Frans Muller, President and CEO Ahold Delhaize

Q&A WITH OUR CEO

Frans Muller looks back on the highlights and challenges of 2021 and reflects on our expectations for the year ahead.

Q. How would you characterize the year 2021 for Ahold Delhaize?

I am proud of our performance and what we have been able to achieve in 2021. Despite expectations around the world that this would be a more normal year, COVID-19 continued to have a major impact in our brands' markets – and kept our people very busy. I have enormous appreciation for associates in stores, distribution centers and support offices across Ahold Delhaize who worked so incredibly hard to serve the needs of customers and communities. As a result, from a business standpoint, we went from strength to strength on many fronts during the year. It proved to us that Leading Together is the right strategy for our company and our future.

In many ways, this second year of the pandemic has been more challenging for people across our brands' markets. In 2020, everyone rallied around the crisis, and associates were motivated by our essential role in giving customers access to products in the safest possible way. As the pandemic continued in 2021, people became fatigued and we saw more mental strain, not only among associates but throughout the communities our brands serve. We looked for ways to support mental health, both for associates and community members. For example, Hannaford donated $400,000 to support mental health resources in its regions. We ran a pilot at our Global Support Office providing tools to help associates recognize if they needed mental health support and train managers on the important role they play.

Many of the challenges we faced during the year strengthened our commitment to our strategic ambitions. We saw a strong connection between the health crisis, natural disasters in many of our brands' markets and the urgent climate crisis facing our world. As our brands helped communities deal with the pandemic and the aftermath of floods, fires, earthquakes and hurricanes, we doubled down on our commitment to our climate strategy. When the pandemic continued to increase inequality in many communities, we became even more convinced that providing access to healthy food is a crucial part of our ambitions – and an important way to set people up for success in life. During the past two years, our values and purpose have become strong drivers, motivating people across our businesses.

An important milestone for us during the year was announcing our long-term strategy and key commitments during our Investor Day in November. This growth and investment plan has given the whole organization confidence and energy as we look to continue our strong momentum toward 2025.

Q. COVID-19 continued to have a significant impact – when you look back on it, what stands out the most?

We saw positive changes as the world started to open up again and people began to get vaccinated in all our markets – and then setbacks when more restrictive measures proved necessary again. Dealing with uncertainty around changing policies and absenteeism because of illness caused challenges in our brands, in local communities and for our people. I'm proud of how our teams adapted through all this change.

What also made me proud was seeing how associates learned from the lessons of the past two years around equity in society to double down on work towards our bold diversity and inclusion (D&I) aspiration to be 100% gender balanced, 100% reflective of our markets and 100% inclusive. While I believe we still have much more progress to make, I feel that D&I is embedded in our thinking and actions now in a way that it wasn't in the past.

During the year, we saw some consumer trends triggered by the pandemic persevere. For example, trends around cooking and eating at home, shopping online and healthy eating have remained and evolved, and convenience continues to grow in importance. As a result of these trends, we sold more groceries in 2021, but serving this demand took a lot of effort and drive by people across all our brands and businesses. We also spent over €360 million in 2021, on top of the nearly €680 million we spent in 2020, on COVID-19-related costs, including extra measures in stores, sanitation, uniforms, signage, paid quarantine leave for U.S. associates and additional donations to communities. Our brands donated another €20 million to support the Red Cross, food banks and other local initiatives.

We saw other COVID-19 related challenges, such as inflation, which we did our best to manage and keep prices affordable to customers, and supply chain issues, particularly in the U.S. Through it all, our brands continued to build market share by enabling customers to shop when and where they wanted through our omnichannel offering and providing them healthy and sustainable choices.

The GIANT Company associates volunteering at a food bank.

Q. In light of this, how would you characterize our financial results in 2021?

2021 was a strong year for us financially; but, of course, it was in the midst of circumstances we all wish had been different.

During the year, our brands worked to serve customers even better by gearing up their online propositions, delivery services and click-and-collect locations. In the U.S., at the end of 2021, almost 1,400 stores had click and collect and the brands made online shopping available to customers in around 95% of their geographies. We also grew our online offering in Europe by more than 25%. Bol.com had another stellar year, growing net consumer online sales by 27% and maintaining EBITDA at record levels as it served more households and grew its number of partners to nearly 49,000. At our Investor Day in November, we also disclosed, for the first time, several key metrics for the brand, such as customer and partner NPS and market penetration rates, and gave a snapshot of the growth levers we intend to pursue to double that business by 2025. In that context, we announced the exciting news that we would explore a subsidiary-IPO for bol.com in 2022. And Albert started offering online grocery shopping in the Czech Republic. I'm proud to say that we also closed several acquisitions this year, including FreshDirect, 71 stores from Southeastern Grocers at Food Lion and 38 DEEN stores at Albert Heijn.

We invested €2.4 billion in the business, to make sure that our brands' stores are well maintained, to enhance the digital and omnichannel offerings, to upgrade the supply chain and to increase our IT and digital capabilities to make sure our brands can provide even more personalized propositions for customers. In addition to investing in direct employment, our growth and capital investments also fueled indirect employment in our brand's markets through the work we provided to small- and medium-sized companies focused on areas like construction, digital and technology.

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Q. Ahold Delhaize continued to invest in growing its omnichannel business. What were the key highlights for you?

As we accelerate on our journey to create a seamless omnichannel experience for customers, we invested proportionally more in technology in 2021 than we did in the years before. In both Europe and the U.S., we're developing strong intuitive and convenient omnichannel ecosystems. While working alongside support companies that provide scale, platforms, capabilities and services to help them drive the omnichannel customer experience, the brands tailor the experience to their local strategies and commercial plans to connect with customers in the most relevant way.

This is enabling our brands to bring new, unique customer experiences to their markets, such as the AH Premium subscription program – the first of its kind in the Netherlands – that lets customers save on both in-store and online orders. Another is the SuperPlus loyalty program at Delhaize in Belgium, that gives discounts on healthy products. In the U.S., Stop & Shop is offering customers an enhanced, more personalized offering through its GO Rewards program that lets customers earn points they can redeem for gas savings, dollars off at checkout or surprise deals.

And we are supporting all of this through the tech investments I mentioned, harmonizing behind the scenes so our brands can rapidly deploy new features and functionalities for customers. For example, the project to transform our U.S. supply chain remains on track. In 2021, The GIANT Company also opened an e-commerce fulfillment center in Philadelphia. Our brands in Europe have rolled out electronic shelf tags to 80% of stores. In the Netherlands, our brands rapidly grew their home shop centers in 2021 to a total of eight, providing extra capacity and employment in the market.

As we communicated at our Investor Day in November, in 2022 and beyond, we will step up our investments in digital, automation and state-of-the-art infrastructure to drive innovation and support our accelerated growth plans to 2025. And, rest assured, we will also continue to execute and time these investments with the same strict rules and discipline that you have come to expect from us in terms of achieving our hurdle rates and return on capital metrics.

Q. You announced more ambitious climate and healthier sales targets. Why was this important?

Over the past year, our associates, customers and shareholders have become even more aware of our global climate challenges and the need to accelerate the transition to a sustainable food system. As a leading food retailer, we are confident that we can make a big difference by working across our brands' supply chains. Our stakeholders are also increasingly interested in understanding how companies are reducing their impact on the planet – and have high expectations around transparency and traceability.

This year, we announced accelerated targets on climate. We committed to reach net-zero carbon emissions across our own operations, ten years earlier than originally planned, by 2040 (scope 1 and 2) and become net-zero businesses across our entire supply chain, products and services by 2050 (scope 3). This is on top of our previous commitment to reduce scope 1 and 2 emissions by 50% between 2018 and 2030. We also joined the Business Ambition for 1.5°C in order to collaborate with others who are committed to ambitious climate targets and further advocate for setting science-based targets to net zero.

I also want to mention our efforts on waste reduction, another very important way we are striving towards a healthier planet. Like all food retailers, we underestimated the challenge of completely replacing our own-brand primary plastic packaging by 2025 with recyclable, reusable or compostable plastics. While we are committed to deliver a path of continuous improvement on this front, we also need to re-evaluate a more realistic go-forward ambition. Reducing plastic waste has proved to be challenging and complex, from the levels of recyclability of the multiple packaging elements themselves to the availability of a robust recycling infrastructure within some of our brands' markets. In 2021, we set our baseline and worked on improving visibility in our data gathering and reporting. We can now report that 36% of our own-brand primary plastic product packaging is recyclable, reusable and / or compostable, and our brands continue to improve this packaging.

We have reduced total food waste in our business by 18% since 2016 and aim to lower it by 50% in 2030. However, there are many trade-offs between delivering high-quality fresh products that differentiate our brands and reducing food waste. In addition, food bank infrastructure, which is critical for our donation activities, varies in maturity considerably across our markets. As a result, we know we must significantly accelerate our efforts to achieve our food waste ambitions.

We believe we are taking the right steps, and this is reinforced by the third-party recognition we've received. In 2021, we came in number one among food retailers in Europe and the U.S. and number two globally on the Dow Jones Sustainability World Index. In addition, we upped our MSCI grade from A to AA.

COVID-19 has proven how important our healthy food targets are and how strong our conviction is around this work – and also shown us that we can go even further. We believe that what is healthy for people is healthy for the planet. So, we raised our target for healthy own-brand food sales by three percentage points – to more than 55% by 2025. And these healthy sales are measured by our brands through the use of neutral, objective nutritional guidance systems and standards, including Guiding Stars in the U.S. and Nutri-Score in Europe.

With global climate summit COP26 behind us, the world is much more conscious about the immediate steps we all need to take to mitigate our impact on climate change, and we're committed to doing our part. Our targets are out – now it's up to us to deliver.

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Q. What are the biggest challenges and dilemmas the business currently faces?

We are still facing challenges around product availability and finding enough new associates to support our growth that are partially related to COVID-19, but that we expect will remain in a post-COVID era, as well as heightened inflation.

As I mentioned, the impact of COVID-19 on people's mental health remains another priority for us. We are working to understand better how the pandemic has affected people's mental states and how we can support them. This includes recognizing signs of trouble earlier and supporting managers in seeing and addressing these signals. Working from home, along with the added stress of school closings and loved ones being ill, is putting pressure on families and will continue to make this more challenging.

Customers shopping with selfscan at Albert Heijn.

Q. What are your expectations for 2022?

I expect 2022 will be another year of relative uncertainty, as it's difficult to predict how the COVID-19 pandemic and geopolitical situation in Europe will develop. We'll do everything we can to help customers and communities stay safe and healthy, manage the impact of inflation on their wallets and keep our supply chain steady. We believe we can have a very positive influence on communities and make healthy food available and affordable to even more people.

We will keep looking for solutions to the continued labor shortages we expect to face. Digital and automation will play a role. At the same time, we need to make sure our businesses are great places to work and that people can relate to and rally around our purpose. We will focus on ensuring we have even more attractive workspaces, designed to meet associates' needs in the future of work, and continue to support health and well-being, both within our businesses and in our brands' communities.

We will work hard to make further progress on our ESG ambitions and identify the next steps towards becoming a net-zero retailer. We also want to do our part to address inequality in the communities our brands serve and reach our aspiration to make our own company more diverse and inclusive.

In the coming year, we will continue to be there for customers, offering them more opportunities to eat well, save time and live better. Our brands will work to provide even better propositions, further digitize and keep expanding their e-commerce businesses and making them more profitable. The planned sub-IPO of bol.com we are progressing towards in 2022 will be an important step. We will also work to further connect our brands across food and non-food in the Benelux, something that will help us become a true omnichannel company.

While events keep moving fast and we are sure to face challenges, I'm confident we will have a solid year ahead. We have a company of brands with loyal customers, with a strong financial base, and with the right strategy to lead us into the future and to keep on growing. But even more importantly, we have incredible, motivated people, who are purpose-driven and passionate about serving customers and communities, and who truly set us apart.

Albert now offers online grocery shopping with its Home Free delivery service.

Alfa Beta associate helping a customer.

YEAR IN REVIEW

2021 TIMELINE

JANUARY

Ahold Delhaize and Centerbridge Partners close the acquisition of New York City-based online grocer FreshDirect.

MARCH

Ahold Delhaize successfully prices its inaugural Sustainability-Linked Bond, amounting to

€600 MILLION

with a term of nine years.

APRIL

Food Lions's acquisition of 71 stores from Southeastern Grocers is completed.

JULY

Ahold Delhaize is among the first signatories to the EU Code of Conduct on Responsible Food Business and Marketing Practices, and pledges 10 commitments.

FEBRUARY

Peapod Digital Labs announces a new micro-fulfillment technology pilot with The GIANT Company in the Philadelphia market.

Ahold Delhaize announces that COVID-19 care in 2020 totaled nearly €680 million, including €21 million of charitable donations, and funded initiatives supporting associates, customers and local communities.

JUNE

Mega Image becomes the first retailer in Romania to introduce the Nutri-Score nutritional navigation system across all own-**brand** ranges, as one more way to support customers in making balanced choices for healthy eating.

TIMELINE CONTINUES ON NEXT PAGE

2021 TIMELINE

SEPTEMBER

The On Track foundation, an initiative of Ahold Delhaize and several partners, launches the free learning app On Track.

Albert Heijn completes the transaction to acquire 38 DEEN stores, including the brand's flower shop and distribution center.

MSCI

Ahold Delhaize achieves an MSCI ESG rating of AA, upgraded from A, measuring its resilience to long-term ESG risks.

Delhaize reaches the milestone of having two million customers signed up for its SuperPlus loyalty card, that makes healthy eating more affordable.

OCTOBER

Food Lion, the fastest-growing Ahold Delhaize brand in the U.S., achieves its 36th consecutive quarter of positive comparable-sales growth.

NOVEMBER

Ahold Delhaize and its brands commit to reach net-zero carbon emissions across their operations by no later than 2040 (scope 1 and 2) and to becoming net-zero businesses across the entire supply chain, products and services no later than 2050 (scope 3).

The 2021 Dow Jones Sustainability World Index (DJSI World) awards Ahold Delhaize a score of 83 out of 100, equal to the 2020 score and well above the industry average of 26 points, ranking the company highest in the Food and Staples Retailing sector in Europe and the U.S.

Ahold Delhaize presents its targets and strategy during its 2021 Investor Day, announcing it will explore a subsidiary IPO of bol.com and increase its focus on health and sustainability.

The GIANT Company officially opens a new, ultramodern 124,000 square-foot e-commerce fulfillment center in Philadelphia.

DECEMBER

Bol.com announces the agreement to acquire a majority stake in green and social delivery expert Cycloon.