

# REMUNERATION REPORT

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*This report explains how the remuneration policy approved by the General Meeting of Shareholders has been put into practice over the past financial year (2019), and it details the remuneration that has been paid to or accrued by the individual members of the Executive Board. Members of the Executive Board and Supervisory Board are considered key Group staff members.*

## **Composition and results of the remuneration policy**

The remuneration policy is published on the company website. There were no changes to this policy in 2019. As a result of the passing of the Dutch law on 1 December 2019 implementing the EU Directive as regards the encouragement of long-term shareholder engagement, a proposal to amend the remuneration policy to bring this into line with the new legislation will be made during the General Meeting of Shareholders scheduled for 09 June 2020. In view of the remuneration policy currently in effect and which is being applied, the change in the law will not result in any material changes to the remuneration policy. The details of the Executive Board's remuneration are given each year in the financial statements.

The key points of the remuneration policy (and the changes to this) are that:

- the policy is drawn up by the Supervisory Board and put before the General Meeting of Shareholders for adoption (under the new policy, the remuneration policy must be put to the General Meeting of Shareholders for re-adoption within four years of adoption of the existing policy);
- the policy must provide the framework for attracting qualified candidates for the Executive Board;
- the remuneration policy must be competitive while also reasonable in comparison to that of the other members of management (the new policy explicitly states that the pay and benefits package of the other employees in the company must also be taken into account).

The remuneration package comprises:

- a fixed annual salary;
- participation in a short-term bonus scheme;
- participation in a long-term bonus scheme, under which the full amount of any bonus granted must be used to purchase shares;
- participation in a long-term share option scheme, which also requires that all share options granted be used for the purchase of shares;
- pension accrual under a defined-contribution pension scheme;
- other fringe benefits.

Remuneration of Executive Board members in office in 2019 that was charged to the profit amounted to €1,517 thousand (2018: €1,956 thousand). In accordance with the legislation in effect at the time, there was no vote on either the remuneration policy or remuneration at the General Meeting of Shareholders held on 20 March 2019. There has been no reason to make use of the clawback clause to recover any bonus granted, nor have there been any deviations from the remuneration policy or the decision-making process for the remuneration policy. Executive Board and Supervisory Board remuneration is not charged to subsidiaries.

This remuneration can be broken down as follows:

x € 1,000	K.M.Slippers		R.W.A.J. van der Sluijs		W.J.P. Strijbosch	Total	
	2019	2018	2019	2018	2018	2019	2018
Fixed salary	533	485	464	421	421	997	1.327
Short-term bonus	40 *	56	35 *	49	49	75	154
Long-term bonus	40 *	56	35 *	49	49	75	154
Pension premium and compensation	149	127	82	74	90	231	291
Value of options	59	0	58	0	0	117	0
Statutory social security costs	11	10	11	10	10	22	30
<b>Total</b>	<b>832</b>	<b>734</b>	<b>685</b>	<b>603</b>	<b>619</b>	<b>1.517</b>	<b>1.956</b>

\*) In our press release of 19 March, we outlined the impact the coronavirus outbreak is having on Sligro Food Group's operations. In this light, the Executive Board decided not to take the short-term and long-term bonuses awarded to them for 2019. The tables and ratios in this report have not been updated to reflect the loss of this variable remuneration.

#### Fixed salary:

Once every three years, the remuneration package is benchmarked against a reference group of around twenty companies, with the help of an external expert (Korn Ferry in this case). This was last done in 2018, as explained at the 2019 AGM (see website: [www.sligrofoodgroup.nl](http://www.sligrofoodgroup.nl) > Investor relations > AGM Information > Previous Meetings of Shareholders > AGM of March 20, 2019 > Presentation > sheets 47 to 54). Details of the reference group that was used are also shown there. Based on the benchmark results, it was decided to increase the fixed and variable remuneration for both Executive Board members by 10% as per 1 January 2019. It is important to note that this increase is to be placed within a 3-year cycle. In the years 2017 and 2018, an increase was granted as per the collective labour agreement/general pay increase (lowest increment used for Group employees). As a result, the average annual pay rise over the 2017-2019 period is 4.4%:

	2017	2018	2019	average
increase	1.75%	1.75%	10.00%	4.43%

#### Short-term and long-term bonus:

The short-term and long-term bonus are both awarded based on performance in the year in question, albeit that quality-related targets do have a longer horizon, as they are linked to programmes that contribute to the company's long-term strategy and value creation. Bonuses are paid out in the following year. In our press release of 19 March, we outlined the impact the coronavirus outbreak is having on Sligro Food Group's operations. In this light, the Executive Board decided not to take the short-term and long-term bonuses awarded to them for 2019. When achieving 100% of the 'at-target' level, a short-term bonus is paid out in cash, amounting to 30% of the fixed salary, as well as a long-term bonus of 30% of the fixed salary, which (after deduction of tax) must be used to purchase Sligro Food Group shares. These shares are locked up for a period of four years.

Bonus structure for 100% at target:

	Net profit target	Quality targets	Total	Bonus
Short term	15%	15%	30%	In cash
Long term	15%	15%	30%	In shares
<b>Total</b>	<b>30%</b>	<b>30%</b>	<b>60%</b>	

Each percentage point by which the actual profit falls short of the profit target reduces both the short-term and long-term component of the bonus by 1.5 percentage points. No bonus will be paid if the actual profit is below 90% of the target. Each percentage point by which the actual profit exceeds the profit target increases both the short-term and long-term component of the bonus by half a percentage point. Although there is no cap on the amount by which the target can be exceeded, there is a dampening effect. The combination of ambitious targets, correction for excessive one-off items and the dampening mechanism when the target is exceeded has in the past never led to extensive exceeding (>10%) of the bonuses.

**Result on bonuses:**

The budgeted profit target was not achieved and the result is also below 90% of the target. The part of the bonus relating to the budgeted profit target is therefore not awarded.

50% of this bonus (2018: 50%) is tied to quality targets that contribute to the company’s strategy and value creation, both in the short and the long term. For the 2019 financial year, this 50% of the bonus was awarded based on achievement of the following sub-targets:

1. SAP implementation on schedule as planned;
2. Heineken integration on schedule as planned and 2019 budget delivered;
3. set-up of the new organisational model and management complete, including new financial and KPI reporting structure, with due attention to our culture;
4. ‘ZB van de Toekomst’ (Cash-and-Carry of the Future) plan worked out in detail and initial pilots performed in 2019.

SAP implementation is on schedule. The Heineken integration is also well on track; the target set in the budget has not, however, been achieved due to pressure on sales. The new organisational structure has been set up and implemented, although making it an embedded part of the entrepreneurial culture will require attention in the coming period as well. The ‘ZB van de Toekomst’ (Cash-and-Carry of the Future) plan has been set up – with some aspects worked out in detail and others outlined – and various pilots have been set in motion.

Target	Result	Allocation
1	Achieved	1.0
2	Not achieved	-
3	Largely achieved	0.5
4	Largely achieved	0.5
	Total:	2.0

In 2019, variable remuneration consequently reached 25% (2018: 39%) of the at-target level. The main reason for the at-target level not being reached was that profit fell short of the target set for this.

**Options:**

In 2019, members of the Executive Board were granted share options based on the results of a peer group review for the period 2016 to 2018, whereby price gains including dividend yields were compared to the peer group and the relative performance partly determines the number of option rights allocated. Information on the scheme and the composition of the peer group is available on our website: [www.sligrofoodgroup.nl](http://www.sligrofoodgroup.nl) > About us > Corporate Governance > Remuneration.)

The value shown is the value of the shares at the grant date. Whether options represent actual value becomes clear only at the end of the four-year term. The strike price is €31.50, meaning that surplus value is the only way to get yields. Any after-tax profits arising from the share option scheme must be used in full to purchase Sligro Food Group shares, which are subsequently also locked up for four years. Seeing as value is created only by adding shareholder value over a period of four consecutive future years and there is a four-year lock-up period after that, we consider this scheme a valuable extra incentive for a long-term perspective.

In 2019, the term of option rights granted in 2015 ended (the options rights represented a market value of €33,000 at the time). Given that the strike price was higher than the share price on the test date, these options have expired and have been voided, meaning that the Executive Board has not received any shares under this scheme.

### Long-term value creation

These targets are based on long-term value creation. In terms of the targets that have to be achieved to earn it, the long-term bonus equals the short-term bonus, albeit that the payable net amount of the long-term bonus must be used in full to purchase Sligro Food Group shares that must be held for a minimum period of four years. By using lock-up periods of at least four years for the long-term bonus and share options, the remuneration structure is also geared towards forging a long-term mindset and long-term value creation. With this approach, a significant part of the remuneration is geared towards the longer term; this is in line with the company's strategic vision, which also focuses on long-term value creation.

### Scenario analyses

The budgeted profit target and other targets were set based partly on remuneration scenario analyses. In the 2019 financial year, bonuses were based on 25% of at-target level (2018: 39%).

### Share options allocated

The value of the share options is determined by taking the number of share options allocated during the financial year and multiplying it by the value of each share option, as calculated using the formula specified in 5.e of the financial statements. Share and share option transactions are subject to rules drawn up to prevent insider trading, and share transactions are permitted only over a period of two weeks after publication of the annual figures, interim figures, and the shareholders' meeting, and only if there is no prior knowledge during that period.

### Expense allowance

Members of the Executive Board also receive an expense allowance, as well as a kilometre allowance for driving a private car for business purposes. The breakdown of these allowances is as follows:

x € 1,000	K.M. Slippens		R.W.A.J. van der Sluijs		W.J.P. Strijbosch
	2019	2018	2019	2018	2018
Expense allowance	8	8	8	8	8
Kilometre allowance	30	25	25	22	33

### Pay ratio

In 2017, we started reporting on the ratio between the pay of the Executive Board members and the other employees of the Group. To calculate the pay ratio, we use the total remuneration, comprising fixed salary, bonuses, share options, and pension accrual, as well as the social security costs paid over this remuneration package.

We compare the average pay of the two Executive Board members (three up to and including 2018) with the average pay of all other employees of Sligro Food Group. We have, therefore, explicitly opted not to take a random sample from among the employee population.

The table below shows the pay ratio over the last five years and how this was calculated:

x € 1,000	2019	2018 <sup>2</sup>	2017	2016	2015
<b>Executive Board</b>					
Average number of FTEs	2,0	3,0	3,0	3,0	3,4
Remuneration for individual EB members					
K.M. Slippens	832	734	824	739	884
R.W.A.J. van der Sluijs	685	603	695	512	518
W.J.P. Strijbosch		619	716	646	772
H.L. van Rozendaal <sup>1</sup>					192
Employee expenses	1.517	1.956	2.235	1.897	2.366
Average remuneration (A)	759	652	745	632	696
<b>Other employees</b>					
Average number of FTEs	4.098	4.053	6.738	6.568	6.065
Employee expenses	216.306	206.816	286.521	269.308	250.639
Average remuneration (B)	53	51	43	41	41
<b>Total</b>					
Average number of FTEs	4.100	4.056	6.741	6.571	6.068
Employee expenses	217.823	208.772	288.756	271.205	253.005
Average remuneration	53	51	43	41	42
<b>A/B pay ratio</b>	<b>14,4</b>	<b>12,8</b>	<b>17,5</b>	<b>15,4</b>	<b>16,8</b>

1) For January to April 2015

2) Last year's figure for 'employee expenses' under 'other employees' has been adjusted to account for employee expenses that were allocated to Food Retail. This has resulted in the pay ratio for 2018 being adjusted downwards from 13.3 to 12.8.

The increase in the remuneration package of the Executive Board members compared with last year is mainly attributable to a 10% increase in the remuneration for both members following the regular three-yearly review, as well as the value of the share options granted being relatively high in 2019, while being nil in 2018. Furthermore, the number of seats on the Executive Board was reduced to two. Given that the CEO's remuneration is, as per the policy, higher than that of the other members of the Executive Board, the change in composition of the Executive Board leads to an increase in average remuneration per person. The combination of these effects has pushed up the pay ratio.

Taking into account the departure of Food Retail employees partway through 2018, the calculation for 2018 is based on the staff of Food Service only. The average remuneration in Food Service is higher than that in Food Retail. The employees who arrived from De Kweker early in July 2019 have been included in the calculations for 2019.

The table below shows the development of the Group's financial and non-financial KPIs over the last five years:

x € million	2019	2018	2017	2016	2015
Net sales	2.394	2.346	2.142	2.813	2.670
EBITDA	127	114	144	156	160
EBIT	44	53	91	87	103
Dividend	62	62	62	57	52
Sustainable product range as % of net sales	11,6	10,0	8,7	8,2	7,8
Carbon reduction since 2010 as %	(27,7)	(20,9)	(20,1)	(17,4)	(16,3)
Customer satisfaction <sup>1</sup>	73	75			

<sup>1</sup> Stakeholderwatch. The comparison figure relates to the first 120 measurements in January 2019.

## Share and share option holdings

Movements in Executive Board members' share and share option holdings break down as follows:

<b>Shares</b> × 1	<b>K.M. Slippens</b>	<b>R.W.A.J. van der Sluijs</b>
Opening balance	106.296	8.958
Purchase	1.106	962
Sale	0	0
<b>Closing balance</b>	<b>107.402</b>	<b>9.920</b>

<b>Options</b> × 1	<b>K.M. Slippens</b>	<b>R.W.A.J. van der Sluijs</b>
Opening balance	21.300	21.300
Expired	(7.700)	(7.700)
Granted	21.100	21.100
<b>Closing balance</b>	<b>34.700</b>	<b>34.700</b>

The number of share options in issue as at the end of the financial year breaks down as follows:

<b>Options</b> × 1	<b>Exercise price</b>	<b>K.M. Slippens</b>	<b>R.W.A.J. van der Sluijs</b>
valid through to 1 April 2020	34,35	7.800	7.800
valid through to spring 2021 <sup>1)</sup>	34,65	5.800	5.800
valid through to spring 2023 <sup>1)</sup>	31,50	21.100	21.100
<b>Closing balance</b>		<b>34.700</b>	<b>34.700</b>

*1) Valid until the date of the 1st ex-dividend listing following the General Meetings of Shareholders in which the financial statements for the past year are approved.*

## Supervisory Board remuneration

The annual remuneration for the chairman of the Supervisory Board amounted to €58 thousand (2018: €56 thousand), while the other Supervisory Board members were paid €40 thousand (2018: €39 thousand). Supervisory Board members also received compensation for attending Supervisory Board meetings amounting to €35 thousand (2018: €35 thousand). Supervisory Board chairman and member remuneration does not depend on the company's results. Total remuneration amounted to €253 thousand (2018: €246 thousand). Supervisory Board members are not awarded shares and/or share options. No loans, advances and/or guarantees have been granted to Executive Board and Supervisory Board members.