, a static concept and is always developing. New courses are, and concepts are being developed all the time for and with our customers and partners, with the aim of strong growth in the number of courses offered at ZiN in 2018 and above all staying relevant to our customers and their development.

Online 3.0

At the end of 2016, we started migrating our customers from our old ordering platform, Slimis, to the new one. By now 79% of our customer base has moved to the new

Acquisition of Tintelingen completed

Belgium wholesaler ISPC part of Sligro Food Group

Top 3 player foodservice in Belgium

environment, and we expect to move the remaining Sligro customers and also to give access to the HEINEKEN customers in 2018. Our customers are happy with the new environment and the extra functionality it offers compared with Slimis but they have concerns about the platform's stability, and speed, which we agree are not always at the intended level. As well as improvements in speed and stability, we are implementing substantive improvements and adding functionality. But in that order.

Food Retail

In the second quarter of 2017, we evaluated the EMTÉ 3.0 format. The main conclusions from the examination of the performance of EMTÉ 3.0 were and remain that the format is much appreciated by our customers but that this has not translated sufficiently into sales growth. Consequently, we suspended conversions to 3.0 for the rest of 2017 and concentrated mainly on improving profitability and further optimisation of the format. In 2018 we will continue to work along these lines, and for the time being, only sites planned for relocation will be converted to 3.0. 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. Consequently, we used the second half of 2017 to examine which alternative strategy would create the greatest value for our Food Retail activities. The fact that the combination of Foodservice and Food Retail offers us great synergy in many areas was part of the considerations.

We spoke to many parties inside and outside the Netherlands to form a picture of interest in an alliance in the form of a partnership and interest in an acquisition of our Food Retail activities. Having weighed up all of the alternatives, we decided to follow the more informal review in the second half of 2017 by starting a formal process with the aim of arriving at a definitive transaction for one or other of the scenarios (partnership or sale). It is expected that this process will lead to a transaction for the Food Retail activities in the course of 2018. We emphasise that care will have priority over speed in this process. Our decisions mean that our Food Retail activities are classified as discontinued operations under IFRS at year-end 2017, and they have been recognised as such in the financial statements. We will always take the interests of all our stakeholders into account in this as we arrive at a sound solution. At this point, we want to express our great appreciation and respect for all EMTÉ staff who, despite the uncertainty in this phase, continue to work with passion in a fantastic way that is really worthy of Sligro Food Group. A good fourth quarter for EMTÉ underlines their efforts.

CSR

We took major action in 2017 on policy and in results. Our active policy meant that we reached our 2020 CO_2 reduction target in 2017. In proportion to sales, our CO_2 emissions have fallen by 20.1% since 2010. The target was 20% by 2020. We are also on course to achieve the targets for our other core themes, and so we have started extending our sustainability horizon and, starting in 2018, are working towards new 2030 targets for the core themes. These have a challenging level of ambition, and above all, we can state with satisfaction that our CSR policy is being increasingly embraced with great passion and enthusiasm throughout the organisation. Our core themes of 'people, the environment and our product range' have been deepened with six trend lines and/or main subjects that have great social significance in relation to Sligro Food Group. We have identified which of the seventeen United Nations Sustainable Development Goals (SDGs) are in line with our updated sustainability policy, and the related activities and focus on our revised targets for 2030.

Strategic partnership with HEINEKEN

Over 15,000 visitors and more than 1,000 customers trained in ZiN Inspiratielab

79% of customer base moved to the new environment Online 3.0

We have one sustainability policy for the Group. Our core themes, ambitions and targets, therefore, apply to all our activities in the Netherlands and Belgium, although the approach and way they are structured may vary between countries and business units. As in earlier years, we are providing an integrated report on our financial and sustainability performance. The CSR section of the report refers in some places to matters addressed elsewhere in this report or to the website.

Risk management

Risk management has become an integrated part of the strategic agenda that we and the Supervisory Board address at length each year. We invest continuously in this as we are convinced that a strong culture can make a significant contribution to avoiding risks. To make this more measurable, we undertook a culture scan alongside our regular employee engagement survey in the past year. The results did not bring any surprises and confirmed our view that we possess something important. At the same time, the survey showed that we have to pay greater attention to younger and new employees as they need more time to recognise our culture and feel at home. We are starting on this immediately in 2018.

Results

We again grew fast in the past year with a combination of organic growth and acquisitions. We saw our market share increase in both the Netherlands and Belgium. In Food Retail, we were unable to keep up with market growth, and our market share slipped. The operating profit before amortisation was €123 million, which is an increase of €11 million compared with the previous year. At Foodservice, operating profit before amortisation rose by €12 million to €111 million, and at Food Retail there was a fall of €1 million to €12 million. Sligro Food Group's net profit for 2017 was €81 million, which is 9.9% up on the previous year and equal to the record profit in 2015. We note, however, that this year we made a non-recurring book profit on the sale of our beer and cider delivery turnover to HEINEKEN. Ignoring that book profit, the net profit was €74 million or an increase of 0.6% compared with the previous year. Although we are satisfied by all the plans, we set in train and completed in 2017, not all growth in sales has yet been sufficiently reflected in the net profit.

Dividend

Based on the result for 2017 and our continuing strong financial position, we propose increasing the dividend by €0.10 per share to €1.40 per share, made up of a regular dividend of €1.10 (2016: €1.00) and a variable dividend of €0.30 (2016: €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 €0.50 has already been paid as interim dividend. The final dividend for 2017, therefore, amounts to €0.90.

2018

We expect our markets to grow at a similar rate to 2017, now that the economy has entered a growth phase. We are looking forward to future years, and to 2018 in particular, with great confidence. In 2018 we will find a good future for our Food Retail activities, but in the meantime, we are working steadily on further optimisation of our 2.0 and 3.0 formats. Significant themes at Foodservice are the integration of HEINEKEN, further growth and integration in Belgium, the development of the cash-and-carry wholesaler of the future and preparing the organisation for further growth and our domestic and international ambitions. All of this will be supported by the replacement of our IT landscape in the next few years.

Customer satisfaction:
3 years in a row
great NPS Scores

748
football clubs
in the Netherlands
registered for
'Lekker Bezig'

CO_2 reduction
target 2020
already realised:
-20.1%!

We started and completed much in the past year and will continue to do so in 2018 with a clear vision of where we want to be in three years as a business. We will make careful decisions and focus the organisation fully on the priorities we have set for each other. This requires perfect execution of all plans and that will only be possible if we are not distracted too much by new opportunities and/or possible threats that we will come across. "Focus!" is, therefore, the theme for 2018.

Koen Slippens
CEO

EMTÉ
realises a strong
fourth quarter

The first
HEINEKEN
distribution centre
converted
in Oss

Focus!

KEY FIGURES[1)]

x € million	2017	2016
Result		
Net sales	2,970	2,813
Ebitda	174	156
Ebita	123	112
Ebit	97	87
Profit for the year	81	73
Net cash flow from operating activities	172	153
Free cash flow	98	72
Proposed dividend	62	57
Equity and liabilities		
Shareholders' equity	651	627
Net interest-bearing debt	146	60
Total equity and liabilities	1,347	1,215
Employees		
Year average (full-time equivalents)	6,741	6,571
Salaries, social security charges and pensions	289	272
Ratios		
Year-on-year increase in sales %	5.6	5.4
Year-on-year increase in profit %	9.9	(9.1)
As percentage of sales:		
Gross margin	23.4	22.9
Ebitda	5.9	5.6
Ebita	4.2	4.0
Ebit	3.3	3.1
Profit for the year	2.7	2.6
Return as % of average shareholders' equity	12.6	11.9
Ebit as % of average net capital employed	13.4	13.5
Net interest-bearing debt/Ebitda as %	84.0	38.4
Shareholders' equity as % of total equity and liabilities	48.3	51.6
Figures per €0.06 share		
Number of shares in issue at year-end (x 1,000)	43,965	43,880
x €1		
Shareholders' equity	14.80	14.29
Earnings	1.83	1.67
Proposed dividend	1.40	1.30
Year-end share price	39.85	33.08

1) Combined figures for Foodservice and Food Retail and, consequently, not reconcilable with the figures in the financial statements.

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 8 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 concentrates on the institutional, company catering and hotel chain segments in the Belgian foodservice market. 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 outlets in Ghent and Liège and a fresh fish wholesale business in Brussels. In future, ISPC Ghent and Liège and the new outlets, including Antwerp, will operate under the Sligro-ISPC name, focusing on wholesaling and other hospitality markets.

Food Retail

The Food Retail activities comprise around 130 full-service EMTÉ supermarkets, of which 34 are operated by independent retailers.

Sligro Food Group also operates its 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 and these serve both the Dutch and Belgian markets.

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

CIV Superunie B.A., a leading purchasing cooperative with a share of almost 30% of the Dutch supermarket sector, handles Sligro Food Group's Food Retail purchases. As market leader in the sector, the Group handles most of 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 managed 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 2017 totalled €2,970 million, generating a net profit of €81 million. The average number of employees on a full-time basis was 6,741. Sligro Food Group shares are listed on Euronext Amsterdam.

See the Sligro Food Group corporate film

BBQ workshop in the ZiN Inspiration lab. We have received over 15,000 visitors and trained more than 1,000 customers in a wide range of modules.

IMPORTANT DATES

Financial calendar

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

3 January 2018	Final 2017 sales
25 January 2018	Final 2017 figures
25 January 2018	Press conference (11.00 a.m.)
25 January 2018	Analysts' meeting (1.30 p.m.)
2 February 2018	Publication of annual report
21 February 2018	Record date
21 March 2018	2017 Annual General Meeting at the company's offices (10.30 a.m.)
23 March 2018	Ex-dividend date final dividend 2017
26 March 2018	Record date final dividend 2017
4 April 2018	Final dividend 2017 available for payment
19 April 2018	Trading update
19 July 2018	2018 half-year figures
19 July 2018	Analysts' meeting (1.30 p.m.)
18 October 2018	Trading update
2 January 2019	Final 2018 sales
24 January 2019	Final 2018 figures
24 January 2019	Press conference (11.00 a.m.)
24 January 2019	Analysts' meeting (1.30 p.m.)
5 February 2019	Publication of annual report
20 March 2019	2018 Annual General Meeting at the company's offices (10.30 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.

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In the past year, Van Hoeckel has entered into long-term agreements with various care organisations.

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.

The issued and fully paid-up share capital at 30 December 2017 comprised 44,255,015 ordinary bearers shares with a nominal value of €0.06 each, being a total of €2,655,300.90. There were 43,965,415 shares in issue at year-end 2017, an increase of 85,000 on year-end 2016. 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 151.

Sligro Food Group aims to pay a 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 regular dividend proposed for 2017 is €1.10 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 €1.40 per share. An interim dividend of €0.50 per share was paid on 2 October 2017 and so the final dividend will be €0.90.

In cash terms, a dividend totalling €1.35 per share was paid in 2017, made up of the final dividend for 2016 of €0.85 and the interim dividend for 2017 of €0.50.

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.

MOVEMENTS IN SHARES

x 1,000	2017	2016	2015
Issued shares as at start of year	44,255	44,255	44,255
Shares repurchased (cumulative)[1)]	(290)	(375)	(465)
Shares in issue as at year-end	**43,965**	**43,880**	**43,790**
Average shares in issue	43,944	43,858	43,764

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

Share of sales
eerlijk & heerlijk
9%
Organic, sustainable, fair trade, local

Share of sales
tabacco
10%
All products containing tobacco

Share of sales
alcohol
8%
All products containing alcohol that are suitable for consumption

Share of sales
pork
3%
Fresh pork products from the butchery and processed meat departments

KEY FIGURES PER SHARE

x € 1	2017	2016	2015
High	41.70	35.85	39.25
Low	32.63	31.26	30.95
Year-end	39.85	33.08	33.30
Earnings per share	1.83	1.67	1.84
Dividend	1.40	1.30	1.20
Market capitalisation as at year-end (x € million)	1,752	1,452	1,458

TRANSACTION INFORMATION

	2017	2016	2015
Total value of shares traded (x € million)	248	90	156
Volume traded (x 1,000)	6,558	2,689	4,519
Number of transactions (single counting)	70,807	24,831	40,140

These figures are based on information provided by Euronext Amsterdam. The month with the highest number of traded shares in 2017 was October (0.9 million) and the month with the lowest number was February (0.3 million).

DISCLOSURE OF MAJOR SHAREHOLDINGS

in %	2017
Stichting Administratiekantoor Slippens	33.95
APG Asset Management N.V.	10.03
NN Group N.V.	5.70
Teslin Participaties Coöperatief U.A.	5.44
B.V. Beleggingsfonds 'Hoogh Blarick'	5.43
Stichting Administratiekantoor Arkelhave B.V.	5.06
Boron Investment B.V.	5.03
Stichting Werknemersaandelen Sligro Food Group	3.94
J.O. Hambro Capital Management Limited	3.11

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. 122,174 shares in the holding of Stichting Werknemersaandelen Sligro Food Group are held by members of the Executive Board. These are itemised on page 136.

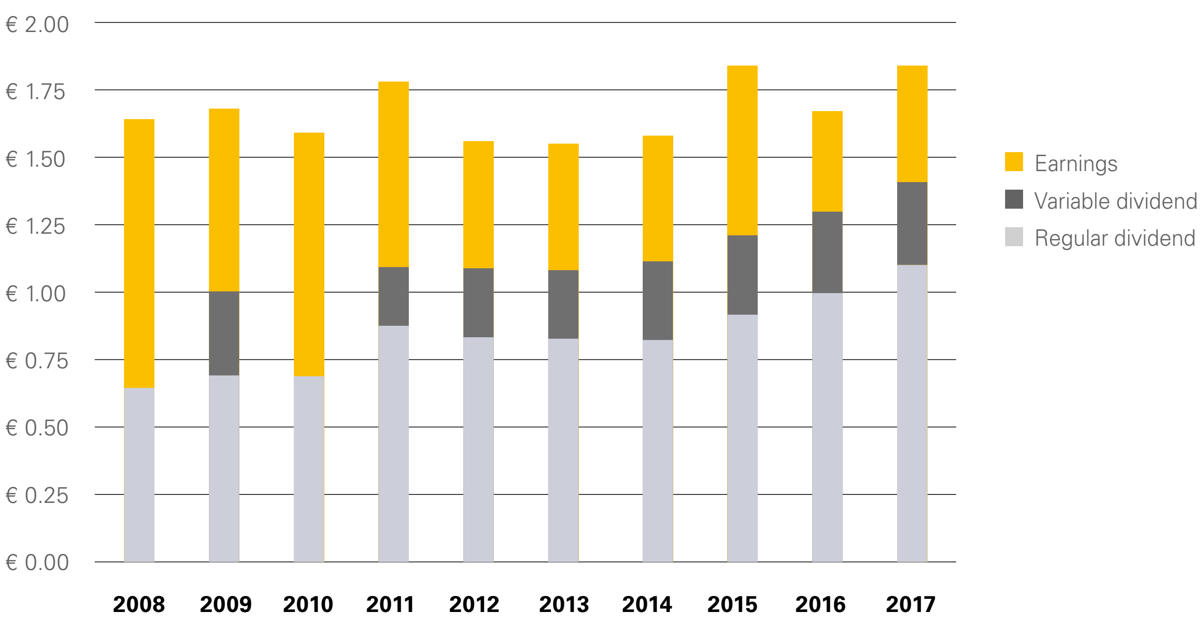
GEOGRAPHICAL DISTRIBUTION OF SHARE CAPITAL

in %	Private investors		Institutions		Total	
	2017	2016	2017	2016	2017	2016
The Netherlands	55	55	23	20	78	75
UK			4	5	4	5
USA			4	6	4	6
Other countries			2	1	2	1
Total	**55**	**55**	**33**	**32**	**88**	**87**

Market information has been used to estimate the geographical distribution of share capital at year-end 2017. This information covers 88% of the capital in 2017 (2016: 87%).

SHARE PRICE 2013-2017

EARNINGS PER SHARE 2008-2017




From left to right K.M. Slippens, W.J.P. Strijbosch en R.W.A.J. van der Sluijs

DIRECTORS
AND MANAGEMENT

Supervisory Board

F. Rijna, chairman (62)

J.H. Kamps (58)

B.E. Karis (59)

M.E.B. van Leeuwen (56)

G. van de Weerdhof (51)

Group Executive Board

K.M. Slippens, CEO (50)

R.W.A.J. van der Sluijs, CFO (41)

W.J.P. Strijbosch, Foodservice director (49)

Company Secretary

G.J.C.M. van der Veeken (56)

Executive Board of Sligro Food Group Nederland B.V.

Group Executive Board together with

A.E. Bögels, Purchasing and Product Range (45)

J.G.M. de Bree, Human Resources (60)

G. Buitenhuis, Supply Chain (53)

J.H.A. van Heerebeek, Food Retail Sales (51)

D.J. van Iperen, Foodservice Delivery (43)

K. Kiestra, Food Retail Operations (49)

M.M.P.H.L. van Veghel, ICT (45)

Executive Board of Sligro Food Group Belgium N.V.

Group Executive Board together with

E. Veyt, COO JAVA Foodservice (50)

R. Petit-Jean, COO Sligro-ISPC (51)

C. Teugels, CFO Sligro Food Group Belgium (51)

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 a specific customer segment 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 reputable, results-focused and entrepreneurial 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 improving 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 the cooperative purchasing organisation Superunie, which has a share of approximately 30% of the Dutch food retail sector. As market leader, we handle much of our own foodservice purchasing for both the Dutch and Belgian businesses.

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. As the benefits of an acquisition have to be weighed against the complexity of integration, we are looking mainly at relatively large players.

The Belgian foodservice landscape is also very fragmented and the market is constantly changing. We are aiming for a combination of organic growth and acquisitions to achieve a leading position in this foodservice market.

For the time being, we will be focusing on these two countries. Once we have built a strong organisation with a physical and technical infrastructure in Belgium, we will explore opportunities in other countries. Our international expansion is focused entirely on foodservice, preferably in relatively smaller Western economies with a well-developed foodservice market.

One of the ways in which we seek to be an attractive partner for our customers is by providing and facilitating excellent services and adding innovative concepts 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. In short, we want to be a company that people like to do business with.

We aim for profit growth that, on average, equals or outstrips our growth in sales. We can 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.

MEDIUM-TERM
STRATEGIC GOALS AND IMPLEMENTATION

Strategic goals

- Increase Group organic sales by an average of 3% per annum plus growth in sales through acquisitions that meet our criteria.
- Grow Foodservice sales in the Netherlands to a market share of 30%.
- Grow Foodservice sales in Belgium to a top-3 position.
- Improve return through growth in sales, margin management and cost control.
- Customers and suppliers see and experience Sligro Food Group as market leader in Good Food.
- Prepare organisation, processes and systems for further international expansion.
- Implement the strategic reorientation of our Food Retail activities.

Strategic implementation

- Renew operational performance by achieving break-through innovation in our processes and systems with external partners.
- Make people keen to do business with Sligro Food Group thanks to our on-going results-focused, reputable and entrepreneurial Green Blood culture in a growing organisation.
- Continuously improve our existing formats, concepts and distribution channels in part by continually launching innovative Good Food concepts for our customers.
- Gain customers' loyalty by supporting them in their day-to-day commercial and operational endeavours and offering or facilitating new and existing high-quality services (in-house or by facilitating third-party services).
- Attract customers using active, focused marketing and lowering barriers to entry for new customers.
- Establish a more differentiated positioning for our customers by combining the professionalism that we can offer through our critical mass with the character of a local partner: 'growth by staying small'.
- Implement projects and programmes effectively and efficiently by setting up a clear organisational and accountability structure and a results-based management model.
- Make Sligro Food Group ready for future international expansion by adapting processes, systems and organisational structures accordingly.
- Capitalise on internal synergies by intensive exchange of know-how among the Group's activities.
- Focus on the big picture to avoid unnecessary complexity.
- While retaining our own identity for the commercial formats front of house, optimise synergy behind the scenes by bundling non-distinctive processes and systems.

MARKET
AND MARKET APPROACH

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 solely 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.

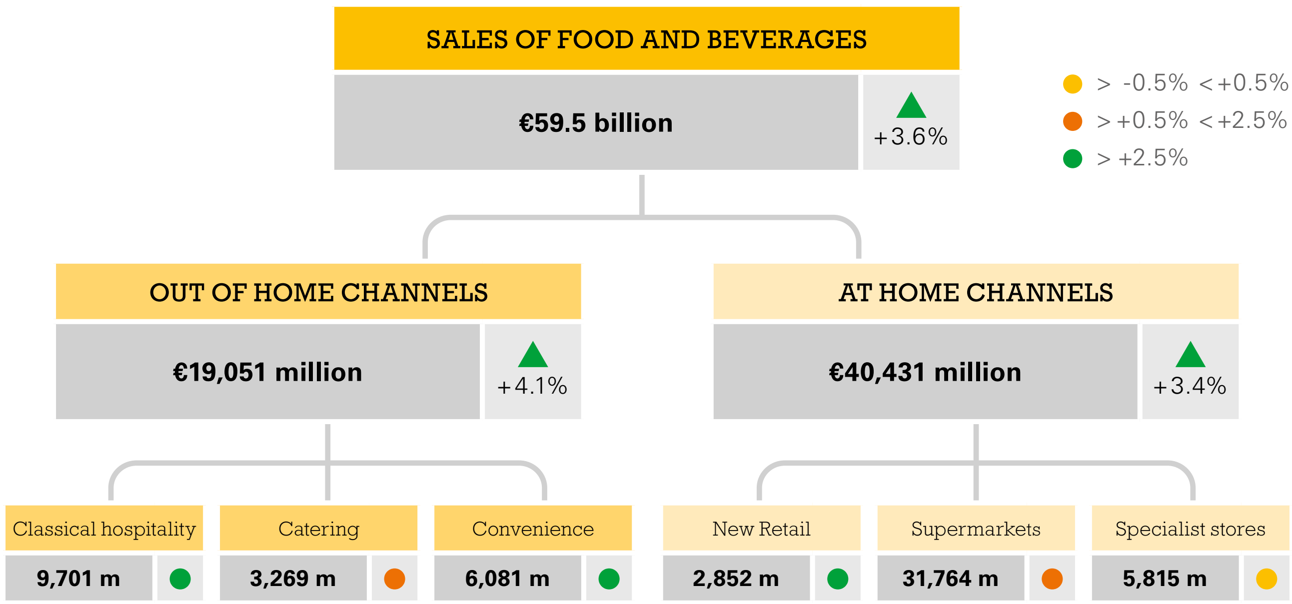
An analysis of total consumer spending on food and beverages in the Netherlands is presented in the diagrams on page 23. These have been taken from the 2018 Foodservice Beleidsmonitor report compiled on behalf of the Dutch Foodservice Institute (FSIN), which provides an overview of the Dutch foodservice sector and developments in this market and 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 suchlike often serves to make comparisons difficult.

A recent CBS report indicates growth of some 7.0% (Q3: 5.6%) for the hospitality sector in the first three quarters of 2017 compared with 2016: for some time prices have risen faster than inflation (about 1.5% for the first three quarters of 2017) and there is a volume component of some 4.5%.

FSIN puts foodservice growth in the Netherlands in 2017 at 4.1% with 4.2% for 'classical hospitality'. FSIN finds that 'convenience', including fast-food, is growing at 5.3%. 'Catering' grew by 1.5%; this sector includes the health-care market, where we are now also seeing modest growth (2.5%) after years of contraction.

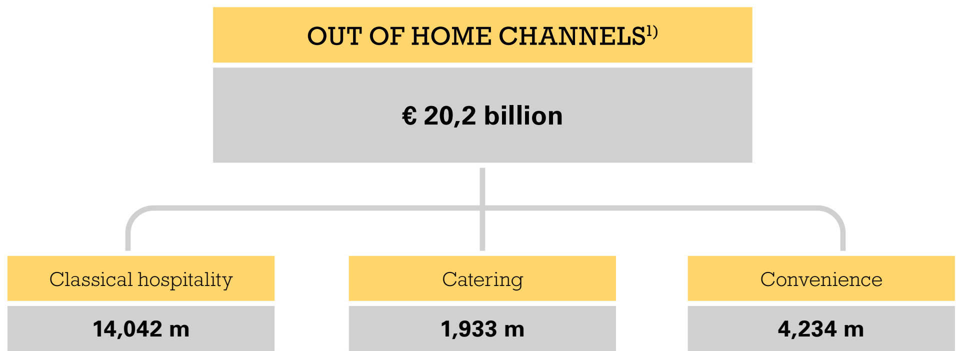
Foodservice Alliance estimated consumer spending in the Belgian foodservice market at €20.2 billion in 2016. No figures on market size measured by consumer spending are yet available for 2017.

NETHERLANDS FOOD MARKET
POPULATION 17.1 MILLION



Source: FSIN Beleidsmonitor 2018 / 2019

BELGIUM FOOD MARKET
POPULATION 11.3 MILLION



Source: Jaarmonitor Foodservice Channel Insights 2017, Foodservice Alliance
1) 2016 figures. No update available.

Market approach

The chart below shows which Group operating companies target the different 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.

We are the foodservice market leader in the Netherlands with a market share of 24.4% (source: FSIN). In Belgium, we have already built a top-five position and a market share of 3.4% through JAVA Foodservice, ISPC and deliveries to Belgian foodservice customers from the Netherlands.

We only operate in food retail in the Netherlands, where we have a market share of 2.5% (source: IRI and Nielsen).

CENTRALISED DECENTRALISED

Centralised where possible decentralised where necessary

Head office and central distribution centre in Veghel		
Food Retail	Foodservice	
Netherlands		Belgium
EMTÉ	Sligro / Van Hoeckel	Sligro-ISPC / 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	
130 supermarkets and 2 distribution centres in south and east of the Netherlands	National network of 50 cash-and-carry outlets and 8 delivery-service outlets	2 cash-and-carry outlets, 1 delivery-service outlet in Flanders and delivery from the Netherlands
Sligro Fresh Partners, specialised production facilities for convenience products (Culivers), fish (Smit Vis, Océan Marée) and meat (EMTÉ), patisserie/home caterer (Maison Niels de Veye), professional kitchens (Bouter), Christmas gifts (Tintelingen) and 4 fresh-produce associates		

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 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. Larger customers also 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 delivery customers visit a cash-and-carry outlet twice per month.

Foodservice customers in Belgium are currently being served by the different formats. JAVA Foodservice customers are served from the distribution centre in Rotselaar, where the new frozen food distribution centre has offered additional capacity since May 2017. ISPC customers can currently choose between cash-and-carry or delivery or a mix of the two from its outlets in Liège and Ghent and the specialist fish business Océan Marée in Brussels. As our outlet in Antwerp is still under construction, Sligro customers are being served from the Netherlands. Sligro's Belgian cash-and-carry customers are frequent visitors to our Dutch cash-and-carry outlets close to the border.

SALES BY SEGMENT

	Foodservice		Food Retail[2]		Total	
x € million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
The Netherlands	1,912	1,841	828	827	2,740	2,668
Belgium from the Netherlands[1]	41	39	0	0	41	39
Belgium from Belgium	189	106	0	0	189	106
Total	**2,142**	**1,986**	**828**	**827**	**2,970**	**2,813**

1) 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) Discontinued operations.

In the next few years, we will apply the Dutch model when adapting and extending the technical and physical infrastructure in Belgium so that customers can be served from all the Belgian outlets. We will then operate as two commercial formats: JAVA Foodservice primarily for the institutional and catering market and Sligro-ISPC for the other segments in the market.

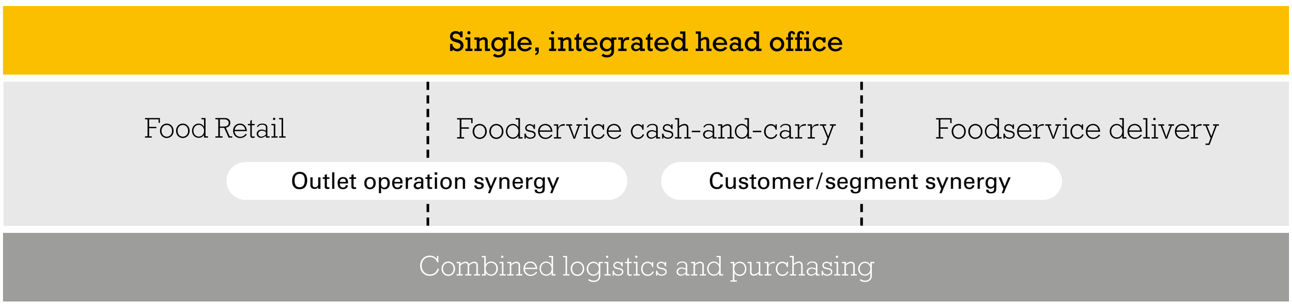
The sales and sales trends in countries where we operate are shown in the chart. The growth in Foodservice in the Netherlands came entirely from delivery (like-for-like and through acquisitions). We expect that we will benefit most from this part of the market in the next few years. We have seen strength in revenue in Belgium as a result of a full year's sales from JAVA Foodservice (compared with ten months in 2016) and the acquisition of ISPC. Both formats also generated excellent organic growth in sales during 2017.

Synergy

The following schematic 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. Strong competition coupled with the availability and use of market data means that the Dutch food retail market is 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. As explained on several occasions during 2017, we identified alternative strategic routes for our Food Retail activities. The extent to which we can retain synergy from the various alternatives is a key criterion in our assessment.

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 and we are pleased to see that there is great willingness to exchange and deploy best practices in the two countries. Finally, there are also synergies in purchasing and sourcing.

INTEGRATION FOOD RETAIL & FOODSERVICE



Our central distribution centre plays a key role in the efficiency and effectiveness of 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 others 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 divisor 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 range management, IT, quality, management development/HR 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, as we prefer to create value and not to diminish or destroy 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, including in our unique ZiN inspiration lab.

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 difficult 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. We know, however, that in the next few years we need to invest in developing cultural values and communicating them clearly to instil in the younger generations what comes naturally to colleagues with more years under their belt.

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.

ISPC is a leading wholesaler in Belgium with combined cash-and-carry and delivery outlets in Ghent and Liège and a fresh fish wholesale business in Brussels: Océan Marée.

Tastier, more personal, cheaper and more inspirational are the four pillars supporting Sligro 3.0.

FOODSERVICE DEVELOPMENTS

KEY FIGURES

x € million	2017	2016
Net sales	2,142	1,986
Ebitda	148	131
Ebita	111	99
Free cash flow	90	42
Net capital employed [1)]	676	563
Ebitda as % of sales	6.9	6.6
Ebita as % of sales	5.2	5.0
Ebita as % of average NCE	18.1	18.9

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. Measurement methods and diversity in the industry means that the figures for the foodservice market are not as clear or reliable as those for food retail, but they are the best available.

The FSIN figures show that growth in the Dutch foodservice market is expected to pick up further by 4.1% over the full year 2017 with 4.2% growth for 'classical hospitality' compared with a year earlier. 'Convenience', including fast-food, is growing according to FSIN by 5.3%. 'Catering' grew by 1.5%; this sector includes the healthcare market, where we are now also seeing modest growth (2.5%) after years of contraction.

In Belgium, we use information from Foodservice Alliance to monitor developments in the market. The figures are not updated as frequently as those for the Netherlands, and so there are no new insights into this year's developments in the market at the consumer spending level. However, Foodservice Alliance has produced a growth figure for the foodservice market using information available on the market and its own interpretations. It estimates that there was growth of 2.4% in 2017 compared with the previous year. The definition of the size of the foodservice market in Belgium is different from the Netherlands and so is not directly comparable.

Dutch market €6.9 billion at wholesale prices

FSIN estimates that the foodservice market at consumer prices rose by 4.1% in 2017 compared with the previous year, measured on a calendar year basis. The consumer spending market was, therefore, some €19.1 billion, an increase of 2.9% at wholesale prices (the definition relevant to Sligro Food Group) making the overall market about €6.9 billion.

We, and FSIN, estimate that we have again beaten the market, including organically. Together with some months' sales from the acquisition of the De Kweker sites and the additional wholesale revenue from HEINEKEN in December, this has led to our market share rising once again.

MARKET SHARES NETHERLANDS

Foodservice market places[1] in %	2017	2016	2015
Sligro Food Group	24.4	24.0	23.6
Lekkerland	13.3	13.2	13.1
Bidfood	10.8	10.8	11.1
Hanos	7.8	7.6	7.5
Makro	5.5	5.9	6.3
Total other beverage wholesalers	13.1	13.3	13.4
Other Maxxam (VHC, Horesca, Topclass Groep)	6.1	6.1	6.0
Supertrade (Digross, Interkring, De Kweker, Huuskes)	4.7	4.7	5.1
Other	14.3	14.4	13.9
	100	**100**	**100**

1) Source: Foodservice Beleidsmonitor 2018

The market shares are based purely on food sales to food service 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 co-operate, 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.

Belgian market €7.1 billion at wholesale prices

Foodservice Alliance has not presented an update for consumer spending in the Belgian Foodservice market in 2017. As reported last year, it estimates this to be in excess of €20 billion.

In 2017, Foodservice Alliance did, however, present a National Foodservice Wholesalers Report which included its interpretation of the size of the foodservice market, distinguishing between the cost of purchasing raw materials in the foodservice market by foodservice wholesalers and by other channels such as fresh food specialists but also certainly supermarkets. The introduction of the 'witte kassa' (a regulated cash register system to combat fraud) will see supermarket purchases fall in due course. Foodservice Alliance estimates total purchases at €7.1 billion (growth of 2.4% compared with 2016), of which only €2.5 billion is currently purchased through foodservice wholesalers.

The market is still very fragmented with about 160 foodservice wholesalers and many suppliers that concentrate on one or a few specific product groups. The average foodservice customer in Belgium still has more than nine suppliers.

We see the fragmented landscape as an excellent opportunity for Sligro Food Group since we believe that our inclusive concept combining cash-and-carry and delivery can add something to the Belgian foodservice market. We want

MARKET SHARES BELGIUM

Foodservice marketplaces[1] in %	2017
Bidfood	5.4
Metro[2]	4.6
Sligro Food Group	3.4
Other top 10 wholesalers	9.4
Next 40 wholesalers	11.0
Final 110 wholesalers	1.4
Supermarkets and fresh food specialists	64.8
	100

1) Source: Foodservice Alliance, Nationaal Foodservice Grossiers-rapport 21-09-2017
2) The figures for Metro are only for the Metro format. The Makro format is not included in the market definition as it is open to all consumers in Belgium.

to play a role in the consolidation and further professionalisation of the Belgian market which are already underway and to increase our market share.

Outlet network

At the end of 2017, we had a nationwide cash-and-carry network in the Netherlands of 50 locations. These sites focus completely on the Dutch market although closer to the border we receive Belgian Sligro customers every day, partly because we do not yet have our own Belgian outlets in those areas. In addition, we have eight distribution centres for deliveries to foodservice customers. Two 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 the needs of our customers and efficiency, commercial cooperation is strongly embedded.

Under the strategic partnership, we have been using HEINEKEN's distribution sites since 1 December 2017. We will leave these 13 sites gradually over the coming three to four years as we integrate their activities into our own delivery network. To allow this, we will relocate four of our existing delivery locations to a newly-built and logistically better site suited to the distribution to our and HEINEKEN's existing customers in the country. We have to make certain

LOCATIONS

modifications in the other four locations before we can handle the large beer and cider volumes in particular. Within four years, our delivery network will consist of 8 state-of-the-art distribution centres and 2 Open Delivery Service sites.

In Belgium, we have set up our first distribution centre with JAVA Foodservice 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. With the acquisition of ISPC, we now also have two cash-and-carry sites which also offer delivery. We want to create a network of cash-and-carry outlets and delivery locations in Belgium in line with the Dutch model, which can serve all Belgian customers (Sligro-ISPC and JAVA Foodservice). This will require further technical integration, and we will introduce a new ERP landscape for Belgium as part of our IT2020 project. Once that is in place, the network will be able to operate as a whole as we have done for years in the Netherlands.

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.

We believe it is important to know all the time how our customers rate our service and so we measure it frequently ourselves. For some years, we have carried out a customer value survey with the aim of gaining insight into customers' loyalty and 'customer value'. It also looks 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 risen to +33. Although we have seen some fluctuations in the figure in recent years, we note that our rating is strong for the third year in a row. Our customers see us as a reliable partner, and the knowledge of our staff is regarded very positively. Our customers want more attention to creativity and innovation, and so these themes are prominent on our agenda for the coming years. As explained below, our ZiN Inspiration lab will play a significant role in this.

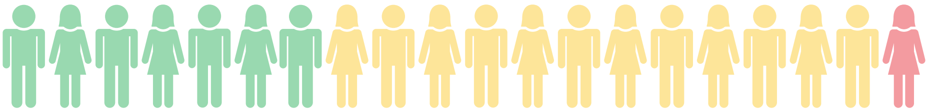
We also saw a strong improvement in the score for deliveries to +27. The quality of the delivery process, our product range and our drivers were rated very highly, and that is a significant basis for the good rating. We see that our customers are critical of our ordering process and that is partly due to the transfer to our new ordering platform. It always takes time to get used to something new of course, but we accept that the stability and speed of our site is not yet at the intended level. We will continue to work on this.

NET PROMOTER SCORE
SLIGRO CASH-AND-CARRY

2017 **+33**

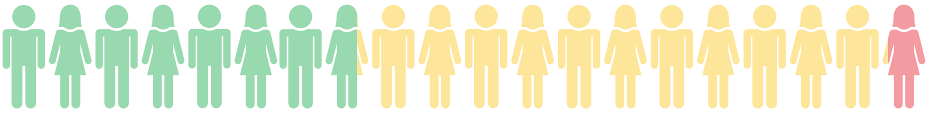
Promoters **37%** | Passive **59%** | Detractors **4%**

2016 +29



Promoters 34% | Passive 61% | Detractors 5%

2015 +35



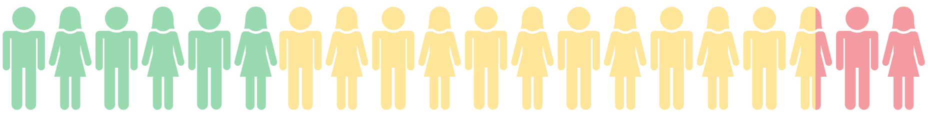
Promoters 39% | Passive 57% | Detractors 4%

NET PROMOTER SCORE
SLIGRO DELIVERY SERVICE

2017 **+27**

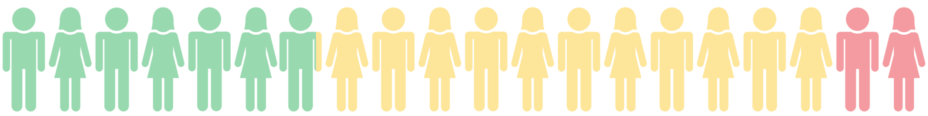
Promoters **37%** | Passive **53%** | Detractors **10%**

2016 +18



Promoters 30% | Passive 58% | Detractors 12%

2015 +23



Promoters 33% | Passive 57% | Detractors 10%

SLIGRO 3.0

Sligro 3.0 is not a static concept but a format generation that is under continuous development in large and small steps. In 2017, a number of departments made format changes. The preparations for the first Belgian Sligro-ISPC site in Antwerp have also brought innovative ideas, some of which are of interest in the Netherlands. Following conversion of the first small (Type I) outlets to 3.0 in 2016, Tiel and Goes were successfully converted in 2017. In addition, three larger Type III outlets (including the completely new one in Purmerend) were moved to 3.0.

Sligro 3.0 goes further than the look of the cash-and-carry outlets and covers the entire positioning of Sligro in cash-and-carry and delivery where we address the market in both the Netherlands and Belgium (where it is adjusted in line with local requirements and under the Sligro-ISPC name). This can be seen in its steady roll-out and refinement in the cash-and-carry network but also in the more focused and personal communications with our customers.

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 not only to deliver properly to customers but also to generally play a role in saving them work, remembering their profitability and innovation. This is fine work that also, of course, gives us a great picture of current thinking in the market and among our customers.

After its royal opening at the end of November 2016, the ZiN Inspiration Lab made a flying start in 2017.

The curriculum is becoming more comprehensive and, as befits an inspiration lab, ZiN is renewing itself all the time. Training courses, workshops, awards, inspiration tours, receptions, customer events, commercial academy, "Hospitality check-ups". In 2017, we received over 15,000 visitors to ZiN. We believe this is only the start of an inspirational journey that will offer much to us and our customers.

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. The professionals can then concentrate on what they are good at - satisfying their guests.

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. The strategic partnership with HEINEKEN in the Netherlands has considerably increased the number of customers served by Sligro and the two market leaders, each strong in its own segment, complement each other excellently. 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 in the Netherlands and in Belgium.

With our national network of cash-and-carry outlets and fully online-driven delivery locations which work intensively with each other, we are close to our customers and can offer a reliable, high-quality service. We believe that this structure in which over 60% of total net sales in the Netherlands now take place online forms a sound basis for the omni-channel route we envisage. These developments demand serious investment and the scale to make it profitable; we believe our size in the Benelux is an advantage.

We still see some scope for further optimisation of our cash-and-carry network in the Netherlands and using the significant volume growth from the HEINEKEN partnership; we will significantly expand our delivery network over the next four years, setting it up in accordance with the latest insights. In Belgium, we are on the eve of the roll-out of a cash-and-carry and delivery structure on the same basis as in the Netherlands. This process will take some years of gradual sales growth and protracted licensing procedures. The further optimisation of our networks in Belgium and the Netherlands and increased economies of scale offer us the possibility of providing improved service to our customers and better efficiency and profitability for the Group.

Our culture, our Green Blood, is a real part of the DNA of our staff. Historically in the Netherlands but, gradually, more and more in Belgium. Our entrepreneurial approach, with passion and willingness to help the customer, makes the difference from top to bottom. Growth by staying small. Authentic and with a lot of sound food knowledge on board. Customers can feel and taste this. The culture plus a powerful back office and a treasury of fine products in the range, fresh food partners and exclusive brands make Sligro what it is, real pleasure!
The next few years will demand a lot of change including in our markets: sustainability, health, digitalisation, fitness, chain management, platform thinking, data-driven. These themes are specific items on our agenda for the next few years. We, of course, do not have all the answers right now but we are looking forward to the next step and embrace change.

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.

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. This will increasingly not be through the traditional supply chain but will use platforms. We, as a portal, want to give our customers peace of mind as far as possible across a much wider pallet than we already do.

Ever faster innovation also demands systems and a back office that offer greater pace of change and flexibility while maintaining stability (“always operational”). Our IT2020 route in which we will completely renew the IT landscape for the coming years, is designed for this.

Logistics and staff deployment will also change considerably over the next few years. A single uniform approach to logistics is no longer appropriate given the major differences between urban distribution and deliveries to areas outside the large cities. Environmental charges and safety will, of course, have a major role in this. The available capacity and fitness of labour in combination with later retirement are themes that require specific attention in our industry.

Sligro Online 3.0

The first version of our new ordering platform went live in November 2016, and 79% of our customers moved to it in the past year. In the fourth quarter of 2017, we started guiding large customers with nationwide operations towards the new platform. From second quarter of 2018, we will gradually transfer HEINEKEN customers to the new environment, and later in the year, we will also gradually offer the ordering environment to our delivery customers in Belgium and cash-and-carry customers in the Netherlands and Belgium.

Our customers are positive about the ease of use of the search function, simple navigation and images displayed. These are all big advances compared with the old system, Slimis. Our customers are, however, critical of the speed of our new platform. Although we have already paid this much attention, we also believe that improvement is required. A new release with improvements, guided by our own improvement agenda but even more by the needs of our customers, is issued every three weeks. Speed, continuity and security of the platform are themes we work on continuously. The speed of the platform, 24/7 availability and meeting major customer wishes are the major, priorities for 2018 in the further development of our order platform.

ZiN

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 so much else to inspire our customers. We follow our customers' careers: from a starters' academy through to business succession, and all stages of growth in between that require attention as customers progress. We do this through management and development courses, but there is also a focus on technical matters such as catering techniques, product knowledge and barista training. E-learning and online communities play a significant role alongside a physical presence in the inspiration lab. We want to encourage the sharing of knowledge, and so ZiN has many external training partners and, above all, incorporates the cognitive and creative power of our customers. After all, together we know much more than any individual.

We have been running ZiN for over a year now and working on ZiN online and off-line. The results for over 2017 were:

- 43% of our customers know of ZiN
- 90,000 social impressions
- more than 15,000 visitors from the food industry
- over 100 training course at ZiN
- over 1,000 professionals trained
- 58 partners in business
- 5 partner events

Our programme is in full swing. Eight new courses are already in the pipeline, and other will certainly follow. We know from surveys and evaluations what we have to improve, what programmes need to be extended and what elements will be dropped in 2018.

Cash-and-carry

Our network of cash-and-carry outlets consists of 50 sites in the Netherlands and two in Belgium. In the Netherlands, we have seen that the trend in the market has for years been increasingly towards delivery. And for years this has also generated our extra growth and outperformance of the market. The cash-and-carry locations are becoming more significant and relevant in the role of a meeting place between our customers and our professional employees but are experiencing pressure on sales, all the more since we are continuously transferring customers from cash-and-carry to delivery. We see, however, that the sites that have been converted to 3.0 can keep up well with the market as a whole. We believe in the omni-channel combination with a strong cash-and-carry network and an efficient delivery system behind an online environment for our customers. This means, however, that we have to structure these channels critically and so be developing and experimenting with the cash-and-carry of the future, while still making further conversions to 3.0. Consequently, the network is not expected to expand further in the Netherlands but will be optimised and may occupy less space. We are also thinking about further smart integration of digital techniques in the outlets to combine physical and online sales. Greater product range in less space in other words. The place of cash-and-carry in the Supply Chain will be closely examined and in our opinion can facilitate part of the solution in the keeping Dutch town centres accessible for delivery in a sustainable way.

In Belgium, we will adapt the layout and product range of the cash-and-carry format to the preferences of our Belgian customers. We will, of course, apply the lessons and prospects from the Netherlands into our expansion strategy.

CASH-AND-CARRY
OUTLETS

	Outlets year-end		x 1,000m² floor space year-end	
	2017	**2016**	**2017**	**2016**
2.0 style				
Type I	10	12	42	50
Type III	22	25	154	179
Type IV	1	1	11	11
Total	33	38	208	240
3.0 style				
Type I	3	1	12	4
Type III	10	7	71	54
Type IV	4	4	44	44
Total	17	12	128	102
Total cash-and-carry	**50**	**50**	**336**	**342**

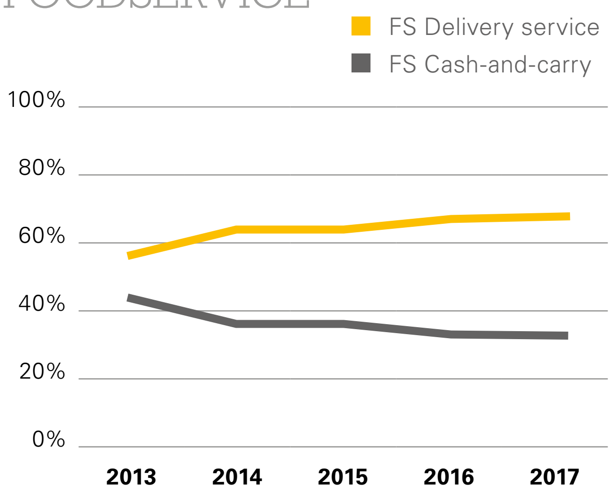
We will expand our network further in Belgium over the next few years. At the end of 2017, we started construction of our first Sligro-ISPC outlet in Antwerp, and we expect it to open in the autumn of 2018. The planning process was delayed mainly by local competitors who took every opportunity to lodge objections to slow down the process. We were sad to see that this was sometimes accompanied by false stories in the media about our intentions in Belgium but we are pleased the authorities relied on the facts when making their decisions. With our experience in Antwerp behind us, we have started the planning permission process for sites in other Belgian towns, including Bruges: a region we see as attractive since the competition, there is still very traditional and lagging behind in innovation.

Delivery

Growth in the Dutch Foodservice market comes predominantly from delivery. We have also seen the largest increases in sales in this channel, and this is expected to continue in the next few years. There is great dynamism in this market where logistics providers and niche players as well as traditional wholesalers are defending their positions. We see new entrants from online retail channels who plan their routes to consumers by approaching specific customer groups in the Foodservice market. Professional delivery customers want greater and greater peace of mind in their day-to-day processes and expect higher added value services and flexibility as well as an efficient ordering and delivery process. On the Supply Chain side, we see challenges in the availability of staff, in both logistics capacity and the transport sector, and also in the accessibility of towns and city centres as a result of environmental considerations.

We believe that our new online ordering platform and delivery network in the Netherlands, with eight delivery centres and two cash-and-carry outlets which also offer delivery, give us a sound basis to operate in this challeng-ing growth market. We are, however, very well aware that we must always adapt and improve to maintain and expand our leading position. Scale is a great benefit in bearing the investment required but can also be a brake in terms of flexibility and innovative strength with ever-changing customer demand. Over the next few years, we will further optimise our delivery network, partly through merging it with HEINEKEN's. In addition, we will also optimise the performance of our ordering platform and add a range of relevant services for our customers. We will make our delivery network more accessible to professional customers with lower order volumes and use alternative forms of transport for this. We will also introduce our platform solutions, enhancing our role as facilitator between supplier and customer with the appropriate speed of interface. As a precondition, for improving our flexibility, we will revise our IT landscape the coming years and continue the investment in data of the past few years in full.

NET SALES
FOODSERVICE



In Belgium, we currently have a delivery site in Rotselaar, which for the time being is working mainly for JAVA Foodservice. We also supply customers from ISPC's cash-and-carry outlets of in Ghent and Liège and to a relatively small extent deliver to Sligro customers in Belgium from the Dutch sites. We will develop a network of delivery outlets in Belgium over the next few years so that, as in the Netherlands, customers can be served from both formats from all sites. As soon as the scale of deliveries in Belgium is adequate, we will open a second delivery site in addition to the delivery distribution centre in Rotselaar.

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. We are being increasingly critical when setting added value (sales and returns) against the complexity of integration. As a result, we are focusing mainly on relatively large players or specialists. Our international expansion concentrates entirely on foodservice, and we are focusing primarily on Belgium. As we cannot immediately integrate acquisitions in Belgium into a single logistics and IT platform, complexity increases with every acquisition. Although we will be prominently involved in the consolidation process, we will focus in parallel on creating the necessary conditions for rapid integration. After this, it will be possible to pursue a more intensive acquisition strategy in 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 ISPC, Tintelingen and the HEINEKEN wholesale activities met these criteria.

ISPC

We announced the acquisition of ISPC in Belgium in January 2017 and were able to announce that it had been completed, as planned, in May 2017. ISPC has been consolidated into the Group's figures since May 2017. ISPC is a leading Belgian wholesale supplier to the hospitality sector operating combined 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. ISPC was founded in 1966 and until recently was one of the largest independent wholesalers in Belgium. ISPC offers its customers a one-stop shopping service for food and non-food items both as cash-and-carry (Ghent and Liège) and delivery. Since 2014, ISPC has had its own fish specialist, Océan Marée in Brussels. ISPC and Sligro have similar activities in Belgium, and they will, therefore, be combined into one unit. In due course, Ghent and Liège and the new outlets, including Antwerp, will operate under the Sligro-ISPC name. JAVA Foodservice will continue to operate autonomously under its own name in the Belgian market with a specific focus on institutional and catering customers.

Tintelingen

We announced the acquisition of Tintelingen in December 2016 and were able to announce that it had been completed, as planned, in July 2017. Tintelingen has been consolidated into the Group's figures since July 2017. Tintelingen 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 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.

Tintelingen generated sales of €9 million in 2016/2017 (non-calendar financial year Q2-16 to Q1-17) and has 11 employees (FTEs). It organised over 250,000 gifts to mark special occasions. A significant proportion of its sales are made up of gift vouchers. Under IFRS, Sligro Food Group cannot recognise the full value of the gift voucher as sales, although Tintelingen was able to. As a result, net sales in the figures of Sligro Food Group will be about half of the level reported by Tintelingen.

HEINEKEN

In May 2017, we announced the proposed strategic partnership between Sligro Food Group and HEINEKEN, including the acquisition of HEINEKEN's wholesale activities. We were able to announce that the partnership and acquisition have been completed, as planned in December 2017. Since December 2017, wholesale revenues have been consolidated in the Group's figures, and Sligro has started logistics services for HEINEKEN.

As a result of the partnership Sligro will carry out logistics activities for HEINEKEN for the Dutch hospitality sector. This means that Sligro will process, store and deliver beer and cider orders placed by the hospitality sector for HEINEKEN, creating a one-stop shop for all beverages, food and non-food orders for hospitality sector customers. The exception to this is deliveries of tanker beer, which HEINEKEN will continue to do. This partnership will make HEINEKEN Sligro's number one partner for beer and cider. In addition, as part of this proposed partnership, HEINEKEN will sell the wholesale operations of the other food, and non-food range, including soft drinks, waters, spirits, wines, tea and coffee to Sligro and Sligro will deliver beer and cider sold by HEINEKEN. As a result of this transaction, Sligro's wholesale sales will increase by a net amount of €150 million annually. This is the net amount of the wholesale turnover that Sligro Food Group is taking over from HEINEKEN (about €180 million) and the deliveries of beer and cider that Sligro Food Group is selling for HEINEKEN (about €30 million).

Sligro's cash-and-carry sales and the retail sales of the two partners are excluded from this. The intention is that the partnership will be long-term with an initial period of 15 years.

Some 370 people, including temporary staff, work in the HEINEKEN operations related to the partnership. The partnership ensures an increase in the customer base for both parties; currently, HEINEKEN delivers to some 18,000 locations, Sligro to some 25,000. Some of these are existing customers of both. HEINEKEN Nederland has 13 distribution centres in the Netherlands. Sligro has eight delivery outlets and two cash-and-carry sites which also offer delivery in the Netherlands. Sligro started performing the entire logistics operation immediately after concluding this transaction. Sligro will invest €80 to €100 million in a single integrated 'state of the art' distribution network over the next few years to allow combined food and drink deliveries. Sligro.nl, the new ordering platform of Sligro will be used for online orders. Thanks to ongoing growth and investment by Sligro, these changes are not expected to have adverse consequences for employment.

Christmas gift specialist Tintelingen organised over 250,000 gifts to mark special occasions in the past year.

Thanks to the huge engagement of the shop staff, EMTÉ was named the most-costumer friendly supermarket in 2017.

FOOD RETAIL[1] DEVELOPMENTS

KEY FIGURES

x € million	2017	2016
Net sales	828	827
Ebitda	26	25
Ebita	12	13
Free cash flow	8	30
Net capital employed [1]	103	105
Ebitda as % of sales	3.2	3.0
Ebita as % of sales	1.4	1.5
Ebita as % of average NCE	11.1	10.9

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 establish a picture of the market in 2017. 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 €37.5 billion

Taking the arithmetic mean of the IRI and Nielsen figures as a basis, the market grew by 3.6% in 2017 to €37.5 billion. This has been calculated on a 52-week basis for both years. Based on our interpretation of GfK's figures on the one hand and the CBS figures on the other, we estimate that inflation/price accounts for around 2% of the growth and the rest is based on a volume increase. According to Gfk, the number of households and spending per household are rising.

MARKET SHARE SUPERMARKETS[1]

in %	2017	2016	2015
Albert Heijn	35.3	35.3	35.0
Jumbo	18.5	18.4	17.5
C1000 [2]	0.0	0.0	1.0
Plus [3]	6.4	6.2	6.2
Aldi/Lidl	16.5	16.6	16.6
Sligro Food Group [3]	2.5	2.6	2.7
Other [4]	20.8	20.9	21.0
	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 market is fast-moving, partly as a result of changing consumer behaviour based on new preferences for convenience, enjoyment, good behaviour and health.
Consumers are increasingly opting for convenience. Although online shopping now offers collection (Pick Up Points) and home delivery options, home delivery appears to be the most popular. Having meals delivered to your home is also a growing trend. Alongside local initiatives in the larger towns and cities, the large fast food chains are now also

1) Concerns discontinued operations.

experimenting with home deliveries. Following a small dip owing to negative reporting on ready meals, we are now seeing the supermarkets committing to innovation in this area and growth is picking up. Finally, the number of convenience stores is on the increase and blurring is leading to a further amalgamation between consumer-driven foodservice concepts and food retail. This desire for convenience and the move towards new solutions and concepts in response is putting pressure on the traditional supermarkets, which are unable to adapt to these trends.

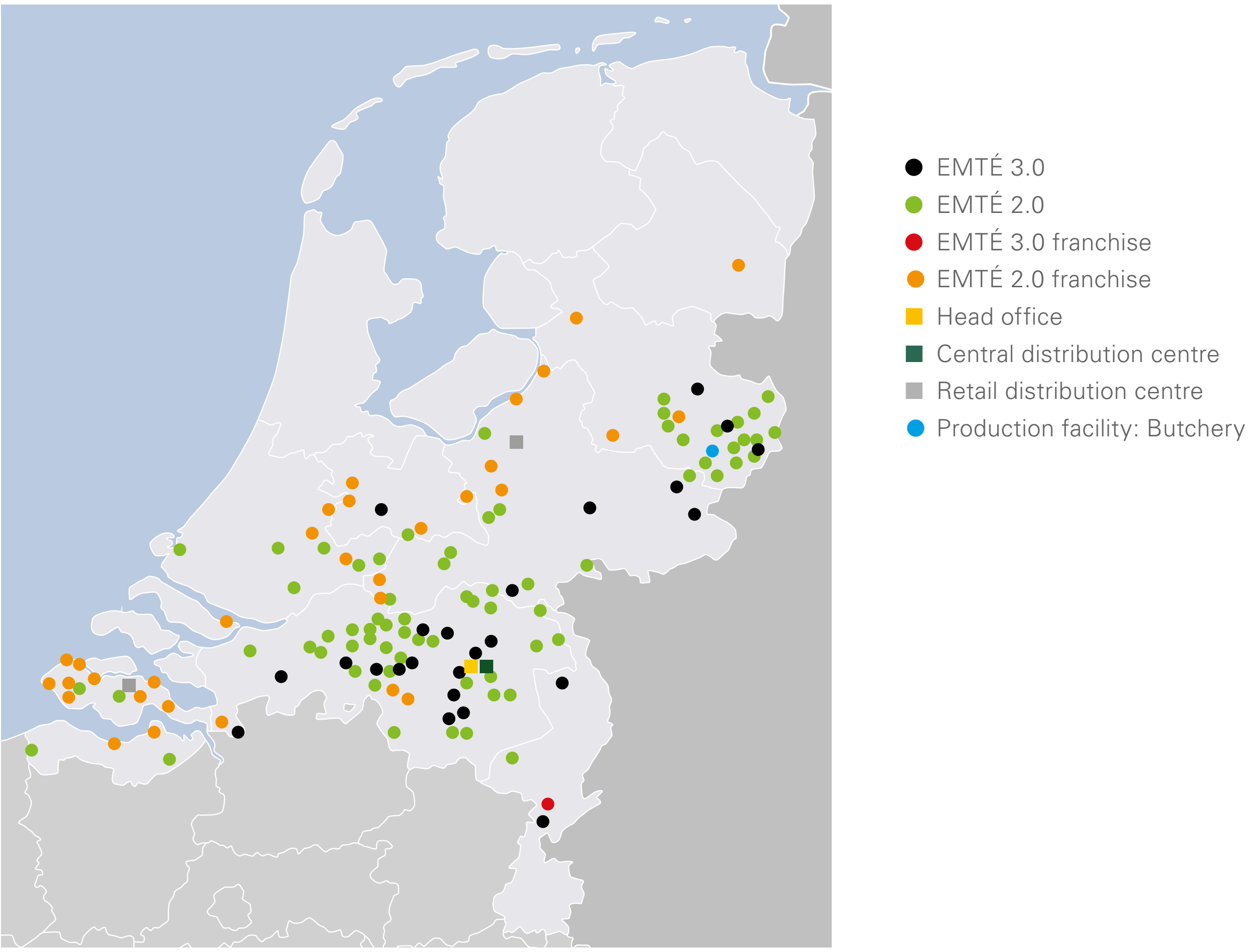
Consumers are clearly opting for greater enjoyment in their food spending patterns. It is not only the culinary level that is improving, but also the focus on good, healthy and responsible eating has been a rising trend for years. It is a good thing that the various NGOs are ensuring that these themes stay on the radar even though there is a need to put standards on a more professional footing and to refine and harmonise them. The share of product sales with a quality label is rising sharply as well as the share in the range, and in a whole host of product categories, products with a sustainable quality label are already the norm.

Procurement market

The Dutch procurement market is supplied by five large 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 (Aldi and Lidl have a very high international share of the procurement market).

In 2017, 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 a relatively small figure of 19%. 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.

LOCATIONS



LOCATIONS

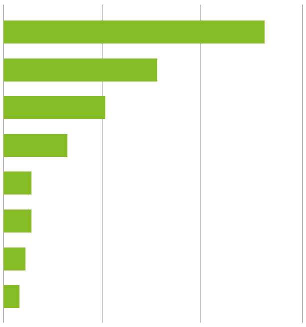
Outlets year-end		x 1,000m² retail space year-end		Consumer sales[1] x € million		Index of like-for-like sales (52 weeks)	
2017	2016	2017	2016	2017	2016	2017	2016
130	133	142	144	963	959	100	99

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

Branch network

At year-end 2017, we had over 130 EMTÉ supermarkets, of which 34 were operated by independent retailers. Our market share represented by these supermarkets is 2.5%, 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%).

REGIONAL MARKET SHARE



	%	Position
Zeeland	13.1	3
Noord-Brabant	7.7	5
Overijssel	5.1	6
Gelderland	3.2	7
Drenthe	1.4	10
Utrecht	1.4	9
Limburg	1.1	8
Zuid-Holland	0.8	11

Source: IRI

Food Retail's total net sales rose by 0.1% compared with the previous year and this sales growth is fully organic. Identical consumer sales rose by 0.2%. The difference between both figures was the result of changes in the store network.

In early 2017, we were still benefitting from the growth of stores added in 2016, while in the course of 2017, we actually disposed of stores. These effects had a limited net impact on our figures. If we break down the 0.2% identical growth of consumer sales into 2.0 and 3.0, the 2.0 stores show flat growth (0.0%), whereas the 3.0 stores saw their identical consumer sales grow by 0.8%. If we ignore the weeks that the 3.0 stores were closed, annual growth was 2.3%.

The volatility in sales compared with the market fell again this year, even though we were structurally behind growth in the market. The stores that had been converted to 3.0 performed consistently better throughout the year, although on average they did not achieve the figures we had forecast in our business case. Once we had taken the decision in mid-2017 to suspend the rollout and to concentrate on optimising the existing renovated stores, we did see an improvement in the trend. The additional efforts that went into the stores in the 2.0 format had an impact, resulting in a relatively good fourth quarter. Nevertheless, we are still not keeping pace with the market, which is and will remain challenging. We will continue to do all we can to improve the 3.0 and the 2.0 formats and to promote sales.

Total Food Retail sales comprise EMTÉ 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:

NET SALES

x € million	Net sales 2017	Net sales 2016	Share of sales as % 2017	Share of sales as % 2016
Company-operated supermarkets	648	650	78	79
Independent retailers	180	177	22	21
Total	**828**	**827**	**100**	**100**

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 existing customer base was already 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.

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. It is our job to help our customers to prepare good, varied and tasty meals every day. For special occasions, but also during the week.

Our strengths and opportunities

We know that EMTÉ has a strong fan-base among its primary customers, as witnessed by the ratings in the GfK Summer and Christmas Reports. This year, we secured fourth place, just 0.04 points behind first place. For many years, we have had the best butchery, processed meats and cheese departments and a good bakery and they won awards again in 2017. Thanks to our deeply committed retail staff, we were also voted the most customer-friendly supermarket in 2017. In a year in which there were rumours about the future of EMTÉ, this is a huge achievement by our colleagues.

The Fijnproevers loyalty programme allows us to have a targeted response to the needs of individual customers. We now have over 550,000 unique and active members (+ 21%), representing a 68% share of sales. In 2017, these customers received 140 million individual offers. The database, which is already extensive, enables us to operate in an increasingly targeted and data-driven way in a market which, for many, is still very homogenous.

It is not just in terms of customer rating, but also in actual purchasing behaviour (fair shares) that EMTÉ is one of the top Dutch supermarkets for fresh products. Meat and confectionery had the highest scores, with fruit and vegetables, at under 100, scoring the lowest. All fresh food departments scored higher in the 3.0 format than in the 2.0 format generation.

Because EMTÉ works with its own branches and with franchises, we can decide which of the two options is the best fit for a particular market area. In recent years, we have seen that both types of operation can work alongside one another extremely well and that there is no clear preference for one over the other. Over the past year, the number of franchise sites has risen to 34 as a result of outlet changes.

All in all, these are fitting ingredients for the tastiest supermarket in the Netherlands. EMTÉ 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 (and in the opinion of many an "expert"), is a genuinely unique response to many of the trends seen in the market.

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. The initial results of the 3.0 conversion show an increase in sales, but this is still too small. It is taking longer than anticipated to attract new customer groups. There are also considerable differences in growth at different locations. Essentially, our target customer is there, but it takes time to change a customer's habits from shopping in a trusted store to shopping at a new and different store.

EMTÉ 2.0's store image is old-fashioned while the pressure in the market is increasing as competitors invest in modernisation. The conversion to the 3.0 format is the response to this. It is a large step from outdated to taking the lead. In addition to the goal of boosting sales via new customer groups, we need to get to grips with the new operation in terms of managing costs and loss of income. Major advances were made during 2017, but we have not yet reached our final destination. It is important that getting the operation under control will not be at the expense of the uniqueness of the format.

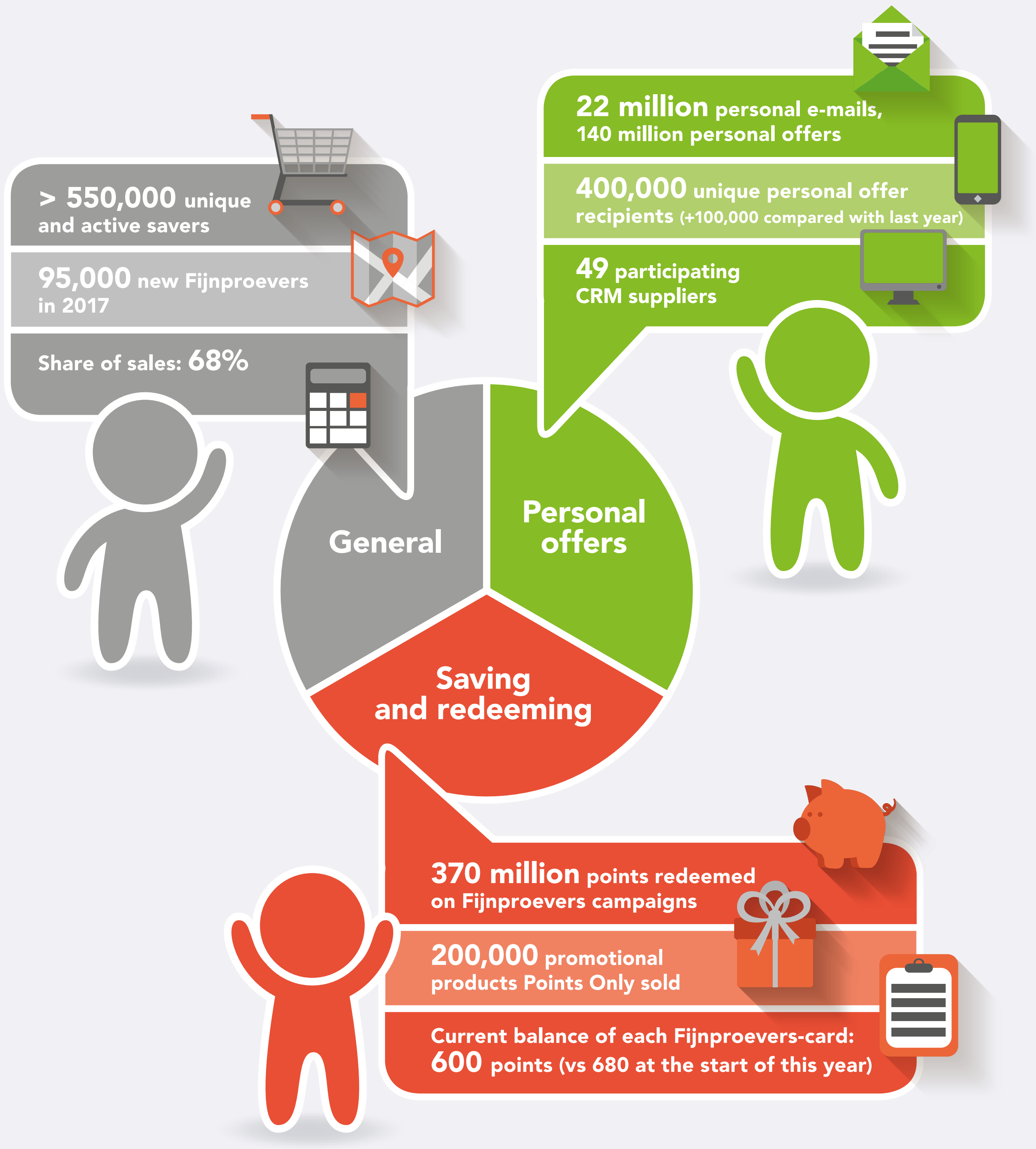
We are strong in fresh produce but not yet in fruit and vegetables. With our new format generation EMTÉ 3.0, we are seeing, however, that we are taking real steps. While fresh produce has performed well in this format, we believe that we have made too many concessions in terms of traditional dry goods. As the format has progressed, we have therefore introduced more balance to fresh/convenience/culinary dry goods / traditional dry goods. This change has been well-received and is consequently being rolled out in all converted 3.0 outlets.

The rise of online is continuing, and whether or not this can be made profitable, this will have an impact on the supermarket landscape. This development and the lower growth in the market areas where EMTÉ operates is causing problems.

In 2017, we evaluated the 3.0 format and our position in Food Retail. The outcome of our evaluation is explained in more detail on page 48.

fijnproevers

KEY FIGURES 2017



EMTÉ

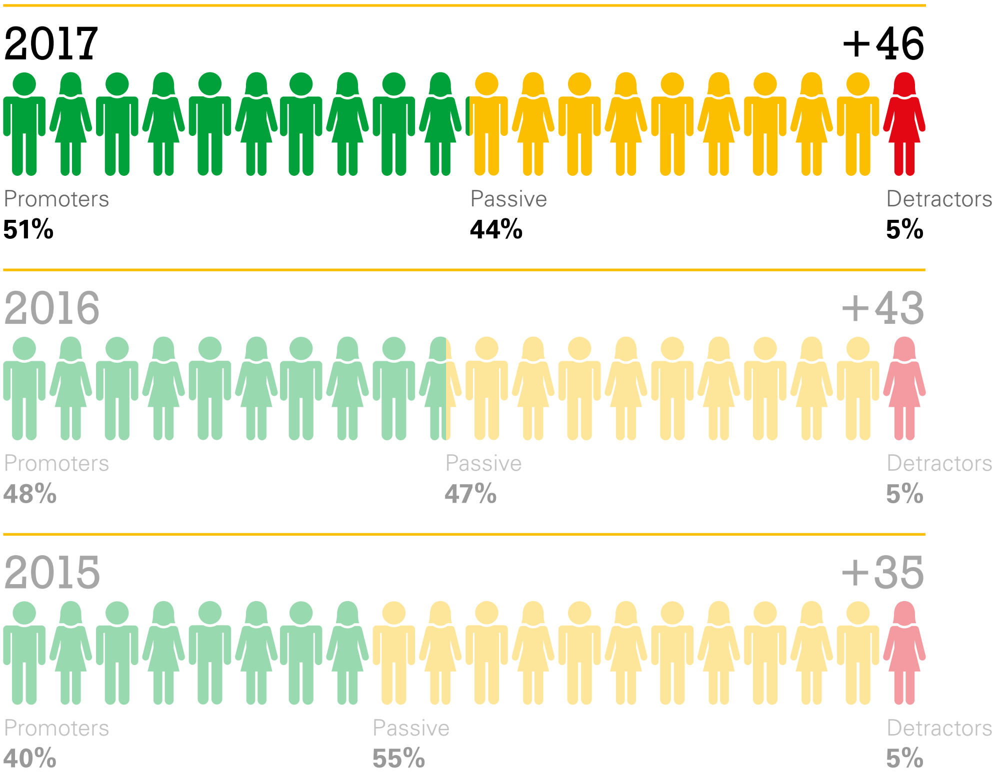
External rating

EMTÉ is highly valued by its customers for its fresh produce departments. This is also evident from the annual customer surveys we carry out, as well as from the market researchers such as GfK. We set great store by this, particularly in the light of the positioning we chose for the 3.0 format as the "tastiest supermarket in the Netherlands", which sets itself apart with its good and tasty food.

2017 started well with the selection of EMTÉ by the market researcher SAMR as the most customer-friendly supermarket format in the Netherlands. We were ranked ninth for the most customer-friendly businesses in the Netherlands, and the highest-ranking supermarket. In the GfK format report on fresh produce, EMTÉ was ranked second. Our butchery department came first in its category for the fifth year in a row, and for the eighth time in the past 10 years. In the separate surveys that GfK conducted on behalf of both Westland and Stegeman, we came top for the cheese and processed meat department for the fourth year in a row. At the same time, research conducted by GfK showed that we were not only rated highly for our fresh food departments, but that we are also at the top of the ratings for the amount of fair share in the fresh produce departments. Our performance therefore seems to be in line with the customer rating. GfK replaced its traditional Summer and Christmas report in 2017 with the new Supermarket report. In recent years, we have consistently secured a top three spot in the Summer and Christmas report (based on customer ratings). In the new report, we narrowly missed out on a top three spot, at number four. The same survey, which appeared at the end of December 2017, showed that we were ranked first for our fresh produce departments with a strong lead over our competitors. Finally, in December 2017, we were presented with a new prize. Based on measurements conducted by consumers on behalf of Smartspotter, EMTÉ emerged as the best of the Dutch retailers for implementing agreements with suppliers in relation to in-store promotions. Smartspotter therefore awarded us the first 'Promo Compliance Award 2017'.

We also frequently measure customer satisfaction ourselves, using the Net Promoter Score (calculated as promoters less detractors). The 2017 large-scale customer satisfaction survey conducted on our behalf by MWM2 showed that 51% of EMTÉ 's customers were Promoters, 5% Detractors and 44% Passive. This means that we have further improved our previous scores, giving us a very respectable NPS +46 in our sector.

NET PROMOTER SCORE EMTÉ



Evaluation of Food Retail

In the second quarter of 2017, we evaluated the EMTÉ 3.0 format and examined our future in Food Retail.

The main conclusions from the evaluation of EMTÉ 3.0's performance were and remain that the format is much appreciated by our customers, but that this has not translated sufficiently into sales growth. The optimisations implemented are, however, bearing fruit, but it is expected to take longer to achieve our business case objectives. Based on this outcome of the evaluation, we suspended conversions to 3.0 for the rest of 2017 and have concentrated mainly on improving profitability and further optimisation of the format. In 2018, we will continue to work along these lines, and for the time being only sites planned for relocation will be converted to 3.0. In the first quarter of 2018, no locations will be converted based on this planning.

As well as evaluating our new format, we also considered our future in Food Retail. The main conclusion is that an autonomous future is no longer the best strategy for our Food Retail activities to create long-term value. After all, it will be increasingly difficult to keep pace with a rapidly changing market with a modest market share of approximately 2.5%. We consequently used the second half of 2017 to examine which alternative strategy would provide the greatest value for our Food Retail activities. We factored in to our examination that the combination of Foodservice and Food Retail offers us great synergy in many areas, which we estimate to be worth between €15 million and €20 million annually for Sligro Food Group as a whole. In addition, the combination also generates more qualitative benefits for the Group, such as a distinctive profile and learning ability within the Group.

We spoke to very many parties inside and outside the Netherlands to form a picture of interest in an alliance in the form of a partnership and interest in an acquisition of our Food Retail activities. What this has revealed is that our perception of the added value of a partnership is correct, but the details of the type of alliance in practice is a complex business. On the other hand, there appears to be a lot of interest from market players in acquiring our Food Retail activities. However, in that scenario we are yet to establish the extent to which the loss of synergy will be compensated for in such a transaction.

Having weighed up all of the alternatives, we decided to follow the more informal review in the second half of 2017 by starting a formal process with the aim of arriving at a definitive transaction for one or other of the scenarios (partnership or sale). It is expected that this process will lead to a transaction for the Food Retail activities in the course of 2018. We emphasise that care will have priority over speed in this process.

Our decision means that our Food Retail activities are classified under IFRS as discontinued operations at year-end 2017 and have been recognised as such in the financial statements. For our ultimate decision, we will always take the interests of all our stakeholders into account as we arrive at a sound solution. At this point, we want to express our great appreciation and respect for all EMTÉ staff who, despite the uncertainty in this phase, continue to work with passion in a way that is both fantastic and worthy of Sligro Food Group. A good fourth quarter for EMTÉ underlines their efforts!

Spar

Our associate, Spar, in which we have a 45% interest, has been working steadily 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. In addition, Spar is increasingly involved in developing and operating various convenience concepts at schools, city centres and petrol stations with businesses and partners. 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. The recovery in the return of previous years also continued in 2017.

ORGANISATION AND EMPLOYEES

Goals

- Position ourselves on the labour market as a reputable, enterprising, reliable and professional employer that employees would like to work for.
- 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 right across the organisation.
- Create a modern, safe and inspiring working environment in which employees from different backgrounds can all feel at home.
- Encourage cooperation and partnership as a means of achieving targeted synergistic benefits for the Group.
- Embed our culture, our 'Green Blood', right across our organisation through a structured programme to safeguard enterprise and employee engagement in a constantly 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.
- Strive consistently to improve employees' performance by providing structured and challenging opportunities for training and management development.
- Develop our organisation and management model consistent with the growth ambitions of the Group.
- Facilitate sustainable employability of our employees taking account of our still relatively labour-intensive processes and an ageing working population in the Netherlands and Belgium.
- Forge links with schools and universities to exchange knowledge and experiences, so promoting access to innovative ideas and talented people.

Corporate culture

Our distinctive culture and the standards and values embedded in it are key pillars of our way of doing business. Corporate culture is an abstract term, but at the same time, it is very real when you experience it. Our culture is not 'regulated' but is the logical corollary to the way in which we work together over time. Our natural inclination is to keep things informal; we are averse to status, have short, direct communication lines and build on trust. We have set out our standards and values in our code of conduct and monitor compliance with the code as part of our culture. On the other hand, society is becoming more formalised, and more activities have to be arranged formally and legally. At the same time, what we are witnessing in our own Sligro Food Group community in more remote areas of the business and among the younger generations with less experience is the need to put things on a more formal footing.

The challenge is to strike a balance between regulating formal matters, whilst holding on to our informal culture, but this is a challenge we are embracing.

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 this as an obligation, however. We are happy to explain what we do and how we do it and are proud of our work.

In recent years, a number of employees have been taken on at 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.

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

We are aiming for an open communication culture, addressing good and bad behaviour immediately, but with respect for the individual. We call this Consiously Direct. Our colleagues in Belgium are perfectly happy with this. 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. This includes via internal communication but also by organising small or large events - sometimes for more than 20,000 people, for example, our Night of the Proms event or our fairs in the Netherlands and Belgium. Our own staff always play an important role in these events. Pure Passionate Pride.

Groen bloed

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. We are very aware that reducing costs is spread across two axes. The first is culture and the second large cost programmes based on innovation and IT. We are focussing on both of these.

Organisations are dependent on smart ICT applications, data management, a good and inspiring product range, a promotions policy adapted to customers' wishes, a smart supply chain and a surprising environment where they can shop. Some of 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.

So, a culture in which we like to be a little defiant and encourage people to have an opinion and to be approachable. We regard a Healthy Belief in Ourselves as a strength of our organisation, naturally, with respect for each other and for decisions made and agreed policy frameworks. A centrally managed organisation can only be successful if it regularly takes stock at the operational level and knows what is going on. After all, this is where there is a lot of knowledge of how the organisation works and where customer contact takes place.

Every three years, we conduct an employee engagement survey, and we did so again in 2017. Results are widely shared and discussed at department level. We are working on a system that would also enable us to conduct interim, small-scale satisfaction surveys. Our employee platform 'bijSligro' is an excellent tool for this. To establish the extent to which our culture contributes to reducing the risks of inappropriate behaviour, in 2017 we arranged for a culture scan or soft control scan to be carried out in our Dutch business units. It was clear from these two surveys that our overall score is excellent, but also that our culture is not yet fully embedded among new employees. This is a reason for us to take a more systematic approach. We will focus more on our culture and our standards and values during employee inductions and training courses to embed them as widely as possible in our organisation.

When we acquired JAVA Foodservice, we found a strong culture with distinctive standards and values that closely matched those of Sligro Food Group. At ISPC, the culture is less clearly defined and not as securely embedded in how employees engage with one another. Having said that, ISPC does have its own defined culture. Over the next few years, we will work on a single Sligro Food Group Belgium culture, combining the best of JAVA Foodservice, ISPC and Sligro Food Group. Our experience of acquisitions and merging cultures gained in the Netherlands over the decades gives stands us in good stead.

In 2017, we organised our first BeNe event. Participants from the Netherlands and Belgium who are all involved in the integration and cooperation in some form of strategic or tactical capacity were represented at this event. An event like this helps us to understand differences, but above all to create community and to learn from one another. All participants said that it had been a very positive experience, with lots of shared energy.

Labour market

It is noticeable that the labour market is picking up and we are having to dig deeper and find more creative solutions to attract the right employees. Furthermore, an improving labour market also means higher staff turnover, and for our own employees, there is of course 'more choice' on the market.

This means that over the next few years, we will have to focus a lot more on recruitment and selection, as well as on nurturing and retaining employees. In an improving market, we will have to raise our profile and stand out more among the target groups. For candidates in the operational environment of logistics and stores, the motives are different from candidates in management and head office roles. This means that we need to adopt a targeted approach to candidates, looking at each segment in an appropriate and above all unexpected way. In 2018, the HRM department will target labour market communications and positioning as a specific focus area because we have been forced to conclude that we have not invested enough in this in recent years. It goes without saying that we will be stepping up cooperation with schools and universities that match our interest on the labour market.

An inspiring and modern working environment is important for all employees, but particularly for the younger generations. In addition to changes to the physical office environment in 2018 and 2019, we will also make significant headway in the field of IT. Interactions with and management of the organisation are also important themes that will be addressed.

To be visible in the chain at an early stage, it is vital that we cooperate with schools and universities. We also think that it is consistent with our role in society and as a major employer in the Netherlands and Belgium to invest in education and make a contribution to its development. We have certainly been active in this area in recent years, but it takes a sustainable effort to make a difference. The approach differs for each professional area, target group, region and country.

We use a state-of-the-art recruitment tool in the Netherlands for our recruitment and selection operations. There is lots more under development in this area, from automated selection tools to video recruiting, automatic processing and automated onboarding tools. We will be working with these tools more and more over the next few years. This also supports the profile of a professional employer. It also makes sense to use and develop these tools when you are dealing with 40,000 applicants each year. In Belgium, preparations are under way to launch a similar approach based on the Belgian situation in 2018.

KEY FIGURES 2017

	The Netherlands	Belgium	Total
Joined	3,049	63	3,112
Left	3,283	58	3,341
Vacancies	3,454	84	3,538
Applicants	40,000	n.a.	40,000[1)]

1) Excluding Belgium

When we develop our people and create jobs, we make appropriate use of subsidies where possible. We always consider whether the benefits are proportionate to the desired quality and the amount of work and subsidy reporting that is often involved. The subsidy landscape is very varied and is sometimes set up at European, national, and in some cases, even at a local level. We use schemes in the Netherlands and Belgium.

Flexible working

We like to organise our labour force ourselves. We believe that 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.

However, because of shortages on the labour market, in recent years, we have been using more and more flexible staff, not for the flexibility, but to plug vacancies. The integration of the HEINEKEN logistics activities in our delivery centres has triggered a volume increase at each location. This calls for a different kind of management, but the demand for flexible workers will also increase further as a result. Because culture is less of a driver for success in this specific group of employees, a different focus is needed, and that also places demands on our flexible partners.

We are working with them to find a sustainable response to our staffing requirements, so that we can offer flexible workers who perform well and integrate a permanent employment contract and career opportunities. We are not just asking for 'more hands-on-deck', as good planning and communication between us and our partners is a precondition. In 2018, we will introduce a new instrument for this.

We look critically at what types of activities this "DIY" approach covers. For activities that are not part of our core activities, we will assess to what extent they influence our core activities or our identity. If their influence is limited, outsourcing them to specialised partners is sometimes a better solution.

If we need temporary extra specialist know-how in specific areas, using partners is a much better approach than building up that knowledge yourself. These forms of cooperation are only set to increase in the future, and the skills needed to manage them properly will be further developed.

Management model and organisation method

We are convinced that our type of activities benefit from central management. This makes work repeatable and scalable. Strategy is set centrally and adopted at Board and senior management 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 the bottom of the organisation is vital in this. It is essential that the people dealing with strategic issues or making them operational know what is happening. By applying this organisational principle strictly, everyone can concentrate on their own roles and do what they do well.

In a steadily growing organisation, it is a given that we can continue to use this management model in this form, but that is our goal. The gap between strategic decision-making and operational implementation is growing, and that calls for a strong, tactical middle layer and clear communication with appropriate targets and KPIs. We want to continue to encourage the enterprising culture, but we also want to make a larger group of employees not just responsible for their efforts, but also more responsible for performance.

To make this happen, this year opted for a new approach to translate our strategic plan into the rest of the organisation: the OGSM model (Objectives - Goals - Strategies - Measures). This model helps us to work more methodically and more efficiently on our strategic plans and at a time when there are multiple opportunities and possibilities, to keep our focus on what we feel is genuinely important and to cascade this down the organisation. Organising and supporting work in an international context also calls for different support systems and data to manage operations. Over the next few years, we will be working on introducing a new ICT system with the working title "IT 2020". This necessary transition will be noticeable in all areas of our organisation. It is not only systems that will work differently; the way work is organised will change as a result. The standard routine will have to make way for a new one. We will, therefore, be focussing on a programme in which systematic change will become everyday practice.

Putting Sligro Food Group on an international footing requires a change of management structure. The starting point, which involves organising complexity centrally to optimise synergy benefits will remain in force, but will have to be translated into an international context. Over the next few years, we will move towards a structure in which Group policy will be formulated centrally from the Dutch head office and in which countries will be given the freedom to develop policy locally within a tightly defined context. A central back office structure will, therefore, be established in each country based on the international blueprint to support operational commercial formats in that country. We will continue to present our own image to the customer, concentrating complexity and synergy centrally behind the scenes, but we will do it at a national level.

The appointment of the new director of Sligro-ISPC Belgium means that the Belgian management is at full strength and we can build on the new structure in that country. At the end of 2017, we tidied up the legal structure as a result of all the acquisitions and set it up in accordance with the future model. This structure will take effect from 2018. We will be moving to a structure based on two commercial formats: JAVA Foodservice and Sligro-ISPC, which will both be supported by the central back office of Sligro Food Group Belgium in Rotselaar.

In 2018, a number of important steps will be taken towards the integration of the HEINEKEN delivery activities in our delivery centres. In addition to focussing on the current activities at the existing locations, this means merging organisations, and therefore people. We are used to this type of integration and are confident about the future. We are aware that HEINEKEN has its own strong and established culture. We will focus on this by having robust induction processes in place to support the merger.

Health and safety

It is important that employees feel happy in a safe and healthy working environment. Consequently, we pay a lot of attention incidents involving 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 this perspective, we go further in our responsibilities as an employer than is strictly necessary.

Following a positive trend in 2016, a number of business units were faced with rising and excessive absenteeism rates in 2017. We find this development unacceptable, and it will, therefore, require the focus of line management and HRM.

We carry out analyses to identify absenteeism trends and where possible take measures to address working conditions. In addition to a focus on health and safety, sustainable employability is an important theme. Just like society as a whole, the Sligro Food Group workforce is ageing. This, combined with the need to work for longer in a working environment involving a lot of physical work, makes this a serious challenge. During collective labour agreement negotiations for the wholesale sector, it was agreed to develop a number of initiatives in this area as a sector. This is consistent with the previous sector theme of "Expeditie Fit". For employees who carry out less physically demanding work, the fact that they will have to work longer is also a challenge. New IT, new insights, new working methods mean having to constantly adapt and always be willing to learn new things.

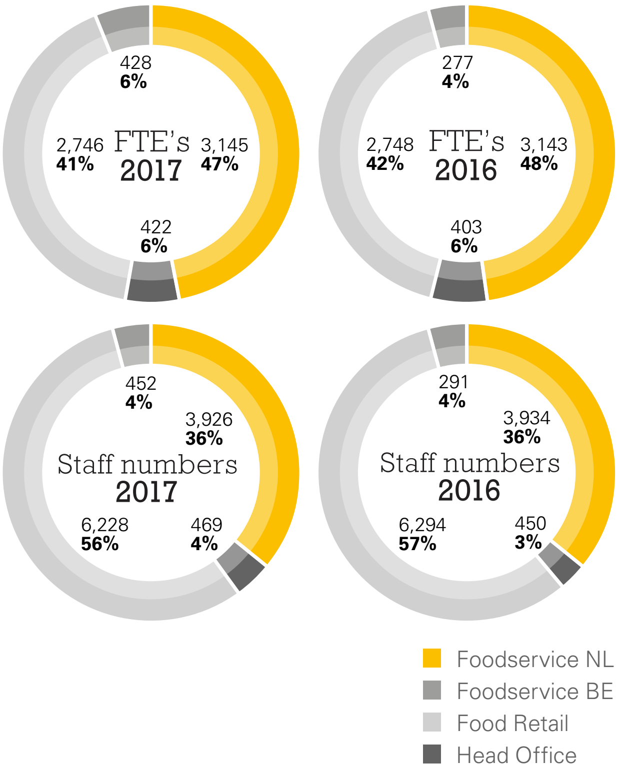
Technological solutions can help to mitigate physical work. Our sector is not leading the way on this, and we will have to focus more on innovation both in the sector and in our own organisation.

We are developing a number of programmes relating to physical wellbeing, mental wellbeing and working conditions allow people to work for longer. Furthermore, we are developing employment contracts that combine reduced working hours with an acceptable loss of income. Working for longer can only be achieved if the responsibility is shared by employer and employee. However, given the legislation and regulation the government has introduced, it often appears to place responsibility unilaterally on the employer. It is good to know that at sector level, employee representatives are indeed endorsing employee responsibility.

Workforce and diversity

We have divided our workforce into four main categories: Food Retail, Foodservice the Netherlands, Foodservice Belgium and Head office. We allocate employees according to type of contract, gender and age.

WORKFORCE AND DIVERSITY



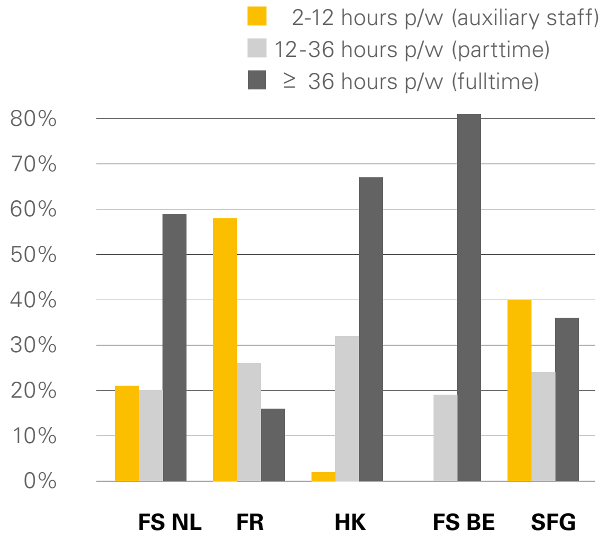
Our supermarkets employ lots of female part-time employees and young people on parttime contracts. Partly owing to the nature of the work, most of the Foodservice workforce is fulltime. Logistics work is usually performed by men, and therefore the composition of the workforce is different.

The JAVA Foodservice workforce is similar to the workforce in our delivery logistics operation. The workforce at ISPC is similar to our Sligro cash-and-carry outlets. In addition, in Belgium we have a small overhead of course, with one part of ISPC and JAVA Foodservice already working together and this will gradually become a joint overhead.

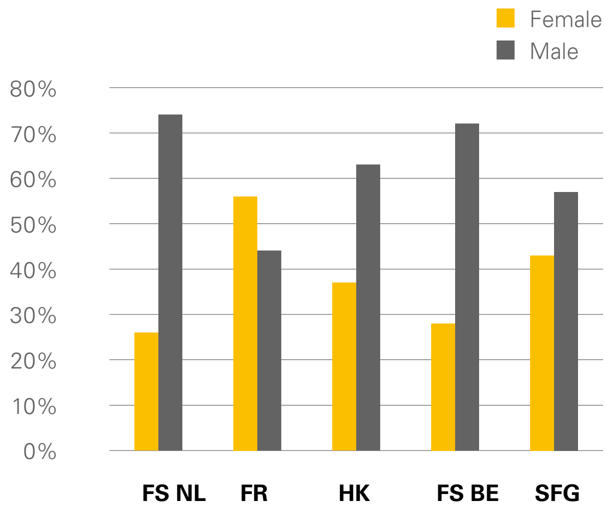
In the supermarkets, the work is manual and service oriented. Our cash-and-carry outlets require more specifically qualified staff to advise professional customers. Consequently, we have put together a more comprehensive

STAFF

BY CONTRACT



GENDER



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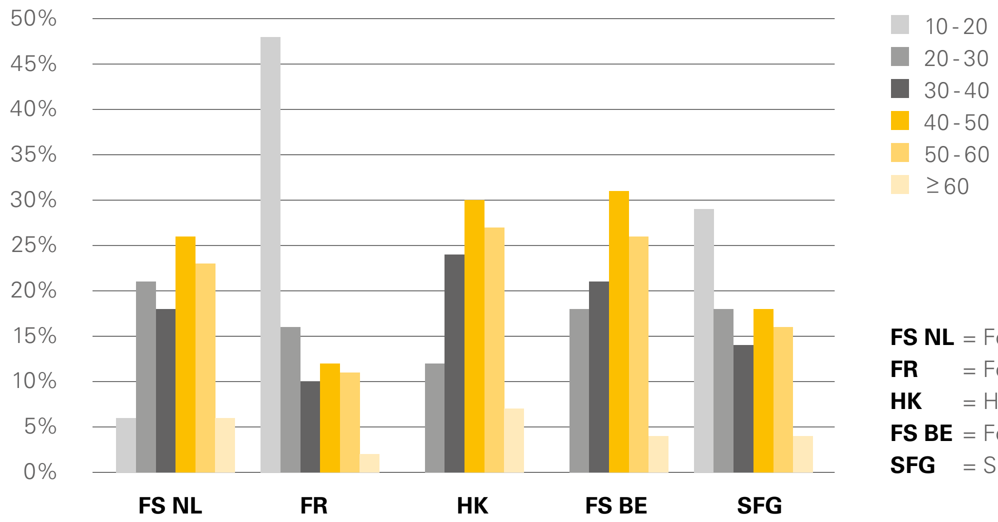


FS NL = Foodservice The Netherlands
FR = Food Retail
HK = Head office
FS BE = Foodservice Belgium
SFG = Sligro Food Group

training package for Foodservice employees, which allows employees to move through the ranks in their professional area.

It is noticeable that the number of support positions in the head office is declining. Lots of administrative roles are disappearing as a result of automation. Developing and managing processes requires a higher level of education. The work that remains is often too complex to be automated.

The type of work carried out at a head office is not gender-specific, but men are over-represented in this sector. This is also the case with us. We are pleased that over time the number of women in management positions has increased, which is also a consequence of the fact that more and more women are putting themselves forward for these roles. We believe that this is a good development. 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. We use e-learning technology to offer very short training courses. Employees who are less familiar with learning processes can often be motivated to complete a short course, sometimes lasting only ten minutes. Courses offered to employees who are more familiar with learning processes are more tailored to them.

Many courses have been further digitised, sometimes to make it easier to keep the content up to date and sometimes specifically for e-learning. For our supermarket employees, 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.

COURSES
IN THE NETHERLANDS

	Number of courses	Employees trained
Basic training	35	2,320
Safety training	5	1,520
E-learning	133	7,223
Leadership programmes	7	150

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). We have also launched a programme (Jonge Helden) for new, highly skilled employees. These staff are coached by specially trained employees who have been at Sligro Food Group for some time. A focus on a transfer of culture is very important. Each course focuses on challenging the participants to develop through a challenging offering.

Works council

We take a constructive approach to employee representation in the form of works councils based on the conviction that this is very valuable and for us that goes further than the minimum legal requirements. Representative negotiations make matters transparent and make the consultation clear. As an employer, we are able to share and examine a lot, and key signals from the employee representatives that help to detail and implement policies can be given in this open confidential atmosphere.

This starting point also applies in Belgium, except that there are different regulations or practical implementation in some areas, there are different traditions in Belgium, and the relationships between employer and employee are perceived differently. 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 only works if both sides are happy with this approach. In Belgium, we need to explore this further, and that is the job of the national board representation. New works council elections will be held in Belgium in two years' time, when we will also evaluate the current consultation structure.

The works council in the Netherlands has decided against setting up an international works council as this would not be in the tradition of representation being organised as close as practical to implementation in a single council.

A new works council took office in the Netherlands in 2017 and even though lots of new members joined, the consultation culture has remained the same. We realise that being an employee representative brings a special responsibility and it is pleasing that people are willing to take this on. Employee engagement expressed as membership of the works council, therefore, deserves particular respect. Thank you to all colleagues who took on this role in 2017.

Development of HRM role

Working with approximately 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 that changes annually. As a result, it was decided some years ago digitise these processes further, and major steps have been taken. Following the introduction of a digital platform in 2016 called 'bijSligro', primarily an information and communication platform, modules have gradually been added for management self-service and employee self-service.

As the platform is available on all devices and is location independent, we also have a solution for staying in digital contact with all employees.

Our international ambitions were taken into account when the platform was bought. We will continue with this form of E-HRM over the next few years.

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.
In Belgium, we join the joint committees: 119 and 200.

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. The appreciation of particular terms of employment can also differ by country. We take this into account in implementation.

The remuneration policy for a large proportion of our staff is set by the collective labour agreements or joint committees. Where we are not tied to these, we offer a competitive average salary, and so we are 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 contribution paid by the Group is the same as the charge shown in the profit and loss account. The contribution for the employer and employee was fixed for five years on 1 January 2015. The pension landscape is changing all the time, and this is set out in a separate pension fund report.


Via a Sligro saving campaign 34.000 visitors enjoyed the concert of Guus Meeuwis.


Sligro delivery drivers use mobile on-board computers.

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 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 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 our financial results, issues relating to food (food safety, health, availability), 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 all our activities in the Netherlands and in Belgium. There may be differences in the direction and method we use to achieve this in each country.

In addition, in some cases, we make a distinction between our Foodservice and Food Retail activities owing to the size of these activities.

In Foodservice, Sligro is market leader in the Netherlands (approximately 24.4% 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 (2.5% 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 companies Smit Vis and Océan Marée process primary products; Culivers, Maison Niels de Veye and EMTÉ Vleescentrale all produce on behalf of the Group, and Sligro, JAVA Foodservice, ISPC 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.

SLIGRO FOOD GROUP IN THE FOOD SUPPLY CHAIN

About this report

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 2017 in relation to our core themes and the associated goals. Our 'people issues' are 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. This annual report covers the 2017 calendar year. We publish current developments and supporting case studies 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 sligrofoodgroup.com/csr

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 seven occasions in 2017. 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 2017 and regular presentations on that subject were given at those meetings.

From 2020 to 2030, with a higher level of ambition

In 2011, we set our core themes and targets for 2020. In 2016, we carried out an interim evaluation during which we established that we were well on track to achieve our targets for 2020. Furthermore, we also established that given how our business, our stakeholders and the world were developing, we needed to take the next step. This is why in 2017, we expanded our core themes of ‘People, The environment and Our product range’ to include five themes that have major social relevance for Sligro Food Group. We also added an ‘other’ category.

- Health
- Food waste
- Sustainable product range
- More efficient chains
- Energy
- Other

CORE THEMES
FROM 2020 TO 2030

People	The Environment	The product range
1. Health		
G1		G5
G2		G6
G3		G7
G4		G8 / VA4
2. Food waste		
	V1	
	V2	
3. Sustainable product range		
	VA1	
	VA2	
VA3	VA3	VA3
		G8 / VA4
VA5		
4. More efficient chains		
	EK1	
	EK2	
	EK3	
	EK4	
	EK5	
	EK6	
5. Energy		
	E1	
	E2	
	E3	
6. Others		
O1		
O2		
O3		
O4		

Environment and Our Product Range’. 2030 is a long way off, but we have already made a start on setting our goals for 2030. Sometimes, as is the case with the Environment, our goals are very specific. At other times, the nature of the goal means that we have to apply a baseline measurement so that in 2018 we can establish a suitable level of ambition for 2030. We will address this in our 2018 annual report.

People

People like to do business with Sligro Food Group because of our consistently result-driven, reputable, enterprising and customer-focussed culture.

- **Employee satisfaction**
  Employee satisfaction is measured using our employee engagement surveys, which we want to conduct more frequently. In addition to the overall score, which we have used so far, we believe it is important to have a more equal distribution between generations and departments. In 2018, we will test our measurement method and will determine our ambition for the route to 2030 based on an initial baseline assessment.
- **Customer satisfaction**
  We measure customer satisfaction using our current Net Promotor Score (NPS). Our aim is to gradually improve these scores every year in all the segments and countries we operate in.
- **Supplier satisfaction**
  In 2018, we will design a new annual survey to gauge how our suppliers view doing business with Sligro Food Group and what we can learn from the survey. We believe that business involves tough negotiating, but it should be done respectfully, decisively, fairly and from the perspective of a deal is a deal. Our suppliers' handbook sets out exactly what our suppliers can expect from us. However, we measure how people evaluate us and where we can do better. We will start with European suppliers and decide on our precise method and ambition in 2018.

The environment

- **CO_2**
  Sligro Food Group's goal is to reduce CO_2 emissions in 2030 as a percentage of sales by 50% compared with 2010.

The product range

- **Sustainability**
  We want to improve the share of sales of our sustainable product range by 15% in 2030. Our umbrella brand Eerlijk & Heerlijk (honest and delicious) will make an important contribution to this goal and underpins this measurement.
- **Health**
  As a market leader, we believe that we have a role to play in putting Health 'on the map'. This does not have to involve extreme changes. Small, every-day improvements are more realistic. In 2018, we will decide on the method and the level of ambition. The goal is to bring 'health' to the attention of our customers and our employees.

Using the materiality analysis from page 65, we closed 2017 based on our 'old' targets and working method. Next year, we will be reporting from the perspective of our new targets for 2030 on our management approach and results for each core theme.

Sustainable Development Goals (SDGs)

In 2016, all members of the UN signed a package of seventeen Sustainable Development Goals (SDGs) up to 2030. Each government is responsible for translating the global SDGs into national SDGs. The Netherlands is working on a national SDG strategy, which is also part of the 2017 coalition agreement.

During our Annual General Meeting in March 2017, VBDO asked how we included these SDGs in our sustainability policy. Our vision is that SDGs are essentially a bit like new wine in old bottles. We have been embracing most of the basic principles in our sustainability policy for some time. Not quite one year down the line, we have established that SDGs are primarily becoming a new guideline for governments and businesses when they make their sustainability decisions and contribute to a sustainability reporting standard.

We have identified which of the 17 SDGs are the most consistent with our updated sustainability policy with the corresponding activities and our new targets for 2030:

SDG 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

SDG 3: Ensure healthy lives and promote well-being for all at all ages.

SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

SDG 12: Ensure sustainable consumption and production patterns.

SDG 13: Take urgent action to combat climate change and its impacts.

SDG 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

SDG 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

SDG 17: Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development.

SUSTAINABLE DEVELOPMENT GOALS

8 of the 17 SDGs are consistent with our updated sustainability policy and our new goals for 2030.

Stakeholder dialogue

Because sustainability is becoming more and more self-evident, we are seeing more consultation and agreement between market players in the dialogue with stakeholders. In turn, these players consult deeper in the chain. Because more and more NGOs are willing to take a wider view of sustainability, we are talking with them to improve the balance between economic and social and environmental return. This is not only effective; together we are making great strides. This is witnessed by the support of the Cerrado Manifesto against deforestation. The support offered by Dutch supermarkets follows a call from 60 NGOs (including WWF, Greenpeace, The Nature Conservancy and Mighty Earth). In September 2017, they asked businesses to take action against deforestation in crucial areas, such as the Cerrado. In this area in Brazil, soy is cultivated alongside valuable forests and savannahs. The aim is to take action and to ensure that the soy and beef chain of the participating businesses does not contribute to the further deforestation and conversion of natural vegetation in this area. In October, 23 businesses took the initiative to support the Manifesto. We have also joined this group as part of the Dutch Food Retail Association (CBL).

Dilemmas and considerations

Laughing gas and the price of ethics

We monitor our sales, including against the backdrop of what is happening in society. In the hospitality sector, so-called 'whipped cream chargers' are widely used to prepare whipped cream and mousses, among other dishes. It is sold at our wholesalers for this purpose. In 2017, the media reported on the alternative use of these chargers, which contain laughing gas. They are used in the party scene, and mainly by young people, because of the hallucinogenic effect of the laughing gas.

There is no legal framework for this. It is a legal product that we sell to companies. However, in terms of our social responsibility and sales ethics, the situation is not quite so cut and dried. Knowledge institutes are not providing any clarity on the degree of harm caused and the potential addictiveness. Looking at the company names of our largest customers of 'whipped cream chargers', our conclusion was that a relatively large share of the volume does not reach the hospitality sector. This is intended for resale, as a just for fun party product. A specific sales circuit has arisen in which chargers are offered, varying from the standard retail trade (stores with late opening and 24-hour opening), hospitality delivery services to internet shops.

We do not want to promote improper use and nor do we want to facilitate resale. We felt that in our role as market leader, and based on the above knowledge, we should be proactive about introducing a policy to limit sales and to implement it in practice. Since March 2017, we have therefore reserved the right to refuse a sale if we have doubts about how the chargers are to be used or the nature of any resale and we have amended our promotions policy.

We were the first to introduce such a policy. It has since inspired other market players and has come to the attention of politicians. We have shared our initial findings with representatives of the Ministry of Health, Welfare and Sport. Internally, we have had interesting discussions about the price of ethical sales. After all, the direct consequence of our policy is a loss of sales of approximately €1 million.

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

Last year, we said that we were having more and more reservations about the added value of CSR certification. Our larger Foodservice customers had previously been looking at certification or quality models to provide certainty as a form of guarantee. This prompted us to keep our FIRA 'bronze registration'. We are now seeing this trend continue and we and our chain partners are taking a specific approach to joint sustainability targets. This is a good development because it means that sustainability becomes intertwined in business. This is why FIRA registration no longer offers us added value, and we have not renewed it.

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 505 companies were below the Transparency Benchmark and, in 2017, no fewer than 252 companies had a 'zero score'. We finished in 106th place in 2017 with a sore of 131 out of 200 points.

TRANSPARENCY BENCHMARK

	2017	2016	2015	2014	2013	2012
Score	131/200	131/200	112/200	120/200	138/200	99/200
Overall ranking	106/505	98/483	112/461	100/409	97/500	124/500

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	The product range
Our employees	CO_2	The product range
Our customers	Energy	Health
	Packaging	
Our community	Waste	Food waste

Ambitions, goals and management approach for each core theme

Core theme ‘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 Sligro as treating customers well. We have therefore set ourselves the goal of improving our Net Promoter Score (NPS).

Our employees

Definition and delineation

Our employees and their families

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 51 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 that was held again in 2017. Each quarter the Executive Board discusses the most important staffing numbers, and the latest figures for sickness absence and any industrial accidents are explicitly considered. 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 are often limited in scope, the fact that they are independent is welcome, especially if your score is good 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.

Collaboration between EMTÉ and ‘Emma at Work’

Emma at Work helps talented, motivated young people between 15 and 30 years of age with a physical impediment or chronic illness to find work. Emma at Work has its roots in the Emma Children’s Hospital/AMC, with the hospital wanting to offer social care to young people in addition to medical care. EMTÉ also believes it is important to be able to help people who are not engaged with the employment market into work and has launched a collaboration with Emma at Work. We started this initiative in 2017 at an EMTÉ branch in Ede.

Noraly van Hemert works five hours a week on the tills at EMTÉ Ede Stadspoort via ‘Emma at Work’.

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 'Foodservice' and 'Food Retail', 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 47.

Our community

Definition and delineation

Our society is made up of groups of people who form a social unit and who live, work, play and stay in the villages and towns and cities in the Netherlands and Belgium where Sligro Food Group operates.

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. For example, our supermarkets are not just distribution points for the food we eat every day, but also have an important social role.

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.

Sponsorship is about making choices, conscious choices. Sponsorship is not a mere paper exercise; it should make a real contribution to our business, marketing and sustainability targets. This is why in all our sponsorship projects, we aim to forge a close relationship with the beneficiary or the organisation of an event based on mutual equivalence. We try and implement our choices nationwide where possible. Local customs and traditions, however, can be so strong that our presence or participation is desired. In these cases, we make the conscious decision to depart from our national policy. Our detailed sponsorship policy can be found on our corporate website.

Evaluation

We start by examining whether there is a logical link between the organisation to be sponsored or the proposed participation 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.

In 2017, we worked in a structured way with the Liliane Fonds, Spieren voor Spieren, Villa Pardoes, Verwenzorg, DoSocial and the Voedselbank.

Disabled children living in poor countries such as Sri Lanka often do not have the same opportunities as other children. Sligro and the Liliane Fonds are tackling this problem with a local tea producer. Employees are supported with the care for their disabled child.

DoSocial

Van Hoeckel is one of the initiators and directors of DoSocial, a chain of companies and organisations that join forces based on social engagement to improve the welfare of vulnerable older people on a long-term basis. DoSocial offers scalable, welcoming solutions with a focus on local enterprise. The aim is to see more laughing faces and to curb loneliness by creating valuable contacts. DoSocial invests in time, resources and expertise.

Core theme '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.

We calculate our CO_2 emissions to measure the success of our efforts. To relate our CO_2 emissions to the growth of our business and to show a realistic picture of our development over several years, we express them as a percentage of sales.

Goal

In 2020, our goal is to have reduced our CO_2 emissions per euro of sales compared with 2010 by 20%, or 20-20.

CO_2

Definition and delineation

The scope of our efforts concerns emissions of CO_2 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 CO_2 emissions are related to the fixed conversion parameters with a 2010 baseline, enabling us to effectively monitor the annual reduction in CO_2 emissions that we achieve relative to 2010.

Importance

We have promised our stakeholders to do all we can to reduce our CO_2 emissions, the burden on the environment, by 2020 by 20% per euro of sales compared with 2010.

Approach

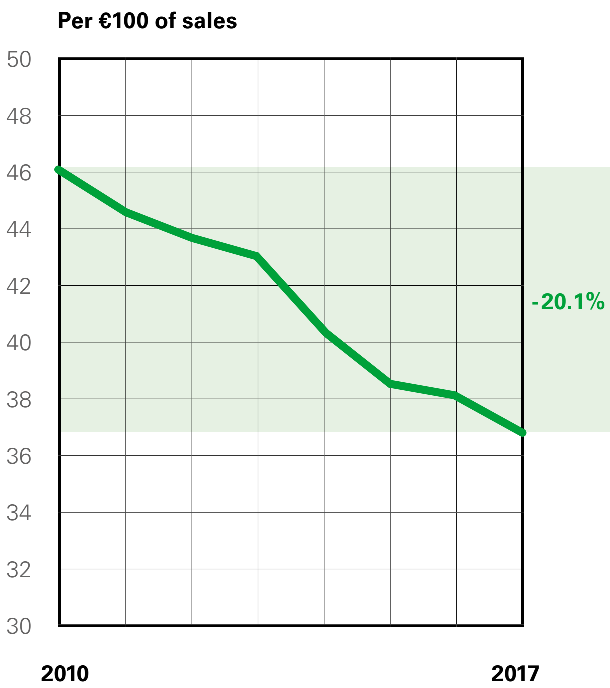
A CO_2 report is produced and discussed every six months. Wherever the results are not in line with the achievement of our 20-20 target, the matter is taken up with the relevant person responsible for electricity and gas consumption or transport usage. Based on the actions cited for energy (in the approach), we check whether the outcome achieved is as expected. The same is done for the actions undertaken in relation to transport (logistics).

Evaluation

The six-monthly CO_2 emissions reports are evaluated by the person with responsibility for CO_2 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.

Our active policy has resulted un us reaching our CO_2 reduction target for 2020 in 2017. The expansion of our activities in Belgium in 2017 and the addition of 'a month of HEINEKEN' (which have a negative impact) were offset in terms of electricity consumption by the conversion and construction of Sligro cash-and-carry wholesalers and the conversion of EMTÉ supermarkets into the 3.0 format. Logistics also made a major contribution. In week 8 of 2017, we launched so-called 'Combistops' for the supply of our own EMTÉ supermarkets. This resulted in a reduction of around 600,00 kilometres, giving us a 20.1% CO_2 emissions reduction compared with sales since 2010.

CO_2 EMISSIONS 2017



CO_2 REDUCTION WASTE SEPARATION

x 1,000 kg	2017	2016	2015	2014	2013	2012	2011
	6,052	5,786	5,288	5,214	3,668	3,700	3,395

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. At 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 modern energy installation solutions. Similar solutions are also adopted for the renovation of existing sites wherever possible. Typical energy-related improvements are the use of LED lighting, CO_2-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.

Evaluation
Energy consumption is regularly monitored to establish whether we are staying within the parameters of the agreements with our energy suppliers. This information also used for taking additional management action to reduce our electricity and gas consumption.
You can find breakdowns of our consumption of gas, electricity and fuel in relation to our goods transport movements on our corporate website.

Gas
Gas consumption rose 3% compared with 2016. Last year was warmer than 2016, giving a difference of approximately 5% in terms of degree days. The main reason for the higher consumption is the expansion of new locations in Belgium and increased production at Culivers.
Last year, additional wholesale locations went 'gasless', namely in Venlo and Almelo. In addition, two new EMTÉ sites were delivered entirely gasless, resulting in an expansion of 30,000 m^2 of gasless floor area. A total of almost 230,000 m^2 of floor area is now virtually gasless.

Electricity
Electricity consumption in 2017 was virtually the same as in 2016. Energy consumption of the three ISPC sites in Belgium was included from May 2017. This led to an increase in electricity consumption. Because all ISPC premises are fitted with solar panels, this increase was relatively small.
In the Netherlands, our first solar panel installation became operational in 2017. This has also contributed to a reduction in CO_2 emissions as a result of electricity consumption. The further rollout of the 3.0 format, among wholesalers and at the EMTÉ stores, delivered an electricity saving of just over 3 million kWh in 2017.

Waste

Definition and delineation
All waste streams within Sligro Food Group categorised as either cardboard, spoiled food, category 3 and 2 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 CO_2 emissions. The second important point concerns the scarcity of raw materials. The growth in the world's population has boosted the demand for natural resources, whereas their availability is finite. Waste separation and recycling is, therefore, an important item, with waste being converted into valuable raw materials. Throwing away and incinerating residual waste does not make any long-term contribution to businesses, the environment and society.

Approach
By reducing residual waste and separating waste streams for recycling, we are minimising the environmental impact of our waste. We want to give the waste streams that do arise a second life where possible by using them as a raw material or by converting them into green energy. The CO_2 emissions of our waste streams are wholly dependent on how our waste is processed by third parties. We can influence the quantity of waste and the proper separation of waste. After that, it is the waste processor that determines the CO_2 emissions of our This is why we publish the CO_2 reduction we achieve by sending our separated waste for processing, rather than processing unseparated waste.

Evaluation
The reduction in CO_2 emissions is calculated on the basis of the 2014 conversion factors for each waste stream as used by Van Gansewinkel. The CO_2 factors used have been calculated under the responsibility of the TNO Research Institute, in accordance with ISO 14040/14044 procedures and guidelines. This approach is supported by the LCA (Life

Cycle Assessment) platform of the European Commission and other organisations.
The stated CO_2 reduction is the reduction for the entire chain. This arises because as a result of waste separation, raw materials are reused and as such lead to a considerable reduction in the CO_2 emissions in the manufacture of new products. Recapturing these secondary raw materials consumes less energy than incinerating them and extracting and processing primary raw materials again. This CO_2 saving in the chain is not part of our 2020 target for our 'in-house' CO_2 emissions (transport, gas and electricity consumption).

Our careful waste separation approach once again led to a higher CO_2 reduction in the chain, despite two negative external factors.

- Since the summer of 2017, less of the plastic film collected has been used for recycling. This is because the export of film to China initially fell significantly and then stopped altogether from 1 January 2018 as a result of an import ban. In addition, the industry started to use more new oil instead of recycled plastics because of the low oil prices. As a result, more foil ends up in residual waste for incineration despite waste separation. There is insufficient capacity in Europe to suddenly recycle all this plastic.
- The problem with Fipronil detected in eggs meant that we had to destroy no less than 20,000 kilos of eggs in the autumn of 2017.

Core theme ‘Our product range'

The composition of our product range, the purchasing and trading of the range, of course, plays a central role in our organisation. We believe it is important to help our customers and to motivate them to make sustainable and healthy choices. Offering products that are made with a focus on people, the environment and health is therefore very important. 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 the ethical choice label eerlijk & heerlijk. We have used this concept to promote our sustainable product range since 2010, and in the process, have been helping our customers to make the right choice.

Goal

Our goal is to generate a share of sales of at least 10% with our Eerlijk & Heerlijk range by 2020.
In 2017, we refined our Eerlijk & Heerlijk policy, partly on the back of the survey ‘Top quality labels for sustainable food’ conducted by MilieuCentral (October 2016). We scrutinised the number of expensive quality labels in the Eerlijk & Heerlijk range and evaluated them for relevance and reliability.

Quality labels that we recognise as a result meet the following three criteria:

- The quality label sets high sustainability requirements (compared with the market average) in one or more of the following areas: the environment, animal welfare and/or social aspects;
- The package of requirements is easy to find, and information about the quality label is easy to understand and provides a clear picture of what the quality label is about and the requirements that apply (transparency);
- The quality label is reliable, that is to say, that checks are made by an independent party (whether or not accredited) and there is a transparent sanctions policy.

We no longer recognise quality labels that do not meet these three criteria, and are not therefore considered Eerlijk & Heerlijk. A total of 13 quality labels have disappeared, which leaves the total number of quality labels under Eerlijk & Heerlijk at 24.

We implemented this refinement in our systems at the end of 2017. For 2018, this will initially result in a reduction in the Eerlijk & Heerlijk share of sales. We will explain the impact of this further in the report.

Definition and delineation

The frameworks and starting points for our sustainable range are anchored in our Eerlijk & Heerlijk concept and our participation in BSCI.

EERLIJK & HEERLIJK

When we launched Eerlijk & Heerlijk in 2010, we opted for four pillars that underpin the sustainable product range: Organic, Sustainable, Fair trade and Local. Each pillar has a number of selected quality labels, which as already explained, were refined further in 2017. We want the quality labels to guarantee that a product actually delivers a sustainable contribution.

Importance

The demand for sustainable products is still rising, and people are becoming increasingly critical about the nature and origin of products and how they are made. Globally, major issues are at play, including climate change, loss of biodiversity, animal welfare and working conditions. As a major player in the Dutch food market with a complex, large and global network, we are very aware of our impact on nature, animals and people and take our share of responsibility for this.

Approach

We work with suppliers who champion products that are both better for the customer and better for the environment. We seek out dialogue with suppliers, producers and farmers on a whole range of issues, such as animal welfare, working conditions, sustainable packaging and the origin of raw materials.

To keep our customers informed of a product's correct sustainability claims, in 2017, we launched a joint venture with SIM (Supply Chain Information Management). SIM monitors and guarantees all own branded goods with a sustainable quality label (belonging to the quality label selection as explained). Parallel to this, in 2018 we are launching a large-scale campaign for all our suppliers with the aim of identifying the certified products we recognise.

Evaluation

We benchmark the progress against the share in net sales of the Eerlijk & Heerlijk range. In 2017, the sales of Eerlijk & Heerlijk rose by €28.9 million to €258.3 million This represents a share of sales of 8.7% (2016: 8.2%).

Had we implemented the refinement of the quality labels with effect from 2017, the Eerlijk & Heerlijk sales for 2017 would have been €229 million, or 7.7% of total sales. These sales and related share of sales will constitute our growth benchmark for 2018.

Sustainable meat

EMTÉ is known for its high-quality meat. It is no coincidence that EMTÉ was voted the 'Best Butchery in the Netherlands' for the eighth time in 2017. Offering the highest quality does not only mean tasty and tender meat. To us, high-quality meat also means focussing on animal welfare and the good conditions in which meat is produced. Last year we made great strides towards putting our meat range on a more sustainable footing. For example, our entire chicken range is classified as 'de betere kip' as a minimum requirement, and nearly all of our pork carries the 'beter leven' animal welfare quality label.

Our unique Natuurvlees beef is perhaps the best quality Dutch beef available in supermarkets owing to the high level of animal welfare and taste. As far as we are concerned, it beats the qualification of 'organic' in these areas. However, in 2017, we were unable once again to obtain a 'beter leven' quality label for our Natuurvlees. Our customers highly value our Natuurvlees, as does the province of Noord-Brabant, which wants to connect nature with people and the economy. The social added value of nature takes centre stage in all the province's projects, and it cites 'Natuurvlees' as a success story.

The development of our sustainable range can be clearly seen in the summary on page 72.

Natuurvlees is available exclusively at EMTÉ and comes from cows that graze freely in Dutch nature reserves.

Sustainable soy for sustainable meat, egg and dairy products.

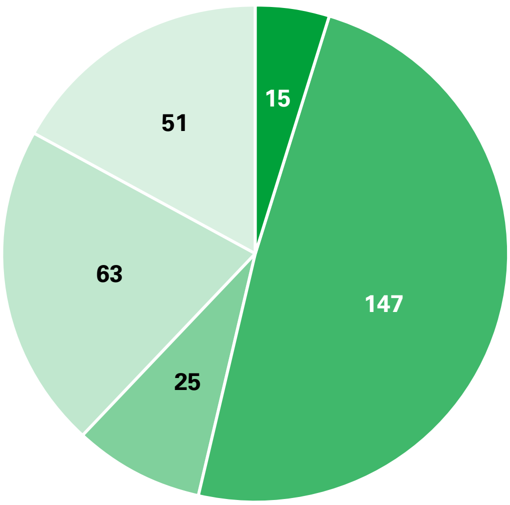
Soy is processed in 60% to 70% of all supermarket products. Tofu, tempeh or soya milk is made from the whole soya bean. The largest share of the soy harvest, however, is crushed, which produces soybean flour and soy bean oil, used extensively in animal feed. The cultivation of soy has grown sharply over the past decade. The reasons for this are the growing global population and improving living standards. More and more people are eating more dairy and meat, in particular, boosting the demand for soy. Soy is an important source of income for many farmers, including in developing countries. The growing demand for soy can lead to a loss of valuable nature and biodiversity, conflicts about land rights and poor working conditions.

Since 2015, all supermarket organisations in the Netherlands have been buying exclusively responsible soy (RTRS or equivalent) in the production of their own brands. The Dutch Food Retail Association represents us, as part of the Sustainable Food Alliance, in discussions with chain partners and civil organisations about the sustainable production and use of soy.

SUSTAINABLE MEAT AND MEAT SUBSTITUTES

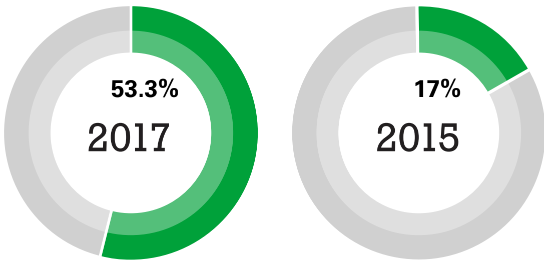
PRODUCT RANGE

Number of items

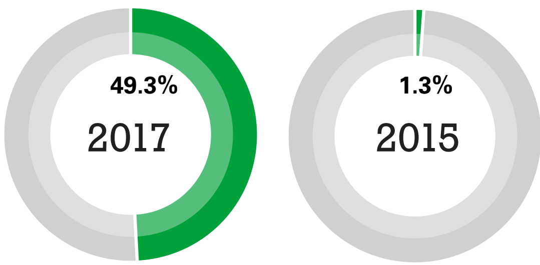


■	Beter Leven ★★★	pork, chicken
■	Beter Leven ★	pork, chicken, veal
■	Natuurvlees	beef
■	De Betere Kip	chicken
■	Meat substitutes	

SHARE OF PRODUCT RANGE



SHARE OF SALES



■ Sustainable meat and meat substitutes
■ Other meat product range

Working conditions - BSCI

For the production of items elsewhere in the world, good working conditions are not necessarily guaranteed. This is why Sligro Food Group has been part of the Business Social Compliance Initiative (BSCI) 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. Sligro Food Group pursues the principles of BSCI as set out in its Code of Conduct.

As described in our suppliers' handbook and our purchasing conditions, our suppliers' commitment to the BSCI conditions is a firm requirement for supply. Audits of product locations are also carried out in high-risk countries, as defined by BSCI, to ensure that acceptable working conditions are maintained. We apply a minimum audit score, which is a C score. For product locations with an inadequate score (D or E), an improvement plan has to be submitted within 60 days based on the bottlenecks cited in the audit report. The product locations are subsequently reaudited within six to 12 months (the audit date depends on the type of audit: follow-up or full). As a result of this working practice, we parted company with one supplier in 2017.

In Hong Kong, two of our employees has been working on all non-food imports from outside the EU. The aim is to put the purchasing process for the Far East on a formal and efficient footing to ensure increased product and process quality. This employee also acts as a gatekeeper at the front of the chain. BSCI is an integral part of this.

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, but we focus on helping our customers to make their own choices. Our tasks include making product features transparent, transferring knowledge and actually offering 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
- Reduce fat intake
- Less saturated fat, more unsaturated fat
- Less trans fat
- 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.

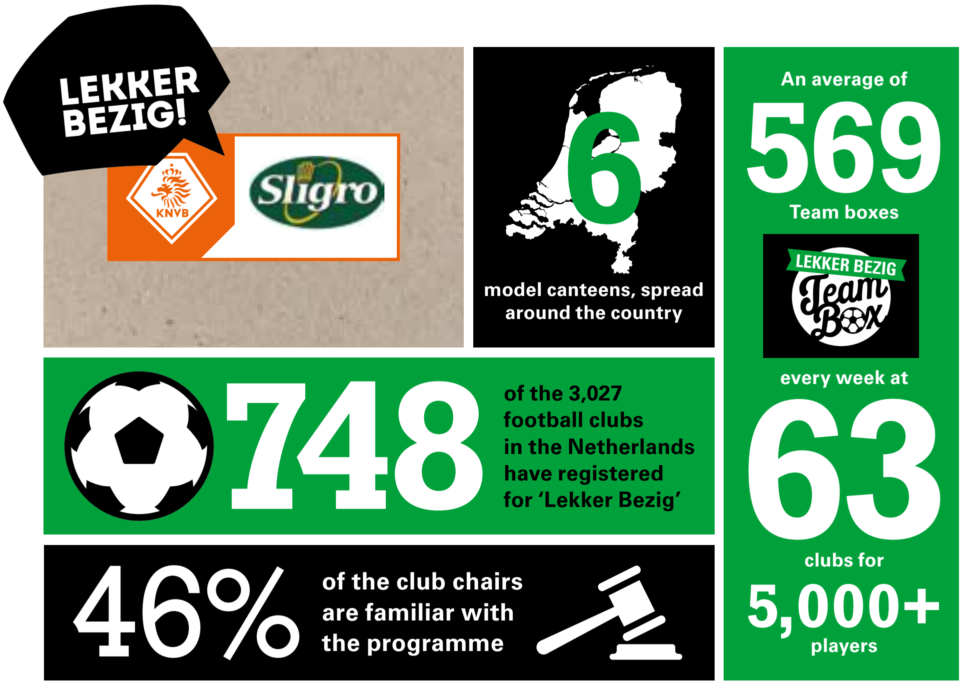
1. **Persuade customers to vary their diets**
   Variety is important to take in as many different healthy nutrients as possible. It is our task to introduce newer, healthier products to our customers.
2. **Give customers choice.**
   It is our task to make product information clear (both online and 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 often[1)]**
   - 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

The programmes and projects included in our 2016 annual report that contribute to the five promises were defined and launched in 2017. Eight projects were defined within the core themes of ‘people’ and ‘the product range’. The initial results are now available. Employees and customers from all business units are regularly inspired when it comes to healthy eating. In addition, we offer our customers food and service solutions to try. Examples include:

- Sligro has further rolled out its ‘Lekker Bezig ‘canteen programme in collaboration with the Dutch Football Association within the football channel. Almost 750 football canteens have already registered.



Almost 750 football clubs have already registered for 'Lekker Bezig', the healthy canteen programme operated by Sligro and the Dutch Football Association.

- EMTÉ has tested the Food Challenge App among employees and subsequently launched the app to customers. The app challenges customers to be more food aware.
- Van Hoeckel has made its range of protein-rich foods clearer for its customers, enabling customers to better incorporate meals into a diet.

Food waste

Definition and delineation

Every year, supermarkets throw away food because they can no longer sell it. This could be because of breakages (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. This is why 'shrinkage', which covers the write-down of unsold products, is one of our most important KPIs.

Approach

We aim to achieve a fully closed goods chain in which we have 100% control over the supply and sale of our products. All items that enter the waste streams unsold are registered before they are disposed of. This is currently still a total. In 2018, we will start allocating the food to categories so that we have a more detailed picture of the shrinkage. In the case of fruit and vegetables, for example, we can see what is registered with a specific reason code, so a product that is beyond the use-by date, breakage or quality issue. We will analyse this regularly. This insight helps us and our suppliers in the improvement process to further minimise shrinkage. Reducing waste is good, but avoiding it is better. This is why we plan to tighten up our forecasting by joining forces with purchasing, the supply chain and suppliers. We will carry out weekly assessments to establish whether we have performed within the bandwidths. This helps us to better predict demand and to reduce food waste.

Evaluation

The registered shrinkage is reported weekly. To closely monitor the trend in inventories, regular inventory counts are carried out in the stores, which allows us to monitor the actual shrinkage results compared with the target.

Councillor Elly Konijn hands out the first Team boxes to the youth team of Kolping Boys from Alkmaar.

The grand reopening of the Sligro outlet in Almelo. One of the three larger type 3 outlets (including an entirely new outlet in Purmerend) converted to 3.0 style.

RISK
AND RISK MANAGEMENT

In note 27 to the financial statements on page 154, 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 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 as shown in the table below.

Loss of Sligro Food Group's 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 of 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 order to build a picture of the way in which our culture contributes to reducing the risk of unacceptable behaviour, we carried out a culture, or soft control, scan at the Dutch operating companies during 2017, looking at eight intangible factors affecting behaviour that are important for achieving an organisation's goals: clarity, exemplary conduct, feasibility, engagement, transparency, openness to debate, accountability and enforcement. A wide group of employees from all parts of the organisation took part in the survey, and the 795 responses were used to build up a picture of how the eight factors are regarded. Cross-sections were also made by operating company, age and length of employment.

SLIGRO FOOD GROUP RISKS

	Category	**Probability**	**Influence**	**Risk acceptance**	**Impact**
Loss of Sligro Food Group's culture	Strategic	●●●●●	●●●●●	●●●	●●●
New business models and retailers expanding their ranges	Strategic	●●●●●	●●●	●●	●●●
Change of management model	Strategic	●●●●●	●●●●●	●●	●●●●
Cybercrime	Operational	●●●●●	●●●	●	●●●●●
Data quality: operational/compliance	Operational	●●●	●●●●●	●	●●●●●
ICT stability/flexibility	Operational	●●●●	●●●●●	●	●●●●●
Ageing workforce	Operational	●●●●●	●●●	●●●	●●
Risks in acquisitions and integration	Financial	●●●	●●●●●	●●●	●●●●
Authorities/NGOs/Regulators	Compliance	●●●	●	●●●●	●●●●
Food safety	Compliance	●●	●●●	●	●●●●●

● *= low* ●●●●● *= high*

The picture presented by this scan did not come as a surprise to us, but it did offer some practical guidance for embedding our culture even better in a changing organisation. We rated well for engagement and exemplary conduct but relatively poorly for clarity and transparency. The latter is not strange in an informal organisation and we, therefore, saw that the scores increased with age and length of employment. We also saw more explicitly which operating companies and age groups require attention in sharing our cultural values. There were lower scores at operating companies with relatively high staff turnover than in environments with less turnover.

The first step we will take in 2018 further to this scan is to discuss the outcomes with our employees. This dialogue will give us a better picture of how the culture is experienced and will allow us to look together at how we raise awareness of our cultural values and embed them in the organisation.

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 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 offer 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 appropriate 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 acquisitions and organic growth in other countries, 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.

In 2017, in co-operation with the Supervisory Board, we assessed the organisational structure and identified the changes we regarded as necessary to manage and control national and international operations properly into the future. This will lead to a change in the management model and a reallocation of the responsibilities of the members of the Executive Board and the management teams over the next few years. These changes cannot be implemented suddenly but will be introduced gradually so that the organisation can get used and adapt to them.

In the short term, changes that relate in particular to internationalisation can are be made. For example, the legal and board structure in the Belgian companies has been aligned with the situation we have in mind for the coming years. There are currently a central back office and shared services organisation for Sligro Food Group Belgium and two commercial formats: JAVA Foodservice and Sligro-ISPC.

The functions of the central organisation that will define and monitor the international policy criteria have been established. Activities in countries where we operate must be in line with this policy, but there is some scope for local variation. Steps still have to be taken so that the policy criteria can be further formalised, communicated and made manageable. This is strongly related with the new ICT infrastructure that will be set up for this.

All recently acquired operations have been integrated into the Sligro Food Group reporting structure and report monthly in accordance with the Group cycle. This is a real achievement by the local teams, given the tight deadlines for closing the Group's books. At the end of 2017, we introduced a Digital Accounting Manual, the standard for all of the Group's operations, so that the reporting structure can be communicated better.

In 2017, we set up an Internal Audit department and appointed an experienced Internal Audit Manager who, along with the existing administrative organisation and internal control department, will assess the control and supervision of the administrative processes in 2018 and propose changes where useful and necessary.

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 complex, but at the same time, it is systems of this kind that 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 problems.

In 2017, we started a preliminary examination of a new ICT landscape which will create the conditions for a flexible response to changing customer wishes in the future and also form the basis for further international expansion. This type of project has many inherent risks and, therefore, is being given great attention.

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.

In 2017, we carefully considered the new privacy legislation which will come into force in the second quarter of 2018. We have identified the parts of our organisation where we may run risks and addressed supplementary measures. This focus is less on the technology than on staff awareness.

Working with our suppliers, we have for some time been using insights on data to offer better service to our customers. We believe, however, that we have only taken the first few steps and that much more has to be done. Consequently, we will be making significant investments in the next few years in both technology and competences to become a still more data-driven organisation. We will specifically look to work with colleges and universities that can assist us in this area.

We invest considerable time and resources every year to 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 on-going 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 engaged an external party to test our security in 2017. As well as assessments of our security measures, there were simulated, unannounced attacks. The test results indicated that we have implemented several proper measures in the past to protect ourselves but that there is room for improvement. We are now developing a long-term plan to improve prevention, monitoring, detection and response. Technology is not standing still, however, and so security remains a dominant item on the agenda.

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 for our employees on this theme, and this came up with many new initiatives that were started in 2017. As well as these initiatives, however, we believe that we will have to make other policy decisions in the coming years to give the existing group of employees useful and long-term work until retirement and to be able to attract sufficient capacity from the labour market to facilitate growth. Use of technology and a clear vision of the use of local and foreign, permanent and flexible staff will certainly be a part of this.

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 and 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.

In 2017, we made three acquisitions. There was a careful process in each case, assisted by external process specialists and the normal financial, tax and legal reviews.

ISPC and Tintelingen joined the Group in the first half of 2017, and both performed as well as or better than expected. The integration went smoothly, and in ISPC's case, the JAVA Foodservice organisation acquired a year earlier proved to be a valuable asset in the process. The partnership with HEINEKEN and associated acquisition of its wholesale activities started at the end of 2017. The transition is well under way and is expected to be completed by mid-2018. The integration of the distribution networks will take three to four years.

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 and 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.

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. For some years, we have stationed a Dutch colleague in Hong Kong to ensure purchasing and quality controls there are of the standard we require.

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 simply 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. 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 2017, for the third year in a row, the Executive Board assessed the main risks to the business. Consequently, this assessment is now firmly established as part of our annual cycle. In the autumn, these risks were discussed with the Supervisory Board, partly in relation to the update of our strategic plan for the next few years.

We have a special department focusing solely on our administrative organisation and internal control, alongside the departments that remain responsible for these processes. Following the creation of the Internal Audit department, the future roles and responsibilities for internal control will be assessed during 2018.

'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.

In 2017, we worked with students from Avans University of Applied Sciences on an initial examination of the use of process mining in internal control. Although we still have much to learn in this area, the initial results of the study show there are opportunities for more efficient and effective control. We, therefore, intend to follow up these first steps in 2018.

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 co-ordination is increasingly important in a large business, we have set up a 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. We regard improving the reliability of our management information and, more importantly, ensuring that it becomes increasingly specific and targeted, as an on-going process.

In accordance with best practice provision 1.4.3. of the 2016 Corporate Governance Code, the Executive Board states that:

i. the report provides sufficient insight into any shortcomings in the effectiveness of the internal risk management and control systems;
ii. those systems provide reasonable assurance that the financial report does not contain any material misstatements;
iii. in the current situation, it is appropriate for the financial report to be prepared on a going concern basis; and
iv. the report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the report.

CORPORATE GOVERNANCE

Main points of the corporate governance structure

Sligro Food Group is a dual-board company incorporated under Dutch law, with an Executive Board and an independent Supervisory Board ('two-tier management structure'). The balancing of the interests of all the Group's stakeholders wanted by Dutch law and the corporate governance code has underlain corporate policy for many years. 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. 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 six 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 of 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 by a two-thirds majority of the votes cast, representing more than half of the issued share capital.
- Issue shares and restrict or exclude shareholders' pre-emptive rights (the Executive Board has been granted these powers until 22 September 2018 subject to the approval of the Supervisory Board).

- Repurchase and cancel shares (the Executive Board has been granted powers until 22 September 2018 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.

Anti-takeover mechanisms

Sligro Food Group respects the one share/one vote principle and does not have any anti-takeover or control mechanisms.

Conflicting interests

During 2017, there were no material transactions involving possible conflicts of interest with Executive or Supervisory Directors, nor were there any transactions with shareholders owning more than 10% of the shares.

Compliance with the code

The revised Corporate Governance Code ('the Code') was published on 8 December 2016. Except for best practice provisions 2.2.1 ('Appointment and reappointment periods – executive board members') and 3.2.3 ('Severance payments'), Sligro Food Group subscribes to the principles and best practice provisions of the Code. Neither departure is new or temporary. Sligro Food Group also departed from parts of the equivalent provisions in the 2004 and 2008 Corporate Governance Codes. Both departures are appropriate to the culture of Sligro Food Group – a listed family company.

Best practice provision 2.2.1 ('Appointment and reappointment periods - executive board members')

Members of Sligro Food Group's Executive Board are appointed for an unspecified period, and so Sligro Food Group departs from best practice provision 2.2.1. This is because Sligro Food Group aims for long-term employment relationships with its staff and so also with its directors. Sligro Food Group prefers to appoint members of the Executive Board from within the Group.

Best practice provision 3.2.3 ('Severance payments')

Sligro Food Group has not entered into agreements on the level of any severance pay with members of the Executive Board. This should be seen in the light of the appointment of directors for an unspecified period, and since such appointments may follow employment with Sligro Food Group in a position other than director.

CAPITAL EXPENDITURE

Goals

- Maintain the Group's average net capital expenditure at about 2.5% of sales over the long 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 logistical network and outlets in the Netherlands.
- Organic growth in the logistical network and outlets in Belgium.
- Invest continuously in automation and efficiency-enhancing technology in order to maintain our position as a cost leader.

In 2017, we invested €76 million, or 2.6% of sales, in intangible assets and property, plant and equipment. Key investments were:

- €28 million to upgrade cash-and-carry outlets to Sligro 3.0 in the Netherlands.
- €19 million on the conversion of EMTÉ supermarkets to EMTÉ 3.0.
- €12 million in ICT software and hardware for our online programmes and master data management.
- €6 million in Belgium, including €4 million on the construction of the new frozen food distribution centre in Rotselaar.

In 2017, we further reduced our retail property portfolio in part by selling redundant properties and outlets and also by selling and leasing back properties still in use. The proceeds from these disposals were €14 million.

The residual carrying amounts of previous remodelling costs were written off in full on the conversion of supermarkets from 2.0 to 3.0. This impairment was €2 million in 2017.

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

NET-INVESTMENTS DEPRECIATION AND AMORTISATION

	Foodservice		Food Retail[1]		Total	
x € million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Intangible assets (software)	9	7	0	0	9	7
Property, plant and equipment	50	52	23	26	73	78
Investment property	0	0		0		0
Disposals of assets held for sale	(0)	(0)	(6)	(5)	(6)	(5)
Net capital expenditure	**59**	**59**	**17**	**21**	**76**	**80**
Depreciation and impairments	(37)	(32)	(14)	(12)	(51)	(44)
Amortisation of software	(8)	(8)	(0)	(0)	(8)	(8)
Subtotal	**(45)**	**(40)**	**(14)**	**(12)**	**(59)**	**(52)**
Net movement	**14**	**19**	**3**	**9**	**17**	**28**

1) Concerns discontinued operations.

After a lengthy process to obtain unencumbered building permits in Belgium, we started construction of the first Sligro-ISPC outlet in Antwerp in the autumn of 2017, which we expect to open in the autumn of 2018. Planning applications and procedures are also under way in a number of other towns in Belgium where we want to set up so that we can build up our network of outlets over the next few years following the hand-over of Antwerp. The conversion of ISPC's outlets in Ghent and Liège to the Sligro-ISPC format will be part of this in the coming years.

As already announced, we will be investing considerably in our delivery network in the Netherlands in connection with the strategic partnership with HEINEKEN. We estimate we will invest a total of €100 million to remodel and expand existing sites and create four completely new locations during the next three to four years. As we do not intend to own these sites but to transfer them to property investors and then lease them back over the long term, Sligro Food Group's net investment on this project will be about €20 million.

In the next few years, Sligro Food Group will prepare its IT and Data landscape for the integration of the Belgian activities and possible future expansion internationally. The IT and Data landscape will also be adapted to respond more quickly to changing market conditions and customer demand. This will require its complete replacement. Our current estimate of the 'non-recurring' investment for the implementation is €60 million, which will be spread over a period of some four years (2018-2021) and amortised over the estimated useful economic life.

RESULTS[1)]

Goals

- Increase Group organic sales by an average of 3% per annum plus growth in sales through acquisitions that meet our criteria.
- Improve return through growth in sales, margin management and cost control.
- Distribute about 60% of the year's profit as a regular dividend plus a variable dividend on top of that, reflecting the financial position.

Financial policy and management model

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 knowledge sharing and 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. This is also currently the case in Belgium where we are keen to experience personally how we can and need to manage in an international environment, making allowances for cultural and other differences. We will use this experience and knowledge to help transform our organisation and the management model into one more suited to an international organisation. The Group's policy will always be determined centrally but the national management teams will be responsible for structuring it in line with the local situation.

We manage our organisation using a medium-term strategic plan with a three-year horizon. Although the plan is re-evaluated and updated each year as conditions require, we stick to its essential features. In order to communicate strategic plans to the rest of the organisation, we convert them into specific targets and results that are clear and comprehensible to everyone. We challenge our people to use creative plans to implement those targets and results. The outcome and not the plan has priority. As our organisation is becoming more international, extensive financial authority now lies outside the central organisation in Veghel. This requires a different management model that is also based in part on financial parameters. As we still do not believe in a traditional budget-driven organisation, we now have a model that balances the clarity and simplicity of financial targets with freedom for creativity and enterprise to achieve those targets. We draw up an annual budget which is derived from our strategic long-term plan. We monitor progress each quarter and use moving forecasts to identify if the intended results are being achieved on the current course. Departures from the goal prompt adjustments to operations.

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. During the 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 also want to apply this approach to reporting and management internationally and so we are developing international standards which will be clear and easily understood. Through Internal Audit, we can also exercise control over compliance. This will assist us to maintain the quality of insights and speed of reporting we have become used to. An update of our IT and data landscape will, of course, give this a boost in the coming years.

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.

1) Combined figures for Foodservice and Food Retail and, consequently, different from the financial statements.

In 2017, we generated net sales of €2,970 million, an increase of €157 million or 5.6% compared with the previous year. The acquisitions of JAVA Foodservice and De Kweker in 2016 added a non-organic increase in sales of €20 million in the first months of 2017. Together, the acquisitions of ISPC, Tintelingen and HEINEKEN in 2017 added a net €77 million. Like-for-like sales growth was 2.1%.

The profit and loss account can be summarised as follows:

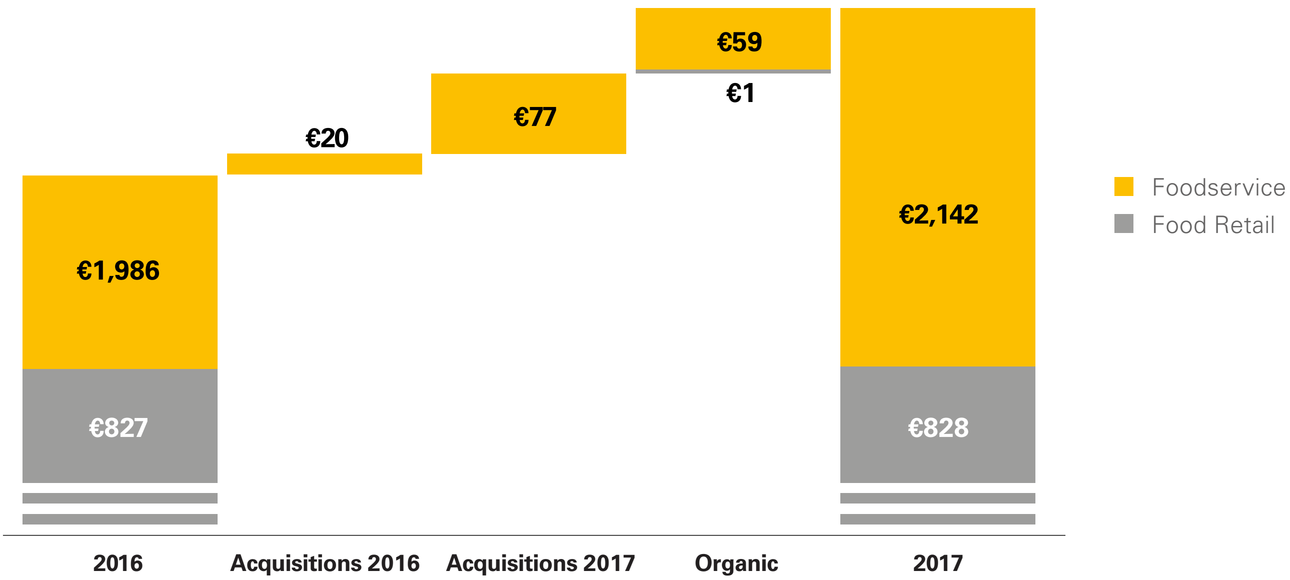
PROFIT AND LOSS ACCOUNT SUMMARY
SLIGRO FOOD GROUP

			as % of sales	
x € million	**2017**	**2016**	**2017**	**2016**
Net sales	2,970	2,813	100.0	100.0
Cost of sales	(2,275)	(2,168)	(76.6)	(77.1)
Gross margin	**695**	**645**	**23.4**	**22.9**
Other operating income	19	4	0.7	0.1
Total operating expenses excluding depreciation, amortisation and impairments	(540)	(493)	(18.2)	(17.4)
Gross operating profit (Ebitda)	**174**	**156**	**5.9**	**5.6**
Depreciation and impairments	(51)	(44)	(1.7)	(1.6)
Operating profit before amortisation (Ebita)	**123**	**112**	**4.2**	**4.0**
Amortisation of intangible assets	(26)	(25)	(0.9)	(0.9)
Operating profit (Ebit)	**97**	**87**	**3.3**	**3.1**
Net finance income and expense	4	4	0.1	0.1
Profit before tax	**101**	**91**	**3.4**	**3.2**
Corporate income tax	(20)	(18)	(0.7)	(0.6)
Profit for the year	**81**	**73**	**2.7**	**2.6**

NET SALES SLIGRO FOOD GROUP

	Sligro Food Group	Foodservice	Food Retail
Net sales	5.6%	7.9%	0.1%
Organic	2.1%	3.0%	0.1%

x € million



Organic growth was 3.0% at Foodservice and 0.1% at Food Retail. Like-for-like consumer sales at EMTÉ were up by 0.2%. The difference between organic and like-for-like at Food Retail is explained by changes in the outlet portfolio during the year.

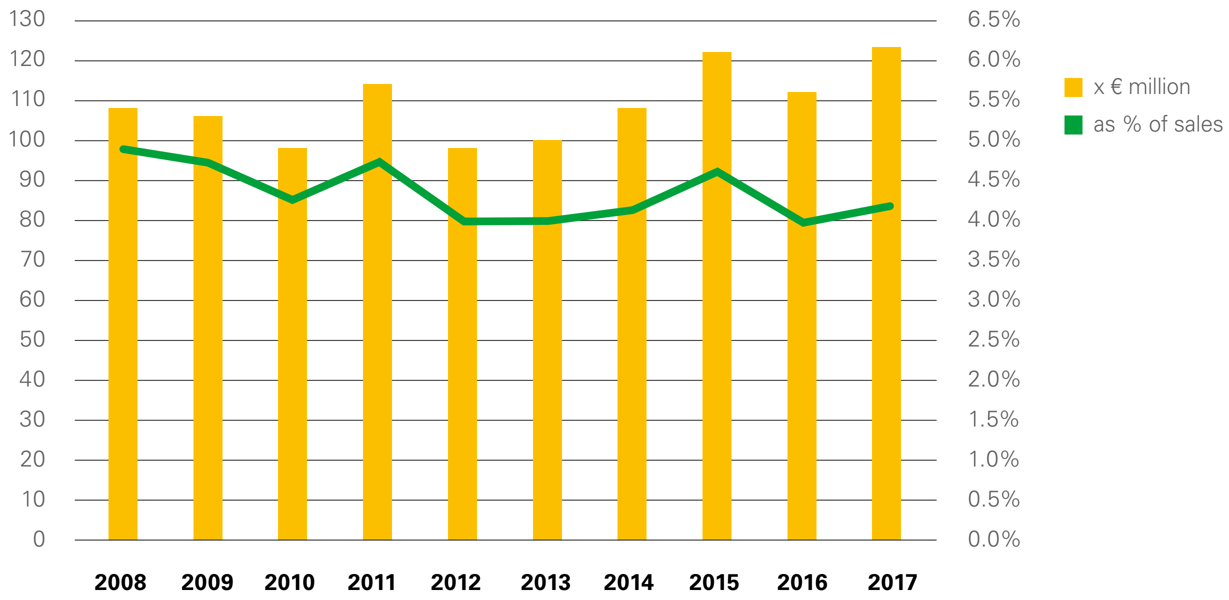
Gross margin rose by 0.5% of sales compared with the previous year. Considerable attention was directed towards price and promotions management in both Foodservice and Food Retail. By making new decisions on promotions and promotional mechanisms, we were able to present our customers with plenty of offers and bargains while maintaining or improving our gross margin. Intensive co-operation with suppliers and clever use of data, for example from the Fijnproevers programme, created more effective promotions that were also attractive for our suppliers.

Expenses (including depreciation and amortisation) as a proportion of sales increased by 0.9% to 20.8%. Employee benefits increased as a percentage of sales as a result of collective bargaining agreements, an expansion of central functions in connection with various major projects for the coming years and as a result of the conversion of stores to the new 3.0 format at Food Retail. We believe that we were not successful enough in the past year in converting growth into efficiency gains and this is therefore a point for immediate action in 2018.

Expenses at Foodservice also rose as a result of non-recurring consultancy fees for acquisitions and start-up costs at Sligro in Belgium, which together were €4 million higher than in the previous year at €6 million. As in the previous year, there was impairment of some €2 million in connection with decommissioned Food Retail assets following conversion to 3.0. The depreciation charge increased as a result of the conversion of EMTÉ stores and Sligro cash-and-carry outlets.

Other operating income at Foodservice was a non-recurring book profit of €9 million arising on the sale of our beer and cider distribution turnover to HEINEKEN. At Food Retail, there were book profits of €7 million on the disposal of retail property and operations, which was higher than the €2 million book profit of the previous year.

EBITA 2008-2017



Ebitda rose by €18 million to €174 million. The improvement in Ebitda at Foodservice was €17 million, and the improvement at Food Retail was €1 million.

In recent years we have been searching for a measure that is well suited to providing a picture of operational improvements. Changes in reporting rules and internal decisions mean that this is not always evident. We believe that investment in customer conditions, software and our physical infrastructure is part of operational performance, since it will involve replacement CAPEX in the future. We do not believe that the decision to capitalise a significant portion of the acquisition sums with amortisation charged against the result should form part of operational performance since there will be no replacement CAPEX for this in the future.

The table below shows these effects and also reflects the non-recurring effects on the result.

The Group's underlying operating profit was unchanged at €101 million. At Foodservice, the result rose by €6 million while at Food Retail it fell by €6 million.

ANALYSIS OF OPERATING RESULT

	Foodservice		Food Retail[1]		Total	
x € million	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Ebitda	148	131	26	25	174	156
Depreciation and impairments	(37)	(32)	(14)	(12)	(51)	(44)
Amortisation of software	(8)	(8)	(0)	(0)	(8)	(8)
Amortisation of other intangible assets (excl. related to acquisitions)	(6)	(5)	(0)	(0)	(6)	(5)
Net effect of exceptional gains and losses	(3)	2	(5)	0	(8)	2
Underlying operating profit	**94**	**88**	**7**	**13**	**101**	**101**

1) Concerns discontinued operations.

For completeness, we also show amortisation of other intangible assets related to acquisitions in the table below. The amortisation of €4 million per year arising on Food Retail's Edah acquisition ended in mid-2017. At Foodservice, we saw an increase as a result of the acquisitions in 2016 and 2017.

	Foodservice		Food Retail[1]		Total	
x € million	2017	2016	2017	2016	2017	2016
Amortisation of other intangible assets related to acquisitions	(6)	(4)	(6)	(8)	(12)	(12)

Net finance income was the same as in the previous year. The interest expense was a little higher than the previous year but this was offset by an improvement in the results of associates.

The tax burden rose slightly compared with the previous year. On the one hand, we faced a change in mix, since the tax rate in Belgium is higher than that in the Netherlands. On the other hand, 2016 was the final year in which we could benefit from the innovation box facility and so the tax burden in the Netherlands was higher in 2017 than a year earlier. This was almost completely cancelled out by a non-recurring release of the deferred tax liability in Belgium in the year.

The overall effect of the above was that the net profit for 2017 was €81 million, an increase of €8 million compared with the previous year or 9.9%, and equal to our highest net profit ever.

Ignoring the non-recurring book profit on the sale of beer and cider distribution turnover, the profit would have been €74 million, an increase of 0.6% compared with the previous year.

Earnings per share, calculated on the average number of shares in issue, were €1.83 compared with €1.67 in 2016. Based on the result for 2017 and our continuing strong financial position, we propose increasing the dividend by €0.10 per share to €1.40 per share. In accordance with our dividend policy, this will be made up of a regular dividend of €1.10 (2016: €1.00) and a variable dividend of €0.30 (2016: €0.30). An amount of €0.50 has already been paid as interim dividend. The final dividend for 2017 therefore amounts to €0.90.

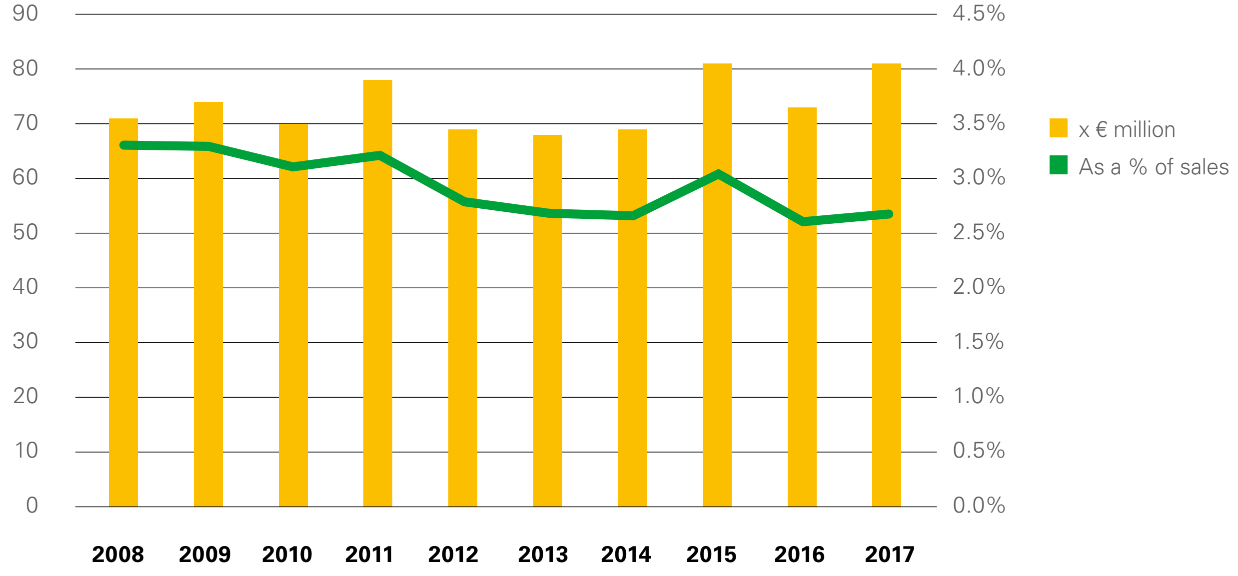
The segment analysis of results below shows figures for Foodservice and Food Retail.

SEGMENT FIGURES

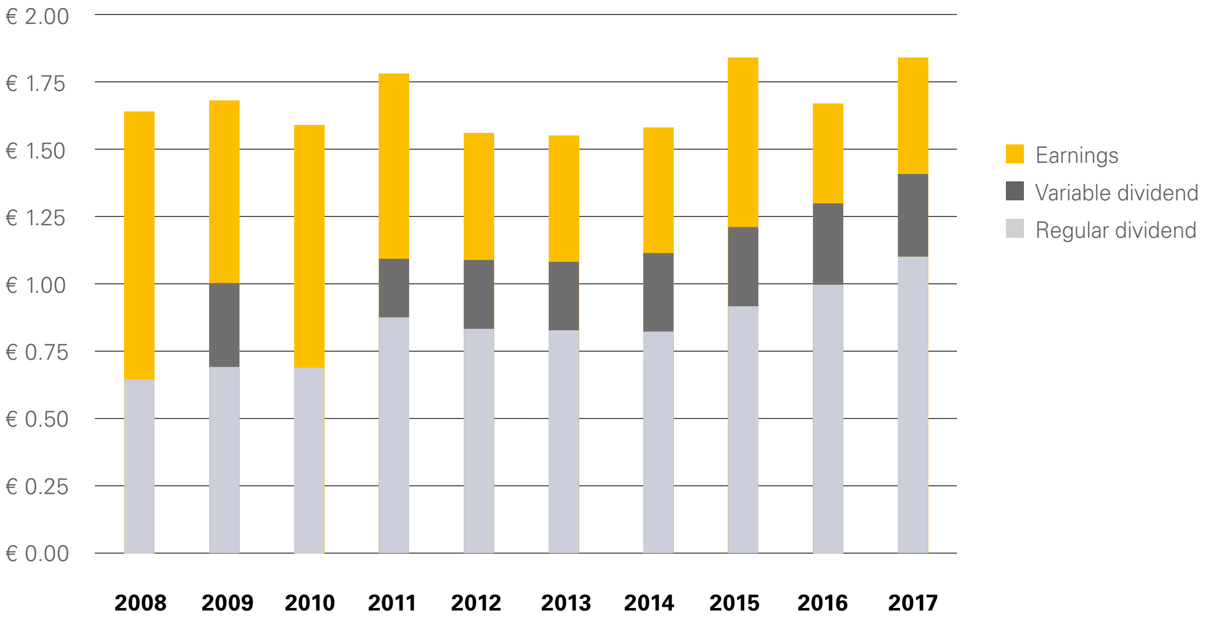
	Foodservice		Food Retail[1]		Total	
x € million	2017	2016	2017	2016	2017	2016
Net sales	2,142	1,986	828	827	2,970	2,813
Other operating income	9	0	10	4	19	4
Ebitda	148	131	26	25	174	156
Ebita	111	99	12	13	123	112
Ebit	91	82	6	5	97	87
Net capital employed at year-end [2]	676	563	103	105	779	668
Ebitda as % of sales	6.9	6.6	3.2	3.0	5.9	5.6
Ebita as % of sales	5.2	5.0	1.4	1.5	4.2	4.0
Ebit as % of sales	4.3	4.1	0.7	0.6	3.3	3.1
Ebita as % of average net capital employed	18.1	18.9	11.1	10.9	17.1	17.5
Ebit as % of average net capital employed	14.7	15.6	5.9	4.1	13.4	13.5

1) Concerns discontinued operations.
2) Excluding associates.

NET EARNINGS 2008-2017



EARNINGS PER SHARE 2008-2017



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 call on both the capital markets (for long-term facilities) and the money market (for short-term facilities) for our financing. We are always examining the different types of financing that the market can offer us.

Currently, our long-term financing is through US private placements:

We repaid one tranche of the US private placements, dating from 2010, in December, leaving one remaining tranche, with a maturity of three years, which had a value of €63 million on the reporting date. There was a swap value of €1 million against this, which is recognised in other financial fixed assets.

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 down in tranches.

- In April 2016, we drew down a seven-year loan of €30 million under this facility at an interest rate of 1.33% per annum.
- In September 2017, we drew down an eight-year loan of €40 million under this facility at an interest rate of 1.67% per annum.

In the autumn of 2017, we reviewed and expanded our short-term bank facilities with Rabobank. The old arrangement offered overdraft facilities of €90 million, of which €40 million was committed. The new arrangement comprises a 3-year Term Loan of €70 million and overdraft facilities of €80 million, of which €40 million is committed. Repayments of €10 million per year are due on the Term Loan in the coming two years. These facilities carry variable interest rates linked to Euribor. The terms and conditions and covenants are in line with those of the USPP financing.

As well as the Term Loan, the Group now has overdraft facilities of €87 million, of which €41 million is committed.

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

The Group's free cash flow was €98 million, as shown in the abridged statement hereafter.

Total working capital fell once again in 2017. The programmes for structurally improving the working capital position are succeeding. In 2017, we achieved a further reduction in working capital in part through our Supply Chain Finance programme.

As explained on page 84, we invested €76 million, or 2.6% of sales.

ABRIDGED CASH FLOW STATEMENT

x € million	2017	2016	2015	2014	2013
Net cash flow from operating activities	172	153	140	147	133
Net cash flow from investing activities, excluding the net effect of acquisitions and the investment in Superunie	(74)	(81)	(62)	(69)	(32)
Free cash flow	**98**	**72**	**78**	**78**	**101**
For comparison purposes: net profit	81	73	81	69	68
Cash conversion in %	121	97	96	113	148
The free cash flow was used to fund:					
Net acquisitions/Superunie	(116)	(49)	(11)	(22)	(19)
Payment of dividend and repurchase of own shares	(57)	(54)	(47)	(64)	(49)
Net change in debt and cash	75	31	(20)	8	(33)
	(98)	**(72)**	**(78)**	**(78)**	**(101)**

EVOLUTION OF WORKING CAPITAL

x € million	2017	2016	2015	2014	2013
Current assets, excluding cash and cash equivalents	483	453	377	376	345
Current liabilities, excluding interest-bearing items	(454)	(381)	(298)	(287)	(231)
	29	**72**	**79**	**89**	**114**
In days' sales revenue	4	9	11	13	17

DISCONTINUED OPERATIONS

In the annual report we have presented and provided disclosures for the figures for 2017 in the same way as in past years, based on the continuation of the Group's operations, including its Food Retail activities.

Following the decisions made after the examination of various alternative strategies for the future of Food Retail, our Food Retail activities have been classified as discontinued operations under IFRS at year-end 2017 and presented as such in the financial statements.

The effects of this change in presentation on the profit and loss account and balance sheet are shown and explained below.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Total Sligro Food Group			**Discontinued operations**			**Continuing operations**		
x € million	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Net sales	**2,970**	**2,813**	**2,670**	**828**	**827**	**841**	**2,142**	**1,986**	**1,829**
Gross margin	**695**	**645**	**620**	**201**	**196**	**204**	**494**	**449**	**416**
Other operating income	**19**	**4**	**2**	**10**	**4**	**1**	**9**	**0**	**1**
Expenses	(540)	(493)	(462)	(181)	(174)	(171)	(359)	(319)	(291)
Depreciation	(51)	(44)	(38)	(17)	(11)	(11)	(34)	(33)	(27)
Amortisation	(26)	(25)	(19)	(7)	(10)	(9)	(19)	(15)	(10)
Total operating expenses	**(617)**	**(562)**	**(519)**	**(205)**	**(195)**	**(191)**	**(412)**	**(367)**	**(328)**
Operating profit	**97**	**87**	**103**	**6**	**5**	**14**	**91**	**82**	**89**
Finance income and expense	(5)	(4)	(4)				(5)	(4)	(4)
Share in results of associates	9	8	6				9	8	6
Profit before tax	**101**	**91**	**105**	**6**	**5**	**14**	**95**	**86**	**91**
Corporate income taxes	(20)	(18)	(24)	(1)	(1)	(4)	(19)	(17)	(20)
Profit for the year	**81**	**73**	**81**	**5**	**4**	**10**	**76**	**69**	**71**
Ebitda	174	156	160	30	26	34	144	130	126
Ebita	123	112	122	13	15	23	110	97	99
Ebit	97	87	103	6	5	14	91	82	89

The above statement shows the income and expenses from the discontinued (Food Retail) operations and the continuing (Foodservice) operations separately. In accordance with IFRS 5, the discontinued (Food Retail) operations are presented net as 'Discontinued operations, after tax'.

There are minor reclassifications between the above statement and the segment information published in earlier years.

Financing is entered into at group level. Since it cannot be allocated separately to the discontinued operations, the entire related interest expense forms part of the Group's continuing operations.

All associates are part of the continuing operations.

CONSOLIDATED BALANCE SHEET

x € million	Sligro Food Group	Discontinued operations (net capital employed FR)	Discontinued operations (other adjustments)	Continuing operations
Goodwill	185	30		155
Other intangible assets	153	10		143
Property, plant and equipment	383	80		303
Investment property	20	20		
Investments in associates	53			53
Other financial assets	11	2		9
Non-current assets	**805**	**142**	**0**	**663**
Inventories	252	45		207
Trade and other receivables	200	28	(1)	173
Other current assets	29	5		24
Corporate income tax	1			1
Cash and cash equivalents	60		2	58
Assets held for sale		(220)	(1)	221
Current assets	**542**	**(142)**	**0**	**684**
Total assets	**1.347**	**0**	**0**	**1.347**
Shareholders' equity	**651**			**651**
Deferred liabilities and provisions	35		7	28
Bank borrowings	193			193
Non-current liabilities	**228**	**0**	**7**	**221**
Current portion of long-term borrowings	14			14
Trade and other payables	347	95		252
Corporate income tax	1			1
Other taxes and social security contributions	24	5		19
Other liabilities, accruals and deferred income	82	16		66
Liabilities directly related to assets held for sale		(116)	(7)	123
Current liabilities	**468**	**0**	**(7)**	**475**
Total equity and liabilities	**1.347**	**0**	**0**	**1.347**

The balance sheet shows the assets and liabilities relating to the Food Retail activities separately, presenting them net in accordance with IFRS 5 as "Assets held for sale" and "Liabilities directly related to assets held for sale". In previous years, certain assets and liabilities, principally long service and deferred tax provisions, were not allocated to individual segments.

OUTLOOK

The Dutch economy has entered a growth phase and this can be seen in improving employment and higher consumer confidence. As a result, we have seen growth in our markets picking up for two consecutive years and we think they will continue to grow in 2018 in line with the level of the past year.

The continuing recovery will be seen in all Foodservice market segments and there will be volume growth on top of inflation. This expectation seems to apply to both the Netherlands and Belgium, although the rationalisation in the Belgian market in response to government measures of recent years will distort the actual trend. The recent picture of growth coming mainly from the delivery channel will also continue in the coming year.

Growth in Food Retail will be driven mainly by inflation. Volumes will only increase slightly but there will be shifts between channels. It is expected that growth in online will accelerate in 2018 and so add to the pressure on volumes in traditio¬nal supermarkets.

Recent years' trends in Foodservice in the Netherlands will continue and we will again outperform the market with a combination of organic growth and sales from the acquisitions made in 2017. In the meantime, in 2018 we will be building up our international organisation, a new IT platform and growth in our Foodservice activities in the Netherlands and Belgium. Integrating HEINEKEN into our systems and approach to work will require much effort from our organisation and, furthermore, we will be taking initial steps on the physical integration of the distribution networks. We also see many opportunities to further optimise the supply chain that could both improve our service to customers and cut costs in the chain. Cash-and-carry will be made ready for a new role in the future. We will be restructuring the network, our product range and the way we serve our customers in combination with our delivery operations. Ideas and plans are a start but they all have to be tackled in the right order and at the right tempo. Making the correct decisions is very important. Focus!

As noted elsewhere in this report and as shown in the financial statements, our retail activities have the status of discontinued operations. We expect to carry out a transaction (sale or a partnership) for the Food Retail activities in 2018. We cannot currently comment on the impact of such a transaction on our figures. An effect of the status as discontinued operations is, however, that the Food Retail activities no longer have to be depreciated. The margin will be positively influenced by the absence of depreciation and amortisation charges while the retail activities still form part of the Group in 2018.

In the meantime, our stores are operating normally and the many EMTÉ staff are working every day to make both the 2.0 and 3.0 generation EMTÉs a success. No EMTÉs will be converted to 3.0 in the first quarter of 2018. The focus will be on further optimising and improving our format. From the second quarter, a limited number of stores will be converted in accordance with planned relocations or necessary renovation.

The financial year 2018, like 2017, will be affected in various ways by exceptional items and events. In view of their number and amount, we summarise below the main themes and their impact on our results:

- The acquisition the HEINEKEN wholesaler and the sale of our beer and cider delivery turnover to HEINEKEN will make a net contribution to non-organic sales of some €135 million in the first eleven months of 2018. The composition and profitability of this turnover is similar to that of other delivery sales.
  We receive a service fee under the partnership agreement with HEINEKEN. The fee will add some €18 million to non-organic sales for the first eleven months of 2018. It will also increase the gross profit by €18 million and there will be related logistics and transport costs. Overall, the service will only generate a small margin.
  The integration will take shape in 2018 but the revenue from merging our networks and generating upsell will only emerge gradually over the next few years. As noted above, the integration will take about three to four years.

- The acquisition of Tintelingen will contribute some €2 million to non-organic sales in the first months of the year. In addition, ISPC will add some €25 million to non-organic sales.

- In the second half of 2017, we saw a sharp reduction in the volumes we delivered to export parties. This was a deliberate decision and the decline is expected to continue in the first half of 2018 in particular, leading to a fall of some €10 million in net sales.

- The new standard IFRS 15 takes effect on 1 January 2018 and as a result we can no longer recognise the fees we receive from our Fresh Partners in Foodservice as sales, which will fall by some €19 million, although they will still form part of the gross margin.

- In the run up to the opening of Sligro-ISPC Antwerp, the start-up costs in Belgium will increase somewhat compared with 2017.

- In 2017 the Belgian government approved legislation on reducing the rate of corporate income tax and the Dutch government is expected to do the same in 2018. If this is enacted and the future rate cuts are implemented as planned, this will lead to a release of deferred tax liabilities in 2018 which will be about the same size as the release of deferred tax liabilities in Belgium in 2017.

- We will be working on replacing our IT landscape for the Group in the next few years. We believe that the running costs of such a new IT landscape will be a little higher than the costs today, but this will not lead to significantly different results. In the next 4 to 5 years, we will, however, face non-recurring implementation costs that we estimate at €60 million for the entire project. We expect the impact on the 2018 figures to be about €6 million.

We are looking forward to future years, and to 2018 in particular, with great confidence. A period in which we will change the organisation and prepare it for further growth and our inter-national ambitions. We started and completed much in the past year and will continue to do so in 2018 with a clear vision of where we want to be in three years as a business. We will make careful decisions and focus the organisation fully on the priorities we have set for each other. This requires perfect execution of all plans and that will only be possible if we are not distracted too much by new opportunities and/or possible threats that we will come across. “Focus!” is, therefore, the theme for 2018.

Given the relatively large number of exceptional items, this year we have provided information on several subjects that will affect our results. Beyond this, we refrain from making any definite forecasts for the results for the year.

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 114 to 165 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 20 to 98 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, 26 January 2018

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 the Content of the Directors' Report (Besluit inhoud bestuurs-verslag) and is also publicly available in digital form in the corporate governance section of sligrofoodgroup.nl. The information that is to be included in this statement pursuant to Sections 3, 3a and 3b of the Decree on the Content of the Directors' Report can be found in the following sections of the 2017 directors' report and is deemed to be included and repeated here:

- information on compliance with the principles and best-practice provisions of the 2016 Corporate Governance Code (page 82 'Corporate Governance'). The Code is available in the Corporate Governance section of the sligrofoodgroup.nl website;
- information on the principal features of the management and control system in connection with the Group's financial reporting process (page 80 '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 82 'General meeting of shareholders');
- information on the composition and functioning of the Executive Board (page 19 'Directors and management', page 82 'Executive Board' and page 107 'Executive Board conditions of employment');
- the policy on diversity in the composition of the Executive and Supervisory Boards (page 55);
- information on the composition and functioning of the Super-visory Board and its committees (page 19 'Directors and management' and page 82 'Report of the Supervisory Board');
- information on the rules for appointing and replacing members of the Executive Board and Supervisory Board (page 82 'Executive Board' and page 82 'Supervisory Board');
- information on the rules for amending the company's Articles of Association (page 82 'General meeting of shareholders');
- information on the powers of the Executive Board to issue and repurchase shares (page 82 '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 152;
- information on transactions with related parties (page 82 'Corporate Governance' and page 82 'Related-party disclosures').

To the extent appropriate, the directors' report also includes information pursuant to the Section 10 of the Take-Over Directive Decree.

A lot of interest at the reopening of the converted Sligro cash-and-carry in Goes.

REPORT OF THE SUPERVISORY BOARD

The economy is growing again, and Sligro Food Group has seen this in its markets. These trends are expected to continue in 2018, and this offers the Group a basis for further growth in the Netherlands and Belgium.

Sligro Food Group's Foodservice activities have outperformed the market in the Netherlands and Belgium and gained additional market share, partly as a result of the acquisitions in 2016 and 2017. This brought market share to 24.4% in the Netherlands and to 3.4% in Belgium. Food Retail again suffered a difficult year and could not keep up with the market. Although the stores converted to 3.0 performed better than the 2.0 stores, this was not enough to match the growth in the market. The optimisation applied during the year bore fruit, however, and so the year ended with a relatively strong quarter.

In Foodservice, there was hard work to manage further growth in Belgium while the process for the partnership with HEINEKEN occupied much of the agenda in the Netherlands in 2017. As the Executive Board has explained, this increase in scale has not yet translated into cost savings and improved returns. Preparations were also made for updating the Group's IT landscape over the next few years, starting in Belgium. This update is a key condition for achieving the plans and ambitions of the coming years. It has also been prompted by the restructuring of the organisation and the Group's management model. Growth and internationalisation require changes and these are being implemented gradually in a way appropriate to the culture of Sligro Food Group.

During 2017, the Executive Board evaluated the Food Retail activities, always coordinating with the Supervisory Board. The result of the evaluation was that while the business case behind 3.0 was still achievable, it would take longer to bring about. The position of the Food Retail activities was considered against the prospects for the market, and it was concluded that an autonomous future was no longer the best strategy. Given this, it was decided to examine alternative strategies for the future, reflecting the synergies between Food Retail and Foodservice that are still enjoyed throughout in the business. The results of that examination indicated that both the formation of a partnership or sale of the Food Retail activities could possibly be better strategic options. At the end of 2017, it was decided to start a formal process to bring about a definitive transaction in 2018 for one of these alternatives. As a result of these decisions, the Food Retail activities are classified under IFRS as discontinued operations and have been treated as such in the financial statements.

The way the Food Retail staff at Sligro Food Group have continued working on improvements at EMTÉ at this difficult time is wholly admirable.

The Group's net profit rose by €8 million to €81 million. Much of the increase came from a non-recurring book profit on the sale of beer and cider delivery turnover to HEINEKEN. Ignoring this, the profit would have increased by €1 million to €74 million. The year brought relatively many non-recurring gains and losses, but the underlying picture shows that profitability at Foodservice improved further while it slipped back at Food Retail.

Once again, at €98 million for 2017, the free cash flow was strong. The Supply Chain Finance programme again gave results, and inventories (excluding the effect of acquisitions) fell this year.

We are in agreement with the financial statements prepared by the Executive Board for the financial year 2017. For 2017 it is proposed to pay a dividend of €1.40 (2016: €1.30) per share. The regular dividend is €1.10 (2016: €1.00) per share, representing a pay-out ratio of 60%. In addition, it is proposed to pay a variable dividend of €0.30 (2016: €0.30) per share. This 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 2017 the Supervisory Board met in formal session on five occasions. The Audit Committee held four formal meetings, and the Remuneration and Appointments Committee met twice.

In addition to the five meetings mentioned above, the Supervisory Board met with the Executive Board on three occasions. The first extra meeting was on the proposed partnership with HEINEKEN. The assumptions and results of the business case and the approach to the process were explained in depth by the Executive Board and discussed with the Supervisory Board before the formal project started.

The second extra meeting was on the evaluation of the business case for conversion to EMTÉ 3.0 and the longer-term vision for the Group's Food Retail activities. The Executive Board's vision was discussed at length, and the Supervisory Board concurred with the results as presented and the approach to the follow-up review.

The third extra meeting was on the Group's long-term strategy and risk management. After the Executive Board explained the strategic plans, there was extensive discussion of the ambition, opportunities and risks that could arise in the next few years. There was an explicit joint assessment of the way in which the top ten risks for Sligro Food Group and ways to manage them were incorporated into the strategic plans. This allowed the Supervisory Board to make a constructive contribution to the formation of Sligro Food Group's strategy. A significant basis was also laid for monitoring the follow-up of strategic choices in the next few years.

In addition to these meetings, the Supervisory Board was involved on several occasions in the progress on the major acquisitions and the follow-up to the evaluation of the Group's Food Retail activities, so that it was always aware of and involved in the main decisions in those processes.

In addition to the scheduled meetings, the chairman of the Supervisory Board holds regular talks with the Executive Board, and the chairman of the Audit Committee meets the CFO. The Supervisory Directors also held individual meetings with key company staff in consultation with the Executive Board.

In 2017, a member of the Supervisory Board was present as an observer at one meeting with the Works Council. We are pleased to report once again that the Executive Board and Works Council conduct their meetings in a frank and constructive atmosphere.

Mr van de Weerdhof joined the Supervisory Board following his appointment by the General Meeting of Shareholders on 22 March 2017 and since then has taken part in the meetings.

Supervisory directors were unable to attend a Board or committee meeting on two occasions in 2017. In both cases, their input on the agenda items was shared with the chairman in advance. The table on page 103 shows attendance at meetings.
With the assistance of an external facilitator, the Supervisory Board carried out a self-evaluation, examining and assessing its own functioning and that of the committees and of individual supervisory directors. Input was requested from the Executive Board. The results of the evaluations and assessments were combined and discussed by the full Supervisory Board. Areas for improvement were discussed, and progress will be monitored.

Meetings in 2017 and significant themes

The chart on page 104 and 105 summarises the meetings of the Supervisory Board and its committees in 2017, showing the business discussed and main decisions taken.

In addition to the regular formal items on its agenda, the Supervisory Board devoted much time and attention during the past year to a number of specific topics.

Strategic partnership with HEINEKEN

On 1 December 2017, the Executive Board successfully concluded the process for a strategic partnership with HEINEKEN. We regard this as a very significant step in the further strengthening of Sligro Food Group as market leader in Foodservice in the Netherlands. The process of setting up this partnership placed great demands on the Executive Board and the organisation, but the result was worth it. The Supervisory Board was involved in all significant decisions during the process, and the Executive Board kept it up to date and gave it the opportunity to assess and discuss the steps. The Executive Board is very aware of the fact that structuring the partnership and integrating activities will require much attention in the next few years and so has reserved sufficient space for this in its future plans.

Evaluation of Food Retail

After a start had been made on conversion to EMTÉ's new format generation in 2016, it was time to evaluate progress and results in 2017. In the first half of the year, we and the Executive Board and the responsible management from EMTÉ looked in detail at the performance of the 3.0 stores and the expectations for the coming years. As reported in the half-year figures, we concluded that the business case for 3.0 was still valid but would need more time. It was also concluded that it would be increasingly difficult in the longer term to remain operating at this scale in an ever more

ATTENDANCE AT MEETINGS

	Supervisory Board meetings	AC meetings	R&AC meetings
Mr Rijna	100% (8/8)	100% (1/1)	100% (2/2)
Ms Van Leeuwen	100% (8/8)	100% (3/3)	
Mr Kamps	100% (8/8)	100% (4/4)	
Mr Karis	88% (7/8)		100% (2/2)
Mr Van de Weerdhof	83% (5/6)		
Mr Nühn	100% (2/2)		100% (1/1)

complex retail market. As a result, during the second half of the year, an examination of possible alternative strategies started and assessed all options (continue, partnership, sell). Although there was a clear preference for a partnership, we established that all alternatives were examined objectively by the Executive Board. Having weighed up all the alternatives, it was decided to follow the more informal review in the second half of 2017 by starting a formal process with the aim of arriving at a definitive transaction for one or other of the scenarios (partnership or sale). It is expected that this process will lead to a transaction for the Food Retail activities in the course of 2018. We emphasise that care will have priority over speed in this process. These decisions mean that our retail activities are classified as discontinued operations under IFRS at year-end 2017, and they have been recognised as such in the financial statements. The solution will always take the interests of all our stakeholders into account.

Organisational structure and management

In recent years, Sligro Food Group has grown considerably, partly through acquisitions, in both sales and staff numbers and that demands a reassessment of the organisational structure and the management model. There needs to be more remote management, certainly since the entry in Belgium. The Supervisory Board recognises, as does the Executive Board itself, that the changes and realignment of the organisational structure and the management model are significant conditions for continuing to grow in a controlled way and to extract revenue from additional economies of scale. We have established that these topics are on the Executive Board's agenda and progress is discussed regularly by the Supervisory Board, the Audit Committee and the Remuneration and Appointments Committee. The assessment of the top 50 in the Sligro Food Group is a key part of this. This change will take time, and so a clear distinction has to be drawn between the short-term management measures that are required and long-term management in preparation for further internationalisation. Partly in view of this, it was decided to set up an Internal Audit department, and the Board approved the appointment of its manager in mid-2017.

SUPERVISORY BOARD MEETINGS

Agenda 24 January 2017

- 2016 annual figures and directors' report
- Press release on the 2016 annual figures
- Dividend policy and proposal
- Preparation of Annual General Meeting for 2016
- Organisational structure and management

AC Feedback - 24 January 2017
- 2016 auditor's report - Deloitte
- 2016 financial statements
- Dividend policy and proposal
- Press release on the 2016 annual figures

R&AC Feedback - 18 January 2017
- Appointment of Mr van de Weerdhof as supervisory director
- Appointment of Mr Rijna as new chairman of the Supervisory Board
- Future membership of committees
- Setting Executive Directors' variable remuneration for 2016
- Setting Executive Directors' variable remuneration targets for 2017

Resolutions & findings
- Resolution to submit proposed appointment of Mr van de Weerdhof as a supervisory director to the Annual General Meeting
- Found that the auditor had reported no material audit differences requiring follow up by Executive or Supervisory Boards
- Subscribed to Executive Board's conclusions on risk management and control systems
- Agreed to proposed dividend to be submitted to the Annual General Meeting for approval

Agenda 16 May 2017

- Quarterly figures Q1-2017
- ISPC process update
- HEINEKEN process update
- Food Retail evaluation update

Resolutions & findings
- Not applicable

Agenda 17 July 2017

- 2017 half-year figures
- Press release on the 2017 half-year figures
- Proposed interim dividend
- ISPC process update
- HEINEKEN process update
- Tintelingen process update
- Food Retail evaluation update
- Top 50 evaluation
- Organisational structure and management
- New corporate governance code

AC Feedback - 17 July 2017
- 2017 half-year figures
- Proposed interim dividend
- Auditor evaluation process
- 2017 audit plan Deloitte

Resolutions & findings
- Agreed to the proposed interim dividend

Agenda 10 October 2017

- Figures up to and including August 2017
- JAVA Foodservice management presentation
- HEINEKEN process update
- Food Retail evaluation update
- IT 2020 programme
- Internal Audit
- New corporate governance code

Resolutions & findings
- Appointment of Internal Audit Manager

Agenda 4 December 2017

Executive Board not in attendance
- Management letter 2017 (with Deloitte)
- Fraud risk management (with Deloitte)
- Supervisory Board self-evaluation

- Figures up to and including October 2017
- Auditor evaluation
- Deloitte's 2017 management letter
- Fraud risk management
- Dividend policy and proposal
- 2018 budget
- IT 2020 programme
- HEINEKEN process update
- Food Retail evaluation update
- New corporate governance code
- CSR
- Reassessment of supervisory directors' remuneration
- Letters from VEB and Eumedion
- Additional functions Executive Board and Supervisory Board

AC Feedback - 30 October 2017
- Presentation on Digital Accounting Manual
- Progress on controls in Belgium
- Internal Audit plan
- Auditor evaluation
- Interim audit update Deloitte
- Financing
- Investor relations

AC Feedback - 4 December 2017
- Deloitte's 2017 management letter
- 2018 budget
- Dividend policy and proposal
- Pensions
- Tax
- European Privacy Legislation

R&AC Feedback - 13 November 2017
- Executive Board evaluation
- Supervisory Board self-evaluation
- Reassessment of supervisory directors' remuneration

Resolutions & findings
- Deloitte's engagement to be continued on the basis of the evaluation
- Implemented changes to the regulations of the Executive and Supervisory Boards, AC and R&AC with respect to the new corporate governance code
- Resolution to submit proposed remuneration of supervisory directors to the Annual General Meeting
- 2018 budget adopted

Agenda 23 January 2018 First meeting 2018

- 2017 annual figures and directors' report
- Press release on the 2017 annual figures
- Dividend policy and proposal
- Preparation of Annual General Meeting for 2017
- IT 2020 programme

AC Feedback - 23 January 2018
- 2017 auditor's report - Deloitte
- 2017 financial statements
- Dividend policy and proposal
- Press release on the 2017 annual figures

R&AC Feedback - 17 January 2018
- Setting Executive Directors' variable remuneration for 2017
- Setting variable remuneration targets for 2018
- Membership of the Supervisory Board's committees in 2018
- Appointment and succession procedure for the Supervisory and Executive Boards and senior management

Resolutions & findings
- Subscribed to conclusions of Executive Board on risk management and control systems (see page 80)
- Found that the auditor had reported no material audit differences requiring follow up by Executive or Supervisory Boards
- Agreed to proposed dividend to be submitted to the Annual General Meeting for approval

Corporate Governance and the new Code

We are now working with the new 2016 Corporate Governance Code. We are happy to see that attention to long-term value creation and culture in companies, which have received even greater recognition in the new code, fit very well with the core values that have applied for a long time at Sligro Food Group. The introduction of the new code was a natural time to examine past decisions and to revise them where appropriate. We identify with the criteria and best practices in the code but have deliberately departed from a small number of them:

Best practice provision 2.2.1
Appointment and reappointment periods – executive board members
Members of Sligro Food Group's Executive Board are appointed for an unspecified period, and so Sligro Food Group departs from best practice provision 2.2.1. This is because Sligro Food Group aims for long-term employment relationships with its staff and so also with its directors. Sligro Food Group prefers to appoint members of the Executive Board from within the Group.

Best practice provision 3.2.3
Severance payments
Sligro Food Group has not entered into agreements on the level of any severance pay with members of the Executive Board. This should be considered in the light of the appointment of directors for an unspecified period, and since such appointments may follow employment with Sligro Food Group in a position other than director.

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.

IT 2020

As shown by the Sligro Food Group risk analysis, ICT has a key role in the company's operations. In a rapidly changing world, we see accelerating importance of technology and data. Sligro Food Group is well aware of these changes and has established that in due course the group's current landscape will be insufficiently flexible to meet its customers' changing demands. To meet this challenge, Sligro Food Group has started a programme to replace its entire ICT landscape to make it suitable for international application and to create the flexibility required in the future. This type of project also involves clear risks and can, if not properly prepared and managed, be a threat to continuity. We note that the business is making thorough preparations, using external expertise to support the operation. The Executive Board has been working for eighteen months on preparations for a transition that will be carried out over four or five years to limit the risks and safeguard continuity. As well as managing the scope and costs, there is considerable attention to organisational change, risk management and privacy. The Executive Board carefully considers the input and experience of external parties and the Supervisory Board in its actions.

The Board noted once again that the auditor had not reported any material audit issues relating to the financial year requiring follow-up on the part of the Executive Board and/or the 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 80.

Diversity policy and reporting on diversity

When selecting members of the Executive Board and the Supervisory Board, Sligro Food Group aims to choose the best candidate and for a balance of age, gender, work experience and educational background, respecting its general diversity policy (see page 55) and/or the statutory targets for gender balance. With equally qualified candidates, preference will, if the statutory target is not met, be given to the candidate who would achieve or approach the statutory target.

The membership of Sligro Food Group's Executive Board is three men. The Supervisory Board is made up of one woman and four men. This means that neither the Executive Board nor the Supervisory Board met the statutory target in 2017. With respect to the membership of the Executive Board, this was a consequence of the combination of long-term employment which leads to relatively few vacancies, a preference for recruiting from within the company and the result of previous policy that is substantively in line with the above policy. This latter point also explains the membership of the Supervisory Board. It is not yet known when the statutory target for membership of the Executive Board and Supervisory Board will be met.

One new supervisory director was appointed in 2017. There were no changes in the membership of the Executive Board. The recruitment and selection procedure for the new supervisory director was open to men and women and, with application of the above diversity policy, led to the appointment of Mr van de Weerdhof.

Sligro Food Group regards the recruitment and selection of members of the Executive Board and supervisory directors as important matters and so, in addition to its own network, engages specialist consultants. The attention of the Executive Board, the Supervisory Board and the Remuneration and Appointments Committee for the recruitment and selection procedures and professional external assistance are the main factors in selecting the best candidate and the distribution of seats between men and women more closely in line with the statutory target.

Relationship with the auditor

The Supervisory Board is responsible for engaging and supervising the performance of the auditor. The Supervisory Board's audit committee along with the company's Executive Board assessed the performance of the auditor during 2017.

The audit committee discussed the 2017 audit plan, which includes the materiality and scope of the audit and the principal risks in the annual reporting, with the auditor. It also discussed the findings and results of the audit and the management letter.

In connection with the audit and the independence of the auditor, the Supervisory Board was notified of a situation which was in conflict with the independence rules. A foreign participating interest acquired in 2017 received services from a foreign legal advisor associated with Deloitte and these services continued after the acquisition. They were no longer permitted after acquisition date. Deloitte and the company undertook various mitigating actions, including the immediate end of the services and the appointment of another auditor, independent of the Deloitte network, for the company.

Given the specific nature and scope of the work and the fact that the services did not affect the company's financial statements, it was concluded that the auditor's objectivity, integrity, impartiality and professional critical attitude were not in doubt. The Supervisory Board was notified of the facts and circumstances and concurred with the conclusion and the continuation of the audit engagement.

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. Half of the targets for 2017 were achieving the forecast profit. The other half was allocated equally to achieving 1. the Business Case level for EMTÉ 3.0; 2. Rolling out the Sligro 3.0 ordering platform to at least 75% of the delivery customers; 3. Designing and starting up the IT 2020 plan; 4. Developing various new omni-channel business cases.

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 2017 the variable remuneration was 78% (2016: 50%) of the 'at target' level. The reason the 'at target' level was not reached was that the profit did not reach the target and the business case assumptions for EMTÉ 3.0 were not met. The rollout of the new online ordering platform is on schedule, the IT 2020 plan has been developed and is ready for implementation, and several business cases have been developed that, combined with online applications and innovations in the Supply Chain, will lead to new initiatives in the next few years.

Board changes

Mr Nühn retired 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 his contribution to the further development of Sligro Food Group over the past eight years.

Mr van de Weerdhof was appointed to our Board by the General Meeting of Shareholders on 22 March 2017.

Mr Rijna has been appointed the new chairman of our Board, and there have been changes to the membership of the committees, which is now as follows:

Audit Committee: Mr Kamps (chairman), Ms van Leeuwen; Remuneration & Appointments Committee: Mr Karis (chairman), Mr Rijna.

Financial statements

The 2017 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 166.

We invite you to:

- adopt the 2017 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.

"Keep Building the Future" was the theme for 2017. It was taken up energetically during the year and has already delivered several great results in the Netherlands and Belgium. In addition, the strategy, and its implementation, has been reset for the coming period forming the basis in which Sligro Food Group will be transformed over a number of years into an international player in the Foodservice market. This will require clear decisions and the conditions required to fulfil them. The delivery of the related goals will be ensured with the help of a restructured organisational and management model. This demands Focus and that, we believe, is also a very suitable theme for 2018.

Veghel, 26 January 2018

F. Rijna, chairman
J.H. Kamps
B.E. Karis
M.E.B. van Leeuwen
G. van de Weerdhof

Growth in the Dutch Foodservice market comes predominantly from delivery. Sligro Food Group also generated the greatest improvements in sales from this channel.

From left to right B.E. Karis, M.E.B. van Leeuwen, J.H. Kamps, F. Rijna, G. van de Weerdhof.

SUPERVISORY BOARD

F. Rijna, chairman (62)
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
and Supervisory Director of CRV Holding B.V.

J.H. Kamps (58)
Supervisory Director, Dutch nationality (m).
Appointed in 2015 for a term of office of four years
and eligible for reappointment thereafter.
Member of the Board of Management and CFO
of Koninklijke Boskalis Westminster N.V.

B.E. Karis (59)
Supervisory Director, Dutch nationality (m).
Appointed in 2012 and reappointed in 2016
for a second and final term of office of four years.

M.E.B. van Leeuwen (56)
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 and
chair of AVV Zeeburgia.

G. van de Weerdhof (51)
Supervisory Director, Dutch nationality (m).
Appointed in 2017 for a term of office of four years
and eligible for reappointment thereafter.
Supervisory Director of Wereldhave N.V., Ctac NV (chairman),
Pokon Investments (chairman), Supervisor at Hypo Groep B.V.,
Member of the Board of Mercy Ship Holland B.V.

The composition of the Supervisory Board
is consistent with the profile.

All the members of the Supervisory Board
are independent in accordance with
the best-practice provisions 2.1.7 to 2.1.9
of the Dutch Corporate Governance Code.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Financial Statements 2017

Sligro Food Group

Sligro Food Group N.V.

CONSOLIDATED
PROFIT AND LOSS ACCOUNT
for 2017

x € million	Note	2017	2016[1]	2015[1]
CONTINUING OPERATIONS				
Net sales	2, 3	**2,142**	**1,986**	**1,829**
Cost of sales		(1,648)	(1,537)	(1,413)
Gross margin		**494**	**449**	**416**
Other operating income	4	**9**	**0**	**1**
Staff costs	5	(215)	(190)	(169)
Premises costs		(34)	(32)	(30)
Selling costs		(14)	(14)	(12)
Logistics costs		(76)	(69)	(65)
General and administrative expenses		(20)	(16)	(15)
Impairments		(0)	(0)	(0)
Depreciation of property, plant and equipment	13	(34)	(31)	(27)
Amortisation of intangible assets	12	(19)	(15)	(10)
Total operating expenses		**(412)**	**(367)**	**(328)**
Operating profit	2	**91**	**82**	**89**
Finance income and expense	8	(5)	(4)	(4)
Share in results of associates	15	9	8	6
Profit before tax		**95**	**86**	**91**
Income taxes	9	(19)	(17)	(20)
Profit from continuing operations		**76**	**69**	**71**
DISCONTINUED OPERATIONS				
Profit from discontinued operations, after tax	10	5	4	10
Profit for the year		**81**	**73**	**81**
Attributable to shareholders of the company		**81**	**73**	**81**

Figures per share		**€**	**€**	**€**
Basic earnings per share	22	1.83	1.67	1.84
Diluted earnings per share	22	1.83	1.67	1.84
Basic earnings per share from continuing operations	22	1.73	1.58	1.61
Diluted earnings per share from continuing operations	22	1.73	1.58	1.61
Proposed dividend	21	1.40	1.30	1.20

1) The comparative figures have been restated to reflect the recognition of discontinued operations.
For further details, see note B on page 120.

CONSOLIDATED STATEMENT OF **RECOGNISED INCOME AND EXPENSE**

for 2017

x € million	2017	2016[1)]	2015[1)]
Profit for the year	81	73	81
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	1	0	2
	1	0	2
Income and expense recognised directly in shareholders' equity	1	0	2
Recognised income and expense for the year	**82**	**73**	**83**
Attributable to shareholders of the company	**82**	**73**	**83**
Recognised income and expense attributable to:			
Continuing operations	77	69	73
Discontinued operations	5	4	10
Recognised income and expense for the year	**82**	**73**	**83**

1) The comparative figures have been restated to reflect the recognition of discontinued operations. For further details, see note B on page 120.

CONSOLIDATED
CASH FLOW STATEMENT
for 2017

x € million	Note	2017[1]	2016[1]	2015[1)2)]
Receipts from customers		3,275	3,102	2,953
Other operating income		3	2	2
		3,278	3,104	2,955
Payments to suppliers		(2,702)	(2,557)	(2,439)
Payments to employees		(182)	(169)	(157)
Payments to the government		(199)	(197)	(196)
		(3,083)	(2,923)	(2,792)
Net cash generated from operations	32	195	181	163
Interest received and paid		(5)	(4)	(4)
Dividend received from associates	15	7	5	3
Corporate income tax paid		(25)	(29)	(22)
Net cash flow from operating activities		**172**	**153**	**140**
Acquisitions/investments	1	(127)	(49)	(11)
Operations disposed of		11		
Capital expenditure on property, plant and equipment/ investment property/assets held for sale	13	(74)	(74)	(51)
Receipts from disposal of property, plant and equipment/ investment property/assets held for sale		14	6	0
Capital expenditure on intangible assets	12	(13)	(12)	(11)
Investments in/loans to associates	15	(1)	(1)	(0)
Repayments by associates	15	0	0	0
Net cash flow from investing activities		**(190)**	**(130)**	**(73)**
Proceeds from long-term borrowings	24	110	30	
Repayment of long-term borrowings		(67)	(1)	
Change in own shares		2	1	1
Dividend paid		(59)	(55)	(48)
Net cash flow from financing activities		**(14)**	**(25)**	**(47)**
Movement in cash, cash equivalents and short-term bank borrowings		**(32)**	**(2)**	**20**
Opening balance		92	94	74
Closing balance		**60**	**92**	**94**

1) The above cash flow statement includes the cash flows from both the continuing operations and the discontinued operations. A summary of the cash flows from discontinued operations has been included in note 11.
2) This concerns the comparative figures for the year taken from the 2016 financial statements.

CONSOLIDATED
BALANCE SHEET
as at 30 December 2017 before profit appropriation

x € million	Note	30-12-2017	31-12-2016[1]	02-01-2016[2]
ASSETS				
Goodwill	12	155	145	126
Other intangible assets	12	143	76	67
Property, plant and equipment	13	303	361	315
Investment property	14		20	19
Investments in associates	15	53	51	48
Other financial assets	15	9	17	25
Total non-current assets		**663**	**670**	**600**
Inventories	16	207	245	220
Trade and other receivables	17	173	179	144
Other current assets	18	24	24	9
Corporate income tax	9	1	2	
Cash and cash equivalents	19	58	92	94
		463	**542**	**467**
Assets held for sale	20	221	3	4
Total current assets		**684**	**545**	**471**
Total assets		**1,347**	**1,215**	**1,071**
EQUITY AND LIABILITIES				
Paid-up and called capital		3	3	3
Reserves		648	624	603
Total shareholders' equity attributable to shareholders of the company	21	**651**	**627**	**606**
Deferred tax liabilities	9	25	28	25
Employee benefits	5	3	5	4
Other provisions	23	0	0	0
Bank borrowings	24	193	103	138
Total non-current liabilities		**221**	**136**	**167**
Current portion of long-term borrowings	24	14	71	
Bank borrowings	24	0	0	0
Trade and other payables	33, 34	252	294	207
Corporate income tax	9	1	0	6
Other taxes and social security contributions	25	19	24	26
Other liabilities, accruals and deferred income	26	66	63	59
		352	**452**	**298**
Liabilities directly related to assets held for sale	20	123		
Total current liabilities		**475**	**452**	**298**
Total equity and liabilities		**1,347**	**1,215**	**1,071**

1) The figures from the 2016 financial statements have not been restated.
2) This concerns the comparative figures for the year taken from the 2016 financial statements.

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

for 2017 before profit appropriation

x € million	Paid-up and called capital	Share premium	Other reserves	Revaluation reserve	Hedging reserve	Treasury shares reserve	Total
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**
Transactions with owners							
Share-based payments			1				1
Dividend paid			(59)				(59)
Change in own shares						0	0
	0	0	(58)	0	0	0	(58)
Total realised and unrealised results							
Profit for the year			81				81
Investment property			(0)	0			
Cash flow hedge					1		1
	0	0	81	0	1	0	82
Balance as at 30 December 2017	**3**	**31**	**628**	**4**	**(3)**	**(12)**	**651**

NOTES
to the consolidated financial statements

Accounting policies	Page

A. General

A.1 REPORTING ENTITY

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).

A.2 FINANCIAL YEAR

The financial year is closed on the last Saturday of the year, in accordance with the international system of week numbering, and thus on 30 December 2017 in the year under review. The 2017 financial year has 52 weeks. The comparative figures for the 2016 and 2015 financial years relate to 52 and 53 weeks respectively. The 2018 financial year will consist of 52 weeks.

B. Changes in presentation

Apart from the changes mentioned below, the Group has consistently applied the same accounting policies for all the periods included in these consolidated financial statements.

As referred to in the notes 10 and 20, the Group has presented the Food Retail operations separately in the balance sheet as at year-end 2017 as 'Assets held for sale' and as 'Liabilities directly related to assets held for sale'. In line with the applicable reporting standards, the comparative figures in the balance sheet have not been restated and therefore provide a less useful comparison. In the notes to the balance sheet, only the amounts relating to the continuing operations (Foodservice) as at 30 December 2017 have accordingly been included whereas the amounts for both the continuing operations (Foodservice) and the discontinued operations (Food Retail) are included in the figures stated alongside.

In the profit and loss account, the Food Retail operations have been presented on a single line under the heading 'Profit from discontinued operations, after tax' for all the presented periods. In the case of the notes to the profit and loss account, however, only the amounts relating to the continuing operations (Foodservice) have been included for all the periods presented. As regards the comparative figures, therefore, the amounts concerned differ from the amounts stated in the 2016 financial statements, since these also included the discontinued operations.

In the cash flow statement, no changes have been made and, just as in preceding periods, the cash flows from both Foodservice and Food Retail have been included. The summary of the cash flows from discontinued operations has been included in note 11.

As regards notes 27 to 34, with the exception of the credit risk in note 27, the amounts for both Foodservice and Food Retail have been included for all the presented periods.

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 26 January 2018.

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 2016.

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 consolidated financial statements. IFRS 16 does, however, have a significant impact on the Group's consolidated financial statements.

E.1 IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 is effective as from 1 January 2018 and replaces the existing standard as contained in IAS 39 Financial Instruments. IFRS 9 contains revised provisions relating to the classification and measurement of financial instruments, including a new model for expectations of credit losses in relation to impairment of financial assets and the new general requirements for hedge accounting. Otherwise, IFRS 9 takes over the provisions relating to recognition of financial instruments from IAS 39. The main change for the Group (though not significant) concerns the method of calculating the provision for bad debts. This is to be done on the basis of the expected credit losses instead of actual credit losses incurred. The changes in accounting policies resulting from the application of IFRS 9 will generally be applied by the Group retrospectively, utilising the exemption permitting comparative information relating to preceding periods not to be restated. Any changes in the carrying amounts of financial assets and liabilities resulting from the application of IFRS 9 will be recognised in equity as at 1 January 2018

E.2 IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

This new standard is effective as from 1 January 2018 and creates a model for determining whether revenue is to be recognised as well as the amounts and timing of revenue. The standard replaces the existing provisions for the recognition of revenue (IAS 18 Revenue).

The Group has carried out an impact analysis of the five-step model contained in IFRS 15. This has shown that the steps of identifying customer contracts, identifying the performance obligations in a contract, determining the transaction price and allocating the transaction price to those obligations are expected to have only a limited impact on the accounting systems. With respect to step 5, recognition of the revenue, the financial impact is expected to be approximately €19 million. The gross margin in absolute terms remains the same, but sales revenue will be down by €19 million. IFRS 15 also stipulates supplementary disclosures. The Group expects the necessary data to be straightforwardly available.

The Group plans to implement IFRS 15 using the cumulative effect method, recognising the effect of applying the standard for the first time on 1 January 2018. As a consequence, the Group will not be applying the requirements of IFRS 15 to the figures included for comparison purposes in the consolidated financial statements for 2018.

E.3 IFRS 16 LEASES

This new standard will become effective for the Group as from 1 January 2019 and creates a model for determining lease liabilities and the method by which they should be presented in the financial reporting. The standard creates a lease accounting model requiring a lessee to recognise assets and liabilities for all leases except where the term of the lease is less than 12 months. The Group does not intend to apply this standard early. As mentioned in the notes to the 2016 financial statements, on pages 84 and 85, the Group has completed an initial assessment of the possible impact on its consolidated financial statements. On the basis of this initial assessment, it is estimated that the impact of IFRS 16 will be significant, particularly as a consequence of the effect that the Group will have to recognise new assets and liabilities relating to its operating leases. Our understanding of the impact this year is not materially different from that presented in the 2016 report. In addition, the nature of the expenses to be recognised will change. Instead of the recognition of expenses under operating leases on a straight-line basis, IFRS 16 requires the recognition of depreciation of the right-of-use assets along with interest on the lease liabilities. Management does not expect the application of IFRS 16 to affect the Group's ability to satisfy the bank covenants.

The actual impact of the application of IFRS 16 on the financial statements in the period in which the standard is first applied will depend on the future economic circumstances, the composition of the lease portfolio and the extent to which management opts to apply practical solutions and take advantage of recognition exemptions. No decisions have yet been made.

We have already discussed the impact of this new standard, in the 2016 annual report. There have basically been no material changes in the situation described on that occasion. More than half of all the leases that are affected by the new standard are connected with the Food Retail operations. As a consequence of the decisions relating to Food Retail as at year-end 2017, it may be expected that they will cease to have anything to do with the Group in the course of 2018. The impact of the standard at Group level will therefore be considerably diminished.

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 less depreciation 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 32. The cash flow statement shows the cash flows from both the continuing operations and the discontinued operations. A summary of the cash flows from the discontinued operations has been included in note 11.

G. Accounting policies

G_1 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.

G_2 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. Sligro Food Group N.V. receives various types of compensation from suppliers, which can be divided into two main types:

- **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.

G_3 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 applicable, brand names are recognised and the carrying amounts amortised over the expected useful life, again currently ranging 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 brand names is expensed. Software developed by third parties is capitalised at cost, provided its technical feasibility has been demonstrated. External costs for internally developed software, provided it satisfies a number of criteria including technical feasibility, are similarly capitalised. Maintenance contracts and licensing agreements relating to existing software are capitalised and amortised over the term of the contract. Capitalised software is amortised on a straight-line basis over the estimated useful life.

G_4 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 t/m 12½
Retail premises	3⅓
Plant and equipment	12 ½ t/m 33⅓
Other	12 ½ t/m 33⅓

H. Other accounting policies

H_1 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.

H_2 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.

H_3 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.

H_4 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.

H_5 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. The pension scheme provided by Stichting Pensioenfonds Sligro Food Group qualifies under IAS 19 as a collective money purchase arrangement, i.e. defined-contribution plan.

ii Defined-benefit plans

The Group does not currently have any defined benefit plans.

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 Depositary 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.

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.

H_{10} 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.

H_{11} 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.

H_{12} 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.

H_{13} ASSETS HELD FOR SALE AND LIABILITIES DIRECTLY RELATED TO ASSETS HELD FOR SALE

Assets are designated as being held for sale if it is highly probable that their carrying amount can be expected to be realised essentially through sale and not through their continuing use. Such assets are generally recognised at the lower of carrying amount and fair value less costs to sell. Any impairment loss on a group of assets and liabilities to be disposed of is in the first instance attributed to goodwill and subsequently to the remaining assets and liabilities on a proportionate basis, except that impairment losses are not attributable to inventories, financial assets, deferred tax assets, assets relating to employee benefits or investment property, all of which continue to be recognised according to the usual accounting policies of the Group. Impairment losses resulting from the initial classification as held for sale and gains or losses resulting from subsequent revaluation are recognised in profit or loss.

Once assets have been designated as held for sale, there is no further recognition of amortisation of intangible assets or depreciation of property, plant and equipment concerned.

H_{14} 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.

H_{15} 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.

H_{16} 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.

H_{17} OTHER LIABILITIES, ACCRUALS AND DEFERRED INCOME EQUITY AND LIABILITIES

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.
  - Bouter B.V., Zoetermeer.
  - Tintelingen B.V., 's-Hertogenbosch.
- Sligro Food Group International B.V., Veghel.
  - Sligro Food Group Belgium N.V., Rotselaar.
    - Sligro België N.V., Antwerp.
    - JAVA B.V.B.A., Rotselaar.
    - Freshtrans B.V.B.A., Rotselaar.
  - Exquisite Food N.V., Ghent.
    - I.S.P.C. International N.V., Luik.
    - I.S.P.C. Gent N.V., Ghent.
    - Exquisite Seafood N.V., Ghent.
    - Océan Marée N.V., Anderlecht.

Food Retail

- Sligro Food Group Nederland B.V., Veghel.
  - EMTÉ Holding B.V., Veghel.
  - EMTÉ Franchise B.V., Veghel.
  - EMTÉ Supermarkten B.V., Veghel.
    - EMTÉ Vleescentrale B.V., Veghel.
  - EMTÉ Vastgoed B.V., Veghel.

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

In the past, Sligro Food Group reported its results according to the main segments of Foodservice and Food Retail. This segmentation matched that of internal management information precisely.

As a consequence of classifying Food Retail as discontinued operations, the segment information analysis is no longer included in the financial statements.

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.

L. Discontinued operations

The discontinued operations constitute a component of the Group's enterprise, the activities and cash flows of which are clearly distinguishable from the rest of the Group and which:

- represent a separate significant activity or geographical area of operation;
- form part of a coordinated plan to dispose of a separate significant activity or geographical area; or
- is a subsidiary acquired exclusively with the intention of being sold on.

Classification as discontinued operations occurs on the date of disposal or, if earlier, on the date on which the activity concerned satisfies the criteria for classification as held for sale.

NOTES
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1. Acquisitions, investments and disposals

Three acquisitions were made in 2017.

On 23 January 2017, we announced the acquisition of ISPC in Belgium. 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. With this acquisition, along with the JAVA Foodservice business acquired in the preceding year and our existing sales in Belgium from outlets in the Netherlands, we are continuing to expand our position in Belgium. Through the integration of ISPC into the Group's Foodservice network we expect to be of even better service to our customers and moreover to achieve synergistic gains from joint marketing, a combined supply chain and shared purchasing. The transaction was completed on 2 May 2017, and the business has been included in the Group's consolidation with effect from that date. All the shares of Exquise Food N.V. and its subsidiaries have been acquired by us. In 2016, ISPC had sales totalling approximately €86 million and a workforce of 250. The ISPC contribution to SFG sales in 2017 was €59 million. The acquisition made a positive contribution to Group results in 2017.

On 22 December 2016, we announced the acquisition of Tintelingen. Tintelingen specialises in 'own choice' Christmas presents, supplying gifts for businesses to distribute in either physical or digital form. By combining this with our strength in traditional Christmas gifts we believe we can provide our customers with an even better service and derive synergies as regards marketing and purchasing.

The transaction was completed on 7 July 2017, and the business has been included in the Group's consolidation as from that date. All the shares of Tintelingen B.V. have been acquired by us. In its previous financial year, spanning 2015/2016, Tintelingen recorded revenue of €8 million, with 11 staff. Our reporting under IFRS rules means that a large part of the Tintelingen revenue from gift cards will not be recognised as such as only the associated fee income counts, leaving roughly half of the above amount to be included in our sales figures. With effect from the date of inclusion in the consolidation, the financial year has also been changed to coincide with our practice. In 2017, Tintelingen contributed €3 million to sales. The acquisition made a positive contribution to Group results in 2017.

On 9 May 2017, we announced a strategic alliance with HEINEKEN, creating a partnership with Sligro for beer and cider under which Sligro is to look after the processing, warehousing and delivery of beer and cider orders from the hospitality sector on behalf of HEINEKEN, except for tank beer, which HEINEKEN will continue to handle itself. The combination of these activities by two market leaders is a major strategic step for Foodservice, enabling us to provide our customers with increased service options and a better standard of service. The combined logistics also offer scope for savings which both companies should benefit from, plus there is the opportunity for both partners to enhance the level of service to each other's customers. The partnership deal was signed on 1 December 2017. That is the date on which the partnership contracts became effective and also the date on which the transactions relating to the reciprocal transfer of business assets were concluded. This concerns the sale of HEINEKEN's wholesale business to Sligro Food Group, representing approximately €180 million annually. And the sale of Sligro Food Group's beer and cider business forming part of the Foodservice delivery operations to HEINEKEN, representing approximately €30 million annually. Finally, the fee receivable by Sligro Food Group for its logistics services represents revenue of approximately €20 million. On an annualised basis, therefore, Sligro Food Group will be adding approximately €170 million to its sales with this transaction. The total number of employees (temporary as well as permanent staff) involved in these activities at HEINEKEN was 370 FTEs. All these effects have been included in the Group's consolidated figures with effect from 1 December 2017, adding an additional €15 million to sales in 2017 overall. The acquisition made a positive contribution to Group results in 2017.

The transaction by which Sligro Food Group's Foodservice delivery beer and cider business was sold to HEINEKEN involved a transfer of assets and liabilities. Along with the related customer accounts and customer contracts, the transaction included the existing inventories together with other related assets and liabilities of very limited extent, transferred at their respective carrying amounts. A non-recurring book profit of €9 million was realised on the transaction, which has been accounted for entirely as other operating income in the Foodservice figures in 2017.

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

x € million	ISPC	Tintelingen	HEINEKEN[1)]	Total 2017	Total 2016
Goodwill	24		16	40	19
Other intangible assets	16	3	70	89	20
Property, plant and equipment	4	0	0	4	16
Inventories	6	1	8	15	7
Trade and other receivables	9	0		9	23
Cash and cash equivalents	0	1		1	2
Current liabilities	(11)			(11)	
Non-current liabilities	(1)			(1)	(1)
Deferred tax liabilities	(5)	(1)		(6)	(8)
Employee benefits	(2)			(2)	(2)
Trade and other payables	(10)	(1)	(0)	(11)	(25)
Total identifiable net assets	30	3	94	127	51
Less: net debt / cash	12	(1)		11	(2)
Debt-free purchase price	**42**	**2**	**94**	**138**	**49**

1) The fair values are provisional, owing to the short space of time between close and finalisation. There is a possibility of movements between other intangible assets and goodwill.

2. Segment information

As a consequence of classifying Food Retail as discontinued operations, the segment information analysis is no longer included in the financial statements.

3. Net sales

This is largely made up of sales of food and food-related non-food articles to institutional customers, the hospitality sector, company restaurants and other large-scale caterers in The Netherlands and Belgium.

The analysis of revenue by activity is as follows

x € million	2017	2016
Goods supplied	2,119	1,966
Services rendered	23	20
	2,142	**1,986**

4. Other operating income

x € million	2017	2016
Rental income	0	0
Book profit (loss) on sale of property, plant and equipment and other incidental gains and losses	9	0
	9	**0**

The other incidental results include a book profit of €9 million relating to the sale of Sligro Food Group's delivery beer and cider business to HEINEKEN.

5. Employee-related items

5.A. STAFF COSTS

Staff costs are made up as follows

x € million	Note	2017	2016
Salaries		144	132
Social security contributions		23	23
Net benefit expense on defined-benefit plans	5.c	10	10
Share-based payments	5.e	0	0
Contract/temporary staff		18	11
Other staff costs		20	14
		215	**190**

5.B. EMPLOYEE BENEFITS PROVISION

This provision can be analysed as follows:

x € million	Note	2017	2016
Post-employment benefits	5c	0	0
Long-service benefits	5d	3	5
		3	**5**

5.C. PENSIONS AND PENSION FUNDS

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

Large Food Retail Chain Association 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. This pension scheme is classed as a defined contribution plan, with the level of contributions 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	2017	2016
Opening balance	5	4
Benefits	(0)	(0)
Charge for the year	0	1
Actuarial result (also expensed) for the year	(0)	0
Transferred to liabilities directly associated with assets held for sale	(2)	
Closing balance	**3**	**5**

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 2017 gives a factor of 50% (2016: 50%). 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 Depositary 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:

	2017	**2016**
Opening balance	1,218,272	842,885
Exercised	(122,000)	(137,200)
Awarded	434,488	512,587
Closing balance	**1,530,760**	**1,218,272**

The exercise price for the options exercised in 2017 was €24.65. The actual share price at the time of exercise was €35.30.

The analysis of the share options in issue as at year-end 2017 is as follows:

	Maturity	**Exercise price**	**Number**
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
24 March 2017	1 April 2021	34.65	434,488

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 2017, amount to €0.7 million (2016: €0.9) over the entire vesting period of 4 years. The net allocation for 2017 amounts to €0.7 million (2016: €0.5).

The calculations are based on the following assumptions:

- Risk-free interest rate: 0.05% (2016: -0.02%).
- Volatility: 14.6%, based on a 4-year historical average (2016: 15.3%).
- Dividend yield: 3.2% (2016: 3.2%).
- Vesting period: 4 years (2016: no change).

6. Remuneration of Executive Board and Supervisory Board

The following statement shows the way in which the remuneration policy was applied in practice during the reporting period. The remuneration charged to the profit and loss account for the company's Executive Directors in 2017 amounted to €2,235 thousand (2016: €1,897). The remuneration can be analysed as follows:

	K.M. Slippens		**R.W.A.J. van der Sluijs**		**W.J.P Strijbosch**		**Total**	
x € 1,000	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Fixed salary	476	469	410	332	414	408	1,300	1,209
Short-term bonus	111	70	96	50	97	61	304	181
Long-term bonus	111	70	96	50	97	61	304	181
Pension contribution and compensation	105	107	72	57	87	93	264	257
Value of options	11	14	11	14	11	14	33	42
Statutory social security contributions	10	9	10	9	10	9	30	27
Total	**824**	**739**	**695**	**512**	**716**	**646**	**2,235**	**1,897**

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% (2016: 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 (2016: 15%). If the target is exceeded, the bonus is increased in line with the percentage outperformance. For 2017, the other 50% depends on the achievement of the Business Case level for the EMTÉ 3.0 order platform for at least 75% of the delivery-service customers, the setup and launch of the IT 2020 plan and the implementation of a number of new omni-channel business cases. These targets are aimed at long-term value creation. 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. Long-term thinking and long-term value creation are also incentivised by the remuneration structure in that the long-term bonus and options are subject to waiting periods of at least four years. Scenario analyses relating to remuneration are taken into account when setting the budgeted profit target and the other targets. The 2017 bonuses were calculated at 78% of the target level (2016: 50%).

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.
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, was €50 thousand (2016: €50) and that of the other members of the Supervisory Board €35 thousand (2016: €35). The remuneration of the supervisory directors who resigned in 2017 was €13 thousand (2016: €9). The remuneration of the supervisory directors who were appointed in 2017 was €27 thousand (2016: €26). Members of the Supervisory Board also received attendance fees totalling €33 thousand (2016: €45). The remuneration is not performance-related. The total remuneration amounted to €223 thousand (2016: €235). 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:

Shares	**K.M. Slippens**	**R.W.A.J. van der Sluijs**	**W.J.P Strijbosch**
Opening balance	100,230	4,328	11,064
Purchase	2,532	2,293	1,727
Sale			
Closing balance	**102,762**	**6,621**	**12,791**
Options			
Opening balance	33,900	24,700	33,900
Exercised	(8,000)	(4,000)	(8,000)
Awarded	5,800	5,800	5,800
Closing balance	**31,700**	**26,500**	**31,700**

The actual share price at the time of exercise in 2017 was €35.30.

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

Options	**Exercise price**	**K.M. Slippens**	**R.W.A.J. van der Sluijs**	**W.J.P Strijbosch**
maturing on 1 April 2018	28.63	10,400	5,200	10,400
maturing on 1 April 2019	38.41	7,700	7,700	7,700
maturing on 1 April 2020	34.35	7,800	7,800	7,800
maturing on 1 April 2021	34.65	5,800	5,800	5,800
Closing balance		**31,700**	**26,500**	**31,700**

None of the members of the Supervisory Board owns any shares in the company or options to acquire the company's shares (2016: no change).

7. Audit fees

The fee for auditing the financial statements has been included in general administrative expenses and in 2017 amounted to €542 thousand (2016: €375). The increase is related to the expansion of the audit work to Belgium following the acquisition of ISPC and the one-off costs relating to the acquisitions and the developments at Food Retail. The 2017 fees include an amount of €20 thousand in respect of additional costs relating to the audit of the preceding financial year (2016: €15). Other assurance-related services performed by the external auditors mainly concern other activities, including scrutiny of customer-related contracts and processing of the purchase price in relation to acquisitions, for which fees charged in 2017 by the auditors amounted to €30 thousand (2016: €25). The auditors are not engaged to perform consultancy work.

8. Finance income and expense

x € million	2017	2016
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	(5)	(4)
	(5)	**(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 (and enacted requirements) is important and part of doing business fairly. We take advantage of tax facilities and allowances but without attempting to test the limits, nor do we take advantage of tax avoidance schemes involving tax havens in order to minimise our tax bill. Now that we are also active in Belgium, it is necessary for us to divide the taxable profit between the two countries. This is done on the basis of aligning the allocation of the operating results (and the tax liability in respect thereof) with the responsibilities and the relevant functions in each of the countries.

We are at pains to be seen by all our stakeholders as a company engaged in the ethical conduct of its business, and we are happy to render account of our activities whenever requested, for example in meetings with investors or when briefing the Works Council on our results. Tax matters also figure on the agenda of the Audit Committee, and this committee regularly examines whether tax advice received and tax returns filed are in line with Sligro Food Group's policy. Tax is also excluded from the KPIs used by our company.

Where appropriate, we approach and engage with the relevant tax 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. This includes specific agreements regarding the efforts on the part of the company to ensure that tax control is an integral part of the overall control measures that are in place and we are constantly working to ensure that this is the case. Progress is monitored as part of the regular structure of meetings with the tax authorities, always with a view to paying our fair share of tax rather than attempting to see how little tax we can get away with.

Although the concept of 'horizontal monitoring' (i.e. self-assessment) does not exist in Belgium we are also proactively seeking to engage with the competent Belgian authorities. Our aim in doing so is to avoid possible tax risks relating to our recent start-ups and acquisitions in Belgium and moreover to build up a relationship with the tax authorities analogous to the situation in the Netherlands. In the year under review we succeeded in agreeing rulings on transfer pricing and legal mergers. The basis for and agreement of the transfer pricing method used forms an integral part of our tax management. This accordingly includes satisfying the supplementary documentation requirements connected with filing Country by Country Reports applicable with effect from 1 January 2016, as well as both group and local dossiers.

In both the Dutch and Belgian tax systems there are differences between reported profit and taxable profit. Such differences arise for various reasons including recognition of different amounts for intangible assets, real estate, inventories and provisions for tax purposes as opposed to reporting rules, as well as amounts that are either not tax allowances or are not deductible in full.

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

x € million	2017	2016
Tax for the year	23	20
Prior-year adjustments	0	(0)
Tax liability for the year	**23**	**20**
Taxes accounted for directly in recognised income:		
Movement in cash flow hedge of long-term loan	(0)	(0)
	(0)	(0)
Movement and release in deferred tax liabilities	(4)	(3)
Tax charge relating to continuing operations	**19**	**17**

The tax charge relating to continuing operations excludes the tax charge relating to discontinued operations amounting to €1 million (2016: €1), this amount being included in the item 'Profit from discontinued operations, after tax' (see note 10).

The tax charge per share can be presented as follows:

x € 1	2017	2016
Tax charge per share on continuing operations	0.44	0.37
Tax charge per share on discontinued operations	0.03	0.03

9.A.2. EFFECTIVE TAX BURDEN

The effective tax burden can be analysed as follows:

x € million	2017	2016
Profit before tax	**95**	**86**
Tax burden at the standard rate (Netherlands 25.0%, Belgium 34.0%)	24	22
Prior-year adjustments	(0)	(0)
Energy and other capital expenditure allowances	(1)	(1)
Released from deferred tax liabilities	(3)	
Innovation allowances		(3)
Other, including tax facilities, non-deductible expenses and tax-free results of associates	(1)	(1)
Effective tax burden 20.0% (2016: 19.0%)	**19**	**17**

At the end of each year, we make estimates with regard to a number of tax items. When the time comes to file the tax return, the actual figures may differ, resulting in discrepancies (to a limited extent). The necessary adjustments relating to prior years are accounted for in the current year.

As part of our CSR agenda, we are investing in more sustainable air-conditioning/refrigeration and heating systems at our sites. These qualify for tax breaks which we make use of.

At year-end 2017, an amendment to the law was passed in Belgium lowering the standard rate of corporate income tax from 34% to 25% in stages. This resulted in a one-off release of €3 million from the deferred tax liabilities which has been accounted for in the 2017 figures.

Since 2010 we have used innovation allowances for our proprietary paperless order collection system. In accordance with the agreement reached with the tax authorities, we made use of this facility of up to year-end 2016. The scope for taking advantage of innovation allowances in the years ahead appears to be restricted at this stage.

The tax-free results of associates relate to our share in the profits after tax of our associated investees. The profits concerned come under the substantial holding privilege for tax purposes. The other adjustments mainly relate to employee benefit costs that are not tax-allowable, including our share bonus plan, as well as non-deductible professional fees relating to acquisitions.

9.B. CURRENT TAX ASSETS AND LIABILITIES

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

x € million	2017	2016
Assets	**1**	**2**
Liabilities	**1**	**0**

As at year-end 2017, all wholly owned subsidiaries in the Netherlands 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	2017	2016
Intangible assets	11	10
Property, plant and equipment	14	18
Inventories	1	1
Other	(1)	(1)
Net liability	**25**	**28**

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	2017	2016
Opening balance	28	25
Acquisitions	6	7
Released to income	(3)	
Movements during the year	(1)	(3)
Movements in previous years	(0)	(1)
Transferred to liabilities directly related to assets held for sale	(5)	
Closing balance	**25**	**28**

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

10. Profit from discontinued operations, after tax

In July 2017, the Group announced that it would be conducting a study in the second of 2017 to find an alternative strategy for our retail operations that would create the most value. The outcome of this study is that the Food Retail activities qualify as discontinued operations and as assets held for sale (see note 20) as at year-end 2017. Previously, the Food Retail segment was not designated as being held for sale or as discontinued operations. The comparative figures in the profit and loss account have been restated in order to present the discontinued operations separately from the continuing operations. Intersegment sales between Foodservice and Food Retail are limited in extent and have been eliminated.

A condensed profit and loss account statement is presented below for the discontinued operations:

x € million	2017	2016
Net sales	828	827
Other operating income	10	4
Expenses	(832)	(826)
Profit before tax	6	5
Income taxes	(1)	(1)
Profit from discontinued operations, after tax	**5**	**4**
Figures per share	**€**	**€**
Basic earnings per share from discontinued operations	0.10	0.09
Diluted earnings per share from discontinued operations	0.10	0.09

11. Cash flows from discontinued operations

x € million	2017	2016
Net cash flow from operating activities	19	51
Net cash flow from investing activities	(10)	(25)
Net cash flow from financing activities		
Net cash flow	**9**	**26**

12. Goodwill and other intangible assets

Movements in this item were as follows:

x € million	Goodwill	Other intangible assets		
		Store locations, customer bases and other assets	Software	Total
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**
Capital expenditure		5	9	14
Disposals			(0)	(0)
Acquisitions	40	89	0	89
Amortisation		(18)	(8)	(26)
Transferred to assets held for sale	(30)	(10)		(10)
Total movements	10	66	1	67
At cost	155	182	50	232
Accumulated amortisation		(49)	(40)	(89)
Balance as at 30 December 2017	**155**	**133**	**10**	**143**

ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS

Goodwill is allocated to cash-generating units as follows:

x € million	2017	2016
Food Retail		30
Foodservice	155	115
	155	**145**

The store locations, customer bases and other assets can be analysed as follows:

x € million	2017	2016
Intangible assets relating to acquisitions		
Customer bases	116	40
Store locations	2	13
Brand names	7	2
	125	**55**
Intangible assets not related to acquisitions		
Signing fees	8	10
Loans	0	2
	8	**12**
	133	**67**

The recoverable amount of the Foodservice cash-generating unit is 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 this cash-generating unit. Based on this calculation, it has been concluded that the recoverable amount of the Foodservice cash-generating unit is considerably higher than the carrying amount and that therefore no impairment loss needs to be recognised (2016: 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% (2016: 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% (2016: 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% (2016: 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.

13. 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	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**
Capital expenditure	31	11	33	(2)	73
Disposals	(5)	(0)	(1)		(6)
Acquisitions	2	1	1	0	4
Transfer[2]	2				2
Depreciation	(19)	(7)	(23)		(49)
Impairments	(2)	(0)	(0)		(2)
Transferred to assets held for sale	(53)	(10)	(16)	(1)	(80)
Total movements	(44)	(5)	(6)	(3)	(58)
At cost	382	60	184	7	633
Accumulated depreciation	(144)	(42)	(144)		(330)
Balance as at 30 December 2017	**238**	**18**	**40**	**7**	**303**

1) *The capital expenditure is the net investment in the year under review plus transfers to property, plant and equipment during the year*
2) *From assets held for sale.*

LEASED ASSETS

The Group has entered into finance lease contracts for assets in property, plant and equipment with a carrying amount of €7 million as at 30 December 2017 (2016: €9).

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	2017	2016
Land	68	77
Supermarket store premises		21
Buildings	129	122
Subtotal of properties and land owned	**197**	**220**
Land occupied by leased premises	3	3
Leasehold improvements	38	59
	238	**282**

The area of land totals 784,000 m2 (2016: 876,000 m2), of which 288,000 m2 (2016: 288,000 m2) is accounted for by the central complex.

Company-owned premises can be analysed as follows:

	Number		x 1.000 m²		x € million	
	2017	2016	2017	2016	2017	2016
Cash-and-carry wholesale outlets	27	26	177	171	101	91
Customer distribution centres	5	6	70	95	37	41
Production companies	2	3	11	15	7	9
Central complex	1	1	140	140	47	47
Supermarkets operated by the Group		17		17		26
Assets not in use	2	6	3	6	2	4
Other	2	2	4	4	3	2
	39	**61**	**405**	**448**	**197**	**220**

14. Investment property

x € million	Note	2017	2016
Opening balance		20	19
Capital expenditure		0	0
Fair value adjustments		0	1
Transferred to assets held for sale	20.1	(20)	
Closing balance		**0**	**20**

The investment property transferred to assets held for sale includes 8 (2016: 8) supermarket premises leased to franchisees on operating leases. The gross floor area amounted to 12,141 m2 (2016: 12,141 m2). The future minimum lease payments under non-cancellable leases are disclosed in note 28. The direct costs associated with the investment property amounted to €14 thousand (2016: €13). The leases are on normal terms. External appraisals were conducted in 2017 for validation purposes.

15. Investments in associates and other financial assets

x € million	Note	2017	2016
Associates		**53**	**51**
Other financial assets			
Loans to associates		1	1
Loans to customers		7	6
Fair value of derivatives	24	1	10
		9	**17**

ASSOCIATES

The investments in associates are as follows:

in %	2017	2016
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	2017	2016
Opening balance	51	48
Acquisition		0
Investments and disposals	0	(0)
Results	9	8
Dividend	(7)	(5)
Closing balance	**53**	**51**

The summarised financial information for the associates, on the basis of a 100% interest as shown by their most recent financial statements (i.e. 2016 or 2015), is as follows:

	Spar Holding B.V.		Other associates	
x € million	**2017**	**2016**	**2017**	**2016**
Assets	80	79	78	72
Liabilities	45	46	60	56
Shareholders' equity	35	33	18	16
Net sales	444	439	968	923
Net earnings	9	6	6	7

OTHER FINANCIAL ASSETS

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

16. Inventories

Inventories were made up as follows:

x € million	**2017**	**2016**
Central distribution centre	66	73
Stores and regional distribution centres	135	161
Packaging deposits	3	8
Stock in transit	3	3
	207	**245**

In the carrying amount of inventories, a provision for obsolescence is included for an amount of €5 million (2016: €4).

17. Trade and other receivables

x € million	**2017**	**2016**
Trade receivables	132	119
Suppliers	41	60
	173	**179**

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 (2016: €4).

The movements in this item were as follows:

x € million	2017	2016
Opening balance	4	4
Acquisitions	1	0
Accounts written off	(1)	(0)
Charged to the result	1	
Transferred to assets held for sale	(1)	0
Closing balance	**4**	**4**

18. Other current assets

x € million	Note	2017	2016
Fair value of derivatives	24		13
Other amounts receivable and prepaid expenses		24	11
		24	**24**

The other amounts receivable and prepaid expenses include staff loans and receivables in respect of investment projects, as well as purchase discounts still to be received in respect of promotion periods already ended.

19. Cash and cash equivalents

x € million	2017	2016
Cash balances and cash in transfer	16	18
Freely available bank balances	37	69
Time deposits	5	5
	58	**92**

The maturity of the time deposit is 30 September 2018 and is associated with guarantees provided by a financial institution.

20. Assets held for sale and liabilities directly related to assets held for sale

The assets held for sale and the liabilities directly related to them are made up as follows:

x € million	Note	2017	2016
Discontinued operations	20.1	221	
Non-current assets held for sale	20.2	0	3
Assets held for sale		**221**	**3**
Liabilities directly related to assets held for sale	20.1	**123**	

20.1. DISCONTINUED OPERATIONS

In the second quarter of 2017, we evaluated the EMTÉ 3.0 format and examined our future in Food Retail. The main conclusions from the evaluation of EMTÉ 3.0's performance were and remain that the format is much appreciated by our customers, but that this has not translated sufficiently into sales growth. The optimisations implemented are, however, bearing fruit, but it is expected to take longer to achieve our business case objectives. Based on this outcome of the evaluation, we suspended conversions to 3.0 for the rest of 2017 and have concentrated mainly on improving profitability and further optimisation of the format. In 2018, we will continue to work along these lines, and for the time being only sites planned for relocation will be converted to 3.0. In the first quarter of 2018, no locations will be converted based on this planning.

As well as evaluating our new format, we also considered our future in Food Retail. The main conclusion is that an autonomous future is no longer the best strategy for our Food Retail activities to create long-term value. After all, it will be increasingly difficult to keep pace with a rapidly changing market with a modest market share of approximately 2.5%. We consequently used the second half of 2017 to examine which alternative strategy would provide the greatest value for our Food Retail activities. We factored in to our examination that the combination of Foodservice and Food Retail offers us great synergy in many areas, which we estimate to be worth between €15 million and €20 million annually for Sligro Food Group as a whole. In addition, the combination also generates more qualitative benefits for the Group, such as a distinctive profile and learning ability within the Group.

We spoke to very many parties inside and outside the Netherlands to form a picture of interest in an alliance in the form of a partnership and interest in an acquisition of our Food Retail activities. What this has revealed is that our perception of the added value of a partnership is correct, but the details of the type of alliance in practice is a complex business. On the other hand, there appears to be a lot of interest from market players in acquiring our Food Retail activities. However, in that scenario we are yet to establish the extent to which the loss of synergy will be compensated for in such a transaction.

Having weighed up all of the alternatives, we decided to follow the more informal review in the second half of 2017 by starting a formal process with the aim of arriving at a definitive transaction for one or other of the scenarios (partnership or sale). It is expected that this process will lead to a transaction for the Food Retail activities in the course of 2018. We emphasise that care will have priority over speed in this process.

For our ultimate decision, we will always take the interests of all our stakeholders into account as we arrive at a sound solution.

As at 30 December 2017, the assets held for sale and the liabilities directly related to them were recognised at the carrying amounts concerned, and can be analysed as follows:

x € million	2017
ASSETS	
Goodwill	30
Other intangible assets	10
Property, plant and equipment	80
Investment property	20
Other financial assets	2
Total non-current assets	**142**
Inventories	45
Trade and other receivables	27
Other current assets	5
Cash and cash equivalents	2
Total current assets	**79**
Assets held for sale	**221**
EQUITY AND LIABILITIES	
Deferred tax liabilities	5
Employee benefits	2
Total non-current liabilities	**7**
Trade and other payables	95
Other taxes and social security contributions	5
Other liabilities, accruals and deferred income	16
Total current liabilities	**116**
Liabilities directly related to assets held for sale	**123**

No impairment losses have been recognised in relation to the statement at a lower value of the Group's assets and liabilities to reflect the lower of carrying amount and fair value.

20.2. NON-CURRENT ASSETS HELD FOR SALE

The non-current assets held for sale concern one property, which has been on the market for longer than one year. Despite this, the intention is still to sell this property in the short term. During the year, two properties were sold, and one property was transferred back to property, plant and equipment.

x € million	2017	2016
Opening balance	3	4
Transfer	(2)	4
Impairments		(0)
Disposals	(1)	(5)
Closing balance	**0**	**3**

21. 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 30 December 2017 amounted to €2,655,300.90 (as at 31 December 2016: €2,655,300.90).

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

x € 1,000	2017	2016
Opening balance	44,255	44,255
Movements	0	0
Closing balance	**44,255**	**44,255**
Repurchased	(290)	(375)

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 118.

SHARE PREMIUM

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

OTHER RESERVES

An amount of €13 million of the other reserves (2016: €11) 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 289,600 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	2017	2016
Addition to other reserves	19	16
Interim dividend paid (2017: €0.50 per share; 2016: €0.45)	22	20
Available for regular (final) dividend (2017: €0.60 per share; 2016: €0.55)	27	24
Available for variable dividend (2017: €0.30 per share; 2016: €0.30)	13	13
	81	**73**

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.

22. Earnings per share

Weighted average number of outstanding shares during the year:

x 1,000	2017	2016
Opening balance	43,858	43,790
Effect of repurchase of own shares	86	68
Average number of shares in issue	**43,944**	**43,858**

x € 1	2017	2016
Basic earnings per share	1.83	1.67
Diluted earnings per share	1.83	1.67
Basic earnings per share from continuing operations	1.73	1.58
Diluted earnings per share from continuing operations	1.73	1.58

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.

23. Other provisions

The other provisions chiefly concerns guarantee obligations.

24. Long-term and short-term borrowings

LONG-TERM LIABILITIES

x € million	Interest rate	Remaining term to maturity (years)	2017	2016
USD 75 million loan (bullet loan)	4.15%	3	63	71
€30 million loan (bullet loan)	1.33%	6	30	30
€40 million loan (bullet loan)	1.67%	8	40	
€70 million loan	Euribor + variable markup	3	70	
USD 75 million loan (bullet loan)	3.55%			71
Lease liabilities and other amounts owed			4	2
			207	**174**
Current portion of long-term borrowings due within one year			14	71
Amounts falling due after more than one year			**193**	**103**
Amounts falling due after more than five years			**70**	**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 €13 million positive (2016: €5 negative), and that on the swaps, amounting to €13 million negative (2016: €5 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 loan has been treated as a cash flow hedge.

The 4.15% USD loan has been effectively converted into a 3.96% EUR loan by means of a cross-currency interest rate swap. The amortised cost of this loan 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 €1 million positive (2016: €10 million positive), which has been included in other financial assets.

In 2016, 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. In September 2017, the Group drew down a second loan of €40 million, with a term of 8 years and at a fixed interest rate of 1.67% per annum. Consequently, the Group can still draw up to €30 million up to the end of March 2019.

In 2017, the bank facility with Rabobank was reviewed and extended. Under this new facility, a loan of €70 million was drawn down. This loan has a term of three years and bears interest at a variable rate linked to Euribor. An initial repayment instalment of €10 million occurs in 2018. For further disclosures, reference is made to page 92 ‘Financing in outline’.

The 3.55% USD loan was effectively converted into a 3.46% EUR loan. The fair value of the swap on this USD loan in 2016 was €13 million positive, which was accounted for in other current assets. This loan was repaid in its entirety at the end of 2017.

BANK BORROWINGS

Security

As at year-end 2017, the Group had overdraft facilities totalling €87 million, which had not been drawn on. An amount of €41 million of the facility is committed. Security totalling €2 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 2017 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	0,8

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.

25. Other taxes and social security contributions

x € million	**2017**	**2016**
VAT, excise duty and waste management contribution	14	16
Payroll tax and social security contributions	5	8
Pension contributions	0	0
	19	**24**

26. Other liabilities, accruals and deferred income

x € million	**2017**	**2016**
Employees	21	27
Customer bonuses	17	11
Packaging deposits	8	8
Loyalty scheme liabilities	3	7
Other	17	10
	66	**63**

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

27. 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

In the case of the foodservice activities, some supplies are made without guaranteed advance payment. The associated receivables are largely settled through the Business Euro Direct Debit System. Payment has to be actively made by the customer in a limited number of cases only. 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 2017, the receivables from food retail customers included in other financial assets totalled approximately €7 million (2016: €5) and in trade receivables totalled approximately €132 million (2016: €111). The trade receivables aged longer than three months relate to Bouter and are associated with the project-based nature of its activities.

The ageing of these trade receivables is as follows:

x € million	< 1 month	1 - 3 months	3 - 12 months	> 12 months	Total
2017	119	10	2	1	132
2016	108	2	1	0	111

As at year-end 2017, the Group had trade receivables amounting to €41 million (2016: €60). These receivables mainly concern purchase-related annual agreements and do not become payable until 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 €41 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	Contractual cash flows	< 1 year	1 - 5 years	> 5 years
Non-current liabilities[1)]	193	213	14	127	72
Current liabilities[2)]	468	468	468		
	661	**681**	**482**	**127**	**72**

1) Contractual cash flows are included at the swap rate on the maturity date of the liabilities.
2) The liabilities directly related to assets held for sale included €7 million in respect of long-term liabilities for which adjustments have been made in the above statement.

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 24 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 H_2, 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

A number of external factors were identified where a change could affect the Group's profit before tax. The following table summarises the results:

Parameter	Increase	Impact on profit before tax in € million
Interest rate	1%-point	1 reduction
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, Sligro Food 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.

Loss of the Sligro 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 monitor the various initiatives closely, assessing the extent to which they affect the course which we as Sligro Food Group have embarked upon. Where market developments are taking place more rapidly than expected, as in the case of online shopping, we have sufficient flexibility and the capacity to speed up our own strategy. Our preference is to do our own thing and come up with solutions to suit us rather than simply responding to the competition from new or existing players.

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. Looking back on our first acquisitions and organic growth beyond the borders of the Netherlands, 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 interactions between them, make this a complex system. Systems of this kind nevertheless give us a clear competitive edge but 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 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.

28. Operating lease and rental obligations

Contracts under which the Group is lessee:

x € million	2017	2016
Operating lease obligations		
< 1 year	2	1
1-5 years	1	1
> 5 years		
Expense in the year	2	1
Rental obligations for premises occupied by the Group		
< 1 year	36	35
1-5 years	120	106
6-10 years	82	79
> 10 years	25	26
Expense in the year	36	35
Present value	245	213
Rental obligations on behalf of customers		
< 1 year	4	4
1-5 years	9	9
6-10 years	3	3
> 10 years	1	1
Present value	15	14

The operating lease obligations relate mainly to ICT systems. The rental obligations for premises occupied by the Group concern 118 premises (2016: 118) 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	2017	2016
Investment property		
< 1 year	2	2
1-5 years	5	5
6-10 years	3	4
> 10 years	0	0
Other property		
< 1 year	1	1
1-5 years	2	2
> 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.

29. Investment obligations

As at year-end 2017, there were investment obligations totalling approximately €18 million (2016: €22).

30. Contingent liabilities Repurchase commitments

Repurchase commitments

Repurchase commitments have been given to financial institutions in respect of credit lines granted to retail customers involving a total exposure of €2 million (2016: €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.

31. Management estimates and assessments

Acquisitions and goodwill

Note 1 contains information on the measurement of the fair value of acquired assets and liabilities. In addition, note 12 contains information about the measurement of goodwill and the impairment tests that are performed.

Credit, liquidity and other market risks

Note 27 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 17.

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 2017, these items, excluding capital expenditure on leased premises, totalled approximately €249 million (2016: €243). 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.

32. 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	**2017**	**2016**
Operating profit	97	87
Depreciation and amortisation	75	67
Impairments	2	2
Ebitda	**174**	**156**
Other operating income included in cash flow from investing activities	(17)	(1)
	157	155
Changes in working capital and other movements:		
Inventories	7	(18)
Trade and other receivables and other current assets	(32)	(15)
Current liabilities	61	58
Provisions	(0)	0
Shareholders' equity	2	1
	38	**26**
Net cash generated from operations	**195**	**181**

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

x € million	**2017**	**2016**
Cash and cash equivalents	58	92
Cash and cash equivalents, included in assets held for sale	2	
Bank borrowings	0	0
	60	**92**

33. 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 15. In 2017, this business represented a combined purchase volume at market prices of €236 million (2016: €232). As at year-end 2017, the amount owed to these companies in connection with trading was €28 million (2016: €25). 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 (2016: €1). This loan is included in the other financial assets. The Group also guarantees certain of Vemaro's unrestricted receivables from certain customers. As at year-end 2017, the amount owed to Vemaro in connection with trading was €9 million (2016: €8). In view of the nature of the account, it has been included in trade payables.
The Group is a member of the purchase combine Superunie, through which a large proportion of the camera's purchase requirements is sourced. The purchase volume in 2017 amounted to €1,000 million (2016: €1,007). As at year-end 2017, the amount owed in connection with trading was €94 million (2016: €95). In view of the nature of the liabilities, they have been treated as trade payables.

The Group (and more specifically JAVA Foodservice) is a member of the purchase combine BLOC. The purchase volume in 2017 amounted to €10 million (2016: €9). As at year-end 2017, the amount owed in connection with trading was €0 million (2016: €0), which has been included in the 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 2017, a net volume of 85,000 Sligro Food Group shares was sold (2016: 90,400 sold) at market price in transactions with Stichting Werknemersaandelen Sligro Food Group.

34. 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 2017 includes an amount of €73 million (2016: €49) 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 2017

x € million	2017	2016	2015
Finance income and expense	0	0	0
Share in results of subsidiaries	81	73	81
Profit before tax	**81**	**73**	**81**
Income taxes	(0)	(0)	(0)
Profit for the year	**81**	**73**	**81**

COMPANY
BALANCE SHEET
as at 30 December 2017 before profit appropriation

x € million	30-12-2017	31-12-2016	02-01-2016
ASSETS			
Intangible assets	8	8	8
Financial assets	648	624	603
Total non-current assets	**656**	**632**	**611**
Total assets	**656**	**632**	**611**
EQUITY AND LIABILITIES			
Paid-up and called capital	3	3	3
Share premium	31	31	31
Other reserves	519	505	479
Legal reserves	17	15	12
Unappropriated profit	81	73	81
	651	**627**	**606**
Payables to group companies	5	5	5
Total current liabilities	**5**	**5**	**5**
Total equity and liabilities	**656**	**632**	**611**

NOTES
TO THE COMPANY FINANCIAL STATEMENTS
(amounts in millions of euros unless stated otherwise)

General

Sligro Food Group N.V. is established in Veghel and is registered with the Chamber of Commerce under number 160.45.002. 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	2017	2016
Opening balance		
Acquisition cost	10	10
Accumulated amortisation	(2)	(2)
Closing balance	**8**	**8**
Acquisition cost	10	10
Accumulated amortisation	(2)	(2)

Financial assets

x € million	2017	2016
Investments	619	595
Receivables from group companies	29	29
	648	**624**

INVESTMENTS

This concerns the wholly-owned subsidiaries Sligro Food Group Nederland B.V. and Sligro Food Group International B.V. movements were as follows:

x € million	2017	2016
Opening balance	595	574
Results	81	73
Investments		
Share-based payments	1	2
Income and expense recognised directly in equity	1	0
Change in own shares	0	1
Dividend	(59)	(55)
Closing balance	**619**	**595**

RECEIVABLES FROM GROUP COMPANIES

This item includes two loans for a combined amount of €29 million (2016: €29). One loan is for €25 million (2016: €25), maturing on 1 January 2023 and the other is for €4 million (2016: €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 21 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	2017	2016
Consolidated		
Other reserves	628	605
Hedging reserve	(3)	(4)
Treasury shares reserve	(12)	(12)
Revaluation reserve	4	4
	617	**593**
Company		
Other reserves	519	505
Unappropriated profit	81	73
Legal reserves	17	15
	617	**593**

LEGAL RESERVES

This item comprises the legal reserve for investments in subsidiaries/associates and the revaluation reserve.
Movements were as follows:

x € million	2017	2016
Opening balance	15	12
Movement during the year	2	3
Closing balance	**17**	**15**

Of the legal reserves of €17 million (2016: €15), an amount of €13 million (2016: €11) 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 21, 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	19
Payment of interim dividend (€0.50 per share)	22
Available for regular (final) dividend (€0.60 per share)	27
Available for distribution as variable dividend (€0.30 per share)	13
	81

Other notes

CONTINGENT LIABILITIES

The company is at the head of the Sligro Food Group N.V. tax group, making it 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 pages 126 and 127.

Duly signed for publication,

Veghel, 26 January 2018

Supervisory Board:
F. Rijna, chairman
J.H. Kamps
B.E. Karis
M.E.B. van Leeuwen
G. van de Weerdhof

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 audit of the financial statements 2017 included in the annual accounts

Our opinion

We have audited the accompanying financial statements 2017 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 accompanying 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 December 30, 2017 (before profit appropriation), and of its result and its cash flows for 2017 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 accompanying company financial statements give a true and fair view of the financial position of Sligro Food Group N.V. as at December 30, 2017 (before profit appropriation), and of its result for 2017 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 December 30, 2017 (before profit appropriation).
2. The following statements for 2017: the consolidated profit and loss account, the consolidated statement of recognized income and expense, the consolidated statement of changes in equity (before profit appropriation) and the consolidated cash flow statement.
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. The company balance sheet as at December 30, 2017 (before profit appropriation).
2. The company profit and loss account for 2017.
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.

Independence

We are independent of Sligro Food Group N.V. in accordance with the "Wet toezicht accountantsorganisaties" (Wta, Audit firms' supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics). During 2017, a team that is part of the Deloitte network but is not based in the Netherlands has continued delivering its non-audit services to a local client after this client has been acquired by Sligro Food Group N.V. These services were prohibited under article 5.1 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities as of the acquisition date. After this situation has been identified, the services have been terminated immediately and mitigating measures have been taken. We discussed this situation with the Supervisory Board and we informed the Autoriteit Financiële Markten (AFM) hereon. The Supervisory Board agreed on the taken measures as well as on our conclusion that based on the facts and circumstances, our objectivity, integrity and professional skepticism have not been compromised. We refer to the paragraph "relation with the auditor" in the Supervisory Board report in which the Supervisory Board reports on this situation.

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 €6,25 million. The materiality is based on 7,5% of the profit before tax from continuing operations by taking into account non-recurring gains and losses. 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 in addition to material misstatements which are identified during the audit, we would also report smaller misstatements that in our view are relevant for qualitative reasons.

Scope of the group audit

Sligro Food Group N.V. is at 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 mainly focused on the Dutch group entities of Sligro Food Group N.V., JAVA Foodservice and the larger components of Exquisite Food N.V. (hereafter referred to as “ISPC”). We performed audit procedures ourselves at all Dutch group entities of Sligro Food Group N.V. We used the work of other auditors when auditing JAVA Foodservice and ISPC (Deloitte Belgium for JAVA Foodservice and BB3 accountants for ISPC). We dividend the group materiality over the Dutch and Belgian components, resulting in a materiality of €6 million for the Dutch group entities and respectively €2,5 million and €1,5 million for JAVA Foodservice and ISPC.

We provided the Belgian component auditors with audit instructions and held several meetings with Belgian management and the Belgian audit teams during the planning, interim and year-end audit. We also reviewed the audit files of and the procedures performed by the component auditors. The group auditor has performed the procedures for the “Purchase Price Allocation” in relation to the acquisition of ISPC.

By performing the procedures mentioned above at group entities, combined 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. The non-consolidated entities have a book value of €53 million as per December 30, 2017.

Therefore we performed additional procedures in addition to the work of the statutory auditor of the non-consolidated entities, for example, regarding the investment in Spar Holding B.V. (which has a book value in the financial statements of Sligro Food Group N.V. of €38 million as per December 30, 2017).

Our key audit matters

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 these matters.

1. Bonuses and promotional contributions

Description

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 substantial. The final agreements with the suppliers on these contributions are mostly 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.

Sligro Food Group N.V. receives various types of compensation from suppliers, which can be divided into two main categories:

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 contractual agreements dependent on purchase volumes and payment history ("bonuses").

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.

Management has used a bottom-up method to estimate the bonuses and promotional contributions. By use of a forecasting tool, the estimate is prepared based on the actual purchases and the applicable contractual bonus conditions.

How the key audit matter was addressed in the audit

Our audit focused on testing both the design and implementation of the internal control measures on behalf of the Executive Board focused on the accurate and complete recording of the bonuses and promotional contributions (including the basis for the estimates, segregation of duties, contract management and authorization).

Additionally, we performed a number of substantive procedures focused on the accuracy and completeness of the reported bonuses and promotional contributions. These procedures can be summarized as follows:

- Audit of the subsequent receipt of the bonus estimate of 2016 in 2017 and an analysis on the differences;
- Obtaining external supplier confirmations in relation to the bonus conditions and the prepaid bonuses;
- Detailed procedures on the forecasting tool by substantiating the estimate based on the contractual terms and the actual purchases during the year;
- Detailed procedures on the manual refinement of the estimate that results from the "prognosetool".

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.

Observation

Based on our materiality level and our procedures performed, consisting of testing the design and implementation of internal controls as well as of substantive audit procedures, we agree with the estimates of the Executive Board and are of the opinion that the income from bonuses and promotional contributions over 2017 is reasonable.

2. Sales contracts foodservice activities

Description

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.

Furthermore, the selling price for some of the clients is based on a fixed mark-up on the cost price. The definition of the cost price is laid down in the contract.

Client-specific agreements can result in an invoice selling price that differs from the "cost price plus" selling price. As a result of the complicated price build-up, the audit of the selling prices is time consuming and complex.

Applying the right contractual terms and conditions for the various customer groups is important and consequently a key audit matter for us.

How the key audit matter was addressed in the audit

We have evaluated the process and the corresponding internal controls of Sligro Food Group N.V. governing the classification of contracts for new customers and adapted contracts for existing customers in the relevant and appropriate groups as part of our audit procedures.

We have primarily relied on control testing procedures to determine whether the various customer groups are invoiced in accordance with the prices approved by the Executive Board. Amongst others, we relied on companies internal controls and the algorithms included in the computer software.

In case cost prices are important to determine the relevant selling prices, we have performed an independent recalculation of the agreed margins in order to verify the proper application of contractual conditions.

Observation

Based on our materiality level and our procedures performed, we are of the opinion that the applicable contract terms and conditions for the so-called "cost price plus" contracts are adequately applied in the calculation of selling prices.

3. Belgian activities

Description

During 2017, with the acquisition of Exquisite Food N.V. (“ISPC”), Sligro Food Group N.V. has further expanded its international activities.

ISPC has been added to the relatively large independently operating Belgium activities of JAVA Foodservice. 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).

How the key audit matter was addressed in the audit

Based on the requirements of IFRS 3, we audited the recognition of the acquisition for which we used a substantive approach.

We inspected the Share Purchase Agreement and validated that the purchase price is paid to the seller. An important element in the “Purchase Price Allocation” is the identification and valuation of the acquired (intangible) assets and liabilities. The Executive Board engaged an independent valuation expert. We audited the identification of (intangible) assets and liabilities based on our knowledge of the operational activities of ISPC and the reasons for the acquisition and used a Deloitte valuation expert to validate the valuation based on general accepted valuation models. We recalculated the amount of goodwill to be recognized and assessed the allocation to cash-generating units. We also validated the sufficiency of the disclosures in the annual accounts in relation to the acquisition.

We further gained insights in the activities and business processes of ISPC to enable detailed risk analyses. The operational significant risks are specifically focused on the audit of the supplier bonuses and the invoiced selling prices. The audit procedures in relation to those risks are mainly performed on a substantive basis. A detailed analysis of the internal control environment is performed. A separate management letter is prepared and communicated.

On group level, we additionally tested the design and implementation of internal control measures in relation to the Belgian activities focused on the consolidation and financial reporting.

Observation

Based on our materiality and procedures performed, we are of the opinion that the recognition of the acquisition of ISPC is in line with the requirements of IFRS 3 and that the acquisition is adequately disclosed in the 2017 annual accounts in order to fulfill the information needs of the users.

4. Food Retail as "discontinued operations"

Description

Sligro Food Group N.V. explained during the presentation of its half-year figures for 2017, that it will evaluate the strategic alternatives for the Food Retail activities in relation to the market developments during the second half of 2017.

During the second half of 2017, the strategic alternatives are further investigated and crystallised, which in accordance with IFRS 5 implied presentation of the Food Retail activities as "discontinued operations" in the annual accounts 2017. In disclosure note 10 and 11, the company provides further information on the profit and cash flow from "discontinued operations". The presentation of the Food Retail activities as "discontinued operations" is a key audit matter as its impacts the presentation of the consolidated profit and loss account, the consolidated statement of recognized income and expense, the consolidated cash flow statement as well as the restated comparative figures of the consolidated profit and loss account and the consolidated cash flow statement.

The valuation of assets and liabilities is based on the book value, taking into account the indicative offers received. The allocation of all relevant items in the consolidated balance sheet and the consolidation profit and loss account has been an element of our audit. There are no fair value losses recognized (disclosure note 20.1).

How the key audit matter was addressed in the audit

We audited the recognition of the Food Retail activities being classified as "discontinued operations" based on our materiality level and the requirements set forth in IFRS 5. We mainly used a substantive approach and have not relied on internal controls.

The key audit matter in relation to the presentation of the Food Retail activities as "discontinued operations" focuses on the classification and valuation of the Food Retail activities as well as on the accuracy and completeness of the disclosures in the annual accounts.

We validated the classification as "discontinued operations" by inspection of the minutes of the Executive Board meetings, approvals of the Supervisory Board and other internal and external communication. The impact of the classification is audited by means of assessing the estimates of the Executive Board for the allocation of the revenues, expenses, assets and liabilities from the Food Retail activities and validating the consistency thereof with the comparative figures. Furthermore, we audited the estimates of the Executive Board in relation to the valuation of assets.

Observation

Based on our procedures performed, we are of the opinion that the classification of the Food Retail activities as "discontinued operations" is in line with the requirements set forth in IFRS 5 and that the classification is adequately recognized and disclosed in the 2017 annual accounts.

5. Strategic partnership with HEINEKEN

Description

On December 1, 2017 Sligro Food Group N.V. and HEINEKEN Nederland B.V. entered into a 15 years strategic partnership. In this partnership Sligro Food Group N.V. will perform the logistical services of HEINEKEN for the Dutch wholesale market.

As part of this partnership, Sligro Food Group N.V. acquired the wholesale activities of non-beer and cider-products from HEINEKEN Groothandel B.V. through an “asset deal”. The determination of the purchase price and the necessary “Purchase Price Allocation” is a key audit matter due to the quantitative significance and complexity of the transaction and the significant estimates used in the provisional “Purchase Price Allocation”. Considering the short time frame after the acquisition and the limited availability of all relevant market information, the “Purchase Price Allocation” is provisional.

How the key audit matter was addressed in the audit

Based on our materiality level and the requirements of IFRS 3, we audited the recognition of the acquisition for which we used a substantive approach. We made use of internal valuation experts.

We inspected the Share Purchase Agreement and all corresponding contracts and validated that the purchase price is paid to the seller. We assessed the coherence and the arm’s length provisions of the acquisition in relation to the other commercial contracts in the partnership. Another important element in the “Purchase Price Allocation” was the identification and valuation of the acquired assets and liabilities, for which the Executive Board used a valuation expert. We audited the identification of the assets and liabilities based on our knowledge of the acquired activities of HEINEKEN Groothandel B.V., the assessment of the contracts and the rationale for the acquisition.

We used Deloitte valuation experts to validate the valuation is based on general accepted valuation models. We further recalculated the amount of goodwill to be recognised and assessed the allocation hereof to cash-generating units. We also validated the sufficiency of the disclosures in the annual accounts in relation to the acquisition.

Observation

Based on the materiality and our procedures performed, we are of the opinion that the strategic partnership with HEINEKEN is recognized in line with the requirements set forth in IFRS 3 and we deem the partnership and the related implications to be adequately disclosed in the annual accounts. Upon availability of new information in 2018 it is however possible that the final “Purchase Price Allocation” is different from the provisional amounts included in the annual accounts.

Report on the other information included in the annual accounts

In addition to the financial statements and our auditor's report thereon, 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 the other information, including the Executive Board Report and the other information, in accordance with 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 the year 2014 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Description of responsibilities regarding 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 frameworks 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 detect all material errors and fraud during our audit.

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 judgement 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 identified during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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 the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Eindhoven, 26 January 2018

Deloitte Accountants B.V.
drs. J. Hendriks RA

Provisions of the Articles of Association concerning profit appropriation

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.

TEN-YEAR REVIEW

x € million[8)9)]	2017	2016	2015	2014	2013
Results					
Net sales	2,970	2,813	2,670	2,572	2,498
Ebitda	174	156	160	149	143
Ebita	123	112	122	106	100
Ebit	97	87	103	89	88
Profit for the year	81	73	81	69	68
Net cash flow from operating activities	172	153	140	147	133
Free cash flow	98	72	78	78	101
Proposed dividend	62	57	52	48	46
Equity and liabilities					
Shareholders' equity[1)]	651	627	606	570	571
Net capital employed[2)]	779	668	613	603	598
Total assets	1,347	1,215	1,071	1,012	1,006
Employees					
Year average (full-time equivalents)	6,741	6,571	6,068	5,834	5,829
Staff costs[3)]	289	272	253	239	234
Capital expenditure					
Net capital expenditure[4)]	76	80	60	60	36
Depreciation[5)]	49	42	38	40	41
Ratios					
Increase in sales (%)	5.6	5.4	3.8	2.9	1.3
Increase in profit (%)	9.9	(9.1)	17.4	1.5	(0.9)
Gross margin as % of sales	23.4	22.9	23.2	23.2	23.1
Ebitda as % of sales	5.9	5.6	6.0	5.8	5.7
Ebita as % of sales	4.2	4.0	4.6	4.1	4.0
Ebit as % of sales	3.3	3.1	3.8	3.5	3.5
Profit after tax as % of sales	2.7	2.6	3.0	2.7	2.7
Return on average Shareholders' equity, in %[6)]	12.6	11.9	13.7	12.0	12.1
Ebit as % of average net invested capital	13.4	13.5	16.9	14.9	14.6
Shareholders' equity as % of total assets	48.3	51.6	56.6	56.3	56.8
Sales per employee (x €1,000)	441	428	440	441	429
Staff costs per employee (x €1,000)	43	41	42	41	40
Figures per share of €0.06 nominal value (in euros)					
Shares in issue (millions)	44.0	43.9	43.8	43.7	43.7
Shareholders' equity	14.80	14.29	13.84	13.05	13.07
Net earnings	1.83	1.67	1.84	1.58	1.55
Proposed dividend, as from 2014 including interim dividend	1.40	1.30	1.20	1.10	1.05
of which variable dividend[7)]	0.30	0.30	0.30	0.30	0.25

2012	2011	2010	2009	2008
2,468	2,420	2,286	2,258	2,168
142	159	146	149	147
99	115	99	106	107
89	105	91	98	99
69	78	70	74	71
129	124	107	123	103
96	76	66	73	74
46	46	31	44	28
555	541	500	482	426
615	649	646	603	604
968	931	937	852	875
5,848	5,880	5,513	5,552	5,600
227	217	203	197	191
33	46	41	47	36
43	44	47	42	40
1.9	5.9	1.3	4.2	4.9
(12.3)	11.4	(5.5)	4.2	(3.9)
22.6	23.2	23.1	23.3	23.8
5.8	6.6	6.4	6,6	6.8
4.0	4.7	4.3	4.7	4.9
3.6	4.3	4.0	4.3	4.5
2.8	3.2	3.1	3.3	3.3
12.5	15.0	14.3	16.4	17.8
14.0	16.2	14.6	16.2	16.3
57.3	58.1	53.3	56.6	48.7
422	412	415	407	387
39	37	37	36	34
43.8	44.0	44.1	44.3	43.7
12.65	12.30	11.34	10.90	9.75
1.56	1.78	1.59	1.68	1.63
1.05	1.05	0.70	1.00	0.65
0.25	0.20		0.30	

1) Before profit appropriation.

2) Excluding associates.

3) Salaries, social security charges and net benefit expense.

4) In property, plant and equipment, assets held for sale and software (on transaction basis).

5) Excluding impairments.

6) Calculated on profit for the year.

7) 2009: Jubilee bonus.

8) Changes in accounting policies are only reflected in restatement of the figures for the preceding year which also appear in the main financial statements.

9) Concerns the combination of Foodservice and Food Retail and therefore not reconcilable with the figures in the financial statements.

MANAGERS AND OFFICERS

Key staff the Netherlands

T. Arrachart	assistant ICT manager, Sligro Food Group
R. Barten	assistant manager, support management department, Sligro Delivery Service
J. van den Berg	logistics manager, Sligro Food Group
M. Bogaers	head of studio, Sligro Food Group
D. Bögels	purchasing and product range manager, Sligro Food Group
G. Bos	finance manager Sligro Food Group Nederland
J. de Bree	HR manager, Sligro Food Group
M. van den Brink	sales support department manager, Van Hoeckel
G. Buitenhuis	supply chain manager, Sligro Food Group
J. Dekker	assistant manager, production company operations, Sligro Food Group
J. van Dijk	ICT infrastructure and services manager, Sligro Food Group
S. Dikker	assistant operations manager, Food Retail
M. van Dinther	account manager, Sligro Delivery Service
D. Gruppen	operations manager, Sligro Cash-and Carry
R. de Haas	manager, Van Hoeckel
J. van Heerebeek	marketing and sales manager, Food Retail
J. van Heereveld	head of accounting, Sligro Food Group
F. Hofstra	regional manager, Sligro Delivery Service - Amsterdam
I. Huntjens	head of quality department, Sligro Food Group
D. van Iperen	manager, Foodservice Delivery Service
W. Jansen	head of internal and external communication, Sligro Food Group
H. Jaspers	information and software architect, Sligro Food Group
K. Kiestra	manager, Food Retail
M. Kivits	head of purchasing and product range management - food, Sligro Food Group
P. Lampert	regional manager, Sligro - Vlissingen
P. van den Langenberg	head of HRM, Food Retail
M. de Man	assistant operations manager, Sligro Delivery Service
T. Nillezen	head of programme and process management, Sligro Food Group
E. van der Pasch	CRM manager, Sligro
F. Punte	head of property management, Sligro Food Group
M. Rijnsburger	purchase officer, non-resale goods, Sligro Food Group
A. de Rooij	head of purchasing and product range management - fresh produce, Sligro Food Group
R. van Ruiten	site manager, Retail DC Kapelle
L. Rutten	operations manager, Sligro Delivery Service
N. van Sante	HR manager, Sligro Food Group Nederland
B. Schapendonk	head of purchasing and product range management - wines and spirits, Sligro Food Group
H. Schipper	manager, Sligro Cash-and carry
G. Schneemann	marketing and sales manager, Sligro
K. Slippens	CEO, Sligro Food Group

R. van der Sluijs	CFO, Sligro Food Group
B. Stapel	national account manager, Sligro Delivery Service
J. Storm	manager of Bouter
W.J. Strijbosch	Foodservice director, Sligro Food Group
G. van der Veeken	company secretary, Sligro Food Group
P. van der Veen	manager, Information & Technology Office, Sligro Food Group
M. van Veghel	ICT manager, Sligro Food Group
A. Verlouw	head of building works, Sligro Food Group
M. Versteegh	department manager, Marketing & Sales, Sligro
S. van Vijfeijken	head of GID/WID, Sligro Food Group
W. van Wijk	regional manager, Sligro - The Hague Forepark
J. van der Wijst	head of purchasing and product range management - non-food, Sligro Food Group
E. Wildeman	supply chain project coordinator, Sligro Food Group
M. Wirken	business control manager, Sligro Food Group

Key staff Belgium

B. Beerten	HR manager, Sligro Food Group Belgium
J. Heus	operations manager, ISPC
W. Heylen	ICT manager, Sligro Food Group Belgium
D. Ladrière	sales manager, Sligro-ISPC
P. Lievens	purchase manager, ISPC
R. Michel	manager, finance projects & systems Sligro Food Group Belgium
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Disclaimer
The 2017 annual report of Sligro Food Group N.V. is available in Dutch and English. The original financial statements were drafted in Dutch. In case of any discrepancies between the English and the Dutch text, the latter will prevail. Copies of the annual report in Dutch and English are available on request from Public Relations Department, Sligro Food Group N.V., Veghel, Netherlands.

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Annual Report 2017

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