Annual report 2016

MORE THAN JUST MEAT

Vion FOOD GROUP

Contents

'In 2016, we improved our results significantly, and also continued to create **building blocks for the future**.'
– Francis Kint

Foreword
2016: building blocks for the future

In 2016, we improved our results significantly, both in EBITDA and net income. This further solidified our equity and solvency, which is 44.1% despite large investments. Helped by strong global demand, we were pleased to see pork prices increase in 2016, which improved the situation for our suppliers. Our Beef and Food Service divisions again showed a solid performance. During the entire year, we continued to work very hard at improving our production infrastructure, thus creating building blocks for the future.

EBITDA improved 34% to € 60 million which leads to a return on capital employed (ROCE) of 5.6%. This is still not at a satisfactory level for our type of business, but we are undoubtedly moving in the right direction. Our hard work to improve the valorisation of our product in the broad sense and the optimisation of our production infrastructure will lead us to the desired level in the next years.

In 2015, we were concerned about the difficult situation in the pig husbandry in the Netherlands and Germany, which impacted our suppliers in these countries. The situation improved greatly in 2016, also thanks to strong global demand, more specifically in Asia. The Netherlands and Germany have proven to be much appreciated and reliable origins of high quality pork meat.

We have set one clear objective: to increase Vion's value and thus create value for our stakeholders. Our strategy to reach this objective is three-fold: (i) to improve operational results of our current businesses; (ii) to position Vion as a game changer in selected themes of our industry; and (iii) finally, to change Vion's business mix over time and reduce the impact of the pork meat cycle on our overall results.

To improve operating results, we continued to upgrade our 25 production sites to bring them to best-in-class level. Our largest investments were in Landshut, Waldkraiburg, Groenlo and Holzwickede. In Landshut, a pork meat production site in South Germany, we doubled capacity to accommodate the volume of two closed sites. Waldkraiburg can now be described as the one of the largest and most modern beef meat production sites in Europe. In Holzwickede, we invested in state-of-the-art production lines for schnitzels for the growing Food Service market segment.

On the commercial front, we had several breakthroughs in which we moved from suppliers to chain coordinator or category specialist. In the Netherlands, the largest retailer requested us to expand our Good Farming Star animal-welfare concept offering from fresh (pork) meat to raw material for most processed meat products. This secured the sustainability of the concept and this success was also acknowledged and given as example in many surrounding countries such as Germany. Our Food Service division has enforced his position as provider for complete solutions: Salomon FoodWorld offers culinary code seminars to create menus based on the rules of the limbic map, a framework for identifying the values and emotions that resonate most strongly with the guests.

We are aware that meat is the object of numerous societal debates. At Vion, we have decided not to shy away from them. In our first CSR report, we explain how we identified the themes that are both relevant to Vion's business and on which Vion can make a difference. One key theme is transparency. Lack of transparency has been reason, for which our industry was criticised. We are working to improve this. Already in 2014, Vion started to publicise the results of audits on its Dutch website. In 2016, we launched in Germany our www.vion-transparenz.de. With this website, we have three ambitions: to explain what we do, to publish facts and open a forum for discussion with all stakeholders and interested citizens.

2017 will be an equally exciting year for Vion, in which we will pursue the same strategy. In all our divisions, we have concrete plans to reinforce our position. One example is the construction of a new facility in Leeuwarden. In this livestock-rich province, we will focus on meat concepts based on quality and animal welfare. In other words, we are relentlessly creating **building blocks for the future**.

Francis Kint

Chief Executive Officer

Profile

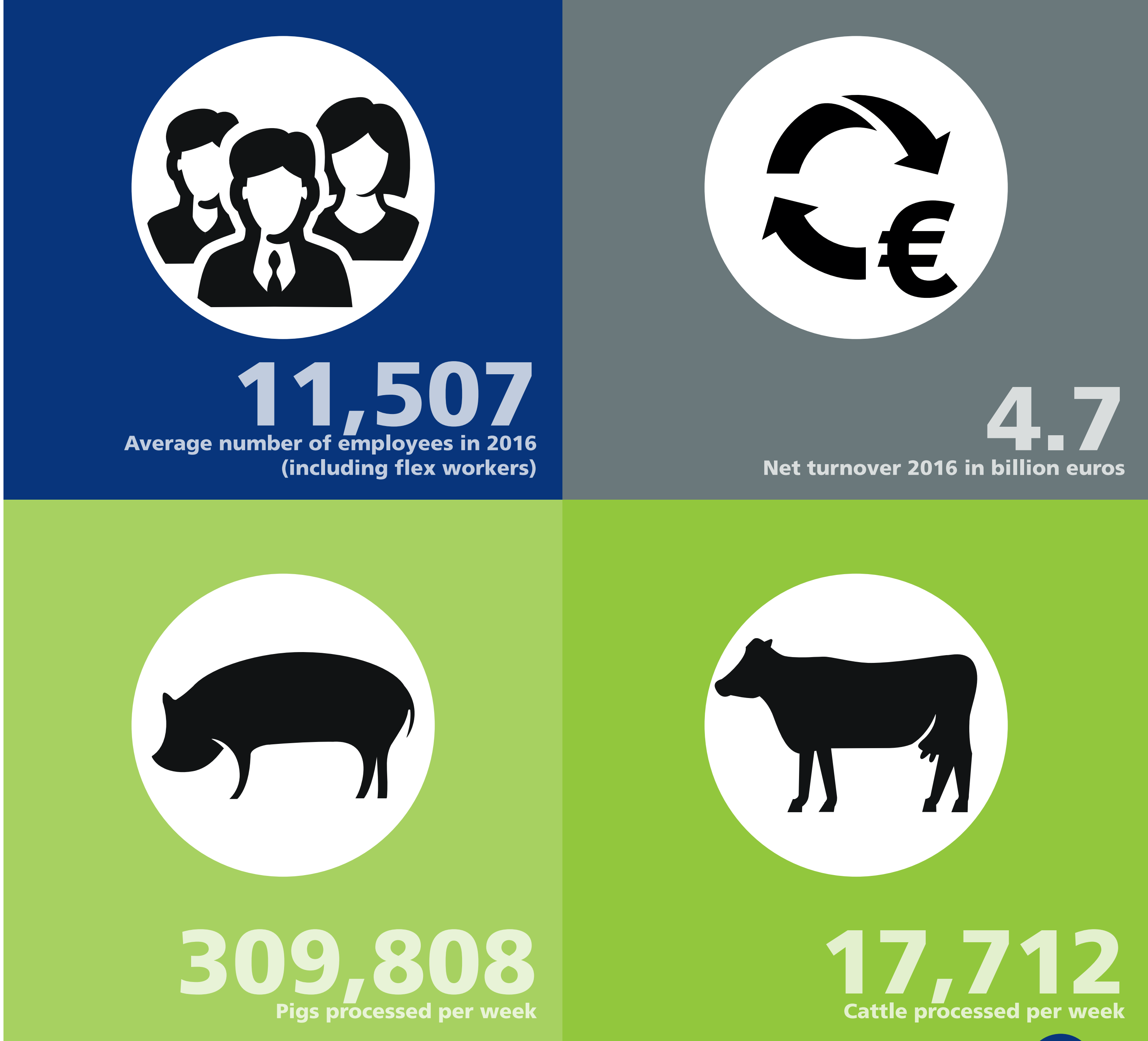
Vion is an international meat producer with production locations in the Netherlands and Germany and sales support offices in sixteen countries worldwide.

Through its three divisions – Pork, Beef and Food Service – the company provides fresh pork and beef, and by-products for retail, foodservice and the meat processing industry.

Vion supplies customers in its home markets of the Netherlands and Germany, other countries in Europe and the rest of the world. Vion's headquarters are located in Boxtel (the Netherlands).

Vion Holding N.V. is a public limited liability company under Dutch law. Starting in 2016 Vion complies with the Dutch Corporate Governance Code.

Vion's sole shareholder, Stichting Administratiekantoor SBT, is a trust office that has issued depositary receipts for its shares to NCB-Ontwikkeling, which acts as the investment fund of ZLTO. ZLTO is an association for entrepreneurs working in agricultural sectors and has approximately 15,000 members in Noord Brabant, Zeeland and the southern part of Gelderland.



Key figures

Amounts in millions of euros	**2016**	2015	2014	2013
Results				
Net turnover	**4,749**	4,571	4,992	7,033
Net turnover from discontinued operations	**0**	0	159	2,002
Normalised EBITDA[1]	**60**	46	60	196
Normalised EBITDA from ongoing operations	**60**	45	58	22
Operating result	**28**	31	20	728
Net result	**31**	22	–21	516
Cash flow				
Cash flow from operating activities	**6**	34	80	–41
Net cash flow from operations (available for financing activities) [2]	**–67**	–18	1,563	–113
Sale and acquisitions of participating interests [2]	**–7**	1	1,519	0
Balance sheet				
Group equity	**448**	416	397	425
Balance sheet total	**1,015**	945	980	2,706
Net debt[3]	**17**	–52	–87	1,459

Amounts in millions of euros	**2016**	2015	2014	2013
Ratios				
Added value as % of net turnover [4]	**21.8%**	21.2%	21.0%	27.5%
Staff costs as % of net turnover	**10.5%**	10.2%	9.7%	10.6%
EBITDA normalised [1] as % of added value	**5.8%**	4.7%	5.7%	10.2%
EBITDA normalised [1] as % of net turnover	**1.3%**	1.0%	1.2%	2.8%
Solvency	**44.1%**	44.1%	40.5%	15.7%
Return (ongoing operations) on average capital employed (ROCE) [5]	**5.6%**	3.7%	5.9%	11.9%
Employees				
Number of employees at year-end	**4,262**	4,233	4,311	6,669
Number of employees including flex workers at year-end	**12,505**	11,542	11,492	14,274
Average number of employees	**4,210**	4,228	5,243	12,491
Average number of employees including flex workers	**11,507**	11,021	12,897	18,099

1 Excluding impairments, restructuring and results from divestments of group companies.
2 Change in 2014 is primarily due to the divestment of Vion Ingredients.
3 Long-term liabilities and current interest-bearing liabilities payable to credit instutions less cash and cash equivalents.
4 Net turnover and changes in inventory of finished goods and goods being processed less cost of raw materials and consumables as a percentage of net turnover.
5 Normalised operating result[1] divided by average capital employed (fixed assets excluding financial fixed assets plus net working capital excluding all interest-bearing liabilities payable to credit institutions and receivables related to divestments of group companies).

Mission, vision and strategy

Mission

Vion wants to be a **global leader and reliable partner** within the food supply chain that provides people around the world with safe meat products.

Vision

Vion's vision is to be a leading actor in the **consolidation** and **professionalisation** of the meat industry.

Strategy

To increase the value of Vion, for the benefit of all stakeholders (shareholders, suppliers, customers and employees)

1. Continuously improve our infrastructure and results

Our industry calls for state-of-the-art infrastructure to guarantee food safety and a competitive cost structure. By working and investing to make itself more efficient, Vion is creating benefits for the entire chain and industry, not the least so for the primary (farming) sector.

2. Position Vion as a game changer in selected themes of our industry

The meat industry is the subject of tough societal debates, covering four important themes: animal welfare, supply chain (traceability, food safety and product integrity), sustainability of meat production and human health. Vion intends to be an actor in implementing solutions.

3. Change the business mix

The meat industry, in particular pork is volatile. We want to reduce the variability of the company's earnings through: a recalibration of the size of our three major businesses, implementing new methods that reduce the volatility in the value chain and increasing our activities in more value-added products.

Core values

- Quality
- Transparency
- Sustainability
- Ambition
- Pride

Management review

In 2016 Vion continued with the execution of the strategy defined in 2015 with a focus on performance improvement. As part of the strategy Vion has further invested in its operational locations to improve the performance of the company. Investments were made in both expansion of the operations, and improvement of the existing footprint in all three divisions Pork, Beef and Food Service. Despite a challenging market, especially in the Pork division in the second half of the year, Vion succeeded to improve its results, EBITDA, net income and ROCE, in 2016 compared to the previous year.

Investments and optimisation of the footprint

In 2016 Vion continued to develop and implement the business plan. During 2016 further investments have been made, and new initiatives have been started, to further improve the performance of the company. Large investments have been made in the site in Groenlo, where now all activities related to organic pork and Good Farming Star are concentrated, and have started in Leeuwarden, where the new slaughtering facility for cattle will be built in 2017. To further optimise the footprint of its Pork activities, Vion announced in March 2017 to invest € 8.0 million in its slaughter house in Apeldoorn, the Netherlands. The investments in Apeldoorn will improve the position of Vion in the Netherlands and on international markets, especially in Asia.

Apart from the completion of the investments in Groenlo and the announced new facility in North Netherlands a significant amount was invested during 2016 in the remaining locations. The main investments made in 2016 relate to modernisation and expansion of capacity in Landshut (Pork), Waldkraiburg (Beef) and Holzwickede (Food Service). The improvements in Landshut will continue in 2017 and are expected to be completed in the course of the year. As a result of the ongoing investments the capacity in Landshut will increase and will absorb the pork volumes transferred from the Waldkraiburg and Pfarrkirchen sides. Waldkraiburg is after the investment a dedicated, and state of the art, beef slaughtering and deboning facility. The investments in Waldkraiburg are expected to be completed in 2017. In Holzwickede significant investments were made in the production line of schnitzel to strengthen the position in this market segment.

In 2016 Vion acquired an additional 12.1% of the shares in Vion Zeven AG, previously held by minority shareholders, and increased its share to 73.0%. In 2017 Vion will continue to acquire minority shares in Vion Zeven AG and other minority shares to increase its share in these companies. Further Vion acquired an additional 12.5% of the shares of Ahlener Fleischhandel GmbH and increased its share from 75.0% to 87.5%. Ownership of those shares have been transferred to Vion early 2017.

The improvement process of the footprint in Bavaria as announced in 2014 was completed in 2016 and the improvements in the remaining facilities will be completed in 2017. As a result one additional Pork site, Pfarrkirchen, was closed in January 2016. Vion will, as part of its normal business, continue to evaluate its current footprint and further align its footprint to improve the performance of the company in the future.

On 9 March 2017 Vion announced that it is concentrating its activities in Lower Saxony, Germany in Emstek and closing its pork slaughtering and deboning facility in Zeven. Following the announcement an impairment loss of € 4.3 million related to the assets of Vion Zeven AG is included in the results of 2016. Other cost for restructuring and closing the facility will be incurred in 2017. Vion is currently negotiating a social plan.

Operational improvements by valorisation

Vion took further steps on valorisation in both the Pork and Beef division. Valorisation enables further optimisation of the economic value of the animals processed by Vion and a better alignment of product offerings with global demand in markets open for Vion in Asia, North America and Australia. The focus of the valorisation initiatives in 2016 has been on the improvement of carcass selection and optimal cutting practices as well as increase margins on the processing on by-products. The positive impact of optimising valorisation is already visible in results in the Netherlands and a number of German locations and is expected to continue and increase in 2017.

Governance and organisational optimisation

Vion is managing its operations based on a divisional structure with three divisions: Pork, Beef and Food Service. Each division is managed by a dedicated management team, responsible for operating the business in the division. In 2016 this structure continued to contribute to further focus on the direction of Vion, improving collaboration and utilisation of synergies. As Vion moved forward into the next phase of strengthening the divisional organisation, and responsibility, in order to give the divisions more ownership for improving their performance and results, Vion has decentralised the supply chain activities back to the divisions in the beginning of 2016. In 2016 Vion implemented the role of divisional oriented information managers to improve ownership and communication between the divisions and the central IT organisation.

In the second half of 2016, Vion's corporate governance has been reviewed and various items have been updated (e.g. code of conduct, whistleblower policy). As of 2016 Vion complies with the Dutch Corporate Governance Code.

Transparency

Vion operates according to demanding quality requirements for all of its production locations. Food safety, animal welfare, product integrity, worker safety and transparency are very important elements of these requirements. Vion takes full responsibility concerning these issues. Therefore Vion has, in addition to the annual report, issued for the first time a separate Corporate Social Responsibility (CSR) report for the year 2016. This CSR report covers all important items with regard to social responsibility the company has based on the materiality matrix defined. The CSR report should be read together with the annual report, but can be read on a stand-alone basis as well.

As of October 2014, Vion has started to publish inspection results and audit reports for the Netherlands online on the website www.vionfood.nl. The quality reports provide a clear picture of the quantity and quality of the meat processed by Vion, results of government inspections and third-party audits, and the conditions under which the meat is processed. In addition Vion started, together with Albert Heijn, in November 2016 a pilot project to increase transparency in its Good Farming Star concept. With the new website www.goodfarmingstar.com Vion shows a broad public how the supply chain Good Farming Star interprets the production of pork with one star from the 'Beter Leven keurmerk' (Better Life quality label) of the 'Dierenbescherming'

(Dutch Society for the Protection of Animals). The website provides information about the origin of the meat and shows the pig farmers behind the product.

As the first company in our market sector Vion virtually opened its doors in Germany, and ensures public digital insights in its production processes. Two years after the successful start in the Netherlands, Vion will now take the next step further at all German locations. In videos and texts, photographs and graphs, the new website www.vion-transparenz.de clearly states facts regarding slaughtering and butchering of pigs and cattle.

Financial review

Results

(in millions of euros)	**2016**	**2015**
Profit and loss account		
Sales volume (in tons of kg)	**2,225,000**	2,102,000
Net turnover	**4,749**	4,571
Total income	**4,811**	4,613
Total operating costs	**4,783**	4,582
Operating result	**28**	31
Normalised EBITDA from ongoing operations	**60**	45
Financial income and expenses	**–9**	–6
Taxes	**13**	0
Share of third parties in result	**–2**	–2
Net result	**31**	**22**

Compared to 2015, net turnover and total operating costs increased in 2016, resulting in an operating result of € 28 million, a decrease of € 3 million.

Margins were negatively impacted by difficult market conditions, putting pressure on the entire business, in particular the pork meat sector in the second half of the year. As a result of further optimisation of the footprint, cost control and efficiency improvements in the logistics and distribution network and lower (non) product related spend categories Vion has been able to improve its normalised earnings before interest, taxes, depreciation and amortisation (EBITDA) from ongoing operations in 2016 to € 60 million (2015: € 45 million). Included in the 2016 EBITDA from ongoing operations is an amount of € 7 million compensation received from the city of Ansbach in Germany for cost incurred in prior years related to a BSE outbreak in 2005.

In 2016 Vion incurred restructuring costs for the reduction of head count and investigating financing options to realise further growth and to make use of market developments, more than offset by reversals of restructuring provisions from prior years for a total amount of circa € 1 million. In 2015 Vion incurred costs related to restructuring of € 7 million.

Also outside of normalised EBITDA from ongoing operations, Vion reported a gain on the sale of land in the UK for an amount of € 3 million, which continued to be owned by the company after the divestment of the UK operations in 2014. In March 2016 ownership was transferred to the buyer. Collection of the proceeds is dependent on the development of the land by the new owner and is expected to occur [over the next years/over several years]. The receivable related to the sale is included in the financial fixed assets in the balance sheet. In 2015 Vion released provisions for a total amount of € 20.6 million from divestments provisions formed in previous years.

In 2016 Vion's net result amounted € 31 million (2015: € 22 million). This improvement in net result was mainly driven by the better operating result as described above and a lower tax charges, partly offset by higher interest charges.

For the year a tax income is reported of € 13 million, previously not recognised. This income is mainly related to the recognition of net operating losses in the Netherlands for an amount of € 20 million. Financial income and expenses increased compared to 2015 from € 6 million to € 9 million in 2016, following higher interest costs restated to the pension obligations in Germany following a further decrease in the interest rates in Europe.

Normalised EBITDA

(in millions of euros)	2016	2015
Operating result	**27,715**	**30,961**
Amortisation and depreciation of fixed assets	31,858	28,493
Impairment losses on fixed assets	4,402	0
EBITDA	**63,975**	**59,454**
Restructuring costs	–869	6,734
Disposal result (sales previous years)	–2,633	–20,564
Normalised EBITDA	**60,473**	**45,624**
EBITDA discontinued operations	–22	344
Normalised EBITDA from ongoing operations	**60,495**	**45,280**

Financial position

(in millions of euros)	2016	2015
Balance sheet		
Fixed assets	340	296
Current assets	675	649
Group equity	448	416
Provisions	125	141
Long term liabilities	23	24
Current liabilities	420	364
Balance sheet total	**1,015**	**945**
Net debt	17	–52
Solvency	44.1%	44.1%

The intangible fixed assets increased to € 39 million (2015: € 32 million). This increase is due to capitalised, mainly internal developed, software. In 2015 the increase was mainly related to goodwill relating to the acquisitions of minority shares in Salomon Hitburger GmbH and Vion SA. The tangible fixed assets increased by € 25 million to € 255 million mainly by investments to expand and/or modernise several sites for footprint optimisation. Financial fixed assets increased € 12 million following the recognition of a deferred tax asset (€ 13 million) related to the carry forward losses in the Netherlands.

The provisions consists mainly of provisions for post-employment benefits (pension plans, pre-pension and early retirements schemes) as well as long-term benefits (jubilee and leave agreements) (2016: € 119 million, 2015 € 120 million). The pension plan liabilities apply fully to the defined benefit pension schemes for employees and former employees of the German group companies. Next to these, provisions for reorganisation and restructuring costs (2016: € 6 million, 2015: 19 million) are part of the total provisions.

At the end of 2016, an amount of € 57 million (2015: € 46 million) was drawn under the € 125 million working capital facility. With gross debt of € 80 million and cash and cash equivalents of € 63 million, net debt was € 17 million (2015: € 52 million negative). This means the de-facto debt free position Vion had at the end of 2015 changed into a small debt position at the end of 2016. The solvency position of the company remained stable in 2016 at 44.1% of the balance sheet total, despite large investments made in fixed assets and the increase of working capital mainly driven by higher prices for livestock.

Cash flows

(in millions of euros)	**2016**	**2015**
Cash flow statement		
Net cash flow from operating activities	**6**	34
Net cash flow from investment activities	**–73**	–52
Net cash flow from financing activities	**7**	–56
Increase / (decrease) in cash and cash equivalents	**–60**	–75
Cash and cash equivalents at year-end	**63**	**123**

The cash flow from operating activities amounted to € 6 million (2015: € 34 million). The main reasons for the decrease is the higher level of working capital, increase in 2016 € 32 million compared to € 12 million in 2015, mainly driven by higher prices for livestock in 2016.

In 2016 cash flow from investing activities amounts € –73 million, being the result of investments in fixed assets to further optimise the production locations (€ 69 million), and payments for the acquisitions of shares in Salomon Hitburger GmbH, Vion SA and Vion Zeven AG. Partly offset by proceeds from sale of tangible fixed assets. Financing cash flow for the year amounts € 7 million highly impacted by the additional amount drawn under the current financing facility (€ 10 million). The cash and cash equivalents consequently decreased by € 60 million to € 63 million.

Divisions

Pork

Key figures	**2016**	**2015**
# Production locations	**17**	17
# Slaughtered heads	**16,110,000**	15,744,000
Sales volume *(in tons of kg)*	**1,765,000**	1,685,000
Net turnover *(in millions of euros)*	**3,212**	2,944
# FTE	**8,813**	7,728

Pork division: key facts

The Pork division processes approximately 310,000 pigs per week. The resulting meat is supplied to national and international retailers, foodservice clients and food processing companies. At the production sites, pork is processed into products for domestic clients as well as export customers in amongst others Europe, Asia, Oceania and North America. Basic raw materials are delivered to industrial customers who process the pork into a wide range of meat products, such as cold cuts, meat snacks, smoked sausages, pizza toppings and dried hams. Besides that, fresh pork is processed by Vion into semi-finished and finished products for the domestic and export retail markets.

The Pork division consists of 17 production locations. Three slaughterhouses in the Netherlands (Apeldoorn, Boxtel and Groenlo) and eight in Germany (Altenburg, Crailsheim, Emstek, Landshut, Perleberg, Riedlingen, Vilshofen and Zeven). In Boxtel and Groenlo, Pork operates processing plants as well (Encebe Vleeswaren and Retail Groenlo).

Besides these, the division operates six separate deboning and processing plants: four in the Netherlands (Scherpenzeel, Encebe Vleeswaren Boxtel, Retail Groenlo and Valkenswaard) and two in Germany (Ahlen and Holdorf). In addition the Pork division operates 16 sales offices in various countries supporting the sales activities of the company.
The Pork division head office is located in Boxtel, the Netherlands. At the end of 2016 the division had approximately 8,800 FTEs (including flex workers).

Market developments
The importance of global trade for the Dutch pork industry has clearly been demonstrated in 2016. Due to low prices for pig farming at the start of the year, the European Union decided at the end of January to open a private storage arrangement to support temporarily stock positions in order to relieve further price pressure on pork. Approximately 100,000 tons of pork has been put in stock under the arrangement, in which Vion participated as well. By the end of the first quarter however, a firm recovery of pig prices started under influence of demand from China. A price increase of more than 30% occurred over a relatively short period of time. The combination of a weakening exchange rate of Euro mainly towards US dollar and Japanese Yen and an increased demand especially from Asia, has influenced Vion's product mix portfolio. In spite of a cooling down of Chinese demand in the third quarter, prices of life pigs in Europe remained at a relatively high level; putting operational margins under pressure. A reasonable balance between demand and supply of life pigs was established in the fourth quarter. Due to a more or less normal number of working days in the period at the end of the year, with only one production day missing in the last week of December, the traditional oversupply of life pigs at year ending did not occur.

Full focus on demand driven supply chains
In view of Vion's strategy to focus on the development of demand driven supply chains, 2016 has proven a successful year. Within its Good Farming-market concepts, Vion focusses on food safety, animal welfare, inherent product quality and transparency. Vions' subsidiary 'De Groene Weg', a leading player in the European market for organic meat, celebrated its 35th anniversary in 2016. The Dutch market for organic meat, though a niche market, has been showing annual growth rates of 6-7% and is estimated as a favourable market for the future. Parallel to the positive development in the organic segment, further steps forward were made with regard to 1 Ster Beter Leven pork under the 'Good Farming Star'-concept. Vion has contracts with Netherland's most important food retailers, which provides a strong foundation for this market concept. In 2016 Vion decided to significantly increase the production of Good Farming Star pork meat.

Investments production sites
A large investment in the factory in Groenlo took place in order to concentrate all Good Farming Star and organic activities at one site. Restructuring of the Groenlo production site was finished in September 2016. As a part of the opening celebrations, a symposium was organised with the aim to contribute to the process of developing transparent and sustainable supply chains for the future, in which Vion aims for a leading role. Further initiatives in this respect were announced. At the production site in Landshut another major restructuring took place in 2016. Besides this, investments were made in the Emstek production site, mainly with respect to production and packaging of products for the Asian markets. Expected improvements will be delivered in 2017.

Operational improvements
The implementation of the Vion valorisation strategy, focusing on improvement of net value by an integrated operational approach in combination with new developed product market portfolio strategies, has meanwhile shown its first successes. Revision of management information systems, supporting operational and commercial processes, has resulted in a better market portfolio. For those sites which have implemented the new methodology under the Vion Operating System, promising positive impact on operational costs is shown. Exogeneous cost increases have been more than offset by productivity gains. Full roll out of the new models is foreseen in 2017. Despite an expected general pressure on commercial margins caused by fierce competition in the North West European pig market, further recovery of the results of Vion Pork is foreseen as an effect of further implementation of the Vion valorisation strategy in combination with the positive effects of the Vion operating system on productivity and costs.

Pro-active communication, building trust
In 2016, Vion pro-actively encouraged and promoted initiatives to build trust in the industry. Vion Pork participated in two editions of television programme 'Keuringsdienst van

Waarde': one item about the future of pig husbandry in the Netherlands and another item about the production process of bacon. Besides that, publishing the test reports of the Vion production sites was broadened from the Netherlands to Germany, thus enlargening transparency. At the end of September 2016, stakeholder events at the production site in Groenlo stimulated an open dialogue with supply chain partners, pig farmers and employees; with almost 3,000 visitors taking a look at the open day on Sunday 2 October. In November 2016, Vion Pork participated in a pilot with QR-codes on 1 ster Beter Leven-meat packages, making visible the origin of Good Farming Star-meat towards consumers. At this occasion, a Good Farming Star website was launched, which shows the farmers and production system behind the meat.

Beef

Key figures	2016	2015
# Production locations	11	12
# Slaughtered heads	921,000	905,000
Sales volume *(in tons of kg)*	462,000	458,000
Net turnover *(in millions of euros)*	1,543	1,669
# FTE *(flex workers included)*	2,983	3,222

Beef division: key facts

The Beef division processes approximately 17,700 cattle per week. The resulting meat is supplied to national and international retailers, foodservice clients and food processing companies. At the production sites, beef is processed into products for domestic clients as well as export customers in Europe, with the Netherlands and Germany as the largest destination markets. Basic raw materials are delivered to industrial customers who process the beef into a wide range of meat products. Besides that, fresh beef is processed by Vion into semi-finished and finished products for the domestic and export retail markets, including Vion Food Service.

The Beef division consists of eight slaughterhouses: one in the Netherlands (Tilburg) and seven in Germany (Altenburg, Bad Bramstedt, Bamberg, Buchloe, Crailsheim, Furth im Wald and Waldkraiburg). The slaughterhouses are all strategically located to minimise the transit time for the animals. In addition to its slaughterhouses, Vion owns three deboning and processing plants: one in the Netherlands (Enschede) and two in Germany (Hilden and Großostheim). Further a new slaughter location is currently being built in Leeuwarden (the Netherlands). The Beef division head office is located in Buchloe, Germany. At the end of 2016 the division had approximately 3,000 FTEs (including flex workers).

Developments in 2016

2016 has been a year of solid performance for Vion's Beef division. The multi-year restructuring programme continued in 2016 with the closure of the Pfarrkirchen plant. Furthermore, the reconstruction work at the Waldkraiburg plant continued in such way that this plant is set to be the most modern slaughtering and deboning facility in Europe. Despite running three plants less than mid of 2015 and having one plant under construction in 2016, the Beef division managed to slaughter slightly more cattle as before. Vion's slaughtering plant in the Netherlands performed exceptionally well during the last quarter of the year. Looming governmental phosphate measures have led to farmers decreasing their stock, which in turn resulted in a higher number of cattle being slaughtered. In addition, the Beef division took internal measures to optimise output. However, not only investments were made in the existing plants, the Beef division is strengthening its position by building a brand new slaughtering plant in the north of the Netherlands, more specifically in Leeuwarden.

Vion is a trendsetter and market leader for beef in Germany and the Netherlands and holds a leading position in Europe. Vion's beef products are mainly marketed in the home markets of the Netherlands and Germany as well as Southern Europe (France, Greece, Italy and Spain). Thanks to its skill and expertise combined with large-scale, state-of-the-art production technology, Vion is able to supply an extensive customer base with large quantities of consistently high-quality beef. Clients can choose from a wide portfolio of fresh and frozen beef and beef-based products. Vion offers excellent customer service and is a reliable partner for the retail, foodservice and processed meat industries.

All production locations are certified in accordance with one of the leading food safety standards (IFS or BRC). In addition, thanks to the use of innovative and patented QR-code technology, full transparency is provided. Consumers have the possibility to trace meat back to individual farms by scanning a QR-code on the packaging using their mobile phone which links directly to a relevant website for more information.

Reliable partners

Vion has a strong and a long-term partnership with most of its suppliers. Vion collaborates intensively with farmers, industry associations and traders. Food safety is ensured through close cooperation with professional and reliable partners, whether for breeding, housing or transportation.

Vion as a trendsetter

Vion is expanding its leading market position in its home markets. Regionality and quality are major drivers for the beef sector, especially in Germany. Vion fulfills its role as a trendsetter with the launch of high quality regional products under the umbrella brand of Goldbeef. Moreover, since the trend of dry-aged beef became increasingly popular in 2016, the Beef division invested even more in temperature-controlled storage rooms, where the cuts are left to dry in order to attain an intense flavor. In addition, an online shop was set up in order to directly reach the end-consumer, whose appetite for a superb piece of meat is continuously growing. At the website Beilerei, one can buy for instance a dry-aged piece of tomahawk steak and have it delivered at your doorstep.

Prices: seasonal pattern

Cow cattle prices follow a seasonal pattern with higher prices in the spring and summer (due to the reduced supply) and lower prices in the autumn and winter (due to the increased supply).

During the last quarter of 2016, the Dutch government planned to introduce measures in order to reduce the phosphate emissions. This meant that milk farmers had to decrease their stock. Especially, the slaughterhouse in Tilburg profited from this influx of cows. The higher number of cows being offered for slaughtering did, however, result in a lower price per cow.

Food Service

Key figures	2016	2015
# Production locations	2	2
Sales volume *(in tons of kg)*	59,000	57,000
Net turnover *(in millions of euros)*	233	226
# FTE *(flex workers included)*	511	432

Food Service: key facts

The Food Service division operates two production plants: one in Großostheim for hamburger patties and one in Holzwickede for schnitzel, haxer and minced beef and poultry products. In addition, the division has long-term strategic alliances in Europe as well as in Asia with external production partners. At the production sites, meat is processed into products for predominantly the German market, as well as to the countries surrounding Germany. The Food Service division head office is located in Großostheim, Germany. At the end of 2016 the division had approximately 500 FTEs (including flex workers).

The leading specialist of meat-based frozen products for out-of-home consumption following a consistent market strategy

The approach of the Food Service division is characterised by the pursuit of a consistent, multi-year market strategy. Food Service is active in the growing market segment ‘Frozen Convenience’ with the focus on frozen meat convenience products. The strategy is the base to achieve annual revenue growth and to continuously raise awareness of the two brands; Salomon FoodWorld and FVZ Convenience. The drivers for the growth are the strength of the brands, the market access, the know-how of the employee base and the patented research and innovation. Food Service has a leading position in burgers, schnitzels and finger food.
In 2016, Food Service once again succeeded in achieving revenue growth, substantially above the rate of market growth which resulted in a larger market share compared to 2015. Brand awareness has increased again due to a systematic focus on positioning of the brand names in the market. In 2016 Food Service completed the consolidation of all synergistic organisational processes.

Gastronomy and impulse channels: Consistent growing market in Europe

Food Service serves two segments of the food market: gastronomy and impulse channels. The gastronomy segment comprises catering firms, canteens, restaurants and hotels. These make up the more traditional part of the food sector, which is largely mature and affected by the state of the economy. The other segment, impulse buys (snacks), comprises the ad-hoc convenience, travel, transport and leisure/entertainment outlets. The impulse channel is young and offers a lot of potential. A growing number of people are eating outside of the home and buying food from establishments such as petrol stations and takeaway outlets.

Two brands: Salomon FoodWorld and FVZ Convenience

Vion offers two food service brands: Salomon FoodWorld and FVZ Convenience.
Salomon FoodWorld is positioned as an innovative convenience company, focused on customer impulses, successes and emotions. This is a large brand in Germany

and Austria and is growing in the Netherlands after launching the brand in 2015. Salomon FoodWorld supplies products in three groups:
– Finger Food Hits (snacks from various countries)
– Hand Held Snacks (especially burgers)
– Centre-of-Plate (meat-based convenience products)
For FVZ Convenience 2016 was a dynamic year. The brand positioning has been realigned and the market image renewed. The production set-up had been revised by implementing two new production lines and processes were restructured, which lead to higher expenses during the restructuring phase but also to an increase of production volumes. FVZ Convenience is specialised in the manufacture of convenience products. FVZ Convenience is positioned as the modern traditionalist with the promise 'Simply do it…'. Customers can choose from a range of lines comprising dozens of products that are quick and easy to prepare.

Market share growth

The Food Service activities have demonstrated continuous growth and outperformed the German market growth, that amounts 0.9% in 2016, significantly by 3.5%.
Key drivers behind this significant above-average growth are the success factors of 'processing competence', 'marketing competence' and 'innovation power' as a full-fledged member of Vion. 'Producer competence' means that, since the company has full control over the formulations and manufacturing process, it can tell customers exactly what goes into the products and how they are made. 'Marketing competence' expresses the fact that Vion does not merely sell products but also helps customers to prepare and sell them. 'Innovation power' means that the division presents yearly market innovations to the customers.

In Germany Vion is market leader in the division's three segments with Salomon FoodWorld's Center-of-Plate (schnitzel and mince-based products) with more than 35%, Finger Food Hits (e.g. buffalo chicken wings and appetisers) with more than 35% and Hand Held Snacks (mainly hamburgers) with more than 60% of the food service market (value). In addition, with the brands FVZ Convenience and Salomon FoodWorld, the Food Service division holds a market-leading position in the top 100 key accounts with a share of more than 80%.

Salomon FoodWorld and FVZ Convenience are also expanding internationally. In addition to Germany and the Netherlands, both brands also sell their products to customers in Italy, Austria, France and Scandinavia.

Investing in the future

In 2016, Food Service invested an appropriate amount in enlarging and optimising its production technology in a drive towards leaner, more efficient and more effective manufacturing and increased the production volume.

Corporate

Key facts

in addition to is operating divisions, Vion operates a corporate organisation that includes its head quarter functions and IT services. The head quarter functions include the management board, central finance & human resources functions and supporting departments. The majority of those activities are based in Boxtel, the Netherlands, for the head quarter and certain IT activities and in Hannover, Germany, for the majority of the remaining IT activities. At the end of 2016 corporate had approximately 200 FTEs.

'17 Outlook 2017

The same as in 2016 the Dutch and German pork industry is expected to be under pressure in 2017. These markets are strongly influenced by the broader global pork market, and therefore will continue to rely strongly on exports. European consumption is expected to slightly decrease going forward, which increases the focus on export to markets outside of Europe. Purchase prices are expected to remain at a higher than the long term average for the beginning of 2017.

On 9 March 2017 Vion announced that it is concentrating its activities in Lower Saxony, Germany in Emstek and closing its pork slaughtering and deboning facility in Zeven. As a result of the loss making situation in Zeven, it is expected that the concentration will have a positive contribution to the operating results of Vion as from 2018 onwards.

Volatile cattle prices and slowly decreasing beef consumption in Europe are expected to continue also in 2017. Supply of cattle in the Netherlands is expected to be higher in the near future due to additional measures taken by the Dutch government to reduce phosphate emission. As announced in July 2016 Vion is investing approx. € 15 million in a new slaughter location for cattle in Leeuwarden. It is expected that the new location will be operational in the last quarter of 2017 and will gradually increase slaughter volumes.

The meat-based frozen food segment of the out-of-home market in Germany continues to show a steady growth and, with its strong position in this segment, Vion will benefit from this and further improve its market share in Germany. Food Service will continue to investigate the expansion of its activities to other European countries.

As the current working capital facility will expire mid-2017, Vion is currently in the process of renewing its current € 125 million working capital facility. As part of the process Vion has agreed with four banks the main terms and conditions for a new working capital facility of € 200 million for a five year period. The new facility will provide sufficient funding to the company to execute its strategy and fund the operations in the future years. Vion expects the renewal of the working capital facility to be finalised in the course of April.

Despite the anticipated ongoing difficult market conditions, especially in the pork industry, in 2017, Vion strives to maintain and improve its results and market share again in 2017. This is based upon the results of previously implemented footprint initiatives, realised cost savings and the experience of the new professionalised divisional structure. In addition, Vion will continue to invest in restructuring and improvements of its footprint, optimising the margin through valorisation and further cost reductions.

Vion will convert from Dutch GAAP to IFRS in 2017. Vion has decided to convert to IFRS because IFRS:
- is the common reporting standard for international companies with size of Vion;
- will increase the comparability of results with peer group companies;
- will improve financial communication with various stakeholders;
- will improve the access of Vion to capital markets.

In the appendix to this annual report (page 77) the estimated impact on result and equity is explained.

Boxtel, 28 March 2017

Management board
F.J.L.J. Kint, CEO
J.L.M. Sliepenbeek, CFO

Composition of the executive committee

The management board of the company is comprised of Francis Kint (CEO) and Joost Sliepenbeek (CFO). The executive committee further includes Frans Stortelder (COO Pork), Bernd Stange (COO Beef), Bernd Stark (COO Food Service) and Henk van den Bogaart (Group HR Director).

From left to right: Bernd Stark, Bernd Stange, Frans Stortelder, Francis Kint, Joost Sliepenbeek and Henk van den Bogaart.

Personal details of the members of the executive committee

F.J.L.J. (Francis) Kint
1962, Belgian nationality
Chairman of management board and executive committee

Function
CEO since 1 September 2015

Former functions
CEO at UNIVEG, President Europe at Fiskars Brands, Vice-President North & Eastern Europe at Chiquita Brands, Manager Financial Planning at Sara Lee, Consultant at Accenture

J.L.M. (Joost) Sliepenbeek
1963, Dutch nationality
Member of management board and executive committee

Function
CFO since 1 May 2015

Former functions
CFO of Van Gansewinkel, C1000/Schuitema and HEMA. Previously he also worked at Royal Ahold, Gilde Investment Management, KPMG Management Consulting and De Vleeschmeesters

F.H.A. (Frans) Stortelder
1959, Dutch nationality
Member of executive committee

Function
COO Pork since 8 March 2015

Former functions
Managing Director SturkoMeat Group, CEO of Vion's predecessor Dumeco, Managing Director at Jutland Meat, several consulting programs at EMAPlus for a.o. Sara Lee Foods, Groupe Smithfield

B. (Bernd) Stange
1960, German nationality
Member of executive committee

Function
COO Beef since 1 April 2014

Former functions
Joined Vion in 2000 and worked in various roles: Managing Director of the Business Unit (BU) Fresh Meat Germany and the BU Pork and Beef (2013), BU Fresh Meat North and BU Fresh Meat South (2006) and A. Moksel (2000). Former General Manager of several meat companies

B. (Bernd) Stark
1958, German nationality
Member of executive committee

Function
COO Food Service since 1 April 2014

Former functions
Joined Vion in 2005 and worked in various roles: Managing Director Salomon FoodWorld (2011) and Salomon Hitburger (2005). Former Marketing Director Nestlé Schöller and responsible for food service Europe ice-cream and frozen food and additionally for the brand Mövenpick

H.G.M. (Henk) van den Bogaart
1958, Dutch nationality
Member of executive committee

Function
Group HR Director since 1 October 2015

Former functions
CHRO at Royal Wessanen, Vice-President HR at Philips Domestic Appliances & Personal Care, Corporate HR Director at Gist-brocades, HR Director at Baxter Healthcare Inc., HR Officer at Organon International

Corporate governance

Vion Holding N.V. is a public limited liability company under Dutch law with its registered office in Best, the Netherlands. Vion is exempted from applying the Dutch legal regime for large companies, the so-called large company regime (structuurregime), because Vion is an international holding company. Vion has a two-tier board. The management board is responsible for managing the company, while the supervisory board oversees the policy set by the management board and the general affairs of the company. The management board is supported by the executive committee. Vion's corporate governance consists of rules based on Dutch legislation, its articles of association, the Dutch Corporate Governance Code, and Vion's own code of conduct.

Management board

Tasks

The management board is responsible for Vion's strategy, its portfolio policy, the deployment of people and resources, the risk management system and the operating results. The management board is accountable to the general meeting of shareholders. The management board makes decisions based on an absolute majority. The supervisory board oversees management board policies. To this end, the management board provides all information to the supervisory board that it needs for the proper performance of its duties. Important management board decisions are subject to the approval of the supervisory board. The supervisory board discusses the performance of the management board as a body and that of its members individually together with the conclusions reached, at least once a year without the members of the management board being present. The management board has laid down rules regarding its composition and performance in rules of procedure that can be found on the company's website.

Appointment and conflict of interests

The management board members are appointed by the general meeting of shareholders after the prior binding opinion of the supervisory board has been reached. The general meeting of shareholders may only ignore the binding opinion of the supervisory board with the consent of at least two-thirds of the votes cast, which in turn represents at least half of the issued capital. The management board members are appointed for an indefinite period.

Vion strives to achieve a reasonable gender balance on the management board, with neither the proportion of women nor that of men falling below a minimum of 30%. While this goal is taken into account, Vion's principle is that the most suitable candidate for the vacancy will be appointed. After careful consideration of all relevant selection criteria, a woman has not yet been appointed to the management board. The next time a vacancy arises the search criteria will emphasise that the candidates should preferably be female.

In the event of a conflict of interests with regard to a particular topic, the management board member in question may not participate in discussions or decision-making on that topic.

Remuneration

The supervisory board determines the remuneration of the management board and the other employment terms for the management board members within the general remuneration policy adopted by the general meeting of shareholders.

Executive committee

Tasks

The management board is supported by the executive committee in achieving the objectives of the company and implementing the strategic objectives set out in the strategy and business plan. In addition to the management board members, the other members of the executive committee include the chief operating officers (COOs) of the Pork, Beef, and Food Service divisions and any other by the management board appointed key officers. The management board is ultimately responsible for the actions and decisions taken within the executive committee and for the overall management of Vion.

Supervisory board

Tasks

The supervisory board oversees the policies set by the management board and the general affairs of the company, and provides the management board with advice and assistance. In the performance of its duties, the supervisory board focuses on the interests of the company and its business. Important management board decisions are subject to the prior approval of the supervisory board. Important decisions are those that relate to how Vion is structured and the nature and scale of business operations and decisions affecting the capital structure of the company.

The supervisory board makes decisions based on an absolute majority. The supervisory board may only take valid decisions when at least the majority of the supervisory board members in office are present or represented. The supervisory board may only take decisions outside its meetings, provided that all supervisory board members have expressed themselves in favour of the proposal concerned. The supervisory board discusses its own performance, that of its committees and that of individual supervisory board members, together with the conclusions reached, at least once a year without members of the management board being present. More information can be found in the report of the supervisory board on page 29. The supervisory board has laid down rules regarding its composition and performance in rules of procedure that can be found on the company's website.

Independence

The supervisory board strives to achieve that the majority of its members are independent in the sense of best practice provision III.2.2 of the code. The section on the Dutch Corporate Governance Code on page 22 includes information on the independence of members of the supervisory board.

Appointment

The supervisory board members are appointed for a period of four years by the general meeting of shareholders after the prior binding opinion of the supervisory board has been reached. Reappointment is possible for a maximum of two terms of four years each. The general meeting of shareholders may only disregard the binding opinion of the supervisory board with the consent of at least two-thirds of the votes cast, which in turn represents at least half of the issued capital.

The general meeting of shareholders may grant a fixed remuneration to supervisory board members. Details about the remuneration can be found in the section on remuneration on page 35. In addition the supervisory board members will be reimbursed for all reasonable costs.

The company strives to achieve a reasonable gender balance on the supervisory board, with neither the proportion of women nor that of men falling below a minimum of 30%. The composition of the supervisory board is established using carefully defined profiles and competencies. At this moment one out of seven members is a woman. The next time a vacancy arises the search criteria will emphasise that the candidates should preferably be female.

The supervisory board has appointed an audit committee and a remuneration, selection and appointment committee from among its members. The purpose of both committees is solely to advise the supervisory board and thus these committees will not take on the responsibilities of the supervisory board.

Audit committee

The audit committee supports the supervisory board with respect to oversee the financial reporting process, the system of internal control and management of (financial) risks, the audit process, and the process that Vion uses to comply with laws and regulations and with its own code of conduct.
The audit committee has laid down rules on its composition and performance in rules of procedure that can be found on the company's website.

Remuneration, selection and appointment committee

The remuneration, selection and appointment committee advises the supervisory board on the selection, appointment and remuneration of the company's management board members and the supervisory board members.
The remuneration, selection and appointment committee has laid down rules on its composition and performance in rules of procedure that can be found on the company's website.

More information about the supervisory board and its committees can be found in the report of the supervisory board on pages 29 and 30.

General meeting of shareholders

General

The general meeting of shareholders is held at least once a year with the objective of adopting the annual accounts. The general meeting of shareholders is also held as often as the management board or the supervisory board deems necessary. Shareholders are entitled to ask the management board or the supervisory board to convene a general meeting of shareholders provided they represent at least 10% of the issued capital. In convening a general meeting of shareholders, the topics to be discussed will be reported. Each shareholder is entitled to attend the general meeting of shareholders and to speak and to exercise voting rights. The chairman of the general meeting of shareholders is appointed by the supervisory board.

The general meeting of shareholders shall take decisions by an absolute majority, except when stipulated in the law or articles of association that a larger majority of votes is required for the specific decision. The articles of association stipulate that an amendment to the articles of association or the dissolution of the company requires a two-thirds majority which in turn represents at least two-third of the issued capital in the event the initiative to do so was taken by the general meeting of shareholders and is not supported by the management board or the supervisory board.

Important management board decisions are subject to the prior approval of the general meeting of shareholders. Important decisions are those that relate to how Vion is structured and the nature and scale of business operations, and decisions affecting the capital structure of the company.

Stichting Administratiekantoor SBT

Stichting Administratiekantoor SBT (SBT) is the sole shareholder of the company. SBT has issued depositary receipts for its shares in the company. The depositary receipts have been issued without cooperation of the company. All depositary receipts are held by Noordbrabantse Christelijke Boerenbond, Rooms-Katholieke Vereniging van Boeren en Tuinders-Ontwikkeling ('NCB-Ontwikkeling'). The board of SBT consists of five members. According to the articles of association of SBT three out of five board members are appointed by NCB-Ontwikkeling. The other two board members are also appointed by NCB-Ontwikkeling as holder of all depositary receipts. At this moment one board member of SBT is also member of the board of NCB-Ontwikkeling. NCB-Ontwikkeling is related to Zuidelijke Land- en Tuinbouworganisatie ('ZLTO'), mainly because the board of NCB-Ontwikkeling consists of the same members as the board of ZLTO and the members of NCB-Ontwikkeling are also member of ZLTO. Furthermore, the daily management of both NCB-Ontwikkeling and ZLTO is in the hands of the same director, who is also a board member of SBT. ZLTO is an association for entrepreneurs working in agricultural sectors and has approximately 15,000 members in Noord Brabant, Zeeland and the southern part of Gelderland. NCB-Ontwikkeling acts as the investment fund of ZLTO.

Audit of the annual accounts

Every year the management board draws up annual accounts and a management report. The annual accounts are approved by signature of both the management board and the supervisory board and are presented to the general meeting of shareholders for adoption. Vion engages an auditor for the audit of the annual accounts. The general meeting of shareholders is primarily responsible for the appointment of this engagement.

The general meeting of shareholders may completely or partially release the management board from all liability for its management and the supervisory board from liability for its oversight.

Registered office and headquarters

The company has its registered office in Best. Vion's headquarters are located in Boxtel.

Dutch Corporate Governance Code

Because Vion is not listed on a stock exchange, the code does not apply to Vion. Nevertheless, Vion voluntarily applies the code as of 1 January 2016, while deviating from the code's provisions in a number of instances. Generally speaking, this is the case where the provisions are not compatible with its legal structure and the nature of its business or are specifically written for listed companies with a widespread ownership.

The following principles and best practice provisions are not (fully) complied with for the reasons set out below.

Provision II.1.1

(appointment of the management board)

Best practice provision II.1.1 of the code states that a member of the management board is appointed for a period of a maximum of four years. The management board members of Vion are appointed for an indefinite period given the importance of a long-term commitment of the management board members to the company.

Provision III.2.1
(independence of the supervisory board)
Best practice provision III.2.1 of the code states that all supervisory board members, with the exception of one person, must be independent in the sense of best practice provision III.2.2 of the code. More than one member of the company's supervisory board at present can be considered not independent in this sense.

Best practice provision III.2.2 specifies that a member of the supervisory board shall not be deemed independent if he or she is a member of the board or a representative in some other way of a legal entity which holds at least 10% of the shares in the company. Currently, Hans Huijbers is member of the board of NCB-Ontwikkeling, which holds all depositary receipts for the shares in Vion. The supervisory board remuneration of Hans Huijbers is paid to ZLTO on the basis of a separate agreement. ZLTO is related to NCB-Ontwikkeling mainly because the board of NCB-Ontwikkeling consists of the same members as the board of ZLTO. Toon van Hoof stepped down as a member of the board of NCB-Ontwikkeling as of 24 November 2016, but is still associated with NCB-Ontwikkeling. The supervisory board remuneration of Toon van Hoof is for example still paid to ZLTO.
As a consequence Hans Huijbers as member of the board of NCB-Ontwikkeling and Toon van Hoof as representative of NCB-Ontwikkeling may not be deemed independent in the sense of the code. This reflects the difference between a listed company with a widespread ownership versus the situation at Vion with only one shareholder.

Best practice provision III.2.2 specifies that a member of the supervisory board shall not be deemed independent if he or she has been a member of the management board in the five years prior to the appointment. Tom Heidman acted as interim CEO of the company in the period from 26 January up to and including August 2015 and therefore could be viewed as a non-independent. Nevertheless he has been reappointed as member of the supervisory board given the interim nature of his term as member of the management board and his important contribution to the supervisory board.

Best practice provision III.2.2 specifies that a member of the supervisory board shall not be deemed independent if he or she has had an important business relationship with the company in the year prior to the appointment.
This includes the case where the supervisory board member is a management board member of any bank with which the company has a lasting and significant relationship. In the year prior to his appointment Sipko Schat has been a member of the management board of Rabobank with which Vion had a significant relationship at the moment of his appointment. Sipko Schat could therefore be viewed as not independent. Vion believes, however, that Sipko Schat is a highly valuable supervisory director, who offers considerable added value in terms of his knowledge and experience. In addition, Sipko Schat is no longer a management board member (or employee) of Rabobank since 18 November 2013 and the banking relationship of the company with Rabobank ended in 2015.

Provision III.5
(supervisory board key committees)
The remuneration committee and the selection & appointment committee have, for practical reasons, been combined into the remuneration, selection and appointment committee.

Provisions II.1.9-II.1.11, II.2.4-II.2.7, II.2.13.a, III.7.1, III.7.2, IV.1.3, IV.1.7, IV.2.1-IV.2.8, IV.3.1-IV.3.4, IV.3.11-IV.3.13 and IV.4.1-IV.4.3
These provisions do not apply as Vion is not listed on a stock exchange and all shares in its capital are held by one shareholder.

Risk management and internal control

Risk management is an important part of Vion's strategy. Vion wants to take advantage of opportunities in the markets in which it is active. At the same time, the undesirable consequences of risks must be restricted. Vion assesses its system of risk management and internal control using the COSO 2013 model.

Risk appetite

Vion takes a prudent approach to risk. Product quality and safety, worker safety and compliance with laws and regulations are the highest priorities. This means that reducing risks related to food and worker safety to reasonably practicable levels and comply with all the legal obligations will take priority over all other business objectives.

Strategic: Vion will pursue strategies in order to:

(i) Continuously improve our infrastructure and results;
(ii) Establish Vion as a game changer in selected themes in our industry; and
(iii) Change the business mix.

The company accepts the risk inherent in these strategies.

Operational: the highest priority is managing product quality and safety as well as worker safety. Procedures are in place which are monitored and audited by internal and external parties.

Financial: with respect to financial risks, Vion has a prudent financing strategy, including a balanced combination of self-insurance and commercial insurance coverage.

Compliance: Vion is commited to comply with applicable laws and regulations everywhere the company does business.

Risk management

In order to facilitate and coordinate risk management and to oversee compliance with relevant laws, regulations and policies, Vion has a risk and compliance committee in place. This committee is chaired by the CFO, who is assisted by specialists in different risk areas. The risk and compliance committee has the following responsibilities:

1. To help the executive committee to set the tone, develop a risk-conscious culture and promote open discussion regarding risks such that people at all levels manage key risks in accordance with the company's risk appetite and strategy.
2. To provide input to the executive committee regarding risk appetite and strategy and to assist the executive committee in determining and communicating the company's risk appetite and strategy.
3. To monitor the company's risk profile: its ongoing and potential exposure to risks of various types.
4. To oversee and facilitate the company's enterprise risk assessment and risk management activities to provide a consistent approach to identifying, mitigating and monitoring key business risks throughout Vion.
5. To ensure that adequate internal control over financial reporting is established and maintained. For this purpose Vion has redesigned the Vion financial control framework. Based on this control framework self-assessments are organised monitored and reported upon on a quarterly basis.
6. To oversee the company's compliance efforts with respect to relevant laws, regulations and policies including, but not limited to, a quarterly internal certification process.
7. To assist the management board in informing the audit committee of the supervisory board on matters concerning risk management, compliance with the relevant laws and regulations and the operation of the code of conduct.

Although Vion considers the management of risks to be an important responsibility, it is aware that there are limitations for each form of risk management and internal control. This means that the management systems and procedures cannot prevent specific inaccuracies, errors, fraud or non-compliance with regulations in all cases.

Risk categories	Key risks
Strategy	– Market volatility
Market	– Changing consuming paterns in relation to meat
People and organisation	– Health, safety and environment
	– Attracting and retaining human capital
	– Culture and behaviour
Operational and execution	– Food safety
	– Traceability and product integrity
	– Animal welfare in transportation and slaughtering
	– Catastrophes at production facilities and/or animal diseases
Technology	– Information management
Finance	– Financing
Regulation and compliance	– Non-compliance

Strategy

Market volatility risk

Vion operates in markets that are characterised by strong competition and price volatility. The prices of raw materials and agricultural products fluctuate and the purchase costs for pigs and cattle are volatile as are sales prices. This can lead to significant and unwanted fluctuation in the Vion's financial results.

Managing market volatility risks

By distributing activities across different geographical markets and channels, Vion mitigates the specific market threats to some extent. This distribution allows Vion to exploit opportunities in various markets and channels. Furthermore, the company aims to reduce the impact of the market volatility by matching fixed- term purchasing and sales contracts for certain parts of its business.

Market

Changing consuming patterns in relation to meat

Consumer behaviour in relation to meat consumption is changing; In Western markets people are reducing the meat consumption per person and also the consumption is shifting over the different species of meat. To ensure continuity and growth, Vion recognises these trends and adapts to it.

Managing changing consuming patterns in relation to meat

Vion anticipates growth opportunities mainly in Asia where due to economic growth and adaption of more western consuming patterns the consumption of meat per person is increasing. Furthermore, Vion is constantly aligning its product portfolio to the changing needs of its customers.

People and organisation

Health, safety and environment

Risks in production processes can adversely affect the results. These risks arise from areas such as personal health and safety, process safety and product safety. Unlikely scenarios can involve major incidents with a high impact on the company's internal organisation, causing business continuity risks and reputational damage. Vion has an active commitment to health, safety and the environment (HSE) for all its employees.

Managing health, safety and environment risks

In order to achieve these goals, Vion applies a systematic approach to HSE management which is designed to: (i) the maintenance and promotion of workers' health and working capacity; (ii) the improvement of working environment and work to become conducive to safety and health and (iii) development of work organisations and working cultures in a direction which supports health and safety at work.

Attracting and retaining human capital

Having the right people, with the right capabilities, experience and mindset can, to a large extent, determine the success of our organisation.

Managing attracting and retaining human capital

'Inspiring people to be best performers' is Vion's mission as an employer. In order to keep people motivated so that they make a meaningful contribution to the company's success. In this respect it is important to have the right suitably qualified people in the right moment at the right time. It is Vion's ambition to achieve this, both qualitatively and quantitatively.

From an individual angle Vion's aim is to accommodate people in their careers. To offer the kinds of roles that employees of today would like to work in. Important elements in this are: own sense of responsibility, freedom to act, fun and learning.

In order to inspire and support best performers who have ambitions to work in leadership positions in Vion's market, the company has several HR-systems and programs in place or in development.

Culture and behaviour

Vion operates a business culture in which the individual's responsibility, entrepreneurship and commitment are strongly encouraged. This results in a corporate culture and environment where passion for meat unites us into one Vion where we are transparent and open minded and have the drive and will to serve customers and to out-perform competition. We also acknowledge that we can do better every day to remain a company which we can be proud of. The combination of all the different people, in origin, culture, knowledge, background and the difference in thinking and personality within our company determines the DNA of our company. We all have in common to value our customers and consumers and are proud to craft the best meat to their needs.

Managing culture and behaviour

To provide the organisation with guidance and set the tone on the organisation we strive to be, in 2016 a booklet on Good Business Guidance was distributed throughout the organisation. This booklet includes the updated code of conduct and whistleblower policy. Going forward the HR departments of Vion will analyse performance reviews on elements of culture and behaviour and initiate programs to further support the desired culture where needed.

Operational and execution

Food safety

Wholesome and safe food is one of Vion's top priorities. In view of the nature of the products, it goes without saying that Vion stipulates high standards for food quality and food safety.
A quality issue, or even a change in the quality perception of customers or authorities, could have substantial consequences for the company's reputation and market position.
Demographic developments in the society, such as more elderly, changes consumer needs towards higher levels of food safety.

Managing food safety and quality risks

Food safety and quality are part of the codes of practice at all production sites. In order to manage its own processes such that customer satisfaction and operational excellence are achieved, all Vion's production sites are ISO 9001 certified. Besides the application of its own Vion – HACCP and quality standards within its operations, all the Vion facilities are certified according to at least one of the food safety and quality schemes as recognised through the Global Food Safety Initiative (GFSI), such as IFS and BRC.

Traceability and product integrity

Vion recognises that product and process integrity is essential to be a trustworthy supplier and to prevent public health issues. Traceability is key to improve the sustainability in the supply chain. The consumers and customers of Vion expect that the attributes that are communicated with the product to the market are followed and that Vion can show its adherence to these attributes anytime, anywhere.

Managing traceability and product integrity

In order to assure product integrity, Vion is implementing process integrity schemes within its operations. Product integrity and full transparency are recognised as relevant contemporary challenges. In order to professionalise this integrity scheme, Vion actively cooperates with standard setting bodies to move this integrity scheme to an internationally recognised and accredited standard.
These efforts are made to ensure an honest chain of custody.

Animal welfare in transportation and slaughtering

Wholesome and safe animal products can only be derived from healthy livestock. There is a strong correlation between the welfare and health of livestock, and in addition Vion also values the integrity of animals. A large-scale outbreak of animal disease could have significant consequences for the continuity of supply to the company's customers.

Managing animal welfare and health risks

Handling of livestock within the food supply chain is integrated in the quality schemes. This implies that humane handling of animals is demonstrated at farm level, during transport and within the slaughterhouses. Intermediaries and hauliers in the supply chain also have to adopt these standards. At all Vion's slaughter facilities, several animal welfare officers are present who monitor the handling of animals to ensure welfare standards are met.

Catastrophes at production facilities and/or animal diseases

The risk of catastrophes, such as animal diseases or fire, is always present despite Vion's continuous efforts to reduce such risks or the impact of such risks.

Managing catastrophes at production facilities and/or animal diseases

Vion's efforts to reduce related risks are for example through preventative measures at the farms, fire protection at the (production) facilities and safety inspections. In the event of such a catastrophe, the loss of animals or of substantial production capacity could cause a significant disruption throughout the entire chain. This possible impact is being combated in the area of alternative capacity, business continuity, testing and improving of calamity plans and insurance plans.

Technology

Information management

Vion's longer term information technology (IT) strategy is aimed at converging its IT landscape into fewer and up to date ERP and production systems and other critical applications. The amount of digital exchanges of business transactions with customers, suppliers and other stakeholders is increasing. Non-availability of IT systems or unauthorised access, whether through cybercrime or other events, can have a direct effect on the production processes, the competitive position and the reputation of the company. The importance of information at Vion is particularly significant for the financial processes, transparency and for production control.

Managing information management risks

Vion initiated a programme to replace outdated systems and to increase the overall level of information management services. Good progress has been made in 2016 on this programme to reduce production continuity risk. Additionally, an IT control framework has been implemented, based on which the company monitors and if needed takes additional measures. Where needed, the control measures and risk management activities are updated and/or new control measures and/or risk management activities are implemented.

Finance

Financing

To carry out its operations, Vion uses external financing which exposes the company to capital markets and financing risks. In addition, the company carries out transactions in currencies other than the euro, its functional currency, which leads to foreign currency risks.

Managing the capital markets risks

Vion targets a strong liquidity position by means of committed credit facilities. Obtaining credit from financial institutions and investors is dependent on a company's financial position, its outlook and its reputation. Vion's credit facilities are contracted by Group Treasury. The interest rates for interest-bearing borrowings are variable. In 2016 Vion has started the process of refinancing its current facility which matures mid-2017.

Managing financing risks

Vion monitors compliance with the agreements with the financing banks. Periodically, a forecast is drawn up that indicates the extent to which the budget will be realised. The forecast includes a prediction of the profit and loss statement, balance sheet, working capital, cash flow and cash position. This allows the outcome of the various ratios and liquidity position to be forecasted, so that timely action can be taken should this be necessary.

Managing foreign currency risks

Vion uses derivative financial instruments to hedge its exposure to foreign exchange risk arising from operational, financing and investment activities. Vion's policy is not to hold derivative financial instruments for speculative purposes.

Regulation and compliance

Non-compliance risk

The risk that Vion is non-compliant with applicable laws and regulations, which may adversely affect Vion's reputation and expose it to financial losses.

Managing compliance risk

Vion is committed to comply with laws and regulations in the various countries in which it operates. In addition, cost of compliance with, or changes in, any of these laws and regulations could impact the operations and thus could affect Vion's financial condition or reduce its profitability. Vion has established policies and procedures aimed at compliance with applicable legislation and regulations. An example is the Vion Competition Compliance Policy, which on a detailed level instructs the Vion companies on the do's and don'ts in relation to the competition.

Besides this, Vion has a code of conduct that goes beyond the compliance within the legal and regulatory framework by providing guidance on behaviour. The Vion whistleblower policy aims to support compliance with applicable laws, integrity in financial management, a healthier and safer work environment and effective corporate governance. Vion conducts its business based on the principles of fairness, honesty, integrity and respect and, accordingly, wants to ensure that any employee of Vion can make a report under this policy without the risk of retaliation and with the assurance that all reports are treated confidentially and are promptly investigated.

In addition to reporting directly to management, human resources or the management board, employees can contact the whistleblower line which is operated by an external service provider. This allows employees to report issues anonymously.

Management statement on assessment of internal risk management and control

The management board is ultimately responsible for the management of the risks that are coupled with the company's objectives and the reliability of the internal and external (financial) reporting. The management board is also responsible for evaluating the effectiveness of these risk management measures. Amongst others the following information is used for this:

– Letters of representation signed quarterly by management of operating companies and divisions and functional management. The risk and compliance committee monitors the completeness of the received letters and evaluates reported disclosures should they be reported.
– Quarterly self assessments of internal control over financial reporting included in the Vion financial control framework. This process is closely monitored by the financial leadership team of Vion and is also discussed in the quarterly risk and compliance committee.
– Reports of the internal audit department and QA auditors on reviews and audits performed throughout the year. Findings and measures to address issues were discussed with local management, division management and/or the management board. Summaries are discussed in the audit committee. In addition, internal audit tracks and reports the follow-up on findings and reports this on a quarterly basis.
– Management letter from the external auditor with findings and remarks regarding internal control. This letter has been discussed with the audit committee and the supervisory board. The number of observations regarding internal controls reduced considerably in 2016 compared to 2015.

On the basis of this evaluation, the management board is of the opinion that at the end of the 2016 financial year the internal management and control measures were functioning sufficiently effective to provide a reasonable degree of assurance that the internal and external (financial) reporting does not contain any material misstatement.

All the procedures relating to the internal risk management and control systems and the resulting findings, recommendations and measures have been discussed with the audit committee, the supervisory board and the external auditor.

Report of the supervisory board

Despite challenging market conditions results have improved in 2016. Vion announced that it is building a new beef production site in Leeuwarden in addition to other major investment projects in the group. The management board has defined a strategy and completed a business plan aimed at performance improvement and growth. The supervisory board is pleased with these positive developments.

Supervisory board activities

In 2016 the new business plan was an important topic as well as the investigation into the financing opportunities to realise further growth and to make use of market developments.

Consistent themes for the supervisory board in 2016 were major investment decisions and capital expenditure within the group as well as major commercial initiatives. Furthermore, the importance of a regular dialogue with major stakeholders has only grown over time and has also the attention of the supervisory board.

In March 2016 the annual evaluation of the supervisory board, as well as its committees and individual members, was carried out with external assistance, following which the supervisory board held a dedicated meeting to discuss the results. The supervisory board recognised the findings and the areas of improvement will be followed up during the annual evaluation in 2017.

The supervisory board made two separate day trips to visit sites in Germany. In April 2016 Vion's Pork production site in Emstek was visited and also in November 2016 Vion's Beef production site in Waldkraiburg to see the progress of the investments to create one of the most high-tech and high-performance beef centres in Europe. The trips were very insightful with full access to senior staff locally.

During the year, presentations were given by all members of the executive committee. Bernd Stark gave an update on Food Service, Bernd Stange informed the supervisory board on the latest Beef developments, Henk van den Bogaart went through a detailed HR plan for the group and Frans Stortelder outlined new initiatives within Pork.

In the November meeting, the supervisory board was briefed about Vion's progress in the field of corporate social responsibility which in any event regularly features on the agenda.

Composition of the supervisory board

The composition of the supervisory board and its committees did not change during the year under review. The supervisory board has the following seven members: Sipko Schat (chairman), Hans Huijbers (vice chairman), Marieke Bax, Tom Heidman, Toon van Hoof, Ton van der Laan and Ronald Lotgerink.

Corporate governance

The section on the Dutch Corporate Governance Code on page 22 includes information on the independence of members of the supervisory board. The members of the supervisory board do not receive any remuneration that is dependent on the financial performance of the company. In the event of a conflict of interests with regard to a particular topic, the supervisory board member in question may not participate in discussions or decision-making on that topic. The supervisory board has drawn up rules of procedure with respect to the performance of its duties and to its assigned tasks. Vion strives for a composition of its supervisory board that is balanced and in which the combination of the member's experience, expertise and independence ensures the supervisory board can fulfil its various duties on behalf of Vion and its stakeholders in the best possible way.

Supervisory board meetings

The supervisory board met 12 times in 2016. None of its members were frequently absent. The supervisory board received all information needed to perform its tasks from the management board and the company's external auditors. The agendas for the supervisory board meetings were drawn up by its chairman, in consultation with the management board and the corporate secretary.

Remuneration, selection and appointment committee

The members of the remuneration, selection and appointment committee are Tom Heidman (chairman), Hans Huijbers, Ton van der Laan and Sipko Schat.

In 2016 the remuneration, selection and appointment committee met four times. In addition to the remuneration policy of the management board, the remuneration, selection and appointment committee also advised the supervisory board on various human resources-related matters.

Audit committee

The members of the audit committee are Marieke Bax (chairman), Toon van Hoof and Ronald Lotgerink.

The audit committee met five times in 2016. The members of the audit committee meet in an executive session before each meeting of the audit committee to discuss the agenda. The chairman is in regular contact with the chairman of the supervisory board, the CFO and the external auditor.

The audit committee advised the supervisory board on Vion's annual accounts for 2016 and the consultations with the external auditor related to these annual accounts.

In the audit committee meetings a lot of attention was focused on the operational and financial performance of the group. The audit committee highly values the interaction with finance staff. Risk management, compliance and internal control are topics that receive ongoing attention by the audit committee and are fixed agenda items. During meetings of the audit committee a number of managers presented to the audit committee about the following topics: treasury, IT, tax, corporate social responsibility, quality assurance and the prevention of fraud. Both the external auditor and the internal auditor attend the audit committee meetings. In addition, the audit committee also met with the external auditor without the presence of members of the management board.

Temporary steering committee

As of May 2016 a temporary steering committee was set up for the investigation into the financing opportunities to realise further growth. Tom Heidman, Hans Huijbers and Ton van der Laan are member of this steering committee as representatives of the supervisory board together with the management board members and representatives of the shareholder.

Annual accounts

The 2016 annual accounts were initially discussed by the audit committee and then by the plenary supervisory board together with the management board and EY, the external auditor. The supervisory board then approved the annual accounts. The supervisory board proposes to the general meeting of shareholders that the annual accounts 2016 be adopted accordingly.

The supervisory board would like to thank the management and all employees of Vion for their efforts over the past year.

Boxtel, 28 March 2017

On behalf of the supervisory board,

S.N. Schat, chairman

Personal details of the supervisory board

S.N. (Sipko) Schat
Chairman
1960, Dutch nationality

Former functions
Member Executive Board Rabobank Nederland and Director Stichting Administratiekantoor SBT (shareholder of Vion)

Main other positions
Member Supervisory Board OCI N.V., Rothschild & Co and Trafigura Group Pte Ltd

J.A.M. (Hans) Huijbers
Vice chairman
1959, Dutch nationality

Function
Agricultural entrepreneur

Main other positions
Chairman Zuidelijke Land- en Tuinbouworganisatie (ZLTO), Member Board LTO Nederland, Chairman Steering Committee Agricultural Innovation Noord-Brabant, Member Governing Board Food, Farming and Agriculture University of Tilburg, Chairman Advisory Board HAS Den Bosch and Member Board Agriplace

M. (Marieke) Bax
1961, Dutch nationality

Former functions
Various functions Sara Lee Corporation (among which Head Strategy and M&A Europe for meat, foodservice and textile division), CFO e-commerce company, Managing Partner governance and communication firm Gooseberry and Initiator Talent to the Top

Main other positions
Board member Euroclear (Audit- and Remuneration Committee), Member Supervisory Board VastNed Retail (Chairman Remuneration and Appointment Committee), Member Board CLSA B.V., Member Advisory Board Fonds Podiumkunsten and Frans Hals Museum/De Hallen

T. (Tom) Heidman
1959, Dutch nationality

Former functions
CEO C1000 and Retail Network, Operational and Commercial Director Albert Heijn, Director Gall&Gall and interim-CEO Vion (26 January 2015 until 1 September 2015)

Main other positions
Member Supervisory Board Rituals B.V., Vermaat Groep, Remia and The European Candy Group and Senior advisor Roland Berger

A.J.M. (Toon) van Hoof
1954, Dutch nationality

Function
Agricultural and recreation entrepreneur

Main other positions
Member Board Council Animal Affairs (Ministry of Agriculture and Innovation), Chairman Committee IBR and BVD (infectious diseases) and Chairman registration point neglect agriculture domestic animals

A.T.C. (Ton) van der Laan
1953, Dutch nationality

Former functions
CEO Nidera, Platform leader Cargill, CEO Provimi, Senior-vice president Unilever and Managing Director Philips DAP

Main other positions
Member Supervisory Board of Royal De Heus and Chairman Supervisory Board UTZ Certificate

R.E.M. (Ronald) Lotgerink
1960, Dutch nationality

Function
CEO Zwanenberg Food Group

Main other positions
Member Board 'Ik Kies Bewust' Foundation and Member Advisory Board RAPS GmbH

Rotation plan of the supervisory board

	Commencement date first appointment	Current term expires	Commencement date of latest term	Reappointment possible
Toon van Hoof	21 May 2003	2017	24 April 2014	No
Hans Huijbers	11 September 2009	2017	24 April 2014	Yes
Ton van der Laan	24 April 2014	2017	–	Yes
Ronald Lotgerink	1 July 2014	2018	–	Yes
Sipko Schat	1 October 2014	2018	–	Yes
Tom Heidman	20 May 2014	2019	1 September 2015	Yes
Marieke Bax	1 October 2015	2019	–	Yes

Remuneration

Summary remuneration policy

The remuneration policy was approved on 13 February 2017 by the general meeting of shareholders. The full text of the remuneration policy can be found on the company's website.

The supervisory board is responsible for ensuring that the remuneration policy, and its implementation, are aligned with the company's objectives. To ensure that remuneration is linked to performance, a significant proportion of the remuneration package is variable and dependent on the short and long-term performance of the individual board member and the company. Performance targets must be realistic and sufficiently stretching and – particularly with regard to the variable remuneration components – the supervisory board ensures that the relationship between the chosen performance criteria and the strategic objectives applied, as well as the relationship between remuneration and performance, are properly reviewed and accounted for, both ex-ante and ex-post.

In accordance with the requirements of the Dutch Corporate Governance Code, the remuneration, selection and appointment committee, before setting the targets to be proposed for adoption by the supervisory board, has carried out scenario analyses of the possible financial outcomes of meeting target levels, as well as maximum performance levels, and how they may affect the level and structure of the total remuneration of the members of the management board.

The remuneration, selection and appointment committee consulted a professional independent remuneration expert to ensure an appropriate comparison. It further reviews the impact on pay differentials within the company, which is taken into account by the supervisory board when determining the overall remuneration. When other benefits are granted, the supervisory board ensures that these are in line with market norms.

The objective of Vion's remuneration policy is to attract, motivate and retain experienced executives with an international outlook, and reward them appropriately for their ability to achieve stretched performance targets.

In setting remuneration levels for the management board, the relevant statutory requirements, corporate governance guidelines and best practices in the Netherlands are taken into account. The total compensation for the management board is set at median level relative to the labour market peer group. To ensure the attraction and retention of highly skilled and qualified management, Vion aims for a total remuneration level that is comparable to levels provided by other Dutch and European companies that are similar to Vion in terms of size and/or complexity like Arla Foods, Tönnies Fleischwerk, Cranswick, Danish Crown, Friesland Campina, Westfleisch and AVEBE.

Variable compensation, which forms a considerable part of the total remuneration package, is linked to measurable predetermined targets. Incentive targets and performance conditions reflect the key drivers for value creation, growth in shareholder value, and are closely aligned with Vion's strategy.

Remuneration components

The remuneration for members of the management board comprises of the following components:

- a base salary, which is reviewed annually;
- a short term cash incentive, ranging from 0%-67.5% of the base salary depending on the achievement of performance targets;
- pension contributions;
- benefits in kind such as a contribution to health and medical insurance premium, a company car, and a contribution to telephone costs.

Base salary 2016

On joining the management board, members receive a base salary that is comparable with the median of the labour-market peer group. Adjustment of the base salary is at the discretion of the supervisory board, which takes into account external and internal developments. The annual review date for the base salary is 1 January.

The supervisory board decided to refrain from an increase in 2016.

Annual base salary

in €	2016	2015 (re-calculated on an annual base)
Management board*	1,200,000	1,200,000

** Francis Kint appointed CEO as per 1 September 2015, Joost Sliepenbeek appointed CFO as per 1 May 2015.*

Short term cash incentive 2016

The short term incentive plan (STIP) rewards the management board for sound operational performance in Vion's competitive environment. 70% of the target incentive is linked to the consolidated financial results of Vion and 30% is linked to personal objectives.

The STIP targets, including the personal objectives, are set each year at a challenging level, taking into account general trends in the relevant markets.

The STIP related to financial targets will only be paid if the minimum target has been achieved.

STIP targets are revised annually so as to ensure that they are stretching but realistic. Considerations regarding the targets are influenced by the operational and strategic course taken by the company and are directly linked to the company's ambitions. The targets are determined at the beginning of the year for each member of the management board.

When they achieve all their targets, management board members receive an incentive of 50% of their annual base salary. Outstanding performance can increase the STIP level to 67.5% of the annual base salary.

The supervisory board has established the extent to which the targets for 2016 were achieved. Regarding the financial targets, the score on the EBITDA target was above target. Management board members also have individual targets. The scores achieved on these targets were on target.

The average realisation percentage was 54% (2015: 40%) of base salary. These short-term incentives will be paid out in 2017.

Short-term cash incentive

in €	2016	2015
Management board	639,000	225,000

Adjustment of remuneration

The supervisory board has the 'ultimate remedy' power to adjust the value of the variable remuneration components awarded, either downwards or upwards, if this remuneration produces an unfair result. In addition, a variable remuneration component will be recovered from an member of the management board if it appears that such remuneration component was granted on the basis of incorrect (financial) data (i.e. clawback).

As in 2015, no revision or claw-back of bonuses occurred in 2016.

Pensions

Vion offers to management board members:

- participation in the collective defined contribution plan. Vion contributes 19.8% (2015: 19.8%) of the base salary up to the fiscal maximum for 2016 of € 101,519 (2015: € 100,000) per annum, minus a franchise of € 12,953 (2015: € 12,642); and
- an allowance of 20% of the base salary exceeding € 101,519 (2015: € 100,000) per annum. The allowance is taxed.

Management board contracts

Agreements for members of the management board are concluded for an indefinite period. The notice period by the board member is subject to a term of three months. Notice by the company is subject to a six-month term. Members of the management board normally retire in the year that they reach the legal retirement age.

Contract termination

The employment contracts of current members of the management board include an exit-arrangement provision which is in accordance with best practice provision II.2.8 of the Dutch Corporate Governance Code (i.e. a sum equivalent to the annual base salary).

Remuneration of the supervisory board

The remuneration package for the supervisory board comprises an annual fixed fee and an annual committee-membership fee.

Overview of remuneration awarded to the supervisory board in 2016

The annual remuneration of the members of the supervisory board was determined by the general meeting of shareholders on 29 February 2016.
The total remuneration (annual fixed fee and annual committee membership fee) of the members of the supervisory board amounted to € 0.4 million (2015: € 0.4 million).

Chairman supervisory board (including membership remuneration, selection and appointment committee)	**€ 75,000**
Vice chairman supervisory board	**€ 45,000**
Member supervisory board	**€ 40,000**
Chairman audit committee	**€ 10,000**
Member audit committee	**€ 7,500**
Chairman and member remuneration, selection and appointment committee	**€ 7,500**
Member temporary steering committee	**€ 7,500**

Loans

The company does not provide any loans to members of the supervisory board.

Annual accounts 2016

Consolidated balance sheet

as at 31 December 2016

(before result appropriation, in thousands of euros)

	note	2016	2015
Assets			
Fixed assets			
Intangible fixed assets	1	39,078	32,324
Tangible fixed assets	2	254,653	229,911
Financial fixed assets	3	45,919	33,991
Total fixed assets		339,650	296,226
Current assets			
Inventories	4	157,980	127,994
Receivables	5	454,355	398,308
Cash and cash equivalents	6	62,747	122,737
Total current assets		675,082	649,039
Total assets		1,014,732	945,265

	note	2016	2015
Equity and liabilities			
Equity	7	431,191	399,683
Minority share	8	16,488	16,777
Total group equity		447,679	416,460
Provisions	9	124,501	140,574
Long-term liabilities	10	22,942	23,844
Current liabilities	11	419,610	364,387
Total liabilities		567,053	528,805
Total equity and liabilities		1,014,732	945,265

Consolidated profit and loss statement

(in thousands of euros)

	note	2016	2015
Income			
Net turnover	15	4,748,853	4,570,562
Changes in inventories of finished goods and goods being processed		25,047	6,231
Other operating income	16	36,954	35,778
Total income		**4,810,854**	**4,612,571**
Operating costs			
Cost of raw materials and consumables		3,736,661	3,607,247
Costs of subcontracted work and external costs		503,739	491,830
Wages and salaries	17	466,087	436,980
Social security contributions	18	32,499	33,134
Amortisation and depreciation of fixed assets	19	31,858	28,493
Impairment losses on fixed assets	1, 2, 20	4,402	–
Other operating costs	21	7,893	–16,074
Total operating costs		**4,783,139**	**4,581,610**
Operating result		**27,715**	**30,961**
Financial income and expenses			
Interest income and similar income		949	1,313
Interest charges and similar expenses	22	–10,355	–7,566
Total financial income and expenses		**–9,406**	**–6,253**
Result before tax		**18,309**	**24,708**
Taxes	23	12,867	–407
Share in the results of participating interests		2,011	174
Result after tax		**33,187**	**24,475**
Minority share		–2,289	–2,076
Net result		**30,898**	**22,399**

Consolidated cash flow statement

(in thousands of euros)

	2016	2015
Cash from operating activities		
Operating result	27,715	30,961
Amortisation and depreciation	31,858	28,493
Impairment losses on fixed assets	4,402	–
Result related to sales of assets and group companies	–1,202	–2,255
Increase / (decrease) in provisions	–17,918	–31,830
(Increase) / decrease in current assets		
– trade receivables	–49,877	19,601
– inventories	–29,986	–6,137
– prepaid costs and other current assets	–3,476	–452
Increase / (decrease) in current liabilities		
– trade liabilities	41,885	5,576
– taxes and social security charges	–3,988	–2,521
– other debts and accruals and deferred income	13,418	–4,251
Net cash flow from business operations	**12,831**	**37,185**
Financial income received	747	4,182
Financial charges paid	–4,773	–8,092
Tax received / (paid) on profits	–2,500	583
Net cash flow from operating activities	**6,305**	**33,858**
Cash flow from investment activities		
Investments in intangible fixed assets	–7,312	–5,413
Divestments of intangible fixed assets	–	5
Investments in tangible fixed assets	–61,728	–58,765
Divestments of tangible fixed assets	1,894	11,311
Investments in financial fixed assets	–	–87
Divestments of financial fixed assets	650	15
Acquisition of group companies	–6,711	–4,661
Sale of group companies	–	5,393
Net cash flow from investment activities	**–73,207**	**–52,202**
Transport	**–66,902**	**-18,344**

	2016	2015
Transport	**–66,902**	**–18,344**
Cash flow from financing activities		
Drawdown / (repayment) of debts to financial institutions (long-term portion)	–360	–450
Drawdown / (repayment) of loans and credits (current portion)	10,186	–53,607
Dividends paid to minority shareholders	–2,267	–4,628
Drawdown / (repayment) of non-bank debts	–542	2,276
Net cash flow from financing activities	**7,017**	**–56,409**
Effect of differences in exchange rates	–105	–553
Increase/ (decrease) in cash and cash equivalents	**–59,990**	**–75,306**
Cash and cash equivalents at the start of the year	122,737	198,043
Cash and cash equivalents at year-end	**62,747**	**122,737**

Accounting policies

Vion Holding N.V. ('Vion' or the 'company') is a public limited liability company under Dutch law with its registered office in Best, the Netherlands. Vion has one shareholder: Stichting Administratiekantoor SBT.

The company is a holding company. Vion's product portfolio consists of fresh pork and beef and derived convenience food products.

General principles

The annual accounts of Vion have been prepared in accordance with Title 9, Book 2 of the Dutch Civil Code. The annual accounts have been prepared by the management board.

The annual accounts are prepared on the basis of going concern.

The general principle for the valuation of assets and liabilities, as well as the determination of result, is the historical cost. Unless stated other-wise, assets and liabilities are recorded at cost.

An asset is included on the balance sheet when it is likely that any future economic benefits will accrue to the company and the asset's value can be reliably determined. A liability is included on the balance sheet when it is likely that its settlement will involve an outflow of economically-valuable resources, the value of which can be reliably determined.

Income is included in the profit and loss statement when there is an increase in economic benefits related to an increase in an asset's value or a decrease in a liability, the amount of which can be reliably determined. Expenses are included when there is a decrease in future economic benefits related to a decrease in an asset's value or an increase in a liability, the amount of which can be reliably determined.

If a transaction results in all, or almost all, future economic benefits and all, or almost all, risks with respect to an asset or liability being transferred to a third party, the asset or liability is no longer included on the balance sheet. Furthermore, assets and liabilities are no longer included on the balance sheet from the date that the conditions relating to likely future economic benefits or reliability of the determination of the value are no longer satisfied.

Income and costs are allocated to the period to which they relate. Income is recognised when all significant risks relating to the goods are transferred to the buyer.

All amounts specified in the annual accounts are in euros. The euro is the functional currency and the reporting currency of Vion and this has not changed since the previous year.

Mergers and acquisitions

From the date control is obtained, the financial data of the acquired companies are included in the consolidated annual accounts as of the acquisition date.

An acquisition is entered into the accounts in accordance with the purchase accounting method. Identifiable assets and liabilities as at the date of acquisition are accounted for at fair value. The difference between the purchase price and the companies' share in the fair value of the identifiable assets and liabilities as at acquisition date is accounted for as goodwill.

In the case of merging interests, the pooling of interests method is used.

On 1 January 2015, the remaining 25% of the shares in Salomon Hitburger GmbH were acquired. The purchase price is based on an appraisal report from an independent officer, which was appointed by both parties. The seller did not agree on the resulting purchase price.

Divestments

In 2016 no divestments of group companies took place.

Principles for the consolidation

The consolidated annual accounts record the financial data of Vion Holding N.V. and its group companies according to the full consolidation method.

Where joint ventures are involved, the proportional method is used for the consolidation.

The consolidated annual accounts of Vion include the financial data of its group companies and other legal entities where Vion exercises control or which are subject to its central management. Group companies are no longer included in the consolidation as of the date that decisive control ceases. The items in the consolidated annual accounts are determined in accordance with uniform accounting policies.

The financial data of the group companies and other legal entities and companies pertaining to the consolidation are fully included in the consolidation after elimination of intercompany balances and transactions. Third-party interests in the capital and result of group companies are disclosed separately in the consolidated annual accounts.

Results of newly acquired group companies and other legal entities and companies included in the consolidation are consolidated from the date of acquisition. On this date, the assets, provisions and liabilities are recognised at the fair value. Any goodwill paid is included as an asset, and amortised over the economic lifetime. The results of divested group companies are recognised in the consolidation until the date that control ceased.

Foreign currency conversion

The consolidated financial statements are denominated in euros as the functional and reporting currency of Vion. The functional and presentation currency of Vion and the foreign activities have not changed compared with the previous financial year. Individual group companies set their own functional currency and financial statement items are valued on the basis of this functional currency. Transactions in foreign currencies are at initial recognition valued against spot rates of the functional currency.

Receivables, payables and liabilities are converted at the exchange rate as of the balance sheet date. Transactions in foreign currencies during the reporting period are included in the annual accounts at the average exchange rate per month. The exchange rate differences arising from the currency conversion are included in the profit and loss statement.

Foreign group companies and non-consolidated foreign participating interests qualify as foreign business operations. The exchange rate at the balance sheet date is used for the currency conversion for these business operations for balance sheet items. The average rate per month is used for the items in the profit and loss statement. The currency conversion differences that arise are directly credited or charged to the group equity as part of the legal reserve.

When a gain is realised on the sale of a foreign group company, the accumulated exchange rate differences are transferred within equity from the exchange rate differences reserve to other reserves.

Estimates

The preparation of annual accounts requires management to make estimates and assumptions that affect the application of principles and reported values of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are continually assessed. Revisions to estimates are recorded in the period in which the estimate was revised and in any future periods affected by the revision. In the opinion of the management board, the following accounting policies are the most critical for representing the financial position, and require estimates and assumptions:

- valuation of assets related to impairments;
- provisions;
- valuation of deferred tax assets.

Impairments of assets

Each year, an impairment test is carried out for the cash-generating units or groups of assets when there are objective reasons to presume an impairment, for example when results do not meet the expectations. In this test, the book value of the cash-generating units or groups of assets is compared with the recoverable amount. The recoverable amount is the higher of the value in use and the direct net realisable value. The value in use is assessed at the best estimate of future cash flows discounted against the effective interest rate of the applicable fixed asset. An impairment loss accounted for in previous periods is reversed only when this reversal results from objective and sustainable circumstances occurring after the date of initial impairment. The reversal will be limited to the amount necessary to measure the fixed asset at its book value if no impairment would have occurred. The reversal is recorded through profit and loss. If this test shows that the book value is higher than the recoverable amount, then an impairment is charged to the profit and loss statement.

Offsetting

Assets and items for debt are offset in the annual accounts only if and insofar as:

- a sound legal instrument exists to balance and simultaneously settle an asset and liability;
- there is a firm intention to simultaneously settle the balance or both items.

Accounting policies for the balance sheet

Intangible fixed assets

Intangible fixed assets acquired from third parties are valued at acquisition cost less accumulated amortisation and, if applicable, impairments.

Intangible fixed assets are amortised on a straight-line basis over the estimated period of use, with a maximum period of 20 years.

The estimated useful lives are as follows:	years
Goodwill	10 to 20
Software	3 to 5
Other intangible fixed assets	3 to 5

Goodwill is determined as the acquisition cost of the acquired company less the fair value at the time of acquisition of the assets and liabilities of the company based on Vion's accounting policies. Goodwill paid on the acquisition of foreign group companies is converted using the exchange rate on the transaction date.

The period of use of the goodwill for acquired companies is determined per acquisition, using as a basis the specific market, clients, products, facilities and organisation. This predominantly concerns acquired strategic market positions.

Disposals are recorded in the movement schedules at net value.

Tangible fixed assets

Tangible fixed assets are valued at acquisition cost less accumulated depreciation and, if applicable, impairments. The depreciation is based on the estimated period of use, and is calculated based on a fixed percentage of the acquisition cost and any residual value.

The estimated useful lives are as follows:	years
Business premises	25 to 30
Plant and equipment	10 to 15
Other tangible fixed assets	3 to 15

Tangible assets are depreciated from the moment that they become operational. Land is not depreciated. Assets no longer in use are valued at book value or the lower market value. Impairments in the financial year are directly deducted from the book value.

Any investment grants received are deducted from the relevant tangible fixed asset. Costs for scheduled major maintenance are charged against net result at the time the maintenance is carried out.

Disposals are recorded in the movement schedules at net value.

Financial fixed assets

Participating interests in which Vion exercises significant influence over business and financial policy are valued using the equity accounting method based on the net asset value. This is calculated by valuing the assets, provisions and liabilities, and calculating the result in accordance with Vion's accounting principles.

Participating interests in which Vion does not exercise significant control over the business and financial policy are valued at acquisition cost and, if applicable, less impairments.

Deferred tax assets are recognised to the extent that it is probable that these can be realised within a planning period that is in line with the sectors in which Vion operates. These deferred tax assets are valued at face value, and are predominantly of a long-term nature.

The receivables from and loans to participating interests as well as other receivables are included at fair value when first recognised, and subsequently valued at the amortised cost using the effective interest method less any allowances deemed necessary. Dividends are recognised in the period in which these are made payable.

Leasing

The assessment of whether an agreement includes a lease is based on the economic reality at the time that the contract was entered into. The contract is deemed to be a lease agreement when fulfilment of the agreement requires the use of a specific asset or the right to use a specific asset.

In the case of financial leasing (where the advantages and disadvantages of owning the lease object are fully or almost fully borne by the lessee), the lease object and the associated debt upon entering into the agreement are included on the balance sheet at the fair value of the lease object at the time of entering into the lease agreement, or at the cash value of the minimal lease payments when this is lower than the fair value. The initial direct costs for the lessee are included when the asset is first recognised. The lease payments are split into interest charges and repayments for the outstanding liability in order to achieve a constant interest rate for the remaining net liability.

In the case of operational leasing, the lease payments are charged to the profit and loss statement on a straight-line basis over the duration of the lease period.

Financial instruments

Financial instruments include both primary financial instruments, such as receivables and payables, and financial derivatives. Please refer to the notes to the separate balance sheet item for the accounting principles used for the primary financial instruments.

Derivatives

Vion uses derivatives to hedge exchange rate risks on foreign currencies and interest rate risk.

For the exchange rate risk on the currency conversion for the foreign operating activities, Vion uses net investment hedge accounting, whereby changes in the fair value of the derivative, to the extent that these cover an item included on the balance sheet, are included in the exchange rate differences reserve. Vion does not hedge the currency conversion risk on the net result of foreign entities. Vion uses cost price hedge accounting for the exchange rate risk on foreign currency conversion transactions. Vion hedges its currency positions with forward contracts and currency swaps. Changes in the fair value of derivatives that are designated and qualify for hedge accounting are included in the profit and loss statement together with changes in the fair value of balance sheet items that are allocated to the hedged risk. The foreign currency component of forward exchange contracts that functions as an instrument for hedging future transactions is valued at cost, as long as the hedged position has not yet been included on the balance sheet.

Vion hedges its interest rate risk on long-term debt financing with interest rate swaps. Cost price hedge accounting is used for these derivatives. The effective portion of the derivatives allocated to cost price hedge accounting is valued at cost. The ineffective portion is valued at fair value. The value differences of the fair value of the ineffective portion is directly included in the profit and loss statement.

To the extent that derivatives are used to hedge future rights and obligations (for which the company has entered into commitments with fixed terms and conditions), profits or losses on these derivatives are not recognised until the moment of settlement.

Hedge accounting

Derivatives are used to hedge currency and interest rate risks. For derivatives that are part of an effective hedging relationship, cost price hedge accounting is used.
Vion uses hedge accounting based on generic documentation in accordance with Dutch accounting standard RJ290.
All derivatives for which no hedge accounting is used are valued at cost or the lower market value.
Measurement of the effectiveness of hedge accounting is done by the assessment of the critical characteristics (specifically duration and amount) of the derivatives in comparison with the hedged items concerned mainly sales orders. These are both current items.

Inventories

The inventories consist of goods with a limited shelf life.

Inventories are valued at the lower of cost of acquisition or production and the recoverable amount.

Inventories of finished goods are valued at purchase price plus a premium allocated for production costs. For products being processed, the costs of raw materials and consumables, direct production costs and a proportional share of general production costs are recognised, taking into account the stage of the production process. If necessary, an amount is deducted from the valuation for obsolescence.

Receivables

Receivables are initially included at fair value when first recognised, and subsequently valued at the amortised cost using the effective interest method, which is equal to the face value less the necessary allowances for doubtful debts. These allowances are determined according to individual assessment of the receivables.

Cash and cash equivalents

Cash and cash equivalents are stated at face value and, unless stated otherwise, are at Vion's disposal.

Provision for deferred tax liabilities

The provision for deferred tax liabilities relates to future tax liabilities resulting from the differences between the economic valuation of assets and liabilities in the annual accounts and their valuation for tax purposes. The provision is stated at face value based on the applicable tax rate.

Pension provisions

Separate pension plans are applicable in the various countries where Vion operates. Pensions are calculated according to RJ 271 guidelines.

The Netherlands

Vion participates for its Dutch employees in several multi-employer pension schemes, which are all under the supervision of an independent pension administrator. Premiums owed in the financial year to the pension administrators are recognised as costs. A liability is included for premiums not paid as of the balance sheet date. These liabilities are of a current nature and measured at their face value. In case of prepayments of pension premiums, these are recorded under current assets. Liabilities besides the premiums owed to the pension administrators are provided for on the basis that a legally binding or constructive obligation is present, that an outflow of cash is likely to settle these obligations and that a reliable estimate of the size of the obligation can be made. The provision for any such additional liability is measured at the best estimate of the amounts needed to settle the obligation as at balance sheet date. In case material, the provision is discounted.

Germany

Vion holds a separate pension scheme for its foreign (German) operations. The elements of the scheme itself are comparable to the Dutch pension schemes. However, as the governance of the German pension scheme differs Vion accounts for the resulting liability following RJ 271.321 letter a.

Pension liabilities arising from Vion's foreign (German) pension schemes are therefore included at the best estimate of actual and legally enforceable obligations on the balance sheet date. This relates to obligations towards pension administrators, employees and former employees. For the calculation of the pension provisions a full discount rate curve of high-quality corporate bonds is used to determine the defined benefit obligation. The curves are based on Towers Watson's Rate:Link which uses data of corporate bonds rated AA or equivalent.

Other provisions

The provisions for reorganisations and other obligations were created for the legally enforceable or actual obligations that exist at the balance sheet date, where the magnitude of the amounts is uncertain, but which can be reasonably estimated. These obligations are due to events in the past, where settlement will occur after the balance sheet date. Staff costs and other expenses directly related to reorganisations are only included if the following conditions are satisfied as of the balance sheet date:

– During the financial year, a detailed plan was drawn up for the reorganisation. The plan included the relevant activities, locations, expected number of employees with associated job grades, related expenditures and the time when the plan was to be implemented.

– A legitimate expectation was created among those who would have been affected by the reorganisation that the reorganisation would take place because a start was made or its main points were communicated to those who would have been affected.

In addition, the staff costs associated with the reorganisations are recognised in the financial year that the reorganisation took place.

Furthermore, this item includes the costs directly related to the reorganisations, including closing costs, consultancy fees and other costs, such as onerous contracts.

The other provisions are included at face value, and are of a predominantly long-term nature.

Long-term liabilities

Long-term liabilities are payables with a residual maturity greater than one year. The payables are included at fair value when first recognised, and subsequently valued at the amortised cost using the effective interest method.

Current liabilities

Current liabilities are payables with an expected maturity of up to one year.

Accounting policies for the profit and loss statement

General

The results are defined as the difference between net turnover and all related costs allocated to the reporting year. The costs are determined in accordance with the aforementioned valuation principles.

Profits are recognised in the year in which they are realised. Losses are recognised in the year in which they are foreseeable.

Other income and expenses are allocated to the period to which these relate.

Net turnover

The net turnover included in the profit and loss statement is the income from the supply of goods and services to third parties, less permitted customer discounts (excluding payment discounts), and excluding turnover tax.

Income arising from the sale of goods is recognised at the moment when all significant rights to economic benefits and all significant risks have been transferred to the buyer.

Other operating income

Other operating income includes, amongst others, realised profits on the sale of fixed assets, commissions, bonuses, governmental grants and rental income.

Costs

Costs are included at the acquisition cost.

Costs of raw materials and consumables

These are the costs of raw materials and consumables associated with the use of raw materials and consumables, as well as changes in the inventories of raw materials, and are valued at the acquisition cost.

Costs of outsourced work and external costs

This item includes the direct and indirect selling expenses, costs of energy and water and costs of manufacturing and maintenance, among others. This item is valued at acquisition cost.

Wages and salaries

This item includes wages and salaries of employees who were employed within Vion, and employees working on a temporary contract basis. In addition, this item includes pension costs.

Social security contributions

This item includes the costs for social security contributions for the employees who were employed within Vion.

Amortisation and depreciation of fixed assets

The profit and loss statement includes depreciation of tangible fixed assets and amortisation of intangible fixed assets, which are calculated on the basis of a fixed percentage of the acquisition cost, taking into account the residual value and the economic lifetime.

Impairment of assets

This item includes impairments of fixed assets that occurred during the financial year.

If there are indications for an impairment of a cash-generating unit or (group of) assets, the recoverable amount for this is determined as the higher of the directly net realisable value and the value in use. If the recoverable amount is below the book value, the associated cash-generating unit or (group of) assets is adjusted to this lower recoverable value.

Other operating costs

Other operating costs include changes in provisions, rental costs for central headquarters and local headquarters, lease costs for company cars, travel and entertainment expenses.

Financial income and expenses

The financial income and expenses include accretion of long-term obligations and provisions interest received and paid and exchange rate results, as well as results from forward exchange contracts and interest rate swaps on financial positions.

Tax on result

Corporate income tax on earnings is calculated according to the profit and loss statement at the applicable rate allowing for tax relief facilities and limits that have a permanent influence on the tax rate. The calculation allows for the change in receivables and the provision for deferred corporate income tax and applicable local tax rates.

Share in the results of participating interests

The share in the result of non-consolidated participating interests includes the share of the group in the earnings of these participating interests.

Minority share

This item consists of the share in the result to be allocated to other shareholders of the company in which they participate.

Accounting policies for the cash flow statement

The cash flow statement was prepared using the indirect method. Issued dividends are included in the cash flow from financing activities.

For payments arising from long-term loans, the part relating to the interest rate is included in the cash flow from operating activities. The part relating to repayment is included in the cash flow from financing activities. Cash flows in foreign currencies are converted at an estimated average exchange rate. Receipts and expenditures relating to interest and profit taxes are included in the cash flow from operating activities.

The impact of acquisitions and divestments of group companies, including changes in assets and liabilities, are included in the cash flow from investing activities.

Notes to the consolidated balance sheet

as at 31 December 2016
(in thousands of euros)

ASSETS

Note 1 – Intangible fixed assets

The movements in intangible fixed assets are as follows:

2016	Goodwill	Software	In progress	Other	Total
Balance as at 1 Januari 2016					
Acquisition cost	27,336	41,649	3,973	245	**73,203**
Accumulated amortisation	2,084	38,663	–	132	**40,879**
Book value	**25,252**	**2,986**	**3,973**	**113**	**32,324**
Movements in the book value					
Additions	62	319	6,931	–	**7,312**
Reclassification	–	6,527	–3,445	–113	**2,969**
Amortisation	–1,739	–1,788	–	–	**-3,527**
Balance	**-1,677**	**5,058**	**3,486**	**-113**	**6,754**
Balance as at 31 December 2016					
Acquisition cost	27,159	46,420	7,459	23	**81,061**
Accumulated amortisation	3,584	38,376	–	23	**41,983**
Book value	**23,575**	**8,044**	**7,459**	**–**	**39,078**

In 2016 no acquisitions of group companies took place.

The intangible fixed assets in progress relate to capitalised internally developed as well as externally acquired software.

2015	Goodwill	Software	In progress	Other	Total
Balance as at 1 January 2015					
Acquisition cost	6,401	36,313	937	13,210	**56,861**
Accumulated amortisation	203	34,317	–	12,994	**47,514**
Book value	**6,198**	**1,996**	**937**	**216**	**9,347**
Movements in the book value					
Acquisition of group companies	20,936	–	–	–	**20,936**
Additions	–	658	4,722	33	**5,413**
Divestments	–	–	–	–5	**–5**
Reclassification	–	1,860	–1,686	–131	**43**
Amortisation	–1,882	–1,528	–	–	**–3,410**
Balance	**19,054**	**990**	**3,036**	**-103**	**22,977**
Balance as at 31 December 2015					
Acquisition cost	27,336	41,649	3,973	245	**73,203**
Accumulated amortisation	2,084	38,663	–	132	**40,879**
Book value	**25,252**	**2,986**	**3,973**	**113**	**32,324**

Note 2 – Tangible fixed assets

The movements in tangible fixed assets are as follows:

2016	Business premises and land	Plant and equipment	Other operating assets	Fixed assets under construction	Non-productive assets	Total
Balance as at 1 January 2016						
Acquisition cost	643,217	557,790	14,689	42,101	689	**1,258,486**
Accumulated depreciation	532,368	482,275	13,243	–	689	**1,028,575**
Book value	**110,849**	**75,515**	**1,446**	**42,101**	**–**	**229,911**
Movements in the book value						
Additions	9,472	20,733	179	31,344	–	**61,728**
Disposals	–351	–727	–15	–159	–	**–1,252**
Reclassification	17,711	18,909	1,423	-41,012	–	**–2,969**
Impairments	–2,536	–1,866	–	–	–	**–4,402**
Depreciation	–6,815	–20,750	–766	–	–	**–28,331**
Exchange rate differences	–6	–29	3	–	–	**–32**
Balance	**17,475**	**16,270**	**824**	**–9,827**	**–**	**27,742**
Balance as at 31 December 2016						
Acquisition cost	607,272	551,543	16,759	32,274	–	**1,207,848**
Accumulated depreciation	478,948	459,758	14,489	–	–	**953,195**
Book value	**128,324**	**91,785**	**2,270**	**32,274**	**–**	**254,653**

The investment grants received are allocated to sustainable investments and investments that promote employment opportunities. These investment grants are deducted from the relevant tangible fixed asset. As of 31 December 2016 the total book value for allocated investment grants amounted to € 0.4 million (2015: € 0.4 million).

The impairment mainly relates to the site in Zeven for which closure has been decided in 2017. Fixed assets under construction mainly relate to investment programs for the Waldkraiburg, Landshut and Leeuwarden production sites.

The legal ownership is limited for fixed assets financed under financial lease (€ 7.7 million, 2015: € 6.8 million).

Notes to the consolidated balance sheet

2015	Business premises and land	Plant and equipment	Other operating assets	Fixed assets under construction	Non-productive assets	Total
Balance as at 1 January 2015						
Acquisition cost	641,672	629,313	17,903	17,351	799	**1,307,038**
Accumulated depreciation	528,718	554,112	17,033	–	799	**1,100,662**
Book value	**112,954**	**75,201**	**870**	**17,351**	**–**	**206,376**
Movements in the book value						
Additions	3,435	13,251	285	41,794	–	**58,765**
Disposals	–7,890	–2,393	–1	–50	–	**–10,334**
Reclassification	7,609	8,538	804	–16,994	–	**–43**
Depreciation	–5,459	–19,109	–515	–	–	**–25,083**
Exchange rate differences	200	27	3	–	–	**230**
Balance	**–2,105**	**314**	**576**	**24,750**	**–**	**23,535**
Balance as at 31 December 2015						
Acquisition cost	643,217	557,790	14,689	42,101	689	**1,258,486**
Accumulated depreciation	532,368	482,275	13,243	–	689	**1,028,575**
Book value	**110,849**	**75,515**	**1,446**	**42,101**	**–**	**229,911**

Note 3 – Financial fixed assets

	2016	2015
Participating interests	**8,853**	7,949
Receivables from non-consolidated participating interests	**479**	479
Deferred tax assets	**28,574**	15,689
Other receivables	**8,013**	9,874
Balance as at 31 December	**45,919**	**33,991**

Participating interests

Movements during the financial year were as follows:	2016	2015
Balance as at 1 January	**7,949**	**7,889**
Share in the result	2,011	174
Divestment and deconsolidation of group companies and participating interests	–1,107	–
Movements in the share capital in participating interests	–	–11
Dividend distribution	–	–103
Balance as at 31 December	**8,853**	**7,949**

This relates to the following participating interests with a share of 20% or higher:	Participating interest
Premium Fleisch-Servicegesellschaft GmbH, Zeven (Germany)	42.86%
Best Hides GmbH, Eching-Weixerau (Germany)	40.00%
LQB Landwirtschaftliche Qualitätssich. Bayern GmbH (Germany)	28.00%
Fleischmarkt Nürnberg GmbH, Nürnberg (Germany)	23.80%
Topigs Group B.V. (previously named ‘Pigture Group B.V.’), Helvoirt (the Netherlands)	22.50%

In 2016 Vion sold its participating interest in Fleischversorgungszentrum Rhein-Main GmbH & Co. Vermietungs KG and Zweckverband ‘Fleischzentrum Emsland’.

Deferred tax assets

The movements are as follows:	2016	2015
Balance as at 1 January	**15,689**	**17,448**
Withdrawal from / addition to result	16,549	–6,523
Reclassification of tax assets and tax liabilities	–3,639	4,603
Exchange rate differences	–25	161
Balance as at 31 December	**28,574**	**15,689**

For group companies, at year-end 2016 there were losses carried forward of approximately € 877 million corporate income tax and € 537 million German trade tax available for limited or unlimited offset (2015: € 926 million corporate income tax and € 603 million German trade tax). Of these available losses, € 155 million was recognised at year-end 2016 (2015: € 50 million) with a tax value of € 31 million (2015: € 15 million).

It is not expected that the remaining available corporate income tax losses amounting to € 762 million (2015: € 876 million) and trade tax losses of € 498 million (2015: € 603 million) will provide actual compensation in a reasonable period of time. Accordingly, the related deferred tax assets are not recognised.

The other deferred tax positions refer to timing differences.

Other receivables	**2016**	**2015**
Escrow	4,703	4,748
Deferred receipts	2,884	5,000
Other	426	126
Total	**8,013**	**9,874**

The escrow account relates to a deferred receipt of the sale of group companies in previous years. Under the provisions of the escrow agreement, the remaining balance would become available to Vion in January 2017. However, since the counterparty initiated an arbitral procedure in view of potential claims, the escrow agent will not release such balance until a final decision has been reached in arbitration.

In 2016, the call option on the last piece of land in the UK has been exercised. As the sales price is dependent on the developed value of the land, the estimated sales price and receivable are based on an external appraisal report.
The € 5 million loan concerning the deferred payment of the sales price for the divestment of the Oerlemans group expires on 28 May 2017 and has been transferred to short term receivables. An interest rate of 4.0% is charged for this loan. No security has been provided for this loan.

Note 4 – Inventories

	2016	**2015**
Finished products	128,421	102,769
Raw materials and consumables	7,019	14,093
Goods in progress	2,689	866
Spare parts and other	19,851	10,266
Balance as at 31 December	**157,980**	**127,994**

The allowance for obsolete inventories amounted to € 0.8 million (2015: € 0.9 million). Among others, spare parts and other includes packaging material.

Note 5 – Receivables

Note 5 – Receivables	2016	2015
Trade receivables	393,865	344,354
Taxes	35,731	32,136
Receivables from associated companies	4,670	4,494
Other receivables and accruals	20,089	17,324
Balance as at 31 December	**454,355**	**398,308**

A bad debt allowance of € 6.3 million has been included in trade receivables (2015: € 7.8 million).

Note 6 – Cash and cash equivalents

The cash and cash equivalents include € 1.7 million (2015: € 20 million) for provided guarantees concerning VAT, transportation, customs, etc., all in the ordinary course of business.

EQUITY AND LIABILITIES

Note 7 – Equity

For a breakdown of the movements in equity, please refer to the notes to the company balance sheet.

Consolidated statement of comprehensive income	2016	2015
Consolidated net result after taxes attributable to the legal entity	30,898	22,399
Conversion differences related to foreign group companies	610	–549
Total direct movements in equity of the legal entity	**610**	**–549**
Comprehensive income of the legal entity	**31,508**	**21,850**

Note 8 – Minority share

	2016	2015
Balance as at 1 January	**16,777**	**19,552**
Divestments of group companies	–	2,393
Movements in third-party interests	–1,172	–2,600
Share of result	2,289	2,076
Dividend distribution	–1,329	–4,628
Exchange rate differences	–	–16
Other	–77	–
Balance as at 31 December	**16,488**	**16,777**

Note 9 – Provisions

	2016	2015
Pension liabilities	118,518	119,720
Deferred tax liabilities	–	2,118
Other provisions	5,983	18,736
Balance as at 31 December	**124,501**	**140,574**

Pension liabilities

These are provisions for pension plans, pre-pension and early retirement schemes, as well as jubilee and leave arrangements. These provisions are typically long-term.

The Netherlands

Vion participates for its employees in the Netherlands in several multi-employer pension schemes, where the pension benefits are based on a moderate career-average scheme. The pension schemes are administered by the General Pension Fund for the Meat, Meat Products, and Convenience Foods and Poultry Sector ('Stichting Bedrijfstakpensioenfonds voor Vlees, Vleeswaren, Gemaksvoeding en Pluimvee', abbreviated as VLEP), the Pension Fund for the Butcher's Trade, the Pension Fund for the Transport Sector and a premium pension institution.

The most important elements of the Dutch pension schemes in place are:

- VLEP runs a defined benefit scheme for pensionable salaries up to € 64,096 topped with a defined contribution scheme for pensionable salaries exceeding this, tax driven maximised at € 101,519.
- The Pension Fund for the Butcher's Trade runs a defined benefit scheme for pensionable salaries up to the fiscal maximum of € 101,519.
- The Pension Fund for the Transport Sector runs a defined benefit scheme for pensionable salaries up to € 52,763 topped with a defined contribution scheme for pensionable salaries exceeding this, tax driven maximised at € 101,519.
- For Vion N.V. and ICT personnel a defined contribution pension scheme up to the fiscal maximum of € 101,519 is applicable.

If there are shortfalls in pension funds, Vion is not obliged to make additional contributions other than in the form of higher future premiums.

At year end, there was only a shortfall in the VLEP contribution. At year end, the coverage ratio was 93.8% (2015: 96.1%) for the VLEP pension fund, 101.4% (2015: 108.4%) for the Pension Fund for the Butcher's Trade, and 101.4% (2015: 100.5%) for the Pension Fund for the Transport Sector.

Risks of future wage increases, price indexations, adjustments to mortality tables and to investment yields of fund assets may lead to future adjustments in the annual contributions to the pension funds. These risks are not provided for.

Other than the premiums due no further liabilities from the Dutch pension schemes occur which need to be provided for.

The actuarial method 'projected unit credit method' is used to determine the provision.

Germany
The pension plan liabilities in the balance sheet fully apply to the defined benefit pension schemes for employees and former employees of the German group companies. These schemes are moderate career-average schemes with conditional indexation.

The schemes are not open to new participants. A part of the schedules will be funded using a so-called 'Unterstützungsfonds', while liabilities are direct. The obligations are measured on the basis of actuarial calculations using the Projected Unit Credit method as at year-end and applying a full discount rate curve of high-quality corporate bonds. The curve is based on Towers Watson's Rate: Link which is comprised of data from corporate bonds rated AA or equivalent. The discount rate for 2016 is 1.38% (2015: 1.67%). Local mortality tables including the probability of marital status at death are applied ('Richttafeln 2005G'). Average remaining service amounts to 11 years.

The movements in the pension liabilities of Vion can be summarised as follows:	2016	2015
Balance as at 1 January	**119,720**	**123,461**
Added from the result	6,942	3,617
Released to the earnings	–370	232
Used for the intended purpose	–7,774	–7,590
Balance as at 31 December	**118,518**	**119,720**

The balance as per year-end includes an amount of € 2.7 million (2015: € 2.6 million) for jubilee arrangements. The remainder fully relates to German pension plan liabilities.

An amount of € 7.4 million (2015: € 7.7 million) of the employee benefits liabilities has a term of less than one year. The anticipated yearly pension payments for the coming 5 years varies between € 7.3 million and € 7.7 million.

Deferred tax liabilities	2016	2015
Balance as at 1 January	**2,118**	**4,121**
Released to result	1,541	–6,644
Reclassification of tax assets and tax liabilities	–3,639	4,603
Exchange rate differences	–20	38
Balance as at 31 December	**–**	**2,118**

As per year-end 2016 the deferred tax liability decreased to nil as a result of netting the deferred tax position.

Other provisions	2016	2015
Balance as at 1 January	**18,736**	**37,728**
Added from the result	2,152	8,946
Released to the result	–3,348	–13,988
Used for the intended purpose	–11,549	–13,994
Divestments of group companies	–	–3
Exchange rate differences	–8	47
Balance as at 31 December	**5,983**	**18,736**

The other provisions are for reorganisation and restructuring costs amounting to € 3 million (2015: € 13 million). These are predominantly current in nature. In addition, there are provisions for various claims and other obligations.

Note 10 – Long-term liabilities

	2016	2015
Payable to financial institutions	330	690
Loans from minority shareholders	9,191	4,870
Financial lease obligations	7,670	6,833
Other payables	5,751	11,451
Balance as at 31 December	**22,942**	**23,844**

Of the long-term liabilities an amount of € 13.3 million (2015: € 9.6 million) has a duration longer than 5 years. Loans from minority shareholders relate to loans provided by the minority shareholders of group companies concerning their proportional share in investments made in these group entities.

Other payables relate for an amount of € 5.6 million (2015: € 11.2 million) to the acquisition of Salomon Hitburger GmbH and Vion SA, consisting of future payments and earn out agreements related to the purchase price.

Note 11 – Current liabilities

	2016	2015
Suppliers and trade payables	229,605	188,265
Financial institutions and other interest-bearing liabilities (note 12)	56,659	46,473
Taxes and social security contributions	11,909	12,679
Repayment obligations	360	360
Other payables, accruals and deferred income	121,077	116,610
Balance as at 31 December	**419,610**	**364,387**

Note 12 – Payable to credit institutions

The net debt position as at 31 December 2016 amounted to € 17 million (2015: negative € 52 million).

Credit facilities

In June 2015 Vion agreed a new financing facility agreement of € 100 million. In July 2015 it was increased to € 125 million. The facility includes a German receivables purchase facility and a Dutch borrowing base facility refinancing the existing receivables purchase facility. The facility is provided by a group of international banks. The term for the facility is two years, starting 24 June 2015 and will therefore mature mid-2017.

The interest rate is based on Euribor plus a margin. The facility contains customary covenants including a minimum liquidity cover, an EBITDA floor and maximum capital expenditure. Liquidity is defined as the freely transferable, convertible and accessible cash including the evidenced available facility headroom. EBITDA is calculated on a 12-month rolling basis.

During 2016, Vion was in compliance with these covenants.

At 31 December 2016, an amount of € 57 million (2015: € 46 million) was drawn under the credit facilities. Vion has provided full securities for both facilities with pledges on its trade receivables.

Note 13 – Objectives and policy for managing financial risks

Financial risk management

Vion is exposed to a variety of financial risks, such as credit risk, foreign currency risk, interest rate risk and liquidity risk. These risks are inherent to the way Vion operates as a multinational with several local operating companies. Vion's overall risk management policy is to identify, assess and, if necessary, mitigate these financial risks in order to minimise potential adverse effects on its financial performance.

The treasury policies include the use of derivative financial instruments to hedge certain exposures. The management board is ultimately responsible for risk management. Financial risk management is, except for credit risk of non-financial counterparties, carried out by Group Treasury in line with clearly formalised treasury policies.

Group Treasury identifies, evaluates and hedges financial risks at corporate level and monitors compliance with its policies within Vion. Vion has a risk management and compliance committee that advises the management board on risk management.

The capitalisation and funding of operating companies is a responsibility of Group Treasury, but managed in close cooperation with Group Tax as the combination of equity and short term intercompany loans is mostly used as a financing structure. Decisions regarding the debt-to-equity ratio are based on various aspects including minimum regulatory requirements and the flexibility to change the structure. Vion has no restrictions in paying intercompany cash dividends or in repaying intercompany loans.
The divisions and operating companies are primarily responsible for identifying and managing financial risks, especially in relation to transactions in foreign currencies.

Within the boundaries set in the treasury policies, the operating companies execute appropriate foreign currency risk management activities. Vion does not purchase or hold any financial derivatives for trading purposes, and primarily uses derivative financial instruments to manage its foreign currency risk. These financial transactions are all executed through Group Treasury and qualify for hedge accounting. Therefore, gains or losses arising from changes in the fair value of derivatives are included in the profit and loss statement (under cost price hedge accounting) when these changes are compensated by an equivalent change in the fair value of the hedged items.

Group Treasury is responsible for reporting to the management board on Vion's exposure to a number of financial risks, including liquidity, foreign exchange and interest exposure.

Credit risk

Credit risk represents the accounting loss that has to be recognised on the reporting date if counterparties fail to perform as contracted. Credit risk is carried out by Corporate Credit Risk Management (CCRM). In line with clearly formalised policies, CCRM is operating as a credit insurer. All guidelines and procedures are audited and checked by banks and insurance companies.

The group only trades with creditworthy parties and has adopted procedures to monitor the creditworthiness of these parties. Vion has established guidelines to limit the magnitude of the credit risk for each party. In addition, Vion continually monitors its receivables and uses a strict collection procedure. These measures minimise the credit risk for Vion. There are no significant concentrations of credit risk within Vion.

Foreign currency risk

Vion is exposed to currency risks in the following areas:
- transaction risk on anticipated sales, and on the balance sheet receivables or payables arising from such transactions;
- currency conversion risk arising from currency conversion differences on intercompany and external payables and deposits in foreign currency;
- currency conversion risk on net investments in consolidated foreign entities;
- currency conversion risk on the net result of foreign entities.

Vion makes use of a financial policy to deal with currency risks. This policy states that committed transactional positions should be hedged using forward contracts. In general, the average duration of these contracts is three to four months. Vion generally strives to fund local entities in their functional currency. The currency of the external funding and deposits of Vion is based on the financial policy coupled with the required funding of companies within Vion. This can be either directly by external foreign currency loans and deposits or through currency swaps.

The currency conversion risk on the capital invested in consolidated foreign entities financed with their own resources is partially hedged based on the policy approved by the management board. If these types of hedging transactions are entered into, these are recognised as a hedge of a net investment in a foreign entity. Vion does not hedge the currency conversion risk on the net result of foreign entities.

The notional value of the forward exchange contracts to hedge the described currency risks, particularly the US dollar and British pound, amounted to a total of € 194 million net at year-end 2016 (2015: € 128 million). The fair value of these contracts at the balance sheet date was a positive amount totalling € 0.1 million (2015 negative € 0.7 million). Of this, a positive amount of € 0.1 million (2015: negative € 0.7 million) is disclosed off-balance sheet based on cost price hedge accounting. The fair values of all financial instruments approximate the book values.

Interest rate risk

Vion is partly financed with interest-bearing borrowings, but Vion's exposure to interest rate risk (especially due to limited long-term debt) is limited. Vion considers the financial policy to deal with interest rate risk. This policy allows for the use of derivatives. However, no interest rate swaps were held in 2016.

Liquidity risk

The primary objective of liquidity management is to provide sufficient cash and cash equivalents at all times to enable Vion to meet its payment obligations. Management monitors forecasts of Vion's liquidity reserves on the basis of expected cash flows. Vion aims for sufficient committed credit facilities and a strong liquidity position.

Note 14 – Assets and liabilities not included on the balance sheet

Some of the group companies have long-term liabilities arising from the rental and operational leasing of assets. The composition of these obligations is as follows:

	2016	2015
< 1 years	**€ 21 million**	€ 14 million
1 to 5 years	**€ 24 million**	€ 20 million
> 5 years	**€ 10 million**	€ 8 million

For group companies, an amount of € 2 million was issued in bank guarantees (2015: € 20 million).

Vion entered into long-term sales contracts with minimum delivery requirements with different customers. The relevant sales prices depend on the market prices of the relevant products at the time of sale.

Claims have been made against Vion and/or its group companies that are contested by Vion. Although the outcome of these disputes cannot be predicted with certainty, legal advice and the information available leads to the assumption that this will not have a significant adverse effect on the consolidated financial position.

Note 15 – Net turnover

The geographical composition of the net turnover is as follows:

	2016	2015
Europe:		
– Germany	2,027,520	2,061,079
– The Netherlands	557,016	554,529
– Italy	432,197	424,456
– United Kingdom	190,799	199,324
– Greece	161,090	155,217
– Other EU countries	743,995	726,817
– Non–EU countries	47,170	65,706
Subtotal	**4,159,787**	**4,187,128**
Asia	507,349	310,280
United States of America	35,751	22,378
Canada	10,348	9,453
Other countries	35,618	41,323
Total	**4,748,853**	**4,570,562**

Vion is mainly active in the food industry; less than 10% of sales is generated by other lines of business.

Note 16 – Other operating income

This item accounts for different categories of other operating income. This concerns, among others, earnings from slaughtering fees, charged out costs and governmental grants amounting to € 23 million (2015: € 21 million), rental income amounting to € 1.0 million (2015: € 0.8 million) and transport income amounting to € 1.5 million (2015: € 1.1 million). In addition, this item also includes a profit from sales of fixed assets amounting to € 1.1 million (2015: profit of € 1.0 million) and a damage compensation received for cost incurred in prior years (€ 6.9 million).

Note 17 – Wages and salaries

The composition of the personnel costs is as follows:	2016	2015
Wages and salaries	193,024	190,836
Wages and salaries associated with reorganisations	–1,123	4,955
Pension charges	10,765	9,680
Other personnel costs	2,403	2,157
	205,069	207,628
Wage costs for employees on a contract basis	261,018	229,352
Total	**466,087**	**436,980**

At the end of 2016, Vion employed 4,262 FTEs (2015: 4,233). The average number of employees for Vion was 4,210 in 2016 (2015: 4,228). Moreover, an average of 7,297 employees (2015: 6,793) were employed within Vion via temporary employment agencies.

The number of employees broken down by country are as follows:	2016	2015
Germany	2,483	2,431
The Netherlands	1,574	1,605
Other countries	204	197
Total	**4,262**	**4,233**

Note 18 – Social security contributions

This item includes an amount of € 0.1 million (2015: € 0.4 million) in respect of social security contributions relating to reorganisations.

Note 19 – Amortisation and depreciation of fixed assets

	2016	2015
Intangible fixed assets	3,527	3,410
Tangible fixed assets	28,331	25,083
Total	**31,858**	**28,493**

Note 20 – Impairment losses on fixed assets

The impairment charge amounts € 4.4 million (2015: € 0 million).

Note 21 – Other operating costs

This item includes € 3.8 million for rental costs for buildings and non production related equipment (2015: € 4.3 million), € 8.0 million for lease costs for company vehicles (2015: € 5.5 million), € 0.3 million (2015: € 1.4 million) for costs relating to reorganisations, and the effect of movements in provisions. For 2016, € 2.6 million (2015: € 20.6 million) is included relating to the sale of real estate and movement in divestment provisions formed in previous years. In 2015, it mainly related to the sale of Moon entities and Vion Ingredients.

Note 22 – Interest charges and similar expenses

The increase in interest and similar expenses as compared to 2015 is mainly due to the change in interest rate used for the calculation of the present value of the pension provision.

Note 23 – Taxes

The effective tax rate for ordinary operating results in 2016 amounted to 52.74% negative (2015: 1.6%).

The level of the effective tax rate depends on, amongst other things, the nominal tax rate and the tax relief facilities and restrictions in the countries where the activities occur, as well as the extent to which use can be made of existing off-set of losses available for offset. Taking into account the nominal Dutch tax rate, the effective tax rate is determined as follows:

	2016	2015
Result before taxes	20,320	24,882
Nominal Dutch tax rate (25.0%)	5,080	6,221
Differences due to foreign tax rate	303	–1,692
Weighted average	**5,383**	**4,529**
Taxes on result in previous years	82	–947
Change in valuation of available losses and timing differences	–15,391	3,483
Non-deductible expenses	1,418	2,378
Non-taxable/deductible income from participating interest	–4,502	–8,762
Withholding tax	–	–
Other tax effects	143	–274
Total tax charges	**–12,867**	**407**

The change in total tax charge from a tax expense in 2015 to a tax benefit in 2016 relates to the recognition of the deferred tax asset for the net operating losses of fiscal unities. The tax impact on valuation adjustments to available losses and timing differences is caused by the utilisation of tax losses in the future and movements in deductible timing differences for which no deferred tax assets were recognised. This is due to the fact that it was unlikely that there would be sufficient future profits to offset. This has a positive impact on the effective tax rate.

Note 24 – Auditor's fee

	2016			2015		
	EY The Netherlands	**EY International**	**Total**	**EY The Netherlands**	**EY International**	**Total**
Annual accounts audit	637	783	**1,420**	721	899	**1,620**
Other audit related services	36	228	**264**	32	314	**346**
Tax related activities	137	–	**137**	130	–	**130**
Other	5	5	**10**	16	–	**16**
Total	**815**	**1,016**	**1,831**	**899**	**1,213**	**2,112**

Note 25 – Director's remuneration

The remuneration of the members of the management board is determined by the supervisory board within the framework of the remuneration policy as approved by the general meeting of shareholders.

The cost of the remuneration of management board was as follows:

	2016		2015	
The composition of this item is as follows:				
Fixed remuneration	1,200	55%	1,297	68%
Variable remuneration	639	30%	352	18%
Pension charges	235	11%	158	8%
Termination payments	-	-	63	3%
Other	84	4%	50	3%
Total	**2,158**	**100%**	**1,920**	**100%**

The remuneration and related cost of former members of the management board was nil in 2016 (2015: 987 thousand).

Note 26 – Supervisory board members' remuneration

Remuneration paid to the supervisory board members amounted to € 383 thousand in 2016 (2015: € 380 thousand).

Note 27 – Related parties

Stichting Administratiekantoor SBT ('SBT') is the sole shareholder of the company. SBT has issued depositary receipts for its shares in the company without cooperation of the company. All depositary receipts are held by Noordbrabantse Christelijke Boerenbond, Rooms-Katholieke Vereniging van Boeren en Tuinders - Ontwikkeling ('NCB-Ontwikkeling'). NCB-Ontwikkeling is related to Zuidelijke Land-en Tuinbouworganisatie ('ZLTO'). ZLTO is an association for entrepreneurs working in agricultural sectors and has approximately 15,000 members in Noord Brabant, Zeeland and the southern part of Gelderland. Certain members of ZLTO are suppliers to the company. This is on an individual basis and is not related to their ZLTO membership. In addition, ZLTO supplies consultancy services to Vion. During 2016, ZLTO carried out a number of projects for, and made facilities available to Vion, for which in total € 498 thousand was paid (2015: € 975 thousand).

Best Hides GmbH ('Best Hides') is a joint venture with Darling International in which Vion owns 40%. During 2016, Vion has sold hides to Best Hides for an amount of € 54.6 million (2015: € 58.9 million).

All transaction with related parties are at arm's length.

Note 28 – Events after balance sheet date

On 9 March 2017 Vion announced that it is concentrating its activities in Lower Saxony, Germany in Emstek and closing its pork slaughtering and deboning facility in Zeven. An impairment loss of € 4.3 million related to the assets of Vion Zeven AG is included in the results of 2016. Other cost for restructuring and closing the facility will be incurred in 2017. Vion is currently negotiating a social plan. As a result of the loss making situation in Zeven, it is expected that the concentration will have a positive contribution to the operating results of Vion as from 2018 onwards.

Company balance sheet

as at 31 December 2016

(before result appropriation, in thousands of euros)

	note	2016	2015
Assets			
Fixed assets			
Financial fixed assets	a	433,268	407,649
Total fixed assets		**433,268**	**407,649**
Current assets			
Receivables from group companies		–	54,714
Other receivables		44	15
Cash and cash equivalents		–	55
Total current assets		**44**	**54,784**
Total assets		**433,312**	**462,433**

	note	2016	2015
Equity and liabilities			
Issued capital		2,285	2,285
Share premium reserve		372,716	372,716
Legal reserve		10,115	3,815
Exchange rate differences reserve		–371	–981
Other reserves		15,548	–551
Result for the year		30,898	22,399
Equity	b	**431,191**	**399,683**
Current liabilities payable to group companies		2,088	62,749
Other current liabilities		33	1
Total liabilities		**2,121**	**62,750**
Total equity and liabilities		**433,312**	**462,433**

Company profit and loss statement

(in thousands of euros)

	2016	2015
Income from participating interests	5,566	17,634
Other results	25,332	4,765
Net result	**30,898**	**22,399**

Company accounting policies

General principles

The company annual accounts have been prepared in accordance with the provisions of Title 9, Book 2 of the Dutch Civil Code. Unless stated otherwise below, please refer to the notes to the consolidated annual accounts for the general principles used to prepare the annual accounts, the accounting policies for the balance sheet and the profit and loss statement, and the notes to of the separate assets and liabilities and results.

Vion's financial data is included in the consolidated annual accounts. Therefore, the company profit and loss statement for Vion Holding N.V. only reports the share of the net result of companies in which Vion has a participating interest, and other net earnings, in accordance with Article 402, Title 9, Book 2 of the Dutch Civil Code.

Accounting policies for the profit and loss statement

Income from and valuation of participating interests

The income from participating interests relates to the share of Vion in the result of the participating interests stated at net asset value. Income from participating interests where significant influence is exerted on the business and financial policy is the share in the result from these participating interests that accrues to the company. This income is determined based on Vion's accounting policies for the balance sheet and profit and loss statement.

For participating interests in which Vion does not exert any significant influence on the business and financial policy and that are valued at cost, the dividends are regarded as income. This is included in financial income and expenses.

Participating interests with a negative net asset value are valued at nil. If the company fully or partially guarantees the debts of the relevant participating interest, an allowance is formed primarily against the receivables from this participating interest, and the remainder is covered by the provisions, to the sum of the share in the losses incurred by the participating interest, or the expected payments by the company for these participating interests.

Notes to the company balance sheet

(in thousands of euros)

ASSETS

Note A – Financial fixed assets

These assets include the investments in group companies, deferred tax assets of the Dutch fiscal unity and the escrow account. These investments are stated at net asset value.

	2016	2015
Balance on 1 January	**407,649**	**385,816**
Addition to result	19,488	–
Results	5,566	17,634
Exchange rate differences	610	–549
Release provision	–45	4,748
Balance as at 31 December	**433,268**	**407,649**

Addition to result relates to the valuation of losses carried forward concerning the fiscal unity of which Vion Holding N.V. is the parent company.

LIABILITIES

Note B – Equity

The share capital of Vion Holding N.V. amounts to € 4.5 million divided into 100,000 shares with a nominal value of € 45. Vion Holding N.V. holds 3,566 shares (2015: 3,566). On 31 December 2016, there were 50,784 fully paid-up shares issued to third parties (2015: 50,784). The share premium reserve consists of the income from share issues insofar as this income is higher than the nominal amount of the shares. The legal reserve for exchange rate differences recognises exchange rate differences which result from the conversion of the functional currencies of foreign business operations to the presentation currency. When a group company is divested, the accumulated exchange rate differences for this group company are included in the other reserves.

Notes to the company balance sheet

The movements in the individual components of equity capital are as follows:

	Issued capital	Share premium reserve	Legal reserves	Exchange rate differences reserve	Other reserves	Result for the year	Total
Balance as at 1 January 2016	**2,285**	**372,716**	**3,815**	**–981**	**–551**	**22,399**	**399,683**
Result appropriation previous year	–	–	–	–	22,399	–22,399	**–**
Exchange rate differences	–	–	–	610	–	–	**610**
Reclassification	–	–	6,300	–	–6,300	–	**–**
Result	–	–	–	–	–	30,898	**30,898**
Balance as at 31 December 2016	**2,285**	**372,716**	**10,115**	**–371**	**15,548**	**30,898**	**431,191**

The legal reserve relates to hours included in total capitalised internally developed software (€ 8.2 million; 2015 € 3.6 million) and shareholdings (€ 1.9 million; 2015 € 0.2 million).

Note C – Personnel

At the end of 2016, Vion Holding N.V. had 0 employees as converted into FTEs (2015: 0).

Note D – Off-balance sheet obligations

Vion Holding N.V. heads the Dutch fiscal unity for corporate income tax. As a result, Vion Holding N.V. is jointly and severally liable for the corporate income tax for the entire Dutch fiscal unity. With respect to the separate financial statements of the Dutch legal entities included in the consolidation, Vion Holding N.V. availed itself of the exemption laid down in section 403, subsection 1 of Book 2 of the Dutch Civil Code. Pursuant to said section 403, Vion Holding N.V. has assumed joint and several liabilities for the debts arising out of the legal acts of a number of subsidiaries in the Netherlands, which form part of the consolidation. The names of the subsidiaries for which Vion Holding N.V. has issued 403 declarations are open for inspection at the trade register as managed by the Netherlands Chamber of Commerce.

Note E – List of participating interests

Vion Holding N.V. consolidates the following participating interests:

Name	Registered office	Country (if not NL)	Share in % (if not 100%)* 2016	Share in % (if not 100%)* 2015
A. Moksel GmbH	Buchloe	D		
Ahlener Fleischhandel GmbH	Ahlen	D	75.0%	75.0%
BFU Beteiligungsgesellschaft für Food Unternehmen	Buchloe	D		
BV Destructor Zeeland	Best			
CEMO GmbH	Buchloe	D		
De Groene Weg BV	Groenlo			
Distrifresh BV	Boxtel			
Encebe Vleeswaren BV	Boxtel			
Favor Parker Ltd	Kings Lynn	UK		
FVZ Convenience GmbH	Holzwickede	D		
G.u.P. Salomon GmbH	Buchloe	D		
Hy-Co Hybridschweine Cooperationsgesellschaft mbH	Bad Bramstedt	D	50.0%***	50.0%***
Hildener Landmetzgerei GmbH	Hilden	D		
Peelse Barrier Holding BV & Co KG	Buchloe	D	94.3%	94.3%
Peelse Barrier Holding BV & Co Zweite KG	Buchloe	D	94.3%	94.3%
Prignitzer Fleischzentrum GmbH	Perleberg	D	89.0%	89.0%
Salomon Food World GmbH	Grossostheim	D		
Salomon Hitburger GmbH	Grossostheim	D		
Schlachtzentrum Gelsenkirchen Verwaltungs GmbH	Gelsenkirchen	D		
SFB Fleisch- und Kühlcentrale GmbH	Holdorf	D	50.0%***	50.0%***
SFB Fleisch- und Kühlcentrale GmbH & Co. KG	Holdorf	D	62.5%	62.5%
Sobel Best NV	Best			
Südfleisch Bamberg GmbH	Bamberg	D		
Südfleisch GmbH	München	D		
Südfleisch Holding GmbH	München	D		
Südfleisch Italia GmbH i.L.	Bruneck	I		
Südfleisch Waldkraiburg GmbH	Waldkraiburg	D		
Südost-Fleisch GmbH	Altenburg	D		
Trägergesellschaft Schlachthof Minden GbR	Minden	D	95.0%	95.0%

* The percentages reflect the actual shareholdings.

** The marked UK registered participating interests are exempt from the Companies Act 2006 requirements relating to the audit of their individual financial statements by virtue of Section 479A of the Act as Vion has guaranteed the subsidiary companies under Section 479C of the Act.

*** These joint ventures are proportionally included in the consolidation.

Name	Registered office	Country (if not NL)	Share in % (if not 100%)* 2016	2015
Unterstützungsfonds der Südvieh-Südfleisch GmbH	München	D		
VION Anhalt GmbH	Rodleben	D		
VION Anklam GmbH	Anklam	D		
VION Apeldoorn BV	Apeldoorn			
VION Bad Bramstedt GmbH	Bad Bramstedt	D		
VION Boxtel BV	Boxtel			
VION Bulgaria EOOD	Sofia	BG		
VION Convenience GmbH	Grossostheim	D		
VION Crailsheim GmbH	Crailsheim	D		
VION Denmark ApS	Holstebro	DK		
VION EGN Südostbayern GmbH	Vilshofen	D	51.0%	51.0%
VION Emstek GmbH	Emstek	D		
VION Enschede BV	Enschede			
VION Farming België NV	Wommelgem	B		
VION Farming BV	Boxtel			
VION Finance SARL	Hunsdorf	L		
VION Financial Services BV	Son			
VION FKM Furth im Wald GmbH	Furth im Wald	D	70.0%	70.0%
VION Food (NL Division) Ltd**	Sittingbourne	UK		
VION Food Group Ltd**	Livingston	UK		
VION FOOD Hellas EPE	Athene	GR		
VION Food International (Holding) BV	Son			
VION Food International BV	Boxtel			
VION Food International Pacific Ltd	Hong Kong	HK		
VION Food International Singapore Pte Ltd	Singapore	SG		
VION Food Nederland BV	Boxtel			
VION Food Nederland Overhead BV	Boxtel			
VION Food North GmbH	Bad Bramstedt	D		
VION Food Scotland Ltd**	Broxburn	UK		
VION France Eurl.	Fourqueux	F		
VION GmbH	Buchloe	D		

* The percentages reflect the actual shareholdings.

** The marked UK registered participating interests are exempt from the Companies Act 2006 requirements relating to the audit of their individual financial statements by virtue of Section 479A of the Act as Vion has guaranteed the subsidiary companies under Section 479C of the Act.

*** These joint ventures are proportionally included in the consolidation.

Name	Registered office	Country (if not NL)	Share in % (if not 100%)* 2016	2015
VION Groenlo BV	Groenlo			
VION Hilden GmbH	Hilden	D		
VION Holding N.V.	Best			
VION Holdorf TK GmbH	Holdorf	D		
VION Hungary KFT	Érd	HU		
VION ICT Services BV	Best			
VION Ile de France EURL	Fourqueux	F		
VION Import Export S.L.	Barcelona	ES		
VION International BV	Boxtel			
VION International GmbH	Hamburg	D		
VION International Ljubljana d.o.o.	Ljubljana	Slo		
VION IT Services GmbH	Wunstorf	D		
VION Leeuwarden B.V.	Boxtel			
VION Luxembourg SARL	Hunsdorf	L		
VION Move GmbH	Buchloe	D		
VION NV	Best			
VION Perleberg GmbH	Perleberg	D		
VION Poland Sp.z.o.o.	Warschau	PL		
VION Praha s.r.o.	Praag	CZ		
VION Property Emstek GmbH	Emstek	D		
VION Retail Groenlo BV	Groenlo			
VION Retail Nederland BV	Best			
VION Romania SRL	Bacau	RO		
VION Rundvee BV	Boxtel			
VION Rusland BV	Best			
VION SA	Chiasso	CH		
VION SBL Landshut GmbH	Landshut	D	51.0%	51.0%
VION Scherpenzeel BV	Scherpenzeel			
VION Spain SL	Barcelona	ES		
VION Subco JJT Ltd**	Sittingbourne	UK		
VION Subco MD Ltd (i.L.)	Livingston	UK		

* The percentages reflect the actual shareholdings.

** The marked UK registered participating interests are exempt from the Companies Act 2006 requirements relating to the audit of their individual financial statements by virtue of Section 479A of the Act as Vion has guaranteed the subsidiary companies under Section 479C of the Act.

*** These joint ventures are proportionally included in the consolidation.

Name	Registered office	Country (if not NL)	Share in % (if not 100%)* 2016	2015
VION Sweden AB	Arsta	SE		
VION Tilburg BV	Tilburg			
VION Trading Poland SP.z.o.o.	Warschau	PL		
VION Vilshofen GmbH	Vilshofen	D	**51.0%**	51.0%
VION Zeven AG	Zeven	D	**73.0%**	60.9%
VION Zucht- und Nutzvieh GmbH	Bad Bramstedt	D		
VION FOOD Portugal, Lda	Lissabon	PT	**50.0%*** **	50.0%***
Vleesindustrie Valkenswaard BV	Valkenswaard			
WBA Wasserwerkbetriebs GmbH	Altenburg	D		
ZVK Zuchtviehkontor GmbH i.L.	München	D	**67.2%**	67.2%

The non-consolidated participating interests are disclosed in note 3 on financial fixed assets.

Boxtel, 28 March 2017

Management board

F.J.L.K. Kint, CEO
J.L.M. Sliepenbeek, CFO

Supervisory board

S.N. Schat, chairman
J.A.M. Huijbers, vice chairman
A.J.M. van Hoof
A.T.C. van der Laan
R.E.M. Lotgerink
T. Heidman
M. Bax

* The percentages reflect the actual shareholdings.

** The marked UK registered participating interests are exempt from the Companies Act 2006 requirements relating to the audit of their individual financial statements by virtue of Section 479A of the Act as Vion has guaranteed the subsidiary companies under Section 479C of the Act.

*** These joint ventures are proportionally included in the consolidation.

Other information

(in thousands of euros)

Profit appropriation according to the articles of association

Article 23 of the Articles of Association reads as follows:

Paragraph 1

The management board, subject to approval by the supervisory board, will reserve amounts from the result as specified in the annual accounts adopted by the general meeting of shareholders. The remaining result is at the disposal of the general meeting of shareholders.

Paragraph 2

The company may only make distributions to the shareholders and other parties entitled to the result available for distribution insofar as the equity exceeds the amount of the issued capital plus the reserves that must be maintained by law.

Proposed profit appropriation

The proposal for the profit appropriation is to add the net result for 2016 to the other reserves.

Net result 2016	30,898

Independent auditor's report

To: Management Board of VION Holding N.V.

Report on the audit of the 2016 financial statements as included in the annual report

Our opinion

We have audited the 2016 financial statements of Vion Holding N.V., Best.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Vion Holding N.V. as at 31 December 2016 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:
- The consolidated and company balance sheet as at 31 December 2016;
- The consolidated and company profit and loss account for 2016;
- The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Vion Holding N.V. in accordance with 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).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:
- Management review, including foreword;
- Information regarding profile, key figures, mission, vision and strategy, corporate governance, risk management and internal control and remuneration;
- Report of the Supervisory Board
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;
- Annex: Vion converts to International Financial Reporting Standards.

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 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 management board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of responsibilities for the financial statements

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.,:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a 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 management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Eindhoven, 28 March 2017

Ernst & Young Accountants LLP
signed by R.E.J. Pluymakers

Annex: Vion converts to International Financial Reporting Standards

General

Until the end of 2016, Vion has prepared its annual financial statements based on in the Netherlands generally accepted accounting standards, Dutch GAAP. As from 1 January 2017 Vion will prepare its annual financial statements in line with the International Financial Reporting Standards, IFRS, as endorsed by the European Union. The annual financial statements 2017, which will be IFRS based, will also include comparable results for the year 2016 based on IFRS. Therefore the conversion date for Vion will be 1 January 2016.

Although there is no legal or regulatory obligation for Vion to convert from its current accounting standards to IFRS, Vion has voluntarily chosen to convert to IFRS from 2017 onwards as the company believes there are several reasons for Vion to convert:
– IFRS is the common reporting standard for international companies with size of Vion
– IFRS will increase the comparability of results with peer group companies
– IFRS will improved financial communication with various stakeholders
– Financial reporting on IFRS will improve the access to capital markets

Impact analyses

As part of the conversion process Vion has assessed the impact of the IFRS standards applicable for the company on the equity per 1 January 2016 and 31 December 2016 as well as the results for the full year 2016. Based on the assessment made the following standards are expected to have the most impact on the previously reported results for Vion as a whole:
– IFRS 3; Business Combinations
– IAS 16; Property, Plant & Equipment
– IAS 19; Employee Benefits
– IAS 28 / IFRS 11; Investments in Associates and Joint Ventures / Joint Arrangements
– IAS 36; Impairment of Assets
– IAS 32 and 39; Financial Instruments

The conversion process from Dutch GAAP to IFRS is still ongoing and conversations about the interpretation of certain standards and the impact on equity and results for Vion has not been fully finalised yet. This means all information provided in this paragraph can still be subject to changes in the course of 2017, and actual comparable results for 2016 as presented in the annual financial statements for 2017 might be different than presented in this paragraph at this point in time. However, based on the information currently available Vion does not expect significant changes compared to the condensed financial information provided in this paragraph. The most important items part of the conversion are, and will be in the near future, on a regular basis discussed with the external auditor, EY. The information provided in this paragraph has not been audited by EY so far. The preliminary impact on equity and results as presented in this paragraph will be summarised as follows at the end of the paragraph:
– Reconciliation equity Dutch GAAP – IFRS as per 1 January 2016 (table 1)
– Reconciliation net income 2016 Dutch GAAP – IFRS (table 2)
– Reconciliation equity Dutch GAAP – IFRS as per 31 December 2016 (table 3)

First time adoption

The applicable guidance for the first time adoption of IFRS is laid out in IFRS 1; First Time Adoption of International Financial Reporting Standards. In general the company needs to apply all applicable IFRS standards retrospectively in the openings balance sheet under IFRS. IFRS 1 allows for certain exemptions to this rule to simplify the conversion process. Vion has made use of those exemptions allowed in the conversion process when applicable.

Summary of most significant changes

In the paragraph below the most important changes per standard have been summarised to explain the impact.

Business Combinations (IFRS 3)

As Vion has chosen to apply IFRS 3 prospectively from the conversion date, there are no differences recognised between the openings equity under Dutch GAAP and IFRS. However, as IFRS does not allow for amortisation of goodwill recognised as part of historical acquisition the amortisation of goodwill as applied under Dutch GAAP will discontinue under IFRS going forward. The impact on the net result for 2016 is calculated to be approx. € 1.7 million (positive).

Going forward an annual impairment test for the goodwill recognised will be executed to assess the value of the goodwill on the balance sheet at the end of the reporting period based on the expected future cash flow of the business the goodwill relates to.

Property, Plant & Equipment (IAS 16)

For the tangible fixed assets a comparison has been made according to Dutch GAAP and IFRS based on the simplified retrospective assessment in IAS16. Based on the assessment no material variance between the book value of the tangible fixed assets under Dutch GAAP and IFRS has been identified. As a result the book value as reported under Dutch GAAP on the conversion date is maintained under IFRS.

Based on the assessment for Asset Retirement Obligations (ARO), no ARO's have been identified related to the current tangible fixed assets. Therefore no adjustments to the openings balance sheet are made.

Employee Benefits (IAS19)

Vion has assessed the impact of the conversion to IAS 19 as per the conversion date. As a result the various provisions for Employee Benefits (mainly Pension provisions in Germany and Jubilee provisions in the Netherlands) have been recalculated based on IAS 19 and compared with the provisions already existing under Dutch GAAP. As a result the provisions for Employee Benefits will increase by € 20.6 million on the conversion date. The effect on the results for 2016 will be approx. € 3.7 million (positive), the effect on other comprehensive income will be approx. € 3.5 million (negative), while the provisions at the end of December 2016 will increase by € 20.8 million.

Investments in Associates and Joint Ventures / Joint Arrangements (IAS 28 / IFRS 11)

Based on the guidance in IAS 28 all investments in associates and joint ventures have been assessed. Based on the assessment it has been concluded that three joint ventures, which under Dutch GAAP have been partially consolidated in the results of Vion, do not qualify for consolidation under IFRS. Therefore the results of those joint ventures will not be consolidated in the financial statements under IFRS, and the joint ventures will be included in the balance sheet based on the net equity value as per the respective balance sheet date. However, there will be no impact on reported net income and equity as a result of this change.

Due to the size of the joint ventures the impact on reported sales and EBITDA is deemed to be immaterial for Vion as a whole.

Impairment of Assets (IAS 36)

On the conversion date Vion has assessed, in line with IAS 36, whether or not there are indication that the book value of certain assets at the conversion date would be higher than the realisable value at that moment. The assessment is based on the net present value of the future cash flows of the identified cash generating units (CGU). Based on the assessment there is no indication for impairment of certain assets at the conversion date. During 2016 there have been no impairments, nor under Dutch GAAP nor under IFRS.

Financial Instruments (IAS 32 and 39)

With a number of minority shareholders Vion has annual fixed dividend agreements. Under IFRS, opposite to Dutch GAAP, those fixed dividend agreements lead to a (financial) liability. As a result a liability has been recognised in the opening balance sheet on the conversion date of € 1.4 million, while the impact on the net result for 2016 € 0.2 million positive amounts. At the end of December 2016 an obligation has been recognised of € 1.2 million in the balance sheet.

As part of their day-to-day operations Vion enters into foreign currency contract to eliminate exposure from foreign currency transactions, receivables and payables. These financial instruments are recorded at cost, and subsequently valued at present value. As Vion will apply hedge accounting under IFRS, Vion will recognise results following from those financial instruments as part of the reported equity until the moment the underlying (sales) transaction is effectuated. As from that moment Vion will recognise gains and losses from those financial instruments in the income statement, together with gains and losses from the receivables and payables in foreign currency. Application of IAS 32 and 39 has resulted in an addition to the reported equity of € 0.7 million on the conversion date and € 0.1 million (positive) as per 31 December 2016. The impact on the 2016 results amounts € 0.0 million and the impact on other comprehensive income amounts to € 0.6 million.

Summary

Based on impact assessment of the conversion from Dutch GAAP to IFRS for Vion, the impact can be summarised as follows for each of the components; Equity 1 January 2016, Net income 2016, and Equity 31 December 2016.

Equity 1 January 2016

As a result of the conversion an impact on the reported equity of € 22.7 million, negative, is calculated. This means reported equity as per 1 January 2016 under IFRS amounts € 377.0 million, compared to € 399.7 million under Dutch GAAP.

This change in equity can be explained as follows:

Table 1 – Equity reconciliation Dutch GAAP – IFRS per 1 January 2016
(in millions of euros)

Equity according to Dutch GAAP	399.7
Conversion to IFRS:	
– Employee Benefits	–20.6
– Financial Instruments – dividends	–1.4
– Financial Instruments – derivatives	–0.7
Equity according to IFRS	**377.0**

Net income 2016

As a result of the conversion an impact on the reported net income of € 5.6 million, positive, is calculated. This means reported income for 2016 under IFRS amounts € 36.5 million, compared to € 30.9 million under Dutch GAAP.

This change in net income can be explained as follows:

Table 2
(in millions of euros)

	Full year 2016
Net income according to Dutch GAAP	30.9
Conversion to IFRS:	
– Amortisation of Goodwill	1.7
– Depreciation Property, Plant & Equipment	0.4
– Employee Benefits	3.4
– Financial Instruments – dividends	0.2
Net income according to IFRS	**36.6**

Equity 31 December 2016

As a result of the conversion an impact on the reported equity of € 20.2 million, negative, is calculated. This means reported equity as per 31 December 2016 under IFRS amounts € 411.4 million, compared to € 431.2 million under Dutch GAAP.

This change in net income can be explained as follows:

Table 3 – Equity reconciliation Dutch GAAP – IFRS per 31 December 2016
(in millions of euros)

Equity according to Dutch GAAP	431.2
Conversion to IFRS:	
– Goodwill	1.7
– Property, Plant & Equipment	0.4
– Employee Benefits	–20.8
– Financial Instruments – dividends	–1.2
– Financial Instruments – derivatives	0.1
Equity according to IFRS	**411.4**

Vion

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