

Governance

CORPORATE GOVERNANCE

Refresco Group N.V. is a public limited liability company (“naamloze vennootschap”) incorporated under the laws of The Netherlands. It has a two-tier board structure. The company is managed by an Executive Board and supervised by a Supervisory Board. Both the Executive Board and the Supervisory Board are accountable to the Annual General Meeting of Shareholders.

The company complies with the Dutch Civil Code, its Articles of Association and all relevant laws and regulations.

Shares

The authorized capital of the company comprises a single class of registered shares. Shares that are traded via the giro-based securities transfer system are registered under the name and address of Euroclear. All issued shares are fully paid-up and each share confers the right to cast a single vote in the General Meeting.

The Executive Board has been designated as the corporate body authorized to issue 10% of the issued shares, grant rights to acquire shares and to limit or exclude pre-emptive rights pertaining to such issue of shares, subject to the prior approval of the Supervisory Board. By virtue of its authorization by the General Meeting the Executive Board is also authorized to purchase shares in the company, up to a maximum of 10% of the issued shares and subject to the prior approval of the Supervisory Board. These designations and authorizations have been given for a period of eighteen months ending on November 11, 2017 and renewal is requested annually at the Annual General Meeting.

Executive Board

Refresco Group N.V. is managed on a day-to-day basis by the Executive Board. The Executive Board is responsible for Refresco Group’s overall management and performance and for the implementation of its strategy. Its agenda includes strategy formulation, supervision of the local organizations, risk management, monitoring of internal controls, the acquisitions policy and deal making, corporate social responsibility and other important policy matters. More information about the responsibilities of the Executive Board can be found in the By-Laws of the Executive Board that is available on our website. The composition of the Executive Board and its members’ key employment history are presented on page 44 of this report.

Members of the Executive Board are appointed by the General Meeting of Shareholders, either at the proposal of the Supervisory Board or upon the binding nomination by the Supervisory Board. A resolution of the General Meeting to appoint an Executive Board member other than in accordance with a binding nomination by the Supervisory Board, requires an absolute majority representing at least one-third of the company’s issued capital. The General Meeting of Shareholders can suspend or remove each member of the Executive Board at any time. Resolutions to suspend or remove a member of the Executive Board other than pursuant to a proposal by the Supervisory Board require an absolute majority representing at least one-third of the company’s issued capital.

Supervisory Board

The Supervisory Board supervises the Executive Board.

The Supervisory Board is supported by:

- a **Remuneration and Nominating Committee**: this committee is responsible for advising the Supervisory Board on the remuneration of the Executive Board, reviewing the Executive Board’s proposals concerning the remuneration policies for the higher management within Refresco Group and advising on appointment procedures for and assessment of the functioning of Executive Board members and Supervisory Board members; and
- an **Audit Committee**: this committee supervises the internal risk management and control systems and the provision of financial information by the company. It furthermore supervises the role and functioning of the internal auditor and the relations with the external auditor.

The Supervisory Board is guided by the company’s Articles of Association, the By-Laws of the Supervisory Board, the Supervisory Board profile and the Rotation Plan. In addition thereto, the Remuneration and Nominating Committee and the Audit Committee each have their own Terms of Reference. All documents mentioned can be found on our website www.refresco.com.

Profiles of each of the Supervisory Board members can be found on pages 44 – 45 of this report.

Members of the Supervisory Board are appointed by the General Meeting of Shareholders, either at the proposal of the Supervisory Board or upon the binding nomination by the Supervisory Board. A resolution of the General Meeting to appoint a Supervisory Board member other than in accordance with a binding nomination by the Supervisory Board, requires an absolute majority representing at least one-third of the company’s issued capital. The General Meeting of Shareholders can suspend or remove each member of the Supervisory Board at any time. Resolutions to suspend or remove a member of the Supervisory Board other than pursuant to a proposal by the Supervisory Board require an absolute majority representing at least one-third of the company’s issued capital.

Remuneration

The Executive Board remuneration policy was adopted by the General Meeting upon the proposal of the Supervisory Board on March 16, 2015. The remuneration policy is aimed at attracting, motivating and retaining highly qualified members of the Executive Board with a balanced and competitive remuneration package that is focused on sustainable results and is aligned with the long-term strategy of the company.

Pursuant to the remuneration policy the remuneration packages of the Executive Board members consist of fixed and variable components.

The remuneration of the individual members of the Executive Board is determined by the Supervisory Board, with due observance of the remuneration policy. In compliance with the Code, the employment agreements of the Executive Board members contain provisions related to severance arrangements and claw back consequences. Annually the Supervisory Board reports on the implementation of the remuneration policy in the preceding financial year and the intended implementation in the current and subsequent years in its Remuneration report, which can be found on page 41 – 43 of this report.

The General Meeting determines the remuneration of the members of the Supervisory Board. The Supervisory Board periodically submits proposals to the General Meeting in respect of the remuneration of the chairman, the vice-chairman and the other members of the Supervisory Board. The remuneration of the Supervisory Board may not be made dependent on the company's results.

General Meeting

The company will organize at least once a year a General Meeting of Shareholders. Each shareholder may attend General Meetings, address the General Meeting and exercise voting rights pro rata to his shareholding, either in person or by proxy. Shareholders may exercise these rights, if they are the holders of shares on the record date which is the 28th day before the day of the General Meeting, and they or their proxy have notified the company of their intention to attend the General Meeting. The company shall give shareholders and other persons entitled to vote the possibility of issuing voting proxies or voting instructions, respectively, to an independent third party. Draft minutes of the meeting will be released within three months of the meeting and will be available for comments for three months thereafter. The final version of the minutes will be published on our website.

The Articles of Association set out in detail the powers of the General Meeting. Resolutions requiring approval of the General Meeting are, amongst others:

- adoption of Refresco Group's annual accounts;
- appointment and dismissal of Supervisory Board and Executive Board members;
- declaration of dividend;
- amendment of the Articles of Association; and
- dissolution of the company.

Subject to certain exceptions as set forth by law or the Articles of Association, resolutions of the General Meeting are passed by an absolute majority of votes cast.

This year, the Annual General Meeting is scheduled to be held on May 9, 2017 in Rotterdam, The Netherlands.

Change of Control

The company has entered into a senior facilities agreement under which the agent must be notified and participating banks are entitled to cancel their commitments in the event of a change in control of the company after a public take-over bid has been made. It is not uncommon to have change of control provisions in Co-Packing agreements.

Conflicts of interest

Any conflict of interest by a member of the Executive Board or the Supervisory Board has to be reported immediately to the Chairman of the Supervisory Board. A member of the Executive Board or the Supervisory Board may not participate in deliberating or decision making within the relevant Board in case of a conflict of interest. In 2016, no transactions were reported under which a member of the Executive Board or the Supervisory Board had a conflict of interest which was of material significance to the company or to the individual member of the Executive Board or the Supervisory Board.

Insider trading code

The Executive Board has adopted insider trading regulations which were last amended on October 6, 2015. It is the company's policy that all employees and any other persons employed by or in any other type of relationship of authority to Refresco Group shall adhere to these regulations.

Tax policy

The company is seeking a responsible approach to the management of taxes and relating risks. We adhere to the tax laws and related rules and regulations in the countries where we operate, not only to the letter of the law but also to its spirit. The company's commercial needs are paramount and leading and therefore 'tax follows the business'. We do not use artificial structures, instruments or tax havens solely for tax avoidance. Where possible we will create and maintain a relationship with local tax authorities and work closely together in an open and transparent dialogue, creating mutual understanding and trust. See note 2.18 on page 73 of this report for the tax policy.

Corporate governance declaration

The company acknowledges the importance of good corporate governance and agrees with the principles of the Dutch Corporate Governance Code. The company is committed to comply with the Code in the way as set out herein.

Accountability Dutch Corporate Governance Code

During 2016, the company complied with the Dutch Corporate Governance Code with the exception of the following deviations:

Best practice provision II.2.8. (remuneration in the event of dismissal):

The company does not comply with best practice provision II.2.8, which determines that the remuneration in the event of dismissal may not exceed a one year's salary. In the event of dismissal, Mr. Duijzer is entitled to receive a severance payment of EUR 1 million gross, which exceeds a one year salary.

Best practice provision III.2.1 (independence Supervisory Board):

This best practice provision requires all Supervisory Board members, with the exception of not more than one person, to be independent within the meaning of best practice provision III.2.2. In connection with the listing of the company, the company entered into a relationship agreement with Ferskur Holding 1 B.V., Tamoia Limited, 3i GC Holdings REF 1 S.Å.R.L., 3i GC Holdings REF 2 S.Å.R.L., Okil Holding B.V., which – inter alia – includes the right for Ferskur Holding 1 B.V., Tamoia Limited, 3i GC Holdings REF 1 S.Å.R.L. and 3i GC Holdings REF 2 S.Å.R.L. to designate individuals for appointment to the Supervisory Board. As a result, Messrs. Sigurdsson, Gorvy and De Jong are non-independent members within the meaning of the above provision.

Best practice provision III.5.1 (Independence committee members):

According to this provision, the terms of reference of a Supervisory Board Committee may provide that a maximum of one member of each committee may not be independent within the meaning of best practice provision III.2.2. The terms of reference of the company's Remuneration and Nominating Committee provide that at least half of the members of this Committee shall be independent within the meaning of best practice provision III.2.2. subject to deviating arrangements set out in the Relationship Agreement. Pursuant to the Relationship Agreement, the Remuneration and the Nominating Committee has two non-independent members being Messrs. Gorvy and Sigurdsson.

Principle III.3 and best practice provision III.3.1 (expertise and composition Supervisory Board):

These provisions state that the Supervisory Board should strive for a diverse composition as to gender and age and should formulate concrete targets to achieve this. The Supervisory Board strives to achieve a diverse composition of its members and has formulated key attributes of its Board Director profile to address this. These attributes are available on our website www.refresco.com/governance/. The Supervisory Board believes that the Board has a complementary range of experience, functional skills and age and with the appointment of Mrs. Plochaet increased gender diversity in the Supervisory Board.

RISKS AND RISK MANAGEMENT

Refresco's risk appetite

As a basic principle, we believe that doing business comes with taking risks. We expect our employees to be entrepreneurial, excellent, market-driven, innovative and responsible. This means that our employees should be able to take their decisions by carefully considering both the risks and the opportunities while taking into account the interests of all stakeholders. Having a culture of openness, transparency and integrity supports our employees in addressing any potential risks they see. Although we encourage an entrepreneurial spirit, acting responsible is also one of our core values, which means that our appetite for certain risks is low. To frame our approach towards the various risks our company is facing, we categorize risks in four types. Each category comes with its own risk appetite:

- **Strategic risks** – Entrepreneurship is one of Refresco's values. We see a certain level of risk-taking as part of our nature and we are willing to take a carefully weighted risk/return approach when doing business.

- **Operational risks** – Refresco has a prudent approach to operational risk management. Ensuring the high quality standards of our products, customer service and continuity of our production have the highest priority.
- **Financial risks** – Refresco seeks to identify, assess and, if necessary, mitigate financial risks, which include currency and interest rate risks, in order to minimize potential adverse effects on our financial performance.
- **Legal and regulatory risks** – Refresco believes that compliance with laws is essential for doing business and for that reason, non-compliance with laws cannot be accepted.

Key risks

We have identified the following risks that are specific to our company and we believe may have the greatest adverse impact on our company:

Risk	Mitigation
STRATEGIC RISKS	
<p>Changes in customer and end-consumer preferences</p> <p>Refresco produces products for its customers who in turn sell these products to end consumers. Should there be a reduction in consumer demand or customer requirements change in such a way that we are not able to meet the new requirements, this may have an adverse effect on our business, financial condition and results of operations.</p>	<p>We aim for diversification in terms of product, packaging, customers and geography. This enables us to anticipate changes in consumer preferences on a timely basis. We also offer flexible manufacturing capacities to our customers.</p>
<p>Buy & build strategy</p> <p>We may not be able to execute this strategy due to a lack of suitable targets. Furthermore, acquisitions may turn out to be less successful than anticipated.</p> <p>If we are unsuccessful in the performance of our 'buy and build' strategy, it will be difficult for the Group to grow. Unsuccessful acquisitions may lead to higher costs for the company.</p>	<p>The Executive Board is directly responsible for the execution of the acquisition strategy. We are continuously looking for companies having the potential to fulfil our growth strategy.</p> <p>Every acquisition process is supported by a team of dedicated and experienced professionals – with the support of external consultants – performing a due diligence to get a proper view of the risks.</p> <p>Any acquired business is integrated into the relevant local business unit as quickly as possible as we believe that local integration is the best way to facilitate for a cultural fit into our organization.</p> <p>With the recent acquisition in the US, we appointed people from the Refresco organization into the US management team and dedicated time and resources to educate the US employees about the Refresco way of working.</p>

Risk	Mitigation
OPERATIONAL RISKS	
<p>Fluctuations in the prices of raw materials and packaging materials</p> <p>The prices of raw materials and packaging materials fluctuate due to factors beyond the Group’s control. While the company aims to purchase sufficient raw materials and packaging materials to meet its estimated sales volumes, these estimates may prove inaccurate. If the raw materials and packaging materials costs increase, it may not be possible to pass these cost increases on to customers through price adjustments or in a timely manner. This could have a material adverse effect on the business, financial condition and results of operations.</p>	<p>Our exposure to price fluctuations mostly impacts our Private Label business. In Co-Packing, this price risk is typically borne by the customer, as we operate as tolling manufacturer.</p> <p>The Group has a centralized procurement department that closely monitors price developments of raw materials and packaging materials. It has a policy of purchasing forward contracts for most raw materials and packaging materials to match sales in volume as well as in time. The Group’s exposure is therefore limited to under- or over-coverage by corresponding forward purchase contracts.</p> <p>A small portion of input material cost fluctuations incur a delay in passing on to customers, resulting in a small upside or downside deviation of gross profit margin per liter over time. In some cases, we may decide not to fully increase the prices of the products we manufacture in order to sell a greater volume of products.</p>
<p>Dependency on a limited number of suppliers</p> <p>Our manufacture of products is highly dependent on an adequate supply of certain raw materials including FCOJ, apple juice and sugar and packaging materials, including liquid paperboard, aluminum cans and PET most of which are only available from a limited number of suppliers. The limited number of suppliers for these materials may undermine our negotiating position. The loss of any one of such suppliers could lead to a disruption in our supply chain, which could reduce the utilization rate of manufacturing sites and deliveries to customers, and in turn have a material adverse effect on the business, financial condition and results of operations.</p>	<p>This risk mainly applies for Private Label, as these products are more dependent on the Group’s own sourcing than Co-Packing, where the customer largely sources the raw materials.</p> <p>We attempt to ensure that we always have sufficient raw materials and packaging materials in stock. To ensure we can cover sales positions with the Group’s customers, we have adopted a policy to enter into forward purchase contracts – up to 12 months in advance – for most raw materials and packaging materials.</p> <p>Additionally, the Group is continuously looking to broaden its supplier base for the most important raw materials and packaging materials to ensure it has alternatives, when needed.</p>
<p>Health, safety and environment</p> <p>Our reputation could be jeopardized by a failure to maintain high-quality standards for our products or high ethical, social and environmental standards for our activities.</p>	<p>Each of our sites have implemented a quality system based on the critical control and quality points mitigating the risks of quality and safety. All major sites are being audited either under the International Food Standard (IFS) or, in the UK, under the British Retail Consortium (BRC) protocol. In the US our manufacturing sites are regulated through US Food & Drug Administration (FDA) and certified under Safe Quality Food (SQF) Programme. Furthermore, our sites are also regularly audited by our retail and branded customers.</p>

Risk	Mitigation
<p>Production contingency</p> <p>Operations at our sites could be adversely affected by extraordinary events which could materially reduce our production and have a material adverse effect on our business, financial condition and results of operations.</p>	<p>We continue to invest significantly in our manufacturing sites and to strive for improvement of our health, safety and environmental practice. Together with our insurance broker we rolled out a program to improve our housekeeping and fire protection to mitigate business interruption.</p> <p>We have contingency plans in place pursuant to which we can move production to other locations in case of emergencies.</p> <p>In 2016, we rolled out a Group crisis management program pursuant to which our business units have uniform procedures for dealing with crises and certain identified staff have been trained in crisis management.</p>
<p>Dependency on a relatively small number of customers</p> <p>A significant portion of our revenue is concentrated with a relatively small number of customers; although we have multiple contracts with each of our customers. The Top-10 customers count for 53% of total revenue. The loss of such a customer could have a material adverse effect on our operating result and cash flow.</p>	<p>We have long term relationships with the majority of our customers and a high level of customer integration on supply chain, new product development and customer service. We therefore believe the Group is well positioned with its current customers.</p>
<p>Loss of senior management or key employees</p> <p>Human capital is one of our key assets. The performance of senior management and other key employees is critical to our success. There can be no assurance that Refresco will be successful in attracting or retaining highly qualified senior management and other key employees needed in the future, which could have an adverse effect on the business.</p>	<p>We continue to invest time and resources in developing and training our senior management and key employees. Furthermore, we kicked off our LEAP program (see page 29 for more detail) as we believe that developing talent internally is preferred over attracting people externally. To remain attractive, we encourage international mobility and in 2016, a number of staff were given the opportunity to work in another business unit.</p> <p>In June 2016, we launched our first company-wide employee survey in Europe to help us understand how our employees view our leadership style, organizational culture, working environment and the way we manage, develop and recognize our people's contribution.</p>

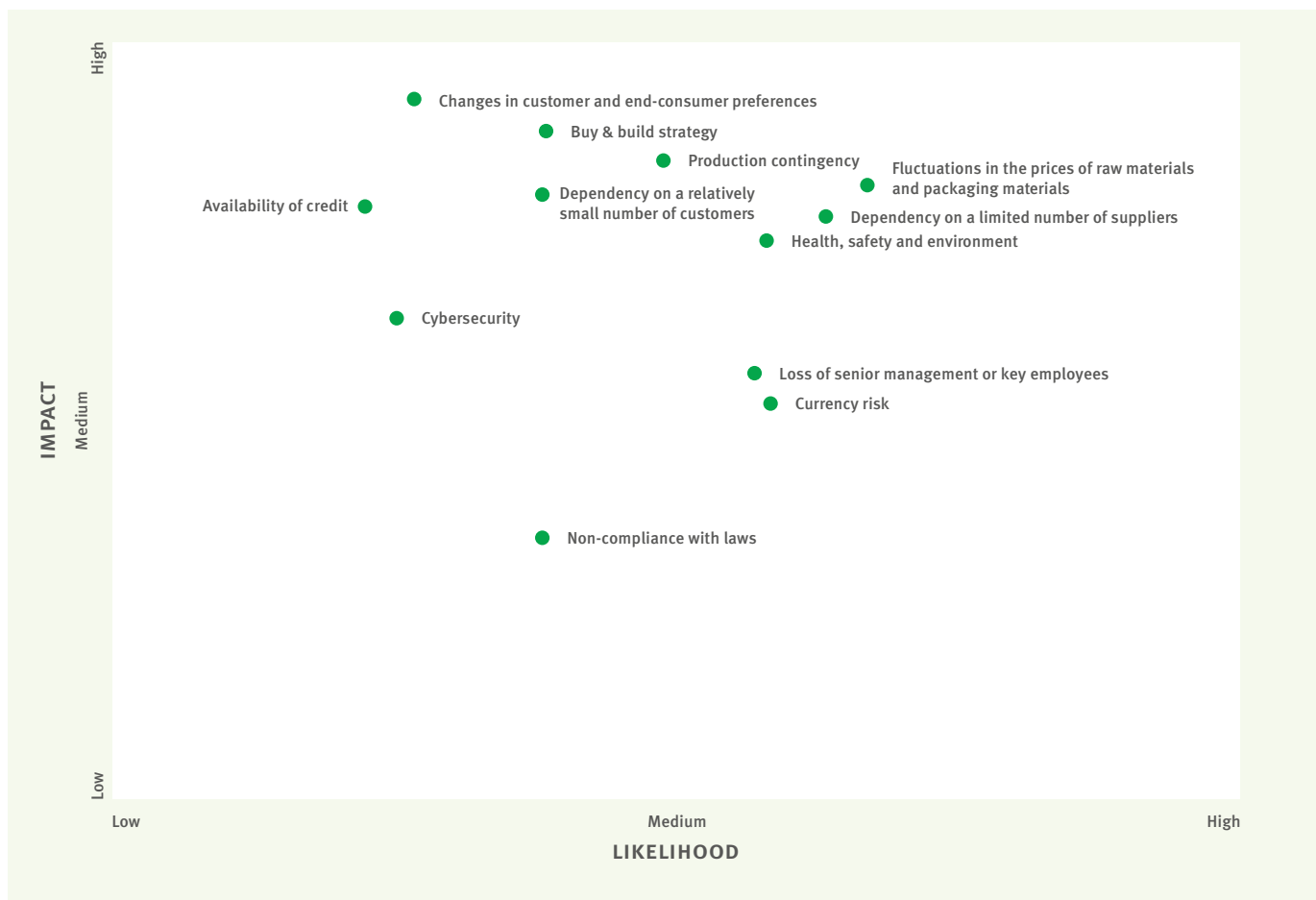
Risk	Mitigation
<p>Cybersecurity</p> <p>The Group’s operating results may be adversely affected by a breakdown of its information technology systems or a failure to develop those systems. The Group depends on key information systems to conduct its business, to provide information to management and to prepare financial reports.</p> <p>We rely on reputable third party providers for the majority of our key information systems and business processing services supporting our operations in several different countries. A system failure, therefore, could have serious consequences for the Group’s entire business.</p>	<p>We implemented a centralized mail traffic scanner where incoming and outgoing mails are checked by several antivirus scanners.</p> <p>We performed an IT security survey and are planning employee trainings so that employees can learn more about the threats and what they can do personally to counter them. Refresco will also perform a penetration test in certain business units where malicious hackers will be mimicked to help us identify and remove potential vulnerabilities.</p> <p>To reduce risk main applications are running in a system landscape (development, testing & productive system).</p> <p>Our third party suppliers also perform audits on their performance and operations.</p>
<p>FINANCIAL RISKS</p>	
<p>Currency risk</p> <p>The Group is exposed to currency risk mainly on purchases denominated in USD. With the acquisition in the United States and the recent developments in the United Kingdom, the exposure to USD and GBP risks became a higher priority.</p>	<p>At any point in time the Group hedges 80 to 100% of its foreign currency exposure on contracted forecasted purchases. The Group uses currency option contracts and forward exchange contracts to hedge its currency risks, most of which have a maturity date of less than one year from the reporting date. When necessary, foreign currency contracts are rolled over on maturity.</p> <p>In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates, as necessary, to address short-term imbalances. See note 3 to the financial statements on page 78 – 79 for more detail.</p>
<p>Availability of credit</p> <p>A lack of capital available or expensive capital access may threaten the ability to grow.</p>	<p>In 2016, the company increased and extended the existing unsecured syndicated term loan facility. The refinancing will enhance the Group’s financial position to continue the execution of its buy and build strategy whilst keeping a healthy balance sheet.</p>
<p>Note 3 to the financial statements on pages 76 – 85 gives more detail regarding the company’s approach towards financial risk management and addresses certain identified risks.</p>	

Risk	Mitigation
LEGAL AND REGULATORY RISKS	
Non-compliance with laws	
<p>The Group may fail to comply with any laws and regulations that are applicable to its business and production facilities. This may lead to fines, interruptions in operations and increased costs. Additionally, the Group may have to recall products manufactured for third parties which may lead to significant harm to the Group’s reputation.</p>	<p>We have a Code of Conduct and are rolling out awareness training to our employees. Our customers perform audits in which compliance with food and safety legislations are also addressed. Where relevant, we monitor legislation to ensure compliance. Finally, we have whistleblowing processes in place pursuant to which employees can address non-compliant situations.</p>

The table gives an overview of the risks that we believe may have an adverse impact on the Group. We have included the risks in the risk grid below:

The table and the risk grid are not exhaustive. Additional risks and uncertainties of which we are not aware or that we currently believe are less material, may also adversely affect our business, financial condition, and results of operations.

Risk grid



Risk management

We believe that risk management starts with our people. An important part of risks can be managed by creating a culture of openness enabling our employees to optimize the balance between maximization of business opportunities and managing the risks involved. To ensure that our people are aware of what we believe, we have a Code of Conduct informing our organization about what the Group expects from them in terms of ethical behaviour. We are training our employees to make this even clearer and to explain who they can go to if they see a potential misconduct.

In addition to creating the right culture, we have a program of internal control and reporting procedures in place. Internal audit procedures play a key role in providing, both to the local management teams and to the Executive Board, an objective view on, and ongoing assurance as to, the effectiveness of risk management and related control systems throughout the Group. The process around letters of representation to be provided to the external auditor also increase the awareness of local management teams around risks and risk management. To ensure that newly acquired business are integrated into these internal control and reporting procedures, it is our practice to bring these into the Group's governance structure. The integration starts as soon as is practical and it is aimed for the integration to be completed by the end of the first full year of operations within the Group.

We also have various measures in place to mitigate the operational risks. All our manufacturing sites in Europe are certified to a recognized Global Food Safety Initiative Standard (GFSI) – which, depending on the country, is Global Food Standard (BRC), FSSC 22000 or the International Features Standard Food (IFS Food). Furthermore, the majority of our manufacturing sites in Europe are ISO14001 certified. In the US our three manufacturing sites are regulated through US Food & Drug Administration (FDA). Our sites are also regularly audited by our retail and A-brand customers. Where relevant, we have taken out insurance for customary risks to cover for negative financial consequences of the events insured to the maximum amount possible.

Finally, in addition to the above organizational mitigation measures, we have a proper financial position which can act as a cushion against an economic downturn.

The Executive Board has the responsibility for the establishment and oversight of the Group's risks. It is also responsible for identifying risks and implementing its risk management policies, internal controls, and reporting procedures. The Executive Board reports regularly to the Supervisory Board and the Audit Committee on issues relating to risk management and internal control and on the effectiveness of these programs.

In 2016, no major failings in the internal risk management and control systems were discovered. For 2017, the Executive Board would like to address in particular the risk of cybercrime by introducing brief e-learning sessions pursuant to which employees will learn more about the threats but also what they can do personally to counter them and we will conduct a 'penetration test' in identified business units by which malicious hackers will be mimicked and our IT systems will be penetrated. This will help us identify and remove potential vulnerabilities.