Fourth quarter and full year 2014 results

February 26, 2015

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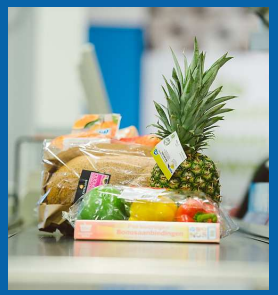
Agenda



Group highlights

Dick Boer

Financial review

Jeff Carr

Business highlights

Dick Boer

Ahold USA update

James McCann

Wrap-up

Dick Boer

Q&A

Dick Boer,
Jeff Carr,
James McCann

Group highlights

Dick Boer

CEO

Group highlights 2014

Financial performance

- Sales in Q4 up 7.9%, reflecting currency impact as well as improving sales trends (2.6% excluding currency impact)
- Operating margin in Q4 stable versus Q2/Q3, adjusted for SPAR acquisition
- Strong free cash flow of €1.1 billion for 2014
- Successful cost and efficiency improvements of €865 million from 2012-2014, an additional €350 million planned in 2015
- €2.7 billion returned to shareholders in 2014
- Dividend proposal up 2.1% to €0.48 per share
- New share buyback program of €500 million over the next 12 months

Group highlights 2014

Ahold USA

- Rolled out the program to improve U.S. customer value proposition to 523 stores
- Promising sales trends over the quarters (from -0.2% in Q3 to +0.3% in Q4 adjusted identical sales growth) and first signs of improved price perception by customers in all divisions
- Customer proposition investments mainly funded by Simplicity cost and efficiency improvements of $364 million in 2014

The Netherlands

- Albert Heijn's identical sales grew significantly in Q4, resulting from increased promotional activity and a strong Christmas holiday period, with a unique holiday assortment
- Positive momentum in market share in Q4, improving overall market share by 10 bps, up to 34.1% for full year 2014
- Our online businesses bol.com and Albert Heijn Online continue double-digit sales growth in 2014 with 21.2%* in the fourth quarter
- Continued successful expansion into Belgium with 28 stores at year end

Czech Republic

- Acquisition of 49 SPAR stores in the Czech Republic makes Albert a leading food retailer
- Conversion of SPAR supermarkets followed by successful conversion of SPAR compact hypers
- Albert deploying customer centric programs to strengthen commercial and operational performance

* Net consumer online sales

Financial review

Jeff Carr

CFO

Operating performance
(in millions of euros)

	Quarter 4			Full year		
	2014	2013	Change*	2014	2013	Change*
Sales	8,061	7,472	2.6%	32,774	32,615	0.8%
Gross profit margin	26.5%	26.6%	(0.1)	26.5%	26.6%	(0.1)
Underlying operating income	302	320	(10.1%)	1,267	1,379	(8.0%)
Underlying operating margin	3.7%	4.3%	(0.6)	3.9%	4.2%	(0.3)

- Strong Q4 sales driven by improved identical sales in the U.S. and the Netherlands
- Underlying margin without SPAR was 3.9% for the quarter
- Underlying margin impacted by investments in our customer proposition and strong online sales growth

* At constant exchange rates

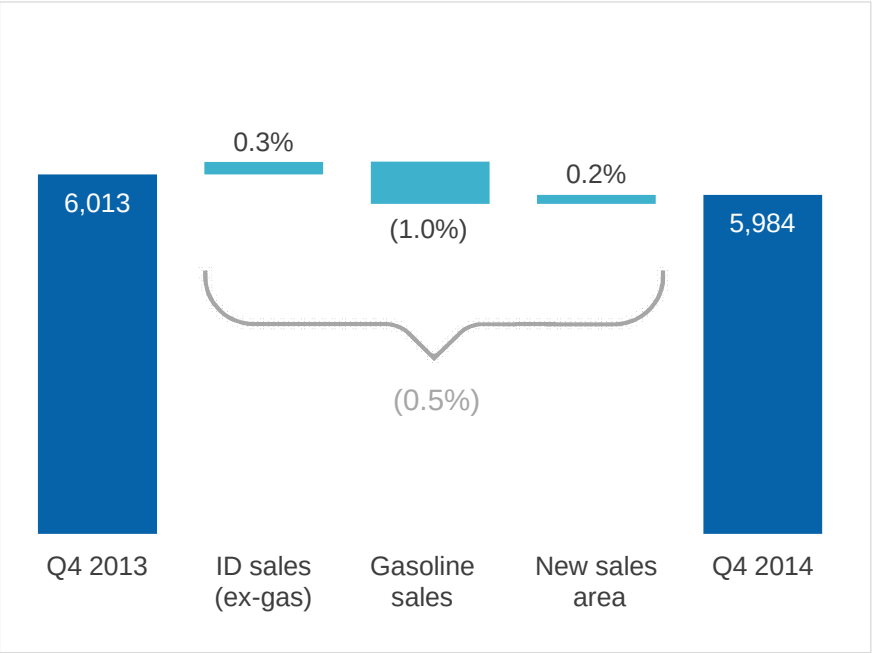
Adjusted net income
(in millions of euros)

	Full year		
	2014	2013	Change
Underlying operating income	**1,267**	**1,379**	**(8.1%)**
Operating income	**1,250**	**1,239**	**0.9%**
Net financial expenses	(235)	(291)	19.2%
Income taxes	(248)	(153)	62.1%
Share in income (loss) of joint ventures	24	10	140.0%
Income from continuing operations	**791**	**805**	**(1.7%)**
European reorganization	30	-	
Dutch Pension plan amendments	(44)	-	
Multi-employer pension plan settlement	-	39	
Movements in income tax contingency reserves	-	(37)	
Adjusted income from continuing operations	**777**	**807**	**(3.7%)**
Basic EPS from continuing operations	**€0.90**	**€0.79**	**13.9%**
Dividend per share	**€0.48***	**€0.47**	**2.1%**

* Subject to shareholder approval

Sales development Q4 – Ahold USA

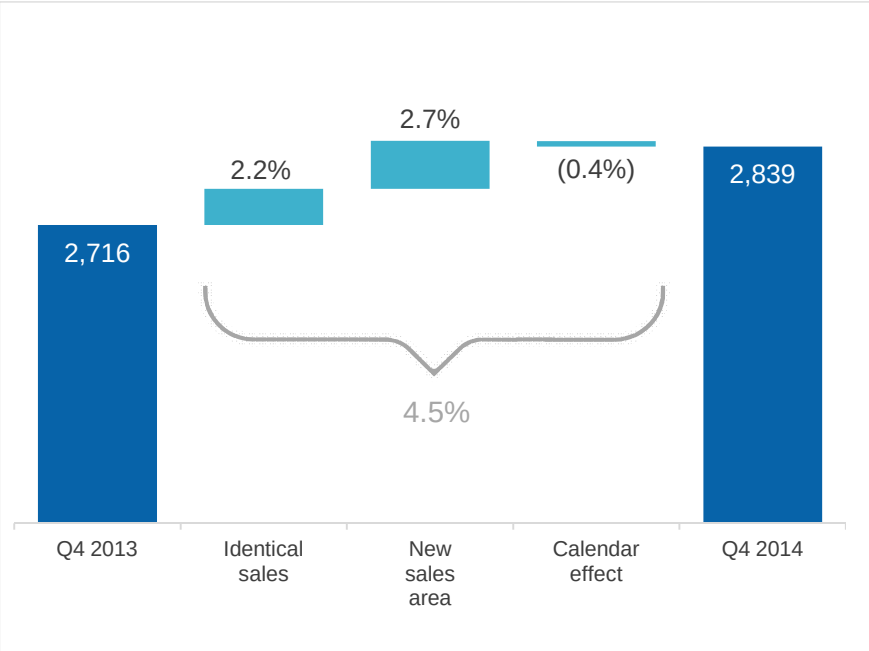
(in millions of US dollars)



- Net sales decline impacted by lower gas sales
- Encouraging sales uplifts over the quarters resulting from our program to improve the customer proposition
- Q4 market share in volume increased compared to last year, reflecting improved volume trends

Sales development Q4 – The Netherlands

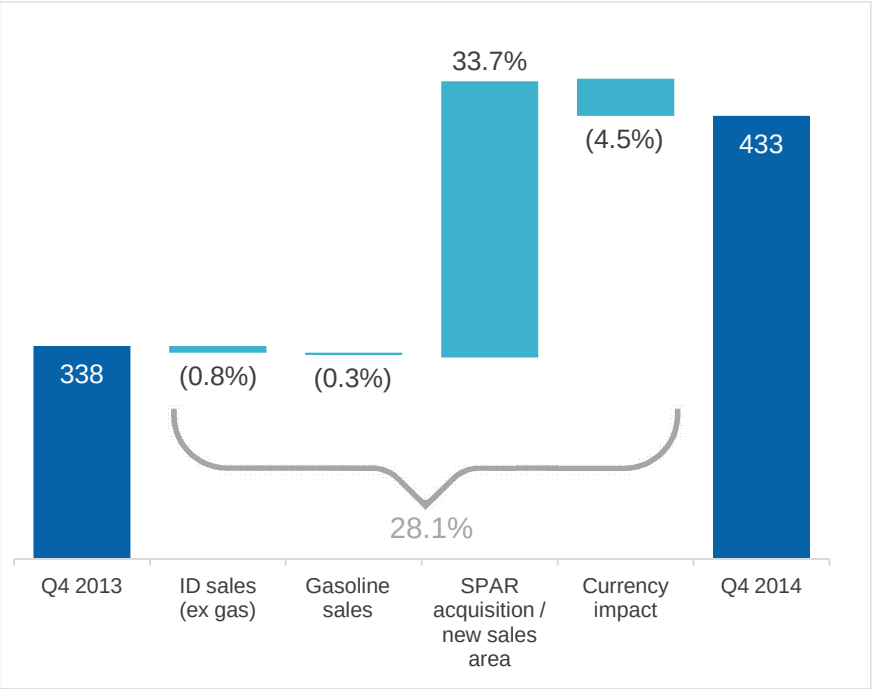
(in millions of euros)



- Albert Heijn had a strong Christmas holiday period, resulting in a higher market share than last year
- Strong double digit sales growth from our online businesses, both at bol.com and Albert Heijn Online
- Albert Heijn Belgium continues to expand its network and achieved ongoing identical sales growth

Sales development Q4 – Czech Republic

(in millions of euros)



- Net sales impacted by the acquisition of SPAR stores as of August 1, 2014 (total of 333 stores at year end)
- Continuing high level of promotional activity in the market

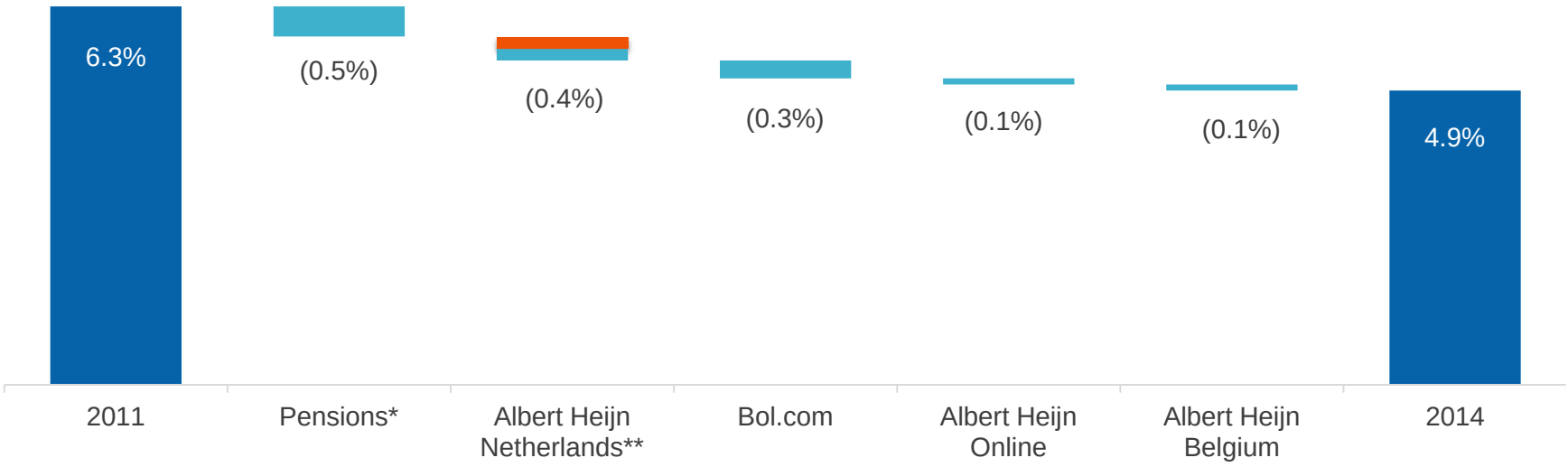
Underlying operating income by segment
(in millions)

	Quarter 4		Full year	
	2014	Change*	2014	Change*
Ahold USA	$226	(7.0%)	$980	(7.9%)
Underlying operating margin	*3.8%*	*(0.2)*	*3.8%*	*(0.3)*
The Netherlands	€135	(10.0%)	€574	(7.3%)
Underlying operating margin	*4.8%*	*(0.7)*	*4.9%*	*(0.5)*
Czech Republic	€5	(58.6%)	€19	(33.0%)
Underlying operating margin	*1.2%*	*(2.4)*	*1.2%*	*(0.9)*

- Investments in the customer proposition and absorbing price increases resulted in lower margins in the U.S.
- In the Netherlands, lower margins were mainly caused by increased promotions and higher labor costs in Q4
- Czech full-year underlying operating margin excluding SPAR at 2.3% improved slightly compared to last year

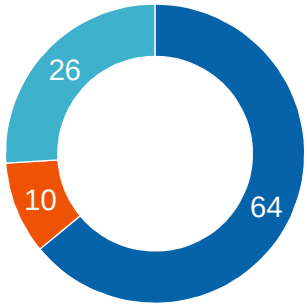
* At constant exchange rates

Margin development – The Netherlands



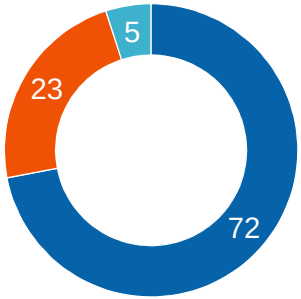
* Non cash
** (0.2%) impact additional franchise stores

Simplicity cost and efficiency improvement program



Functional split 2014 (in %)

- Commercial improvements
- Overhead reduction
- Operational efficiencies



Regional split 2014 (in %)

- Ahold USA
- The Netherlands
- Czech Republic

All our businesses have successful cost and efficiency improvement programs underway

Delivered €385 million in 2014:

- Commercial improvements
- Operational efficiencies
- Overhead reduction

Invested in:

- Lower prices
- Absorbing COGS inflation
- Mitigating OPEX cost pressure

The total three-year plan (2012-2014) delivered €865 million

Ongoing initiatives expected to deliver an additional €350 million in 2015

Pension plans status
(in millions of euros)

Summary position	YE 2014	YE 2013
Company plans deficit (defined benefit plans)	(285)	(343)
Multi-employer plans deficit	(540)	(481)
Funding ratios		
Largest Dutch pension plan	117%	116%
Ongoing U.S. pension plan	127%	112%

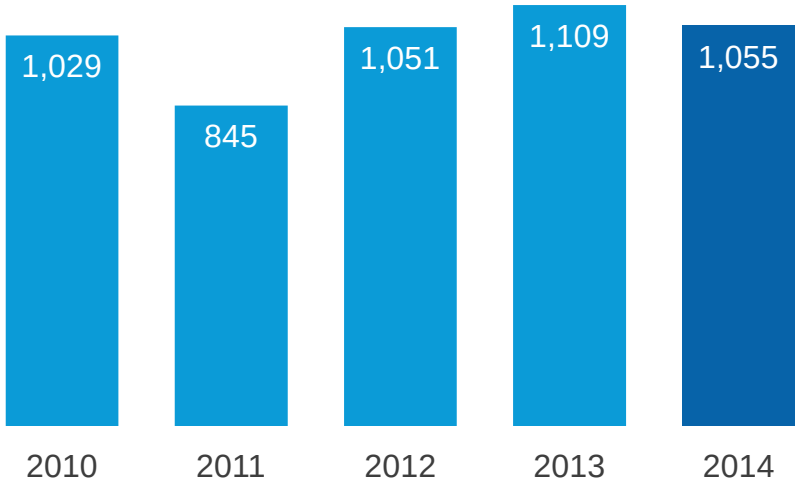
- Pension costs* in underlying operating income expected to be €26 million more than in 2014, lowering Dutch operating income by €23 million primarily as a result of declining discount rates
- Total cash contributions for our ongoing plans* will decrease by €33 million to €136 million in 2015

* Defined benefit pension plans

Free cash flow and uses of cash

(in millions of euros)

Strong free cash flow

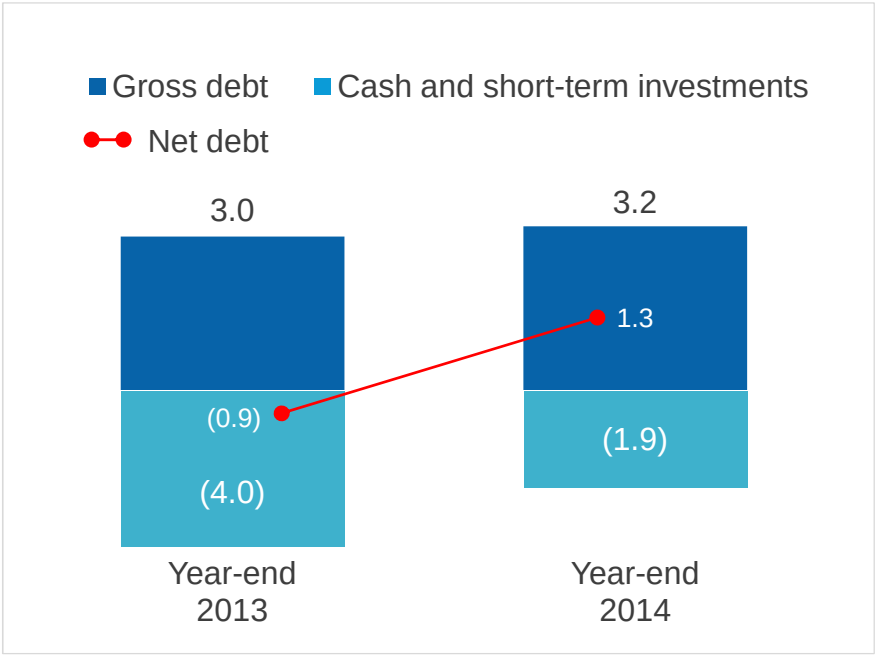


Balanced approach to capital allocation

Operating cash flow*	1,893
Net investments**	(655)
Other	(183)
Free cash flow	1,055
Acquisitions / divestments ***	(481)
Dividend	(414)
SBB and capital repayment	(2,240)
Other cash changes	(147)
Change in Cash and short-term investments****	(2,227)

* Operating cash flow from continuing operations, ** Gross capital expenditures of €732 million, *** Including Waterbury settlement, **** Before impact of exchange rates

Capital structure
(in billions of euros)



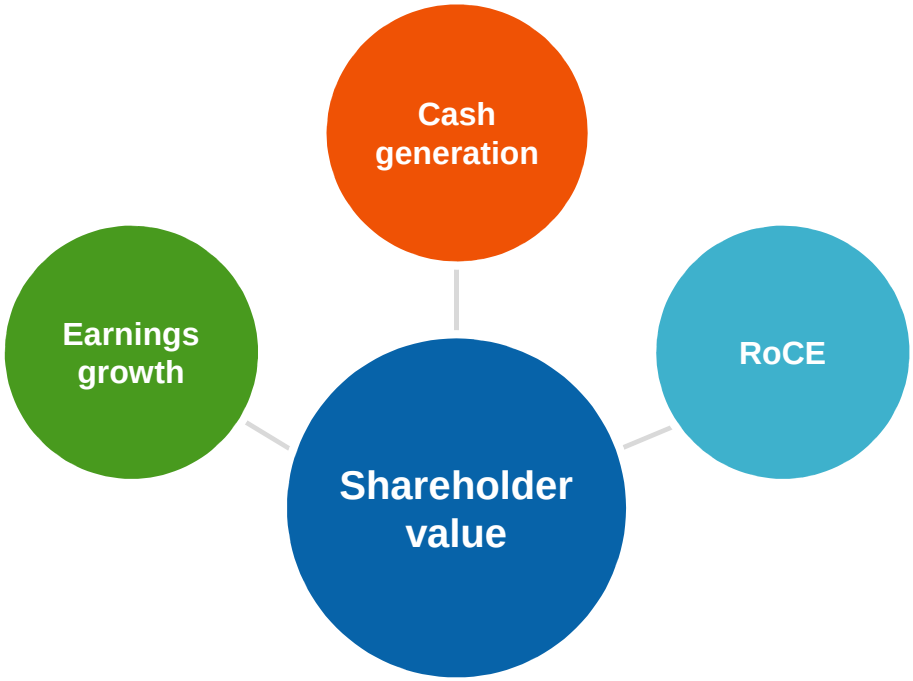
Further reduction of excess liquidity
Lease adjusted leverage close to target

- €1 billion capital repayment and €2 billion share buyback program completed during 2014
- Cash balances* down €2.1 billion to €1.9 billion
- Net lease-adjusted debt / EBITDAR at 1.9 times
- New share buyback program of €500 million over the next 12 months

* Includes cash and short-term deposits

Financial strategy

Balanced investment in growth and return excess cash



Return on capital

Top quartile of the sector

Capital structure guidelines

- Net lease-adjusted debt to EBITDAR around 2x
- Liquidity around €2 billion
- Committed to investment grade credit rating

Dividend policy

Distribute 40-50% of adjusted income from continuing operations

Outlook 2015

- Continued investments in customer proposition largely funded by cost and efficiency improvements from Simplicity program of €350 million
- Increased investments in online (bol.com) to maintain strong sales growth and to further strengthen our leading positions (25 bps impact on the margin in the Netherlands)
- Underlying pension costs* increase by €26 million to €140 million; total cash contributions will decrease by €33 million to €136 million
- SPAR acquisition in the Czech Republic slightly margin- dilutive, but margin-enhancing from 2016 onwards
- As previously announced, one-off cost of €40 million related to SPAR transaction

- Free cash flow to be broadly in line with 2014
- Capex excluding acquisitions to be around €900 million
- Net interest expense to be in the range of €215- €235 million
- Effective tax rate in the mid-twenties
- The € / USD rate in 2014 was 1.33: Sensitivity of $0.10 decrease results in €1.6 billion additional sales, €60 million additional underlying EBIT and €53 million additional free cash flow

* Defined benefit pension plans

Business highlights

Dick Boer

CEO

The Netherlands

Albert Heijn

Increased transactions and bigger baskets due to successful holiday season

Extending organic product range

New Albert Heijn XL concept:

- True omni-channel experience
- New Fresh concepts
- Additional and local assortment
- World-class energy management
- Associates trained to inspire customers

Strengthening our role in the community:

- Homework classes for associates
- Educating schools and offering healthy lunches

- ah.nl now covers 85+% of Dutch households
- Continued rollout of pick-up points
- Further expanded assortment

Belgium

- #1 customer appreciation in GfK Winter Report
- First pick-up points will be opened in H1 2015
- Positive identical sales growth
- Well on track to have 50 stores by 2016

Albert Heijn to go

- Continuous product innovations
- Four weeks from idea to shelf
- 22 stores remodeled to new, successful concept

etos

- Growth in sales and market share
- “Best drugstore in the Netherlands”
- Own-brand products repositioned, inspired by the heritage of the Etos brand

Gall & Gall

- “Best Food Specialty Store in the Netherlands”
- More than 300,000 paid loyalty cards
- Launched www.gall.nl e-commerce website

Czech Republic

Successful integration of SPAR business

- Headquarters, IT and Logistics fully integrated
- Strong sales results at 14 converted SPAR supermarkets
- Successful conversion of SPAR compact hypers
- Remaining 34 SPAR compact hypermarkets to be converted during Q1 2015

Albert deploying customer-centric programs to strengthen commercial and operational performance

Best in town - program

- Mystery shopping program at all stores
- 50% of our stores beat strongest competitor
- Improved engagement of store associates
- Prestigious quality award received

Project Favorite

- Customer-centric operating model
- Improved sales trends
- Rolled out to 30% of our supermarkets in 2014
- Implementation planned for all stores in 2015

Maximize potential through online growth strategy

Consumer sales growth 2014 to €1.4 billion, up 19.4% versus last year

Online growth ambition: 20-25% CAGR

Continue to invest in our leading online brands:

- Bol.com further developed as a retail partner platform
- Web store improvements
- New categories
- Roll out of Marketing and Media services
- Expansion into Belgium

Omni-channel is at the heart of our strategy and online will become an increasingly important aspect of our business

Ahold USA update

James McCann

COO Ahold USA

Ahold USA has a strong position in the U.S. market

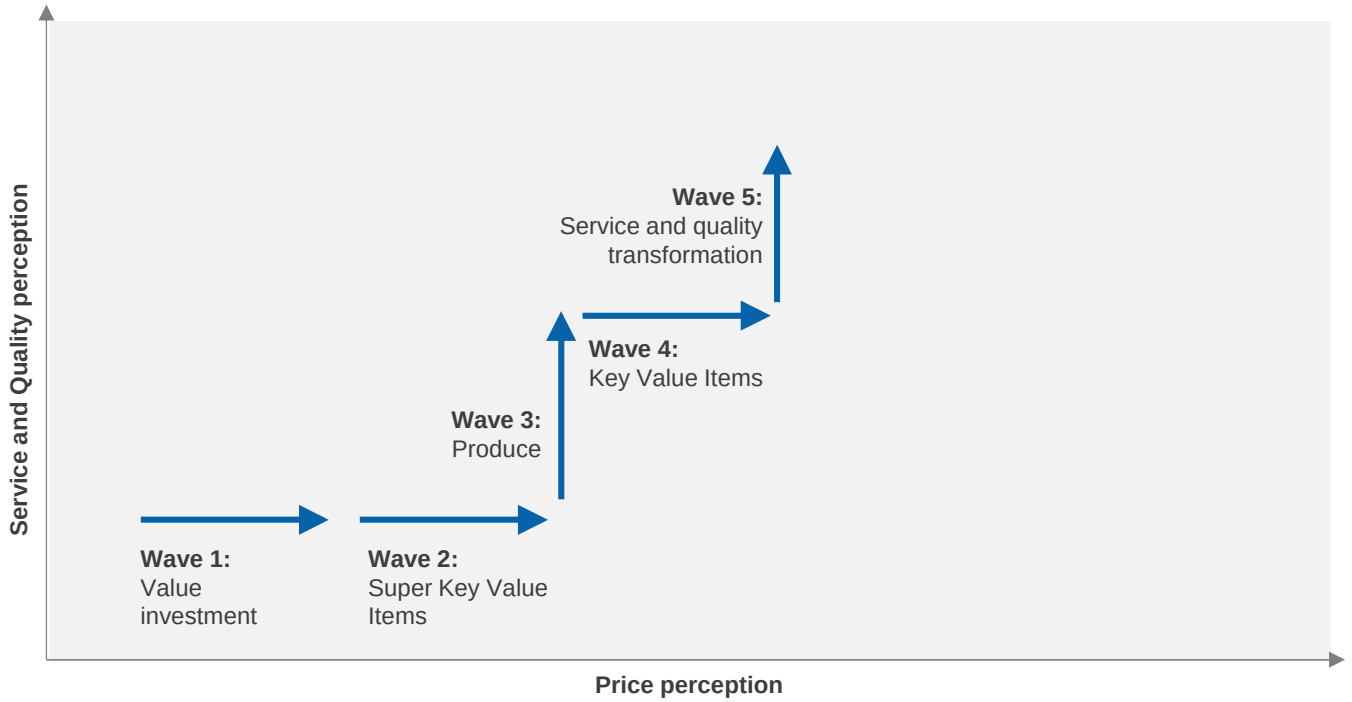
- Nearly 60% of groceries still bought at supermarkets
- #1 in 3 of the 4 markets we operate in
- 4.5 million customers shopping with us every week
- Market leading store locations
- The 5th largest food retailer in the United States
- The leading online grocer in the United States

Stop&Shop Giant GIANT MARTIN'S Peapod

We need to differentiate more on service, quality AND price perception

- Service and quality perceptions in the middle of the market
- 3 divisions with price perception below average and one above average
- Positions need to become more differentiated
- Our journey is about investing in the value proposition and service and quality proposition

Deploy waves of investment to improve service, quality AND price perception



Our journey to date

WAVE 1
Value investment

LOW EVERYDAY price

WAVE 2
Super Key Value Items

WAVE 3
Produce transformation

Completed Q2 2015 | **20% completed to date** | **In test in 50 stores**

Wave 1 example: how we tested and deployed

- Phased rollout started in 2013 with a pilot in six stores
- To date, Wave 1 rolled out to 636 stores in all divisions
- Expect to have rolled out Wave 1 to over 700 stores by Q2 2015
- 2% sales increase versus baseline

2013		2014 & 2015
Validation pilot	**Industrialization test**	**Full deployment**

Wave 1: What did we deploy?

Pricing and promotions	• Over 1,000 item price reductions in the Fresh departments
	• Improvement of circular on the front page
Assortment	• Leveraging own brands to offer attractive entry-price points
	• Over 100 SKUs added
Marketing communication	• New signage and in-store communication
	• New case tags
	• Direct mail and online campaigns
Fixtures and in-store displays	• Use of pallets and power panels
	• Fixture updates to perimeter departments
	• Focus on enhancing overall store experience
Associate engagement	• Training to ensure full engagement of store associates
	• Associate engagement program

Wave 2: Super Key Value Items

- Great prices on the 30 most important items for customers
- Have limited promotions
- Feature in flyers and through in-store merchandising with Every Day Low Price (EDLP)
- Drive price perception

Wave 3: Produce transformation

- Market style department
- New fixture lighting
- New training and schedule
- New signage and layout
- New “would I buy it” (WIBI) quality
- Bolder pricing statement

Wave 3: Produce - showing promising results

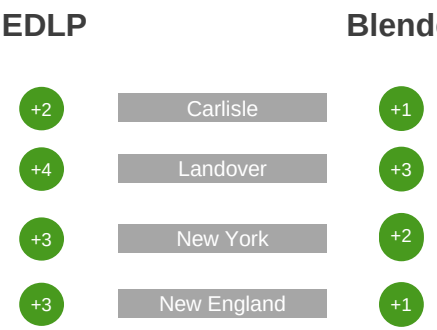
- Strong sales and volume growth
- Excellent customer response
- Deploying to 87 industrial test stores by end April
- Limited capex of $160-200k per stores
- Planned to deploy to over 700 stores by end 2016

What impacts are these investments having?

- Sales uplift of approximately 2% driven by healthy volume growth versus a negative trend
- Increased volume market shares across our businesses

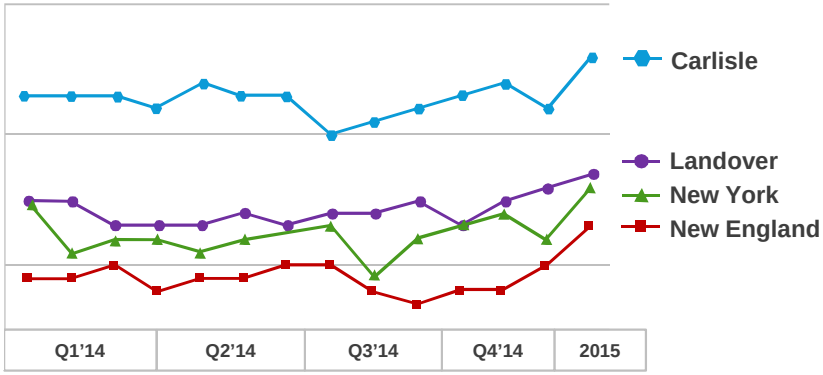
- Improved price positioning
- Initial signs of improved customer price perception

2014 Price index and change vs. YE 2012



Source: Company tracking data

Price perception



Source: Nielsen Scantrack

Our business wheel is still core to our strategy

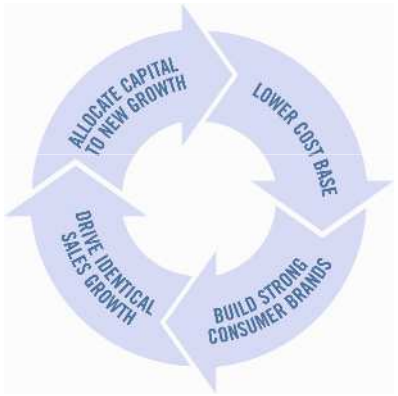
Significant cost and efficiency improvements already funded most of the investments:

- 2013: $213 mln in savings
- 2014: $364 mln in savings

Funding most of the investments in:

- Lowering prices
- Absorbing COGS inflation
- Mitigating OPEX cost pressure

We envisage investments and savings being balanced over time



Buy for less

- Commercial sourcing
- Value chain
- Supply chain

Operate for less

- Overheads
- Store process efficiency
- NFR
- Improving unprofitable stores

In summary

- Strong position in the U.S. with leading brands and great store locations
- Clear strategy to make significant improvements in our customer proposition
- Improving customer perception through waves of investments
- Significant cost and efficiency improvement plans to fund these investments
- Our teams are energized and aligned to deliver results

Wrap-up

Dick Boer

CEO

Wrap up

- The U.S. team has a clear strategy to enhance the customer offering by lowering prices and improving service and quality, funded by our Simplicity program
- In the Netherlands, Albert Heijn will further develop its formats, extending and improving assortments, service and convenience
- In Belgium, we will continue to extend our store network and open pick-up points
- In the Czech Republic, we will complete the conversion of the SPAR stores and strengthen the performance of the Albert stores
- We will continue to invest in our online business, maximizing its growth potential

Q&A

Fourth quarter and full year 2014 results

Ahold
THANK YOU
Stop&Shop
Dion
happy to