Message from our CEO

Frans Muller
President and CEO

Dear reader,

I'm happy to present our Annual Report for the first time as Chief Executive Officer. In 2018, we essentially finalized our merger and integration and turned our focus to the next, exciting chapter of our company. I'm very proud of the associates across our great local brands who have made our success possible.

While we completed the merger and delivered the synergies we promised, we have continued our strong business performance in a rapidly changing industry and maintained a robust financial profile. This has enabled us to continue to invest in future growth and return excess liquidity to shareholders.

I am pleased to report that Ahold Delhaize and its great local brands had another strong financial performance in 2018. Net sales rose 2.5% to €62.8 billion at constant exchange rates, with higher sales across all segments and market share gains in most of our markets. Net consumer online sales rose 24.8% to €3.5 billion at constant exchange rates.

Our full-year underlying operating margin was 4.1%, up from 3.9% in 2017, driven by synergies that amounted to €432 million by the end of 2018. Free cash flow was €2.3 billion, enabling us to continue to invest in our stores, digital capabilities and online channels.

We completed a €2 billion share buyback and launched a new €1 billion program for 2019. Our strong financial position enables us to propose a dividend of €0.70 a share, an increase of 11.1% compared to last-year's dividend, representing a payout ratio of 42% of underlying income from continuing operations. As of 2019, we have committed to making semi-annual dividend payments, and we have the ambition to maintain a sustainable growth of our full-year dividend per share.

Our strong results underscore that Ahold Delhaize is well-positioned to succeed. We have top-notch talent across all our brands and at our support offices, along with the specialized experience that comes from being in the food retail business for more than 150 years.

Our new brand-centric organization in the United States, our updated structure in Europe, and our tremendous regional support – bolstered by the establishment of Retail Business Services and Peapod Digital Labs in the U.S. – give us the right structure to set our local brands up for success. In short, we've built a solid platform for growth – both in bricks and mortar and online.

Launching a new strategy

In 2018, we already took our first steps toward the next phase of our company.

We operate in an industry that is going through a period of significant change, fueled by shifts in consumer behavior, rising competition from online players and advancing technology. These changes are pressuring traditional business models, prompting retailers to rethink their strategies and find new and innovative ways to serve customer needs and operate more efficiently.

> **"Our strong results underscore that Ahold Delhaize is well-positioned to succeed."**

Against this backdrop, we performed an in-depth strategic review to fully understand how we are positioned in this very dynamic market and the opportunities and challenges we face. The outcome was an updated strategy we call "Leading Together," which will drive our growth and help us gain market share in a sustainable, omnichannel way.

"Leading" means that we want to be at the forefront of innovation and strengthen our leading positions in our markets – and that we have trusted leaders to take our teams forward. And we will do it "Together," with colleagues across the local brands and in partnership with vendors, communities and the other stakeholders our business touches every day. Especially in the areas of technology and sustainability, the world's challenges today are too big for companies to tackle on their own. We need strong partnerships to further innovate and improve our business, but also to make a difference in addressing challenges such as climate change and plastic waste.

Message from our CEO

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Accelerating our growth

Our updated strategy focuses on five growth drivers that will help us accelerate in the areas we believe will make a difference in the future food retail landscape. The first is growing our omnichannel business, which includes our network of stores in great locations and our online businesses. We want to ensure that customers can shop how, where and when they want, and that we can help them get a healthy and affordable dinner on the table in a fast and easy way.

Secondly, we will invest in technology to further improve our customer proposition and increase efficiency. Our customers are embracing technology – and it is helping us provide them with a more personalized, convenient shopping experience.

We are partnering on technologies that are not only helping us make the customer experience even more personal and relevant but also operate more efficiently and manage labor shortages in our markets. This includes exciting new collaborations in artificial intelligence and robotics.

For years we've had a strong focus on making our offering healthy and sustainable. More and more customers are conscious of the link between food, health and sustainability and want to know where our products come from and how they are produced. Our third growth driver is focused on creating healthier solutions for our customers, which will have an impact on overall disease prevention, while also becoming more sustainable in the way we source, the way we work, the way we deal with our people, and the way we operate as a company.

As a signatory member of the UN Global Compact, we join the other member companies around the world to align our strategies and operations with the Compact's ten universal principles around human rights, labor, environment and anti-corruption. We support multiple UN Sustainable Development Goals through our sustainability efforts.

The fourth driver is portfolio and scale efficiencies. This is about investing in profitable growth – both organically and inorganically – to expand our strong local brands, extend our customer reach and deepen our footprint. At the same time, it's about capturing the benefits of our scale through our Save for our Customers program and by sharing best practices.

Finally, our fifth growth driver recognizes that our people are our greatest assets. We have outstanding store teams that serve customers in our stores and work with our communities, strengthened by colleagues in distribution centers and support offices. We are aware that technological advances are changing the way people work. Every day we are engaged in attracting and retaining the best talent with the specific skills and the right capabilities, both for our current business and to adapt us for and propel us into the future. It is making a difference, and I am pleased to report that our 2018 associate engagement score was 79%, up from 78% in 2017, with higher marks on all dimensions of engagement.

Diversity and inclusion are crucial factors in having the best workforce, both now and in the future. We believe that our people should reflect the diversity in our local communities, as well as bring diverse thinking and experience in our leadership. Companies who do both are more successful. Therefore, we are committed to making further progress in this area, and I recognize that there is room for improvement in our top leadership team.

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Leadership changes

For associates to reach their potential, we need the right leadership in place, so we continue to strengthen our management teams, promoting people from within the company and finding external talent when it helps us gain new capabilities.

We thank Mats Jansson, who retired as Chairman in 2018, for his leadership of our Supervisory Board, especially during the merger period. Jan Hommen has taken on the role of Supervisory Board Chairman once again. During the year, Johnny Thijs and Patrick De Maeseneire stepped down from the Supervisory Board due to other commitments – we are grateful for their valuable contributions while on the Board.

And of course, Dick Boer retired as CEO at the end of June. We are very grateful for his leadership and for helping us shape the company to be what it is today. Marc Croonen, who stepped down from the Executive Committee in November, contributed much to advancing our commitment to sustainability.

In October, Wouter Kolk officially took on the role of CEO Ahold Delhaize Europe and Indonesia. And, in January 2019, we also appointed a new Chief Digital Officer, Farhan Siddiqi, to help us drive digital transformation and innovation across our local brands.

Together with the hundreds of thousands of associates across our businesses, we have a tremendous team to take us into the future.

Outlook for the future

We confirm our target for 2019 of realizing €750 million gross synergies, resulting in €500 million net synergies from the integration of the two companies. In addition, we expect to save €540 million in 2019 as part of our €1.8 billion Save for Our Customers program for 2019-2021. As previously announced, we expect the full 2019 group margins to be in line with last year.

Underlying income per share from continuing operations is expected to grow by high single digits as a percentage compared to last year. We expect free cash flow in 2019 to be around €2.0 billion, as we are increasing our capital expenditures to €2.0 billion, in particular at Stop & Shop and our eCommerce business, as well as to further strengthen our digital capabilities.

I want to thank everyone who contributed to making 2018 such a great year for Ahold Delhaize: our associates, our vendors and partners in the industry, our communities and our customers – and you, our shareholders.

Best wishes,

Frans Muller
President and CEO