VION FOOD GROUP

Annual report 2012

Contents

Profile of VION Food Group

Turnover in 2012:

€9.7
billion

Added value for 2012:

€3,118
million

Operating result (EBITA) in 2012:

€34
million

Number of employees at the end of 2012:

23,474

VION Food Group ('VION'), whose holding company is VION Holding N.V., is a global food company that produces high-quality foodstuffs and ingredients for people and animals. VION is not a listed company and has one indirect shareholder, NCB Ontwikkeling, which is closely affiliated with the Zuidelijke Land- en Tuinbouworganisatie (ZLTO). ZLTO is an association of entrepreneurs with an agricultural background.

VION has two major divisions: VION Food and VION Ingredients. The product portfolio of the core activity VION Food comprises fresh pork, beef, and derived convenience food products. These products are brought to consumers via the retail, industrial and 'out of home' markets. VION Food's activities add value to the entire supply chain. Delivering this added value goes hand in hand with demand and with consumer needs and requirements.

In 2012, VION Ingredients held worldwide positions in the slaughter by-product markets. VION Ingredients' core activity is adding value to slaughter by-products, and these are used as high-quality ingredients in such highly diverse markets as pharmaceutics, cosmetics, food, feed, energy and technology. VION Ingredients is the global market leader for gelatine, and invests in innovative sustainable processes such as the production of bio-fuel and bio-phosphates.

One of the measures taken following the announcement in June 2012 of the restructuring of the business to reduce VION's debt position was to divest VION Ingredients. An agreement on the sale of VION Ingredients has recently been reached.

Consolidated key figures

Amounts in millions of euros	2012	2011
Result		
Operating income	9,749	9,490
Added value	3,118	3,058
Personnel costs	1,216	1,215
Operating result (EBIT) after incorporating impairments, restructuring and the book results of the sale of group companies	-666	76
Operating result (EBIT) from normal business operations	19	76
Operating result (EBITA) from normal business operations	34	90
Result after tax	-817	14
Net result	-830	1
Cash flow		
EBITDA from normal business operations (before incorporating impairments, restructuring and the book results of the sale of group companies)	212	269
Cash flow from operational activitities	-207	167
Investments (net)	-135	-167
Net cash flow from operations (available for financing activities)	-156	-50
Divestment and acqusition of group companies (net)	187	-49
Balance		
Shareholders' equity	-97	738
Group equity	-26	824
Balance sheet total	2,226	3,062
Net capital employed [1]	1,281	1,962
Net liabilities to credit institutions [2]	995	805
Ratios		
Added value as a % of turnover	32.0%	32.2%
Personnel costs as a % of turnover	12.5%	12.8%
Operating result (EBITA) from normal business operations as a % of added value	1.1%	2.9%
Operating result (EBITA) from normal business operations as a % of turnover	0.3%	0.9%
Return on average capital employed (ROCE) [3]	1.7%	4.5%
Turnover of average capital employed	5.0	4.7
Debt Coverage Ratio [4]	4.9	2.9
Interest Coverage Ratio	2.4	4.2
Other key data		
Number of shares issued	50,784	50,784
Dividend per share	0	327
Number of employees at year-end [5]	23,474	26,425
Average number of employees	24,950	26,663

[1] *Total assets less cash and cash equivalents, financial fixed assets and non-interest-bearing liabilities.*
[2] *Long-term liabilities and interest-bearing current liabilities less cash and cash equivalents.*
[3] *EBITA divided by average capital employed.*
[4] *Calculation based on debt to credit institutions and adjusted for acquisition and divestment of group companies.*
[5] *Excluding employees of third parties.*

Foreword by the Chairman of the Executive Board

2012 was a year of profound changes for VION. After a thorough analysis of company strategy and future prospects, the Board laid the basis for the company to drastically change course in 2012. This was triggered by the financial results in Food that lagged significantly behind the targets of the three key countries of the Netherlands, Germany and the United Kingdom. Hard-hitting measures were necessary to safeguard VION's interests and thus also serve the long-term interests of all stakeholders involved in the company. It was disappointing to come to the conclusion that the company was insufficiently able to achieve a competitive cost base and cash flow in a highly price- and competition-sensitive market. This was further frustrated by historically poor market conditions in the European pig sector, the stagnant EU economic environment, and the decline in consumer confidence. In every case, we communicated the necessary and inevitable decisions to secure VION's future extensively and in all openness. These press releases are available on our website.

Besides selling non-core activities such as Banner Pharmacaps, the decision to divest the UK Food activities was a crucial step. In spite of many years of significant investment, we were unable to achieve structural profitability for the UK business, with the pork operations continuing to return significant losses. Concluding that we were no longer able to maintain our presence in our three home markets of the Netherlands, Germany, and the United Kingdom, we opted to focus fully on our Dutch and German food activities.

However, since the divestment programme failed on balance to yield enough for us to sufficiently reduce our debt, VION's strategic restructuring was not restricted to the calendar year 2012. The programme continued in 2013, and had a spin-off in the decision to split Food and Ingredients and have them both go their own ways, organisationally, financially and strategically. The futures of both Ingredients and Food have been assured with the successful sale of VION Ingredients to the US company, Darling International, that is active in the same sector, as already announced. We can only be happy with this result. Both autonomous companies have been given their own positive future outlook. This serves the interests of our customers, the pig and cattle farmers in the Netherlands and Germany, our shareholder, and last but not least, our employees.

We expect to be able to conclude the sale of Ingredients in early 2014, after which the formal demerger of both core activities will be completed. This will put an end to an important and by no means easy episode in the history of VION Food Group. I have complete faith in Ingredients being able to continue its successful development together with its new owner, Darling International, a renowned global player. There is a lot happening in the global market for slaughter by-products and that offers opportunities. I would like to wish the management and employees of Ingredients a successful future and thank them for the positive contribution they made to the company.

Splitting Food and Ingredients, and selling Ingredients has enabled the food activities in the Netherlands and Germany to continue on their own, supported by a sound financial base. VION Food is facing the challenge of generating sound and robust returns again. In this respect, I see 2012, 2013, and part of 2014 as transition years on our way to recovery and beyond. A lot of work will still have to be done to achieve this, and it requires the full commitment of everyone within VION in order to repair our results, trust, good will and our reputation. The basis for our success is our relationship with suppliers and customers, and the quality of our people. They make all the difference. From the efforts and commitment shown by all employees in these troubled times, I am confident that VION Food has embarked on an upward journey.

On behalf of my fellow members of the Executive Board, I would like to thank all our employees in Food and Ingredients for their energy and commitment to VION.

Eindhoven, 6 November 2013

Rob Ruijter
Chairman of the Executive Board

Report of the Executive Board

In early 2012, the Board of VION extensively analysed the company's competitiveness and future prospects. This analysis revealed that the structure and scale of the food activities that had been achieved had not brought the financial results we had envisaged. The shortcomings concerned such aspects as achieving a competitive cost base, and a cash flow that did not match the then current set-up of the activities. Against this background, historically poor market conditions, primarily in the European pig sector, forced the company to reconsider and to make sharp choices. During the course of 2012, the nature of this combination of internal and external circumstances became increasingly pressing. As a result, VION's Board and the shareholder came to the conclusion that a new course was necessary and inevitable. On 19 November 2012, it was announced that in the future, VION would fully focus on Food in the Netherlands and Germany, and on Ingredients globally. One of the major consequences of this change of course was that all food activities in the United Kingdom would be divested. At the same time, divestment plans for a number of non-core activities, such as Banner Pharmacaps, were announced.

Implementation of these decisions started in 2012, to continue in the financial year 2013 (after the balance sheet date). After it became clear in the spring of 2013 that the revenues from these measures would not be able to contribute sufficiently to the substantial reduction of our debt position that we wanted, the Board announced on 24 April 2013 that it would initiate a demerger of the two main activities, Food and Ingredients. These activities each serve their own markets and customers and follow their own business strategies. The future plans of an autonomous and strong Food activity are for its results to recover substantially by investing and restructuring in the Netherlands and Germany. It was announced that a new owner would be found for Ingredients, which has a strong financial and organisational basis, to help achieve further development and growth in the strongly consolidating market of slaughter by-products.

Divestments and restructuring

A visible result of the strategic review was that a large number of measures and divestments were effected in 2012 and 2013. The assets and liabilities of VION Winsford (UK) were sold in March 2012, followed by the sale of the shares in Paramount Foods Ltd (UK Pizza) in July 2012. The announcement in July 2012 that VION Hall's in Scotland would be closed was the first step in selling all activities of VION Food in the United Kingdom. In line with the strategic choices, the VION Pork UK business unit was sold in late 2012, and the sale of Banner Pharmacaps was completed successfully in December 2012. The remaining business units of VION Food in the United Kingdom, VION Poultry UK and VION Red Meat UK, were also sold in March 2013. This has concentrated the focus of the food activities entirely to the Netherlands and Germany.

As part of the restructuring of the Food activities, VION Food Netherlands ceased pork production at its site in Helmond in September 2013. For reasons of efficiency and logistics, production has been transferred from Helmond to the Boxtel production site that has been expanded for this purpose. Important and necessary steps were also prepared and implemented in VION Food Germany in order to restore the food activities to a sound position via investments, integration and reorganisations. The production sites involved are those in Hilden, Wunstorf, Minden and Kasel-Golzig. It has also been announced that VION Food Germany is going to sell the Convenience Retail activities as they are no longer part of the core activities.

Sale of VION Ingredients

On 7 October 2013, it was announced that an agreement to sell VION Ingredients had been reached with Darling International from the US, which is active in the same sector, for approx. € 1.6 billion. Both companies perfectly complement each other, both as regards their activities and their geographic distribution. This new ownership will enable VION Ingredients to further develop in the global market of slaughter by-products. The proceeds from selling Ingredients will re-balance the debt position and strengthen the equity capital which will then be approximately € 500 million. This also creates sufficient scope to give VION Food a solid financial footing.

Outlook for 2013-2014

2013 will be fully devoted to implementing the new course, and preparing and outlining the details of the restructuring of the food activities. A lot of attention was also paid to the full operational, organisational and legal demerger of Food and Ingredients. As a result, the Board of VION considers 2013 and part of 2014 to be a transition period in which a sound footing is developed for a successful autonomous food activity. The sale of Ingredients enables VION Food to start with a firm basis, strengthened equity capital, and its own financing. Long-term agreements on financing the company will be made with an international consortium of banks that specialise in the food and agricultural business. All VION Food's plans aim to further strengthen relationships with customers and livestock farmers as a reliable partner, and to achieve sound and robust returns. The focus of VION Food in the Netherlands and Germany will be on further developing market-oriented production, and on the further processing of fresh pork and beef for national and international retail, meat industry, and food service customers.

Changes in the Executive Board

Ton Christiaanse stepped down as a member of the Executive Board of VION in February 2012. He was also the CEO of VION Food UK. In September 2012, CEO and Chairman of the Executive Board, Uwe Tillmann, stepped down. Dirk Kloosterboer, the then vice-chairman of the Executive Board, took over his responsibilities and tasks as CEO. In April 2013, Rob Ruijter joined the Executive Board as a regular member, and Stefaan Vansteenkiste as a supplementary member. Rob Ruijter has been appointed to the position of Chairman of the Executive Board and is responsible for VION Food Group holding, while Stefaan Vansteenkiste is the CEO of VION Food. Ton Vernaus, CFO of VION Food Group, stepped down with effect from 1 May 2013.

Financial position

Solvency decreased in the year under review. This was mainly due to the negative net result for 2012 of € 830 million, which was partly the result of significant non-recurring write-downs on participating interests. The main write-down concerned the activities in the United Kingdom that were revalued in line with the expected direct net realisable value. Total impairments amounted to € 679 million, a total of € 424 million of which is the book loss on the activities in the United Kingdom. As a result, shareholder's equity excluding third parties' share at year-end 2012 was a negative balance of € 97 million. The balance sheet positions will again change significantly in early 2014. The book profit on the sale of VION Ingredients has strengthened the equity capital which is now a positive balance of approximately € 500 million. The cash flow statement shows a negative net cash flow from operating activities in 2012 of € 207 million (2011: € 167 million). VION has borne the negative operational cash flow by further expanding its liabilities to credit institutions (long-term), including the borrowing of € 150 million under two new credit facilities.

As part of its restructuring plan drawn up in consultation with VION's syndicate of banks, VION carried out some major divestments in 2012 and 2013. This will enable the total debt burden, which increased in 2012, to be lowered to a normalised level in early 2014. The new financing of VION Food is currently being finalised. Based on the information that is currently available, and on the management assessments, the principles for the determination of results continue to be based on a going concern, and the 2012 annual accounts were drawn up on that basis.

Executive Board

R.A. Ruijter, Chairman
P.M.J. Beckers
D. Kloosterboer
S.L. Vansteenkiste (supplementary member)

Financial state of affairs in 2012

In 2012, VION Food Group went through an intensive reorientation of its long-term strategy, instigated by the economic outlook for the next few years and results falling short of expectations. Further to the revised strategy, several measures were introduced at an accelerated pace, and VION companies that no longer formed a part of the company's core activities were divested. The implementation of this strategy left its mark on the financial figures for 2012. For example, the 2012 annual accounts include incidental restructuring expenses of € 70 million, impairments of € 679 million, and depreciation of deferred tax assets of € 41 million (amounting to a total of € 790 million). The majority of impairments relate to terminating or selling activities in the United Kingdom.

We also refer to the going concern assumption as included in the accounting principles in the annual accounts.

Turnover development

In 2012, the turnover of VION's core activities increased by 2% compared to 2011. A major part of this increase was due to the partial passing on of the high prices of raw materials in 2012, and the effect of acquisitions of group companies.

VION Ingredients again achieved growth in the global gelatine market in 2012. The improving market conditions for guts and blood were also exploited positively.

VION Food's turnover remained at the same level.

Added value

The added value decreased to 32.0% (2011: 32.2%). This was caused by the higher prices of raw materials in VION Food. VION Ingredients saw its turnover increase significantly and was able to maintain its added value percentage at approximately 58%.

Cost development excluding incidental expenses

Costs increased by 1.8% in 2012 compared to 2011. Costs increased, specifically within VION Ingredients, as a consequence of higher prices for energy and chemicals. However, expressed as a percentage of turnover, total costs decreased to 31.2% (2011: 31.3%). This was also due to cost reduction schemes that had already been initiated, mainly within VION Food.

Operating result (EBITA)

As a result of the developments outlined above, EBITA decreased to € 34 million (2011: € 90 million), a fall of € 56 million. The decrease mainly concerns VION Food UK and VION Food Netherlands; some of it could be compensated for by the EBITA increase of VION Ingredients.

Development of financial expenses minus income

Financial expenses were € 107 million. This is a € 44 million increase compared to 2011, due to higher average interest rates, a higher average debt position and incidental items (including a handling fee), and in particular, extra expenses due to the intended, and now effected, exit from the United Kingdom (€ 17 million) and the effect of a lower discount rate for the provision for pensions in Germany (€ 10 million).

Taxes

The tax burden increased due to write-downs of deferred tax liabilities in the Netherlands, Germany and the United Kingdom.

Development of the results after taxation

VION suffered a loss after taxes before minority shareholders of € 817 million in 2012, (2011: a profit of € 14 million). The results after taxation contain € 679 million in impairments, the majority of which relate to the activities in the United Kingdom. The remainder relates to lower valuations and announced closures in Food Netherlands and Germany. Other incidental items are the non-recurring restructuring expenses of € 70 million, and the downward revaluation of deferred tax liabilities by € 41 million.

In early 2012 it was found that the Food operations in the United Kingdom had come under structural pressure. The unsuccessful reorganisation of Hall's and Sheffield, the continuing 'retail price war', and the loss of a number of sales contracts, weighed very heavily on the results and outlook for the United Kingdom, resulting in very significant downward revaluations. It was therefore decided in the course of 2012 that the activities in the United Kingdom would be divested.

VION Food Netherlands and Germany experienced very volatile purchase prices in 2012. Higher purchase prices, as well as loss of volumes, resulted in extra pressure on margins. More stringent measures were implemented at an accelerated pace, to the extent that the financial scope allowed, as a consequence of the situation in the United Kingdom. This included the closure of the Druten site and reorganisations at Encebe Vleeswaren, Distrifresh Boxtel, and staff departments Netherlands. The cost savings achieved were offset to a large extent by continuing and increasing margin and price pressure in the markets in question. In addition, VION came to the conclusion that its consolidation strategy had failed to lead to structural cost reduction as a result of which there continued to be pressure on results. This led to the impairments in the 2012 annual accounts.

Cash flow and working capital

The net cash flow from business operations was a negative € 77 million, mainly due to a higher working capital resulting from a standardisation of terms of payment in late 2012. The five-year syndicated credit facility dating from 2010 was amended in October 2012, and additionally, a subordinated loan was taken out. By late 2012, VION had complied with the financial agreements entered into in relation to these facilities.

Acquisitions

VION Ingredients made two minor acquisitions in 2012. The assets and liabilities of BAIC Protein Pty. Ltd were acquired in February 2012 ('Sonac Australia'). In March 2012, 51% of the shares in Rousselot Jellice, a Japanese sales office for gelatine, were acquired.

Divestments

As a visible result of the strategic review, some divestments were effected in 2012 and in early 2013. The assets and liabilities of VION Winsford (UK) were sold in March 2012, followed by the sale of the shares in Paramount Foods Ltd (UK Pizza) in July 2012. The announcement in July 2012 that VION Hall's in Scotland would be closed was the first step towards divesting all activities of VION Food in the United Kingdom. In line with the strategic choices, the VION Pork UK business unit was sold in late 2012, and the sale of Banner Pharmacaps was completed successfully in December 2012. The remaining business units of VION Food in the United Kingdom, VION Poultry UK and VION Red Meat UK, were also sold in March 2013.

In 2013, VION came to the conclusion that the above actions had not yet resulted in a sufficiently reduced debt position to safeguard its long-term funding, and to create sufficient scope for investment to achieve a structural recovery of results for VION Food. A new fellow shareholder for VION Ingredients has therefore been sought. Furthermore, it was announced in September 2013 that VION Food Germany would sell its Convenience Retail activities.

Corporate Governance

VION Holding N.V. is a Dutch public limited company whose registered seat is in Best, the Netherlands. The Executive Board is responsible for the company strategy, its portfolio policy, the deployment of people and the use of resources, the company's risk management system and the development of results. The Supervisory Board supervises the policy of the Executive Board and the general state of affairs within the company, while taking into consideration the interests of all stakeholders. The company has one shareholder, NCB Ontwikkeling, which is affiliated with the Zuidelijke Land- en Tuinbouworganisatie (ZLTO).

To safeguard the continuity of the company, the shareholder has transferred the shares and, as a result, control to a Trust Foundation. The Trust board is also composed of members outside the shareholder's circle.

Careful balance

Members of the Executive and Supervisory Boards of VION are appointed on the basis of a carefully considered profile of competencies. In 2012, the Executive Board and the Supervisory Board did not yet have a good balance between men and women as referred to in the new Dutch Act on management and supervision. When filling vacancies in the future, as much attention as possible will be paid to ensuring a good balance.

Corporate Social Responsibility (CSR)

From the perspective of Corporate Social Responsibility (CSR), VION is constantly looking for the right balance between people, planet and profit. Steering towards continuous improvement and cooperation in the agricultural food chain is essential, particularly in the chains where VION is active. VION is committed to a higher quality living environment for people and animals. For VION this also means that the company works on the effective and optimum utilisation of its ecological footprint by, for example, introducing the Good Farming Star quality programme. Progress as regards CSR is reported on the VION websites.

On 5 September 2013, VION was mentioned in Zembla, a Dutch TV programme. VION did not recognise itself in the allegations put forward during this programme and fully cooperated in the independent investigations that were initiated. An external and independent committee commissioned by the Dutch Society for Prevention of Cruelty to Animals, headed by the former Dutch Minister of Parliament, Hans Alders, carried out an investigation into the allegations made in the Zembla TV programme. The Alders committee completed its investigation and its conclusion was that the allegation could neither be confirmed nor could any indications whatsoever be found that it was true. The committee has come to the conclusion that VION works correctly and that the company produces according to the terms and conditions of the Beter Leven (Better Life) quality mark.

Risk management and internal control

Report of the Executive Board on risk management and internal control of the company

In adhering to our current strategy, VION takes risks that are inherent in running a business. Control measures have been taken as part of the system of Risk Management and Internal Control in order to control risks. The system of Risk Management and Internal Control is based on the internationally widely used COSO model. Key controls were identified at various levels in the organisation, the effectiveness of which is assessed by internal and external audits, self-assessments and other tools. As part of these assessments, the management team responsible for the company in question confirms the configuration and operation of the management and control measures and signs a Letter of Representation.

The policy in respect of risk management is laid down by the Risk Committee, consisting of the full Executive Board, supported by specialists for the various risk areas.

Every system of Risk Management and Internal Control has its inherent limitations. The above therefore does not mean that the systems and procedures can prevent all inaccuracies, mistakes, fraud or failures to comply with rules, nor that all the company's objectives will be achieved in their entirety.

Main risks and uncertainties

The main business risks are:

Financing risks

Disappointing operational results have necessitated VION's changing its strategy, selling VION Ingredients and restructuring VION Food. During the further restructuring process, VION will continue to be dependent on its financiers' willingness to finance these restructuring activities.

As part of controlling the financing risks, VION carefully monitors compliance with agreements made with the financing banks (including financial agreements contained in the documentation), and checks that changes to our strategy and future expectations can be supported by our capital structure. VION pays an additional interest margin for credit facilities with a higher risk profile.

Revised Forecasts are produced periodically, stating the extent to which the budget has been fulfilled. These Revised Forecasts contain a detailed forecast of the profit and loss account, the balance sheet, working capital, and the cash flow and cash position. This enables the expected outcome of the various ratios and the cash position to be forecast so that, if necessary, action can be taken in good time, also in view of our agreements with external financiers. This risk is monitored by the Executive Board on a continuous basis.

Prices and margins

VION operates in markets characterised by fierce competition and volatile prices. Linked to the development of costs at VION itself, this may have a strong influence on VION's ability to operate in the markets in question in a profitable manner.

Prices of agricultural products have a considerable impact on the company. Purchase costs of pigs and cattle in the Netherlands, Germany and the United Kingdom and sales prices proved to be highly volatile. In 2012, this volatility had a significant negative influence on the development of VION's results and capital.

In addition, price pressure exerted by VION Food's customers increased in 2012, resulting in VION's margin deteriorating. In spite of the cost measures implemented and the visible cost reduction achieved by VION Food, it is not certain that the margins which VION Food can achieve on its production will improve structurally in the near future.

Interest rate and currency risks and the use of financial instruments

VION does not purchase or hold financial derivative instruments for trading purposes, and uses derivative financial instruments principally to manage its foreign currency risks and interest rate risks.

VION is exposed to interest rate risks, particularly in relation to its long-term debt position. VION works on the basis of a financial policy for interest rate risks aimed to minimise the effects of increases in interest rates on the result and on cash flows. On the basis of this policy, VION aims to hedge the cash flow risk using interest rate swaps. Cost price hedge accounting is applied to these derivatives.

Currency risk management aims to avoid undesired fluctuations in the company results due to currency fluctuations. To cover currency risks, the risks of any transactions entered into and positions taken up are covered by hedging contracts. During 2012, the main foreign currencies for the company were the British pound, the Chinese yuan, and the American dollar.

Please refer to the 2012 annual accounts for a more extensive description of interest rate and currency risks, and the policy to control these risks.

Availability of critical ICT systems

ICT is very important, especially for the financial processes and for controlling production. Many Manufacturing Execution Systems ('MES') have become outdated, constituting a risk for the continuity of our production.

Fiscal risks

Due to its size and geographic spread, VION runs tax risks, for example as a result of uncertainties in the transfer price method used for internal goods and services transactions. Other risks that VION may run are uncertainties resulting from qualifications of permanent establishments and uncertainties as to the possibility of making use of losses that can be offset against tax and other forward settlement possibilities. Uncertainties may also result from changes to tax legislation and regulations. Since such uncertainties may materially influence local tax results and consequently VION's net result, VION proactively takes measures to limit their financial impact.

Safety risks

VION strives to minimise the risks of industrial accidents by the targeted management of quality, technology, and business continuity. Through its health and safety policy, VION strives for zero injuries and work-related diseases. Insurance has been taken out as a further measure to limit the financial impact of industrial incidents.

Health and safety risks cannot be fully ruled out. Any accidents can have a severe impact in terms of human suffering and the company and its reputation being affected.

Compliance risks

VION is subject to national and international legislation and regulations, including on product safety, competition, employment contracts, safety for employees, the environment, corporate governance and taxes.

The compliance risks that the company may face are: the risk of non-compliance with legislation and regulations, and risks in relation to developments in legislation. In the event that such legislation and regulations are not complied with, VION might be confronted with unwelcome legal and other consequences, financial loss and/or damage to its reputation.

Other

Examples of other risks against which the company cannot fully protect itself include such risks as a veterinary disease breaking out or a food safety crisis. VION has taken initiatives to control the risks more effectively if and when they occur, or to cover them by means of insurance policies.

Report of the Supervisory Board

The Supervisory Board of VION Holding N.V. has pleasure in presenting the Annual Report and Accounts for 2012.

The 2012 annual accounts were initially discussed in detail by the Audit Committee, and then by the full Supervisory Board together with the Executive Board and BDO, the external auditors. The Supervisory Board then approved the Annual Report and Accounts, taking into consideration BDO's opinion and unqualified report on the annual accounts. The Supervisory Board proposes that the General Meeting of Shareholders adopt the 2012 annual accounts accordingly.

The 2012 result and the effect on VION Food Group's shareholders' equity is very disappointing. Further to these results and the developments by which they were brought about, a thorough strategic reorientation was carried out in the year under review, and urgent and stringent measures were taken to adjust the company's activities in line with the circumstances. In addition to disposing of loss-making activities, such as the Food activities in the United Kingdom, and disposing of non-core activities like Banner Pharmacaps, decisions to sell the Ingredients division and to further rationalise operations including additionally restructuring the Food division were taken in 2013. The sale of Ingredients at a price of approximately € 1.6 billion was agreed in early October 2013. After a change in the financing conditions in 2012, the financing conditions with the syndicate of banks were adjusted in 2013 and they are now valid until 2015. In addition, a new credit facility for up to € 150 million was arranged. In its report, BDO included an explanatory section on the continuity of the company which does not affect its unqualified report.

During the year under review, the Supervisory Board had intensive discussions with the management team on how these processes should take place. Prime considerations in these deliberations were always the interests and the continuity of the company, including all stakeholders involved.

Supervisory Board composition

The Supervisory Board currently has eight members. The Chairman of the Supervisory Board is Mr J.A.M. Huijbers and Mr J.A.J. Vink is the Vice-Chairman.

Mr A.J.A.M Vermeer stepped down on 22 May 2012. The Supervisory Board would like to express its appreciation of Mr Vermeer's constructive contribution during his time on the Supervisory Board. Following the proposal of the Supervisory Board, the General Meeting of Shareholders decided to appoint Mr J.A.M. Huijbers as Chairman of the Supervisory Board.

Following the proposal of the Supervisory Board, the General Meeting of Shareholders decided to appoint Mrs E.P.J. Lemkes-Straver and Mr J.P.A. Roefs as Supervisory Directors of VION Holding N.V. until 2016, and to re-appoint Mr M.P.M. de Raad as a Supervisory Director of VION Holding N.V. until 2014. In July, Mr A.T.C. van der Laan was appointed as advisor to the Supervisory Board.

Corporate Governance

All the members of the Supervisory Board are independent of the company and none of them receive any remuneration which depends on VION Food Group's financial results. The Supervisory Board has drawn up regulations for its own functioning and the tasks assigned to it. The composition and organisation of the Supervisory Board are such that it can manage its responsibilities autonomously. Every member of the Supervisory Board is qualified to appraise the outlines of the total policy and has the specific expertise required to fulfil their tasks.

Activities of the Supervisory Board

The Supervisory Board had fifteen meetings attended by the members of the Executive Board in the year under review.

The Supervisory Board had eight meetings without the members of the Executive Board in 2012. Specific items of interest during these meetings were the functioning of the Executive Board, including assessing the personal performance of the members of the Executive Board. Mr U.C. Tillmann retired from his positions of CEO and Chairman of the Executive Board with effect from 3 September 2012. His responsibilities and tasks were initially taken over by Mr D. Kloosterboer and, with effect from April 2013, by Mr R.A. Ruijter. With effect from 1 May 2013, Mr L.A.M. Vernaus stepped down as CFO and as a member of the Executive Board. Mr S.L. Vansteenkiste joined the Executive Board as a supplementary member as CEO for Food in 2013.

In 2012, the results of the self-evaluation under the heading of RvC VION Holding N.V. 2011 were discussed by the Supervisory Board.

Activities of the Remuneration, Selection and Appointments Committee

The Remuneration, Selection and Appointments Committee of the Supervisory Board consists of Messrs J.A.M. Huijbers (Chairman) and J.A.J. Vink. Until 22 May 2012, Mr A.J.A.M. Vermeer was also a member of this committee. This Committee met formally on four occasions in 2012 and consulted the Supervisory Board on the remuneration policy for the Executive Board as well as on various other subjects, including human resources-related subjects.

Activities of the Audit Committee

The Audit Committee consists of Messrs F.F. Waller (Chairman), A.J.M. van Hoof and M.P.M. de Raad. The Audit Committee met four times in 2012.

The Audit Committee gave its advice to the Supervisory Board on the group annual accounts for the year 2011 and the discussions about them with the external auditors. The annual accounts are drawn up by the Executive Board and signed by both the members of the Executive Board and the members of the Supervisory Board. The annual accounts are adopted by the General Meeting of Shareholders.

Important subjects addressed during Audit Committee meetings in 2012 were the follow-up of audit findings and the functioning of the internal audit systems. Furthermore, a great deal of attention was paid to the budgeting and forecasting process, improvement initiatives for the Finance function, with the emphasis on the management control function and financing VION Food Group. The financial restructuring process was monitored and discussed intensively by the Audit Committee. Compliance and governance are issues that are permanent agenda items for the Audit Committee. Both the external and internal auditors attend Audit Committee meetings, and the Audit Committee also spoke to the external auditors without any members of the Executive Board being present.

A strong appeal is made to the management and all employees of VION to undertake and support the necessary actions and changes now being implemented. The Supervisory Board would like to thank the VION organisation and all VION employees for their dedication and their efforts in 2012.

Eindhoven, 6 November 2013

For the Supervisory Board

J.A.M. Huijbers
Chairman

Personal information about the Supervisory Board

J.A.M. (Hans) Huijbers
Chairman (1959, Dutch)
Scheduled to step down in 2014 (eligible for re-election). Agricultural Contractor. Chairman of the Southern Agriculture and Horticulture Organisation ZLTO, Member of the Board of LTO Netherlands, Member of the Supervisory Board of O.M.O. (Ons Middelbaar Onderwijs – Our Secondary Education), Chairman of LIB and Member of Curatorium Food, Farming and Agriculture, Member of the Supervisory Board of the HAS Den Bosch University of Applied Technology.

W. (Werner) Hilse
(1952, German)
Scheduled to step down in 2015 (eligible for re-election). Agricultural Contractor. President of the Lower Saxony Regional Farmers' Association, Vice-president of the German Farmers' Association, Member of the Advisory Board of the Landwirtschaftliche Rentenbank, Alternate Chairman of the Supervisory Board of AVEBE.

A.J.M. (Toon) van Hoof
(1954, Dutch)
Scheduled to step down in 2015 (not eligible for re-election). Agricultural Contractor. Member of the Board of Management of the Southern Agriculture and Horticulture Organisation ZLTO, member of the Advisory Board for Animal Affairs (Dutch Ministry of Economic Affairs, Agriculture and Innovation), member of the Dutch Dairy Product Board, Chairman of the Board of the GD Animal Health Service foundation.

Drs. E.P.J. (Elies) Lemkes-Straver
(1957, Dutch)
Scheduled to step down in 2015 (eligible for re-election). Managing Director of ZLTO. Supervisory Director of N.V. Economische Impuls Zeeland. Vice-chairman of the Supervisory Board of Ons Middelbaar Onderwijs (OMO – Our Secondary Education). Member of the Board of the Koninklijke Hollandsche Maatschappij der Wetenschappen (Royal Dutch Academy of Sciences). Member of the Advisory Board of Fontys School of Management, Economics & Law, and Member of the Board of the Stichting Vrienden van het Brabantse Orkest (Friends of the Brabant Orchestra) foundation.

Drs. M.P.M. (Theo) de Raad
(1945, Dutch)
Scheduled to step down in 2014 (not eligible for re-election). Member of the Board of Management of Koninklijke Ahold N.V. until 2004, Vice-Chairman of the Supervisory Board of CSM N.V., Member of the Supervisory Boards of HAL Holding N.V., Metro AG, Vollenhoven Olie Groep B.V. and TiasNimbas business school (Tilburg University), Chairman of the Supervisory Board of Jeroen Bosch Hospital ('s-Hertogenbosch).

Ir. J.P.A. (Jan) Roefs MBA
(1969, Dutch)
Scheduled to step down in 2016 (eligible for re-election). Agricultural Contractor. Member of the Board of Management of the Southern Agriculture and Horticulture Organisation ZLTO, Chairman of the outdoor vegetable cultivation study group of LTO Netherlands, Chairman of the outdoor horticulture study group of ZLTO, and Member of the Supervisory Board of the Helicon educational institution.

Dr. J.A.J. (Jaap) Vink
Vice-chairman (1947, Dutch)
Scheduled to step down in 2014 (not eligible for re-election). Chairman of the Board of Management of CSM N.V. until 1 May 2005, Chairman of the Supervisory Board of Aegon Nederland N.V. and a number of subsidiaries including Aegon Bank N.V., Member of the Supervisory Board of Cargill B.V., Vice-chairman of the Supervisory Board of Nutreco N.V., Chairman of the Stichting Preferente Aandelen foundation of the Macintosh Retail Group.

Drs. F.F. (Floris) Waller
(1958, Dutch)
Scheduled to step down in 2015 (eligible for re-election). Member of the Executive Board and CFO of Pon Holdings B.V. until April 2013, Member of the Executive Board and CFO of Corporate Express N.V. from 1999 until 2009 and before that, senior positions in finance and general management at Unilever at home and abroad, Vice-chairman of the Supervisory Board of Klaverblad Verzekeringen Onderlinge Verzekeringsmaatschappij U.A., Member of the Supervisory Board of Teylers Museum.

Annual accounts
2012

Consolidated balance sheet as at 31 December 2012

(before appropriation of result) *in thousands of euros*	***Note***	**2012**	**2011**
ASSETS			
Fixed assets			
Intangible fixed assets	*1*	117,691	197,937
Tangible fixed assets	*2*	720,751	1,386,783
Financial fixed assets	*3*	35,102	89,877
		873,544	**1,674,597**
Current assets			
Inventories	*4*	563,654	624,591
Receivables	*5*	637,975	636,623
Cash and cash equivalents	*6*	150,790	126,384
		1,352,419	**1,387,598**
Total assets		**2,225,963**	**3,062,195**
LIABILITIES			
Group equity			
Shareholders' equity	*7*	-97,040	738,323
Minority interests in group equity	*8*	70,840	85,471
		-26,200	**823,794**
Provisions	*9*	**209,608**	**202,052**
Long-term liabilities	*10*	**1,036,028**	**882,587**
Current liabilities	*11*	**1,006,527**	**1,153,762**
Total liabilities		**2,225,963**	**3,062,195**

Consolidated profit and loss account 2012

in thousands of euros	*Note*	2012	2011
Operating income			
Net sales	*15*	9,620,278	9,387,753
Changes in inventories of finished products and semi-finished products		493	25,979
Other operating income	*16*	65,583	76,095
Result in connection with the sale of group companies	*17*	62,996	0
Total operating income		**9,749,350**	**9,489,827**
Operating costs			
Raw materials and consumables		6,631,798	6,431,617
Costs of subcontracted work and external charges		1,589,497	1,558,117
Wages, salaries and social security charges	*18*	1,216,453	1,214,907
Wages, salaries, social security charges and other charges relating to reorganisation	*19*	69,634	0
Depreciation on fixed assets	*20*	192,580	193,190
Impairments of fixed assets	*1, 2, 21*	679,257	0
Other operating costs	*22*	36,616	16,069
Total operating costs		**10,415,835**	**9,413,900**
Operating result		**-666,485**	**75,927**
Financial income and expenses			
Interest income and similar revenues		4,739	15,021
Income from non-consolidated participating interests		2,474	2,459
Interest charges and similar expenses	*23*	-113,980	-79,845
Total financial income and charges		**-106,767**	**-62,365**
Result from normal business operations before taxes		**-773,252**	**13,562**
Taxes	*24*	-44,046	231
Result after tax		**-817,298**	**13,793**
Minority interests in the result		-12,362	-13,187
Net result		**-829,660**	**606**

Consolidated cash flow statement 2012

in thousands of euros	2012	2011
Cash flows from operating activities		
Operating result	-666,485	75,927
Depreciation	192,580	193,190
Impairments	679,257	0
Result in connection with the sale of group companies	-62,996	0
Decrease in provisions	29,398	-21,898
(Increase) / decrease in current assets		
- trade receivables	-18,110	-36,523
- inventories	1,358	-64,523
- pre-paid expenses and other current assets	-27,378	10,830
Increase / (decrease) in current liabilities		
- trade payables	-217,886	113,799
- taxes and social security charges	-5,674	-405
- other liabilities and accruals	18,494	-14,815
Net cash flow from business operations	**-77,442**	**255,582**
Financial income received	6,794	14,486
Financial charges paid	-109,674	-80,999
Income tax paid	-26,293	-22,131
Net cash flow from operating activities	**-206,615**	**166,938**
Cash flow from investment activities		
Investments in intangible fixed assets	-8,794	-11,653
Disposals of intangible fixed assets	-1	176
Investments in tangible fixed assets	-164,227	-170,391
Disposals of tangible fixed assets	37,911	14,798
Investments in financial fixed assets	-3,522	-3,456
Disposals of financial fixed assets	2,827	2,607
Acquisition of group companies (including loans issued)	0	-48,951
Sale of group companies	186,584	0
Net cash flow from investment activities	**50,778**	**-216,870**

in thousands of euros	2012	2011
Cash flow from financing activities		
Dividend payment	-8,303	-16,149
Borrowing / (repayment) of liabilities owed to credit institutions (long term)	217,654	-26,498
Borrowing / (repayment) of loans and credits (short term)	-6,680	-17,697
Dividend paid to minority shareholders	-9,069	-16,327
Borrowing / (repayment) of long-term non-bank loans	3,452	-1,254
Received as part of Receivables Purchase Facilities	-7,281	49,295
Net cash flow from financing activities	**189,773**	**-28,630**
Effect of exchange rate differences	-7,985	-19,620
Increase / (decrease) of cash and cash equivalents	**25,951**	**-98,182**
Cash and cash equivalents at the start of the year	126,384	224,022
Cash and cash equivalents of companies acquired / sold	-1,545	544
Cash and cash equivalents at year-end	**150,790**	**126,384**

Accounting policies for valuation and for the determination of results

General principles

VION Holding N.V.'s annual accounts have been prepared in accordance with Part 9 Book 2 of the Dutch Civil Code. The annual accounts were prepared by the Executive Board on 6 November 2013.

The general basis for valuing the assets and liabilities and for determining the result is the historic cost convention. Unless stated otherwise, the assets and liabilities are stated at cost.

The annual accounts are presented in euros. In the rest of the annual accounts, VION Holding N.V. and its group companies will be designated as VION.

Going concern assumption
For the purpose of a restructuring plan drawn up in consultation with VION's syndicate of banks, VION carried out some major divestments in 2012 and 2013. This will enable the total debt burden, that increased in 2012, to be lowered to a normalised level in early 2014. The new financing of VION Food for after the closing of the sale of Ingredients is currently being finalised.

Based on the information that is currently available and the management assessments, the principles for the determination of results continue to be based on a going concern and the 2012 annual accounts were drawn up on that basis.

Mergers and acquisitions
The financial data of all companies acquired in 2012 has been included in the consolidated annual accounts from the date of acquisition (acquisition date). The following companies were acquired in 2012:
- establishment of Sonac Australia PTY Ltd (with VION holding 73% of the shares), which acquired the assets and liabilities of BAIC Protein Pty. Ltd (Australia), 24 February 2012,
- acquisition of 51% of the shares in Rousselot Jellice (Japan), 22 March 2012.

Furthermore, the following changes to shareholdings in subsidiaries occurred in 2012:
- increase in the shareholding in VION N.V. from 97.7% to 100%, 1 January 2012,
- increase in the shareholding in VION Zeven AG from 58.96% to 59.37%, 30 September 2012,
- increase in the shareholding in Oerlemans Foods Siemiatycze Sp.z o.o from 99.66% to 99.94%, 6 December 2012.

Furthermore, the following entities were established:
- establishment of Sonac Almere BV, 17 January 2012,
- establishment of CTH do Brasil Consultoria em Negócios LTDA, 5 April 2012,
- establishment of VION Food International Pacific Ltd (Hong Kong), 11 May 2012,
- establishment of VION Food International Singapore Pte. Ltd (Singapore), 13 December 2012,
- legal restructuring took place in the United Kingdom in order to facilitate the sale of activities described below.

Divestments
The financial data of the companies divested in 2012 will no longer be included in the consolidated annual accounts from the moment when VION stops having a controlling influence in such companies.

The following companies were divested in 2012:
- sale of the assets of VION Winsford (United Kingdom), 19 March 2012,
- sale of 100% of the shares in Paramount Foods Ltd. (United Kingdom), 16 July 2012,
- sale of 100% of the shares in Sobel USA Inc. (holding company for the Banner activities in the United States, Canada and Mexico) (United States), 14 December 2012,
- sale of 100% of the shares in Banner Pharmacaps Europe B.V. (the Netherlands), 14 December 2012.

Furthermore, in 2012 it was decided that the activities in the United Kingdom and those of Oerlemans Foods would be sold. Further information can be found in note 29.

As regards information in the explanation on the discontinued operations, such information, to the extent that it cannot be derived from the annual accounts, is based on internal management information.

Basis of consolidation

The full consolidation method has been used to compile the consolidated annual accounts of VION Holding N.V. and its subsidiaries.

Joint ventures are proportionally consolidated.

The consolidated annual accounts of VION include the financial data of the companies that belong to the group and of other legal entities in which VION has a controlling influence or that are under VION's central management control.

The financial data of the group companies and of other legal entities included in the consolidation have been fully included in the consolidated figures, eliminating the intercompany relationships and transactions. Minority interests in equity and results of group companies are stated separately in the consolidated annual accounts.

Results of newly acquired group companies and of other legal entities included in the consolidation are consolidated with effect from the date of acquisition. On that date, the assets, provisions and liabilities are measured at their fair values. The goodwill that has been recognised as an asset is amortised in accordance with its estimated useful life. The results of divestments are included in the consolidation until the date that control ceases.

A list of the consolidated group companies has been filed with the Trade Registry of the Chamber of Commerce in Eindhoven.

Abbreviated profit and loss account

The financial data of VION Holding N.V. have been included in the consolidated annual accounts. As a result, in accordance with article 402 title 9 of the Dutch Civil Code, VION Holding N.V.'s company profit and loss account only states the share in the profit after tax of companies in which participating interests are held and the other results after tax.

Foreign currency translation

Receivables, debts and liabilities are translated according to the prevailing exchange rate at the balance sheet date. Transactions in foreign currency during the period under review are included in the annual accounts at the average monthly exchange rate. The exchange rate differences resulting from translation are included in the profit and loss account.

The foreign group companies and the non-consolidated participations qualify as foreign business operations. The results of these business operations are translated in accordance with the exchange rate at the balance sheet date for the balance sheet items and the average exchange rate per month for the items in the profit and loss account. The differences in exchange rate that occur are taken directly to the foreign currency translation reserve within group equity.

Any cumulative currency translation in the shareholders' equity that is realised as a result of the sale of a foreign group company will be transferred from the currency translation reserve to the other reserves.

Estimates

Preparing the annual accounts requires that management forms opinions and makes estimates and assumptions which affect the application of principles and the reported value of assets and liabilities, and of revenues and expenses. The actual results may differ from these estimates. The estimates and underlying assumptions are permanently assessed. Revisions to estimates will be included in the period in which the estimate is revised and in future periods for which the revision has consequences.

Hedge accounting

Derivatives are used to hedge currency and interest rate risks. Cost price hedge accounting or net investment hedge accounting is applied to derivatives which are part of an effective hedge relationship. VION applies hedge accounting on the basis of generic documentation. All derivatives for which hedge accounting is not applied, are valued at the lower of cost and market value.

Impairment of assets

For cash generating units of which the results do not meet expectations, an impairment test will be carried out every year. This test compares the book value of cash generating units or groups of assets to the recoverable amount. The realisable value is the higher of the value in use and the fair value less costs to sell. If this test shows that the book value is higher than the recoverable amount, an impairment is debited to the profit and loss account.

Netting

Assets and liabilities are netted in the annual accounts, but only if and to the extent that:

- there is an enforceable legal right to settle the asset and the liability simultaneously.
- there is an intention to settle the balance as such or to settle both items simultaneously.

Principles for the valuation of assets and liabilities

Intangible fixed assets

Intangible fixed assets acquired from third parties are valued at acquisition price less accumulated amortisation and, if applicable, impairments. Intangible fixed assets are amortised following the straight-line method according to their estimated useful life, up to a maximum of twenty years.

The estimated useful life is as follows:

- goodwill: 10 to 20 years,
- software: 3 to 7 years,
- other intangible fixed assets: 3 to 5 years.

Goodwill is determined by subtracting from the acquisition price the fair value of the assets and liabilities of the acquired company at the date of acquisition, based on the valuation methods of VION.

The estimated useful life of goodwill on acquired companies is determined for each acquisition, based on the specific market, clients, products, facilities and organisation. This relates mainly to acquired strategic market positions. The amortisation periods are between ten and twenty years since VION's remaining goodwill relates to relatively stable industries.

Tangible fixed assets

Tangible fixed assets are valued at cost less accumulated depreciation and, if applicable, impairments. The depreciation is based on the estimated useful life and is calculated on the basis of a fixed percentage of the cost, taking into account a possible residual value.

The estimated useful life is as follows:

- business premises: 25 to 30 years,
- plant and equipment: 10 to 12,5 years,
- other fixed business assets: 3 to 10 years.

Depreciation starts at the time of first use. Land is not subject to depreciation.

Assets no longer in use are measured at the lower of book value and market value. Impairments in the financial year are directly subtracted from the book value.

Investment grants received are deducted from the relevant tangible fixed assets.

Costs of maintenance are charged to the profit and loss account at the time when they occur.

Financial fixed assets

Participating interests where a significant influence is exerted on the operational and financial policies are valued at net asset value. This has been calculated by valuing the assets, provisions and liabilities and calculating the result on the basis of the prevailing accounting principles of VION.

Participations where no significant influence is exerted on the operational and financial policies are valued at cost and, if applicable, less impairments.

Deferred tax assets are recognised to the extent that future taxable profits against which the assets can be utilised are expected to be available, with a planning period consistent with the sectors in which VION is active. These deferred tax assets are stated at face value and the majority can be characterised as long-term.

Upon recognition, receivables from, and loans to participating interests as well as all other receivables are stated at their fair value and consequently at amortised cost, less any provisions that are considered to be necessary.

Financial instruments

Financial instruments include both primary financial instruments, such as receivables and liabilities, and financial derivatives. Further information on the accounting principles for the primary financial instruments can be found in the explanations of the individual balance sheet items.

Derivatives

To hedge exchange rate risks on foreign currency and interest risks, VION uses derivatives.

VION hedges exchange rate risks on transactions in foreign currency, and interest risks by applying cost price hedge accounting. VION hedges its currency risks using forwards and foreign exchange swaps. Changes in fair value of derivatives that have been assigned and are eligible for hedge accounting are recognised in the profit and loss account, together with changes in the fair value of balance sheet items that can be attributed to the risk hedged. The foreign currency component of foreign exchange currency contracts that serve as hedging instruments to hedge future transactions are valued at cost for as long as the item covered has not been accounted for in the balance sheet.

VION hedges its interest rate risk using interest rate swaps. Cost price hedge accounting is applied to these derivatives. The effective part of the derivates assigned for cost price hedge accounting is valued at cost and the ineffective part is valued at fair value. Changes in fair value of the ineffective part are included directly in the profit and loss account.

To the extent that derivatives are used to hedge future rights and liabilities (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.

Inventories

Inventories are valued at the lower of the cost and market value.

VION applies net investment hedge accounting to hedge exchange rate risks on foreign business activities, with changes in the fair value of derivatives that cover an item accounted for in the balance sheet being recognised in the currency translation reserve. VION does not hedge the exposure arising from any translation exposure of net income in foreign entities.

Inventories of finished products and semi-finished products are valued at cost, including a mark-up for production costs to be allocated. Included are the costs of raw materials and consumables, direct production costs, and a proportional share of general production costs, taking the stage in the production process into account. If necessary, the valuation includes a provision for obsolescence.

Receivables

At initial recognition, the receivables are stated at their fair value and consequently at amortised cost, which equals their face value, less the provisions for doubtful debts if necessary. These provisions are determined on the basis of individual assessments of the receivables.

Cash and cash equivalents

Cash and cash equivalents are valued at face value and are at the free disposal of VION, unless stated otherwise.

Provision for deferred tax liabilities

The provision for deferred tax liabilities is recognised for obligations arising from the difference between the economic valuation of assets and liabilities in the annual accounts and the valuation for tax purposes.

The provision is stated at face value on the basis of the applicable tax rate.

Pension provisions

For its employees in the Netherlands, VION has entered into a pension scheme with pension benefits based on modified salary levels. This pension scheme is executed by the pension fund Stichting Pensioenfonds Son, and with the industrial pension fund Bedrijfstakpensioenfonds voor Vlees, Vleeswaren, Gemaksvoeding en Pluimveevlees (VLEP). The contributions due for the financial year are accounted as costs. An accrual is recognised for contributions that have yet to be paid on the balance sheet date. Since these liabilities can be characterised as short-term, they are stated at face value. The risks of wage development, price indexation and investment results on the fund's capital may lead to future changes to the annual contributions to the pension funds. These risks are not expressed in a provision included in the balance sheet.

In the event of shortages affecting the pension funds, VION has no obligations to make any additional payments other than higher future pension contributions. At present, the funds suffer from a shortfall. The consequences of this for VION are not yet known, except the pension fund Stichting Pensioenfonds Son, where VION contributes to the recovery contributions and for which a provision has been created.

The Stichting Pensioenfonds Son pension fund is part of Interpolis' Solidair Pensioen. Solidair Pensioen's funding ratio at year end is 93.6% and the funding ratio of the VLEP pension fund at year end is 89.1%.

Pension obligations resulting from the foreign schemes are measured as pension provisions at the best estimate of constructive and legally enforceable obligations at the balance sheet date. This relates to obligations to both pension funds and existing and former employees. These best estimates result from an actuarial calculation based on actuarial principles which are generally acceptable in the Netherlands.

Other provisions

The provisions for reorganisations and other obligations were formed for legal or constructive obligations existing on the balance sheet date for which the amount can be reasonably estimated. These obligations are related to historical events, which will be settled after the balance sheet date.

These reorganisation provisions are provisions related to a number of current and announced reorganisations, as a result of the continuing pressure on the livestock sectors in the Netherlands, Germany and the United Kingdom. This pressure will further increase the overcapacity within the industry. VION must anticipate this and restructure its own business.

Personnel costs and other costs directly related to reorganisations are only accounted for if the following conditions have been fulfilled as at the balance sheet date:

- A detailed reorganisation plan has been formalised during the financial year, including the activities, sites and expected number of employees with function levels involved, the associated expenditure and the moment when the plan will be carried out.
- Those who will be affected by the reorganisation have been given the justified expectation that the reorganisation will be carried out since it has been started, or because its outlines have been communicated to those affected by the reorganisation.

This also includes the personnel costs relating to reorganisations that originated in the financial year.

Furthermore, this item also includes costs to be attributed directly to reorganisations, such as the costs of closing down sites, the costs of advisors, and other costs, such as loss-making contracts.

The other provisions are stated at face value and the majority can be characterised as long-term.

Long-term liabilities

Long-term liabilities concern liabilities with a residual duration of more than one year. At first recognition, the liabilities are stated at their fair value and consequently valued at amortised cost.

Short-term liabilities

Short-term liabilities have an expected duration of a maximum of one year.

Principles for determination of results

General

The result is determined as the difference between the net turnover and all related costs attributable to the financial year. The costs are determined taking into consideration the accounting principles referred to previously. Profits are recognised in the year in which they are realised. Losses are recognised in the year in which they are foreseeable. All other revenues and expenses are recognised in the period to which they relate.

Net sales

Net sales as stated in the profit and loss account consist of the revenue from goods and services supplied to third parties less customer discounts (excluding payment discounts) and excluding sales taxes. Revenues from the sale of goods are recognised when all major rights to economic benefits and all major risks have transferred to the buyer.

Other operating income

Other operating income includes book profits on assets sold, revenues for research and commissions, bonuses, grants and rental income.

Result in connection with the sale of group companies

This item includes all book results realised on the sale of group companies.

Costs

Costs are valued at purchase price.

Raw materials and consumables

Costs of raw materials and consumables are related to the costs of using raw materials and non-durable goods, and to changes in inventories of raw materials and are valued at their cost.

Costs of subcontracted work and external expenses

This item includes direct and indirect selling costs, costs of energy and water, production costs, and costs of maintenance. This item is valued at its original price.

Wages, salaries and social security charges

This item comprises wages and salaries of staff members employed within the group, and of employees of third parties. Furthermore, pension and social security charges are included.

Wages, salaries, social security charges and other charges relating to reorganisations

This item includes all personnel costs that directly relate to reorganisations, as well as costs to be attributed directly to reorganisations, such as the costs of closing down sites, costs of advisers, and other costs, such as loss-making contracts.

Depreciation and amortisation on fixed assets

The depreciation and amortisation on tangible and intangible fixed assets charged to the profit and loss account is calculated on the basis of a fixed percentage of the cost, taking into account the residual value and the estimated useful life.

Impairments of fixed assets

This includes special impairments of fixed assets in the financial year under review, less provisions formed for this purpose in the past.

If there are indications of an impairment of a cash-generating unit, or of assets or a group of assets, its recoverable amount, i.e. the higher of the value in use and the fair value less costs to sell, is determined. If the recoverable amount is lower than the book value, the cash-generating unit or asset or group of assets is revalued downwards to such lower recoverable amount.

Other operating costs

Other operating costs include the changes in provisions, lease costs of the central and regional head offices, lease costs of company cars and representation expenses.

Financial income and expenses

The financial income and expenses concern interest received and paid, currency exchange results and the results of foreign exchange currency contracts and interest rate swaps on financial positions.

The share of non-consolidated participations in the result is the group's share of the results of these participations.

Taxes on the result
The corporate income tax is calculated at the applicable tax rate, on the basis of the result according to the profit and loss account, and considering tax facilities and restrictions that have a permanent influence on the tax rate. When determining this, any change in the provision for deferred corporate income tax and locally applicable tax rates is taken into account.

Minority share in the result
This is the portion of the result of the company attributable to other participating shareholders.

Accounting principles for the cash flow statement

The cash flow statement is prepared by using the indirect method. Distributed dividends are included in the cash flow from financing activities.

The payments for interest on long-term loans are included in the cash flow from operating activities, and the capital repayments of long-term loans are included as cash flow from financing activities. Foreign currency cash flows are converted at an estimated average exchange rate. Income and expenditure pursuant to interest and corporate income taxes are included in the cash flow from operating activities.

The effect of acquisitions and divestments of group companies, including changes to assets and liabilities, is presented as cash flow from investment activities.

Notes to the consolidated balance sheet as at 31 December 2012

ASSETS

Note 1 | Intangible fixed assets

Movements in intangible fixed assets were as follows:

in thousands of euros	Goodwill	Software	Under construction	Other	Total
Balance on 1 January 2012					
Cost	377,680	90,664	2,672	34,390	505,406
Accumulated amortisation	224,250	58,243	0	24,976	307,469
Net book value	**153,430**	**32,421**	**2,672**	**9,414**	**197,937**
Changes to the book value					
Sale of group companies	0	-6,442	0	-601	-7,043
Investments	191	2,898	4,953	943	8,985
Reclassification	-1,693	1,363	-2,525	441	-2,414
Impairment	-47,410	-251	-3,492	0	-51,153
Depreciation	-14,549	-11,524	0	-863	-26,936
Exchange rate differences	-1,461	-146	0	-78	-1,685
Movements	**-64,922**	**-14,102**	**-1,064**	**-158**	**-80,246**
Balance on 31 December 2012					
Cost	368,573	87,666	4,724	35,586	496,549
Accumulated amortisation	280,065	69,347	3,116	26,330	378,858
Net book value	**88,508**	**18,319**	**1,608**	**9,256**	**117,691**

€ 47.4 million of the total impairment of € 51.2 million concerns goodwill resulting from past acquisitions. € 20.2 million of this concerns goodwill for acquisitions in Germany, € 19.9 million in goodwill concerns acquisitions in the Netherlands, and € 7.3 million is related to acquisitions in the United Kingdom.

Germany and the Netherlands
VION operates in markets that are currently under pressure. This trend was an indication for a possible impairment of goodwill and has been the reason for cash-generating units having been subjected to impairment tests. As a result of these tests, the book value of Food Germany and Food Netherlands companies was adjusted to a lower value in use and goodwill has been impaired. The value in use for Food Germany and Food Netherlands is based on future cash flows for a projected period of five years. A discount rate of 8.3% and a growth rate of 1.0% were applied here.

United Kingdom
This goodwill related to prior acquisitions in the United Kingdom. This goodwill was impaired due to the sale of activities in the United Kingdom.

The reclassification for an amount of € 2.4 million is due to the impairments of goodwill resulting from the final adoption of the acquisition balance sheet of Eastman Gelatine Corporation (United States) that was acquired in 2011.

Note 2 | Tangible fixed assets

Movements in tangible fixed assets were as follows:

in thousands of euros	Land and buildings	Machines and installations	Other operating assets	Fixed assets under construction	Non-productive assets	Total
Balance on 1 January 2012						
Cost	1,621,622	2.231,046	141,267	56,419	960	4,051,314
Accumulated amortisation	814,931	1.726,729	121,894	774	203	2,664,531
Net book value	**806,691**	**504,317**	**19,373**	**55.645**	**757**	**1,386,783**
Changes to the book value						
Sale of group companies	-27,786	-26,034	-1,151	-2,569	36	-57,504
Investments	15,422	56,243	4,749	87,807	0	164,221
Disposals	-21,267	-13,759	-566	-2,274	-45	-37,911
Reclassification	13,415	69,334	6,211	-79,166	1,636	11,430
Impairment	-455,983	-132,149	-192	-1,151	0	-589,475
Depreciation	-49,516	-107,569	-8,541	0	-18	-165,644
Exchange rate differences	8,474	489	-191	84	-5	8,851
Movements	**-517.241**	**-153,445**	**319**	**2,731**	**1,604**	**-666,032**
Balance on 31 December 2012						
Cost	1,586,247	2,197,266	147,833	59,194	2,580	3,993,120
Accumulated amortisation	1,296,797	1,846,394	128,141	818	219	3,272,369
Net book value	**289,450**	**350,872**	**19,692**	**58,376**	**2,361**	**720,751**

€ 456.0 million of the total impairment of € 589.5 million concerns land and buildings and € 132.1 million concerns machines and installations.

Impairments of tangible fixed assets relate to the strategic reorientation as implemented in 2012. As part of this reorientation, it was decided that VION would part with all food activities in the United Kingdom and with some non-core activities such as Banner Pharmacaps and Oerlemans Foods. Banner Pharmacaps was sold on 14 December 2012. For further information on how this is measured and on the book gain, see note 17. The activities in the United Kingdom and Oerlemans have been impaired to lower recoverable amount which is in line with the fair value less costs to sell. The direct net realisable value is considered as the maximum amount at which the relevant assets or group of assets can be sold, deducting any expenses still to be incurred. The direct net realisable value of the assets in question is based on existing contractual agreements or an estimate thereof

This amount also includes impairments of a limited number of individual production sites in the Netherlands and Germany to a lower realisable value.

Amounts on the line 'Sale of group companies' mainly concern the tangible fixed assets of Sobel USA Inc. (holding company for the Banner activities in the United States, Canada and Mexico) and Banner Pharmacaps Europe B.V. that were sold on 14 December 2012.

The reclassification for an amount of € 11.4 million is due to the remeasurement of the tangible fixed assets resulting from the final adoption of the acquisition balance sheet of Eastman Gelatine Corporation (United States) that was acquired in 2011.

The fair value of tangible fixed assets on 31 December 2012 was approximately € 970 million (2011: € 1,878 million). This decrease is mainly due to a lower valuation of tangible fixed assets in the United Kingdom.

Investment grants are granted for sustainable investments and investments that improve employment. These investment grants are deducted from the relevant tangible fixed assets. At the end of 2012, the total of these investment grants amounted to € 17 million (2011: € 18 million).

Note 3 | Financial fixed assets

in thousands of euros	2012	2011
Participating interests	18,556	19,957
Loans to non-consolidated participating interests	744	744
Deferred tax assets	13,940	51,424
Other receivables	1,862	17,752
Balance on 31 December	**35,102**	**89,877**

Participating interests

Movements during the financial year were as follows:		
Balance on 1 January	19,957	20,044
Acquisition and initial consolidation of group companies	0	27
Sale and deconsolidation of group companies	-1,053	-51
Change to the share capital of participating interests	59	-51
Share of the result	2,474	2,459
Dividend payment	-2,841	-2,233
Exchange rate differences	-40	-238
Balance on 31 December	**18,556**	**19,957**

This relates to the following participating interests with an interest of 20% or higher:	Relative value
ASAP s.r.o., Vez (Czech Republic)	40.00%
ASAVET a.s., Birkov (Czech Republic)	40.00%
Pigture Group B.V., Helvoirt (The Netherlands)	22.50%
Fleischversorgungszentrum Rhein-Main GmbH & Co. Vermietungs KG, Frankfurt (Germany)	25.09%
Zweckverband 'Fleischzentrum Emsland', Lingen (Germany)	33.34%
Premium Fleisch-Servicegesellschaft GmbH, Zeven (Germany)	42.86%
Berndt GmbH, Oberding (Germany)	21.50%
Berndt Besitz GmbH & Co KG, Oberding (Germany)	21.50%
Berndt Verwaltungs GmbH, Oberding (Germany)	21.50%
Holmes Halls (Processors) Ltd, Hull (United Kingdom)	20.00%
Fleischmarkt Nürnberg GmbH, Nürnberg (Germany)	24.80%
Hide Service GmbH, Wegberg (Germany)	50.00%

Loans to non-consolidated participating interests

Movements were as follows:		
Balance on 1 January	744	744
Redeemed in financial year	0	0
Balance on 31 December	**744**	**744**

Deferred tax assets	2012	2011
Movements were as follows:		
Balance on 1 January	51,424	44,651
Sale of group companies	-3,695	0
Reclassification of tax assets and liabilities	0	1,170
Charged to / released from the result	-33,616	6,325
Exchange rate differences	-173	-722
Balance on 31 December	**13,940**	**51,424**

At the end of 2012, there were losses at group companies of approximately € 893 million with an indefinite carry forward term (2011: € 831 million). Net operating losses amounting to € 679 million (2011: € 571 million) are valued at € 37 million (2011: € 78 million).

For net operating losses amounting to € 214 million (2011: € 260 million) actual compensation is not expected within a reasonable period. Therefore, these losses are not valued.

Other receivables	2012	2011
This relates to loans and mortgages issued (including loans to employees).		
Movements were as follows:		
Balance on 1 January	17,752	16,809
Sale of group companies	-54	0
Provided	971	1,261
Redeemed	-16,803	-323
Exchange rate differences	-4	5
Balance on 31 December	**1,862**	**17,752**

An interest rate of 4% is charged on loans and mortgages issued (2011: 4%). The repayment mainly concerns the sale back of depositary receipts for shares in VION N.V. by the Executive Board and the loan that was repaid accordingly.

Note 4 | Inventories

in thousands of euros	2012	2011
Raw materials and consumables	90,881	123,115
Semi-finished products	15,365	16,884
Finished products and trade goods	457,408	484,592
Balance on 31 December	**563,654**	**624,591**

This includes inventories valued at market value of € 17 million (2011: € 10 million).

Note 5 | Receivables

in thousands of euros	2012	2011
Trade receivables	424,141	464,877
Taxes and social security charges	66,517	67,456
Other receivables and accruals	147,317	104,290
Balance on 31 December	**637,975**	**636,623**

A Receivables Purchase Facility is used for a part of the receivables. At the balance sheet date, an amount of € 414 million was received in relation to this facility (2011: € 384 million). As this amount is not offset by commitments or risks, the short-term receivables are no longer included in the balance sheet.

Note 6 | Cash and cash equivalents

This amount includes € 95 million which is at the free disposal of VION under certain conditions.

LIABILITIES

Note 7 | Shareholders' equity

For a breakdown of movements in shareholders' equity, reference is made to the notes to the company balance sheet.

Overview of comprehensive income

in thousands of euros	2012	2011
Net result after taxes	-829,660	606
Exchange rate differences charged directly to equity	2,600	-8,428
Comprehensive income	**-827,060**	**-7,822**

Note 8 | Minority interests in group equity

in thousands of euros	2012	2011
Balance on 1 January	85,471	87,536
Acquisition of group companies	0	-2,920
Changes in minority interests	-17,294	-384
Share of the result	12,362	13,187
Dividend payment	-9,522	-13,432
Exchange rate differences	-177	1,484
Balance on 31 December	**70,840**	**85,471**

Note 9 | Provisions

in thousands of euros	2012	2011
Deferred tax liabilities	16,269	37,478
Pension obligations	120,545	113,275
Other provisions	72,794	51,299
Balance on 31 December	**209,608**	**202,052**

Deferred tax liabilities		
Balance on 1 January	37,478	54,508
Sale of group companies	-5,104	0
Reclassification of tax liabilities and assets	0	1,170
Released from the result	-20,066	-21,705
Exchange rate differences	3,961	3,505
Balance on 31 December	**16,269**	**37,478**

Pension obligations

These are provisions for foreign pension plans, pre-pension and early retirement schemes, as well as anniversary arrangements. These provisions can be characterised as long-term.

Pension plans can generally be characterised as moderate average wage arrangements with conditional indexation.

The movements in pension obligations were as follows:	2012	2011
Balance on 1 January	113,275	108,698
Changes as a result of initial consolidation	0	8,200
Sale of group companies	-338	0
Charged to the result	17,564	8,680
Released from the result	-5,169	-6,136
Usage for the intended purpose	-4,393	-6,214
Exchange rate differences	-394	47
Balance on 31 December	**120.545**	**113,275**

Other provisions		
Balance on 1 January	51,299	78,026
Acquisition of group companies	3,866	4,297
Sale of group companies	-392	0
Charged to the result	73,876	8,606
Released from the result	-10,044	-15,091
Usage for the intended purpose	-42,176	-24,240
Reclassification	-3,934	0
Exchange rate differences	299	-299
Balance on 31 December	**72,794**	**51,299**

The other provisions include provisions for reorganisation and restructuring expenses of € 55 million (2011: € 29 million). They tend to be short-term.

Note 10 | Long-term liabilities

in thousands of euros	2012	2011
Amounts owed to credit institutions	1,035,776	889,244
Debt discount	-6,535	-9,992
Other liabilities	6,787	3,335
Balance on 31 December	**1,036,028**	**882,587**

Note 11 | Current liabilities

in thousands of euros	2012	2011
Amounts owed to credit institutions and other interest-bearing liabilities	33,794	40,474
Repayment on long-term loans	71,492	3,827
Trade creditors	520,862	759,019
Taxes and social security charges	45,399	49,683
Other liabilities and accrued liabilities	334,980	300,759
Balance on 31 December	**1,006,527**	**1,153,762**

The repayment on long-term loans concerns the part of the sales proceeds of terminated business activities that must be repaid on the credit facility as agreed with the syndicate of banks. The other liabilities and accruals include an amount of € 4.3 million of a long-term nature.

Note 12 | Liabilities owed to credit institutions

On 31 December 2012, the net debt position to credit institutions was: € 995 million. VION has access to a € 1.1 billion committed senior credit facility, which was established in December 2010 (adjusted in October 2012 and July 2013). The facility was taken out from a syndicate of 11 banks. In addition to repayment following certain pre-defined events, such as a sale of subsidiaries, € 200 million must be repaid on the facility on 30 March 2014. The entire amount of the facility is due on 30 November 2015. The agreement includes financial covenants, including as regards solvency, debt ratio, interest coverage ratio and liquidity ratio, that VION complies with as per the balance sheet date. In addition to the above-mentioned committed senior credit facility, VION has access to a subordinated facility of € 120 million as well as a bilateral facility of € 30 million, both of which were taken out in Q4 2012 (to be repaid in June 2016), and to several bilateral and committed and uncommitted facilities that already existed before the financial year. VION provided additional securities as part of the changes of July 2013. Besides this, in July 2013 an additional credit facility of € 150 million was made available to finance working capital.

As part of the committed senior credit facility, VION pays a variable interest rate based on local interbank rates and a ratio-dependent mark-up. As regards the committed, subordinated credit facility, VION pays a variable interest rate based on local interbank rates and a fixed mark-up, as well as a ratio-dependent fixed interest rate, which is only made payable at the end of the term of the credit facility. The other facilities also have a variable interest rate based on local interbank rates plus a ratio-dependent mark-up. By means of interest rate swaps, the interest profile of VION has partially changed from variable to fixed.

VION provided the following full or partial collateral for the credit facilities:

- collateral on shares in group companies,
- collateral on intercompany receivables,
- some € 273 million of VION's book value of land, buildings and installations has been encumbered with a mortgage registration,
- collateral on other assets like other fixed assets, inventories and equipment,
- collateral on intellectual property,
- collateral on trade receivables,
- pledging of bank accounts.

Note 13 | Objectives and policies regarding control of financial risks

VION does not purchase or hold financial derivative instruments for trading purposes, and uses derivative financial instruments principally to manage its foreign currency risks and interest rate risks. Derivative financial instruments qualify for cost price or net investment hedge accounting. Therefore, gains or losses arising from changes in fair value of derivatives are recognised in the profit and loss account (under cost price hedge accounting) or in the shareholders' equity (under net investment hedge accounting) where these changes offset a corresponding change in fair value of the hedged items. In 2012, ineffectiveness was recorded in the hedge on the net investment in the UK. This ineffectiveness was charged against the profit and loss account.

Interest rate risk
VION is exposed to interest rate risks, particularly in relation to its long-term debt position. This risk may take the form of either fair value or cash flow risk. VION works on the basis of a financial policy for interest rate risks. On the basis of this policy, VION aims to hedge this cash flow risk using interest rate swaps. Cost price hedge accounting is applied to these derivatives. As per the end of 2012, the notional amount of the outstanding interest rate swaps was € 801 million (2011: € 784 million) with an average duration of 2.7 years (2011: 3.7 years). The fair value of the interest rate swaps amounted to negative € 50.9 million (2011: negative € 46.0 million), € 16.8 million of which is on the balance sheet pursuant to interest yet to be paid, and as a provision for the restructuring of the interest rate swaps in pounds in connection with the announced sale of the UK participating interests for Food. On 31 December 2012 VION had a ratio of fixed-rate debt to total outstanding debt of 60% (2011: 68%).

Currency risk
VION is exposed to currency risk in the following areas:
- transaction exposures, such as forecasted sales and purchases, and on-balance-sheet receivables or payables resulting from such transactions,
- translation exposure of foreign currency intercompany and external debt and deposits,
- translation exposure of equity invested in consolidated foreign entities,
- translation exposures of net income in foreign entities.

VION employs a financial policy for currency risks as a part of which committed transaction exposures are hedged using forwards. Generally, the maximum tenure of these contracts is 15 months. VION aims to fund local entities in their functional currency. On the basis of financial policy, the currency of the external funding and deposits of VION is matched with the required financing of VION group companies, either directly by external foreign currency loans and deposits, or by using foreign exchange swaps.

Translation exposure of equity invested in consolidated foreign entities is partially hedged on the basis of policy approved by the Executive Board. If this type of hedge is entered into, it is accounted for as a net investment hedge in a foreign entity. VION does not hedge the exposure arising from translation exposure of net income in foreign entities.

At year-end 2012 , the notional value of foreign exchange currency contracts, in Chinese yuan, entered into by VION as hedge of equity invested in consolidated foreign entities, amounted to € 37 million (2011: € 200 million). The fair value of these forward currency contracts used to hedge these risks amounted to a total of negative € 4.5 million (2011: negative € 11.4 million) and is part of the shareholders' equity. At year-end 2012, the notional value of other foreign exchange currency contracts, mainly in American dollars and British pounds, amounted to a total of € 205 million net (2011: € 513 million). The decrease is due to the decrease in financing for participating interests in the United States and the United Kingdom. The fair value at the end of 2011 amounted to negative € 13.8 million (2011: negative € 17.2 million). An amount of negative € 0.6 million of this was kept off balance for reasons of cost price hedge accounting.

Note 14 | Contingent assets and liabilities not shown in the balance sheet

A number of foreign group companies have long-term commitments related to the rental and operational leasing of assets. The composition of these commitments is as follows:

- < 1 year: € 29 million (2011: € 35 million),
- 1 to 5 year: € 59 million (2011: € 52 million),
- > 5 year: € 4 million (2011: € 8 million).

Group companies have issued bank guarantees amounting to € 43 million (2011: € 35 million).

Within the group, short-term commitments of € 7 million have been entered into regarding current investments (2011: € 9 million).

VION is under contractual obligation to acquire the remaining 33.33% of the shares in CTH Vastgoed B.V. and CTH GmbH on 1 January 2014. The purchase price is € 21.0 million.

VION has to make an additional dividend payment of € 5.4 million to the minority shareholders in SNP Handels- und Beteilungs GmbH. Since the terms and conditions of this payment have not been agreed yet, this obligation has not been accounted for in the balance sheet.

Legal actions have been brought forward against VION and/or its group companies, which are being contested. Although the outcome of these disputes cannot be predicted with any certainty, based on legal advice and available information it is assumed that these actions will not have any significant effect on the consolidated financial position.

Notes to the consolidated profit and loss account 2012

Note 15 | Net sales

in thousands of euros	2012	2011
The geographical composition of the sales is as follows:		
Europe:		
The Netherlands	992,909	969,335
Germany	2,901,559	2,983,626
Belgium	166,038	160,384
Italy	579,937	608,141
Other EU countries	1,410,930	1,324,152
United Kingdom	2,401,753	2,351,683
Non-EU countries	118,977	141,156
	8,572,103	8,538,477
United States of America	284,285	217,623
Mexico	34,886	29,703
Canada	25,886	19,546
Asia	546,000	483,770
Other countries	157,118	98,634
Total	**9,620,278**	**9,387,753**

VION is mainly active in the food industry; less than 10% of its sales are generated within other lines of business.

Note 16 | Other operating income

This line reflects miscellaneous categories of other operating income items. These include: commissions, bonuses and grants for an amount of € 22.4 million (2011: € 20.7 million), rental income of € 2.4 million (2011: € 7.5 million) and transport revenues for an amount of € 10.6 million (2011: € 7.4 million). Furthermore, this item consists of the book gains on assets sold of € 1.7 million (2011: € 3.0 million).

Note 17 | Result in connection with the sale of group companies

This concerns the book gain on the sale of the shares in Sobel USA Inc. (holding company for the Banner activities in the United States, Canada and Mexico) and Banner Pharmacaps Europe B.V. for an amount of € 71.8 million as well as the book loss of € 8.8 million on the sale of Paramount Foods Ltd.

Note 18 | Wages, salaries and social security charges

in thousands of euros	2012	2011
The composition of personnel costs is as follows:		
Wages and salaries	775,903	762,283
Social security charges and other personnel costs	149,397	146,128
Pension costs	22,070	26,850
	947,370	935,261
Wage costs third parties	269,083	279,646
Total	**1,216,453**	**1,214,907**

At the end of 2012, 23,474 staff members, expressed in FTE, were employed within the group (2011: 26,425). In 2012, the average number of group employees was 24,950 (2011: 26,663). In addition, an average of 9,175 employees (2011: 9,623) of third parties were active within the group.

The number of employees can be divided by country as follows:	2012	2011
The Netherlands	2,981	3,216
Germany	5,303	5,691
United Kingdom	10,901	12,030
Other countries	4,289	5,488
Total	**23,474**	**26,425**

Note 19 | Wages, salaries, social security charges and other charges relating to reorganisations

These are the costs of staff redundancy schemes implemented in connection with the reorganisations that started in 2012. This item also includes any costs that are to be attributed directly to a reorganisation such as the costs of closing down sites, costs of advisers and other costs, such as loss-making contracts.

Note 20 | Depreciation and amortisation on fixed assets

in thousands of euros	2012	2011
Intangible fixed assets	26,936	26,249
Tangible fixed assets	165,644	166,941
Total	**192,580**	**193,190**

Note 21 | Impairments of fixed assets

€ 51.2 million of the total impairment of € 679.3 million concerns intangible fixed assets, € 589.5 million concerns tangible fixed assets, and € 22.0 concerns inventories. Furthermore, an accrual of € 16.6 million for transaction costs has been included under other liabilities. € 424.6 million of the total amount relates to impairments as regards the United Kingdom.

Note 22 | Other operating costs

This includes lease costs for buildings for an amount of € 11.6 million (2011: € 12.5 million), lease costs for company cars for an amount of € 7.7 million (2011: € 8.1 million) as well as the effect of changes in provisions.

Note 23 | Interest charges and similar expenses

The increase in interest charges and similar expenses compared to 2011 is mainly due to the negative value of VION's interest rate swaps that were used to hedge the interest risk on funding in British pounds. Its effect amounts to € 16.8 million. Until it was decided to divest the UK activities, VION applied cost price hedge accounting to these derivatives, presenting them off balance. These derivatives are on balance again now that the UK activities have been sold. Furthermore, this item includes the effect of a lower discount rate for the provision for pensions in Germany of € 10.0 million.

Note 24 | Taxes

In 2012, the effective tax rate on normal business operations amounted to negative 5.7% (2011: negative 1.7%).

The level of the effective tax rate is related, among other issues, to the tax rate in the countries in which VION is active and to the use of existing loss compensation possibilities. The effective tax rate in 2013 was strongly affected by the downward revaluation of losses with compensation possibilities amounting to a value of €41 million.

Starting with the nominal Dutch tax rate, the build-up of the effective tax rate can be explained as follows:

Nominal tax rate in the Netherlands	25.0%
Effect of different foreign tax rates	-6.8%
Weighted average	18.2%
Taxes on results of previous years	0.9%
Use of losses not previously capitalised	0.9%
Change in valuation of losses with compensation possibilities	-8.1%
Non-deductible expenses	-4.0%
Tax-exempted profits	3.3%
Difference due to a change in tax rates	0.2%
Withholding taxes	-0.2%
Change in valuation of temporary differences	-17.3%
Other tax effects	0.4%
Effective tax rate	**-5.7 %**

The 17.3% tax burden is due to a temporary difference as a result of impairments not being stated. These impairments are expected to be effectuated in fiscal years in which no taxable result is expected. It has therefore been decided to not state the resulting gross deferred tax asset.

Other information

Note 25 | Auditor's fee

in thousands of euros	BDO The Netherlands	BDO International	Total 2012	BDO The Netherlands	BDO International	Total 2011
Audit annual accounts	412	1,113	1,525	426	1,026	1,452
Other audits	359	150	509	91	56	147
Fiscal	20	202	222	19	57	76
Non-audit	40	30	70	25	113	138
Total	**831**	**1,495**	**2,326**	**561**	**1.252**	**1.813**

Note 26 | Remuneration of Executive Board members and outstanding loans

in thousands of euros		2012		2011
Total remuneration to the Executive Board:	3,871		4,348	
The composition of this item is as follows:				
Fixed salary	1,899	49%	2,552	59%
Variable salary	176	5%	200	5%
Pension contributions and other expenses	1,796	46%	1,596	36%
Total	**3,871**	**100%**	**4,348**	**100%**

In 2012, the Executive Board sold back the depositary receipts for shares in VION N.V. that were in its ownership. The loans provided to members of the Executive Board in 2011 to finance depositary receipts for shares were redeemed by means of this transaction. This also resulted in a liability in respect of the members of the Executive Board.

Note 27 | Remuneration of Supervisory Board members

in thousands of euros

In 2012, the remuneration paid to Supervisory Board members amounted to € 380 (2011: € 357).

Note 28 | Affiliated parties

All transactions with affiliated parties take place according to market-compliant conditions.

Note 29 | Discontinued operations

The consolidated annual accounts of VION include activities that were either terminated in 2012 or of which the Executive Board of VION decided in 2012 that they would be terminated. These are:

- Sobel USA Inc. (holding company for the Banner activities in the United States, Canada and Mexico) (United States), sold on 14 December 2012
- Banner Pharmacaps Europe B.V. (the Netherlands), sold on 14 December 2012
- Oerlemans Group, decision to sell taken on 15 June 2012
- Food UK Group, decision to sell taken on 12 September 2012

For further information on the Oerlemans Group and Food UK Group see the subsequent events under other information.

This note shows the impact of these divestments and decisions to sell on various key figures.

	Discontinued operations					
in millions of euros	**Consolidated**	**Sale 2012**	**Decision to sell 2012**		**Total discontinued**	**Total continued**
		BANNER	UNITED KINGDOM	OERLEMANS		
Book value of assets	2,226	0	243	73	316	1,910
Total operating income	9,749	194	2,364	117	2,674	7,075
Total cost	10,416	193	2,439	115	2,747	7,669
EBITA	34	1	(61)	4	(57)	91
Operational cash flow	(37)	33	(105)	(2)	(74)	37
Cash flow from investment activities	166	8	43	4	54	112
Non-operational cash flow	(153)	(4)	(44)	(4)	(53)	(100)

The divestment of Banner Pharmacaps was already accounted for in the balance sheet in 2012. The financial effect and deconsolidation of the UK activities and Oerlemans will be accounted for in 2013. The results of these divestments (including impairments) were accounted for in 2012. The sales process for Oerlemans has not been completed.

Company balance sheet as at 31 December 2012

(for appropriation of result) *in thousands of euros*	***Note***	2012	2011
ASSETS			
Fixed assets			
Financial fixed assets	*a*	0	741,291
		0	**741,291**
Current assets			
Other receivables		166	71
Liquid equivalents		121,735	9,845
		121,901	**9,916**
Total assets		**121,901**	**751,207**
LIABILITIES			
Paid-in capital		2,285	2,285
Share premium reserve		372,716	372,716
Legal reserve		5,939	6,377
Currency translation reserve		7,415	-20,898
Other reserves		344,265	377,237
Unappropriated result		-829,660	606
Shareholders' equity	*b*	**-97,040**	**738,323**
Provisions	*c*	**93,589**	**0**
Long-term liabilities		**30,109**	**0**
Current liabilities to group companies		**95,234**	**4,347**
Other current liabilities		**9**	**8,537**
Total liabilities		**121,901**	**751,207**

Company profit and loss account 2012

in thousands of euros	2012	2011
Result of group companies	-829,176	820
Other results	-484	-214
Net result	**-829,660**	**606**

Company accounting principles for valuation and for the determination of results

General principles

The company annual accounts have been prepared in accordance with the provisions of Part 9 Book 2 of the Dutch Civil Code. Further information on the general principles for preparing the annual accounts, the principles for valuing assets and liabilities and determining the result, as well as the explanation of the specific assets and liabilities and the results can be found in the notes to the consolidated annual accounts, unless stated otherwise below.

Accounting principles for determination of results

Results and valuation of group companies and participating interests

The result of group companies and participating interests concerns VION Holding N.V.'s share in the result of the participating interests valued at net asset value. The amount stated in the annual accounts as the result of participating interests where a significant influence is exerted on the operational and financial policy is the share of the result of these participating interests that is due to the company. This result is determined on the basis of the principles that VION Holding N.V. applies to valuation and results determination.

For participations where no significant influence is exerted on the operational and financial policy and which are valued at cost price, the dividend is considered as the result. This is accounted under financial income and expenses.

Participating interests with a negative net asset value will be valued at nil. If the company stands surety for all or a part of the liabilities of the participating interest(s) in question, a provision will be created, which will primarily be debited to the receivables from such participating interest(s) and for the remainder to the provisions amounting to the value of the share in the losses suffered by the participating interest(s) or for the expected payments by the company for such participating interests.

Notes to the company balance sheet

ASSETS

Note a | Financial fixed assets

This item includes the participating interests in group companies. These participating interests are valued at net asset value.

Changes in VION's share were as follows:

in thousands of euros	2012	2011
Balance on 1 January	741,291	765,009
Dividends received	0	-403
Repayment of capital	-8,304	-15,707
Result	-829,176	820
Reclassifications to provisions	93,589	0
Exchange rate differences	2,600	-8,428
Balance on 31 December	**0**	**741,291**

LIABILITIES

Note b | Shareholders' equity

The authorised capital of VION Holding N.V. was € 4,500,000, divided into 100,000 shares with a nominal value of € 45. VION Holding N.V. has 3,566 purchased own shares (2011: 3,566). On 31 December 2012, 50,784 (2011: 50,784) shares were issued and fully paid up.

Changes to the separate components of shareholders' equity were as follows:

in thousands of euros	Paid-in capital	Share premium reserve	Legal reserve	Currency translation reserve	Other reserves	Unappro-priated result	Total
Balance on 1 January 2012	2,285	372,716	6,377	-20,898	377,237	606	738,323
Profit appropriation 2011					606	-606	0
Dividend payment					-8,303		-8,303
Exchange rate differences				2,600			2,600
Reclassification			-438	25,713	-25,275		0
Result						-829,660	-829,660
Balance on 31 December 2012	**2,285**	**372,716**	**5,939**	**7,415**	**344,265**	**-829,660**	**-97,040**

The currency translation reserve reclassification concerns the divestment of Banner Pharmacaps.

Note c | Provisions

The provision for € 93.6 million concerns the negative net asset value of the participating interests of VION Holding N.V.

Note d | Contingent assets and liabilities not shown in the balance sheet

VION Holding N.V. heads the Dutch fiscal entity for corporate income tax. On the basis of this fact, VION Holding N.V. is severally liable for the corporate income tax of the fiscal entity as a whole.

By means of issuing statements of liability in accordance with the Netherlands Civil Code ('403 statements'), VION Holding N.V. has assumed liability for the domestic subsidiaries in which a majority interest is held.

Eindhoven, 6 November 2013

Executive Board
R.A. Ruijter, Chairman
P.M.J. Beckers
D. Kloosterboer
S. L. Vansteenkiste (supplementary member)

Supervisory Board
J.A.M. Huijbers, Chairman
J.A.J. Vink, Vice-Chairman
W. Hilse
A.J.M. van Hoof
M.P.M. de Raad
F.F. Waller
E.P.J. Lemkes-Straver
J.P.A. Roefs

Other information

in thousands of euros

Statutory stipulations regarding the appropriation of result

Article 23 of the Articles of Association reads as follows:

clause 1 The amounts determined by the Executive Board and approved by the Supervisory Board shall be reserved from the profit as demonstrated in the annual accounts adopted by the general meeting. Any remaining profit shall be at the free disposal of the general meeting.

clause 2 The Company can only make payments to the shareholders and other parties entitled to the profit that is eligible for distribution to the extent that the shareholders' equity exceeds the amount of the issued capital increased by the statutory reserves.

Proposed result appropriation

The proposed result appropriation is as follows:	
Net result 2012	-829,660
Withdrawal from other reserves	**829,660**

Dividend proposal

Interim dividend 2012	0
Final dividend 2012	0
Dividend payable	0
Withdrawal from other reserves	**829,660**

Subsequent events

Divestments

Sale of UK activities
The sales process and negotiations to sell VION's operations in the United Kingdom were started in 2012. These operations were discontinued in 2013, excluding Hall's of Broxburn (Pork) and Welsh Country Foods (Red Meat), which were discontinued in 2012.

VION reached an agreement on the sale of its Pork activities in the United Kingdom on 12 December 2012. The sale of the Pork activities was finalised on 8 January 2013. With effect from that date, VION no longer had a controlling influence and the figures for UK Pork are no longer included in VION's consolidated figures. Please see note 29 for the impact on future cash flows, the profit and loss account, and balance sheet items. An agreement about the combined sale of VION's UK Red Meat and Poultry interests was reached on 4 March 2013 and this transaction was finalised on 8 March 2013. With effect from that date, VION no longer had a controlling influence and the figures for UK Red Meat and Poultry are no longer included in VION's consolidated figures. The impact on the 2013 profit and loss account and the shareholders' equity of these divestments is limited, since VION had already incorporated the latest information available about these divestments, including impairments for an amount of € 424.6 million, in its consolidated figures for 2012.

Oerlemans Foods
The sales process and negotiations to sell VION's Oerlemans activities in the Netherlands and Poland were started in 2012. When the sale, which had initially been agreed, did not come to a final conclusion in 2013, the divestment process was re-started.

Ingredients
It was announced on 24 April 2013 that VION intended to make the two most important activities, Food and Ingredients, independent. VION wants to achieve a complete operational, organisational, and legal demerger of Food and Ingredients. A new shareholder has been found for Ingredients which can help achieve further development and growth. A purchase agreement was entered into on 5 October 2013, starting from the premise of all global Ingredients activities being sold. The formal closing of this agreement is expected in January 2014. The proceeds from selling Ingredients will re-balance the debt position and strengthen the equity capital which will then be approx. € 500 million. The sale of the Ingredients division in 2013 is expected to lower operating income by approx. € 1.6 billion and to lower the book value of assets by approx. € 1.0 billion.

Food Convenience Germany
It was decided on 20 September 2013 that VION would sell its German convenience retail activities.

Restructuring

Holding company
It was announced on 24 April 2013 that the size of the holding company would be decreased further. Some supporting service activities that had been provided by the holding company would become part of the operational activities of Food and, respectively, Ingredients.

Food Netherlands
It was announced on 2 August 2013 that VION Food Netherlands will further consolidate its pork activities. To achieve this, VION Food Boxtel will take over the activities of VION Food Helmond. The Helmond site will be closed. The change is part of the restructuring of the food activities in the Netherlands and Germany.

Food Germany
On 30 August 2013, it was announced that VION Food Germany will strengthen its major regional sites. In the new company set-up, the slaughter and cutting plants in Emstek and Zeven in the federal state of Niedersachsen, and in Perleberg in the federal state of Brandenburg, will be given a central role. Smaller sites of the Pork business unit will be divested. As a result of this restructuring, VION intends to close down the companies in Kasel-Golzig (VION Lausitz GmbH) and Minden (Atlas-Handelsgesellschaft mbH).

In the framework of the optimisation of the 39 sites in Germany, VION also decided that the production of frozen convenience products at the Wunstorf site would no longer be a part of its core activities. This part of the business will be closed.

Financing

Important changes were made to VION's credit facility in July 2013. The most important change is the additional credit facility of € 150 million to finance working capital and any guarantees to be provided. VION has given additional securities to this effect.

The divestments in 2012 and 2013 enable the total debt burden to be lowered to a normalised level at the beginning of 2014. The existing syndicate of banks has committed itself to continuing the financing of VION.

Independent auditor's report

To: the General Meeting and the Board of Directors of VION Holding N.V.

Report on the financial statements
We have audited the accompanying financial statements 2012 of VION Holding N.V., Best, which comprise the consolidated and company balance sheet as at 31 December 2012, the consolidated and company profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility
Management is responsible for the preparation and fair presentation of these financial statements and for the preparation of the management board report, both in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material mis-statement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material mis-statement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material mis-statement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion with respect to the financial statements
In our opinion, the financial statements give a true and fair view of the financial position of VION Holding N.V. as at December 31, 2012 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Emphasis regarding the going concern assumption in the financial statements
We draw attention to the note on page 20 of the financial statements with regard to management's going concern assessment in which management describes the successful sale of its Ingredients division and the successful closing of the financing arrangement for the remaining Food activities. Our opinion is not qualified in respect of this matter.

Report on other legal and regulatory requirements
Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Eindhoven, 6 November 2013

For and on behalf of
BDO Audit & Assurance B.V.,

sgd. P.P.J.G. Saasen RA

VION Holding N.V.

Noord Brabantlaan 303-307
5657 GB Eindhoven
The Netherlands

Tel. +31 (0) 88 99 53 700
Fax +31 (0) 88 99 53 888
info@vionfood.com
www.vionfoodgroup.com

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