

# REPORT OF THE BOARD OF DIRECTORS OF DELHAIZE BROTHERS AND Co. "THE LION" (DELHAIZE GROUP) ON FISCAL YEAR 2004

Following the Belgian Company Code and the Company's Articles of Association, please find below the report on the activities of Delhaize Group SA (the "Company") for the year ended December 31, 2004. The financial statements are added in appendix to this report.

## A. COMMENTS ON THE ANNUAL FINANCIAL STATEMENTS

### A.1. COMMENTS ON THE BALANCE SHEET

Establishment costs have increased by EUR 4.6 million mainly as a result of issuing a convertible bond.

#### *Intangible and tangible fixed assets:*

The increase in intangible fixed assets is mainly due to investments in software and the acquisition of the business of NV Supermarkt De Wolf.

The increase in tangible fixed assets is mainly due to investments in store remodelings during the fiscal year as well as the construction of a new distribution center for fresh products in Zellik, partly compensated by depreciation charges.

#### *Financial fixed assets:*

The decrease in financial fixed assets is mainly due the combination of:

- a decrease due to the dissolution and subsequent liquidation of its subsidiary NV Supermarkt De Wolf; and
  - an increase due to the acquisition of all shares of NV Distra and NV Warenhuizen Troukens Peeters.
- During the year, the Company also recorded write-downs on several of its financial investments, mainly Delhome SA. Based on a review of these investments' expected returns, the Company has recorded an exceptional charge amounting to EUR 1.5 million.

#### *Inventories:*

The inventories decreased mainly due to a reduction of prepayments.

#### *Short-term receivables:*

The increase in trade receivables is primarily due to the reinforcement of the Company's wholesale activities and higher supplier discounts than in the previous year.

The increase in other receivables is mainly due to the dividends declared by Delhaize America and Delhaize The Lion America.

#### *Capital and reserves:*

The increase in share capital and share premium is the result of the exercises in 2004 of warrants granted to the Group's management.

#### *Financial liabilities:*

The increase in financial liabilities is mainly due to the issuance of a convertible bond in 2004.

However, the increase in long-term financial liabilities is partly offset by a decrease in other financial liabilities due within one year.

#### *Trade creditors:*

The increase in trade creditors is related to the increase of the Company's retail and wholesale activities.

## **A.2. COMMENTS ON THE INCOME STATEMENT**

Total sales increased by 5.4% from EUR 3,661.6 million in 2003 to EUR 3,857.6 million in 2004, due to the sales network extension with five company-operated stores (three supermarkets and two City stores were added) to a total of 224 stores at end of 2004, the successful sales initiatives, the continued focus on store concept renewal and the extension of the affiliated network.

Operating profit increased by EUR 4.4 million to EUR 146.8 million due to the sales growth, partly offset by higher labor cost (+EUR 23.2 million) and higher costs for miscellaneous goods and services (+EUR 20.7 million). The latter increased mainly due to higher costs for marketing, transport, rent and other overhead costs.

Net financial result improved mainly due to the fact that, contrary to last year, Delhaize America and Delhaize The Lion America declared a dividend. Interest charges increased slightly due to the issuance of a convertible bond.

Net earnings amounted to EUR 91.5 million, compared to EUR 81.6 million in 2003. The exceptional charges were mainly due to the dissolution of certain subsidiaries and the related liquidation procedures.

## **A.3. APPROPRIATION OF AVAILABLE PROFIT FOR FISCAL YEAR 2004**

The following breakdown of the available profit of EUR 154.6 million of the Company will be proposed to the Ordinary Shareholders' Meeting:

1. EUR 49.3 million to be carried forward;
2. EUR 0.05 million to be transferred to the legal reserve;
3. At the Ordinary General Meeting to be held on May 26, 2005, the Board of Directors will propose the payment of a gross dividend of EUR 1.12 per share. The aggregate amount of the gross dividend related to all the shares outstanding at the date of the adoption of the annual accounts by the Board of Directors, i.e. March 9, 2005, will therefore amount to EUR 105.3 million. As a result of the exercise of warrants issued under the *Delhaize Group 2002 Stock Incentive Plan*, the Company might have to issue new shares, coupon no. 43 attached, between the date of adoption of the annual accounts by the Board of Directors, i.e. March 9, 2005, and the date of their approval by the Ordinary General Meeting of May 26, 2005. The Board of directors will communicate at the Ordinary General Meeting of May 26, 2005, the aggregate number of shares entitled to the 2004 dividend and will submit to this meeting the aggregate final amount of the dividend for approval. The annual accounts of 2004 will be adapted accordingly.

## **B. INFORMATION REGARDING THE STATUTORY AUDITOR**

The external audit of Delhaize Group SA is conducted by Deloitte & Touche, Registered Auditors, represented by James Fulton, until the Ordinary General Meeting in 2005.

On the basis of the audit conducted by the Statutory Auditor in accordance with the standards of the Belgian "Institut des Reviseurs d'Entreprises" (Institute of Registered Auditors), the Statutory Auditor is required to certify whether the financial statements of the Company give a true and fair view of its assets, financial situation and results of operations. The Audit Committee examines and discusses the Statutory Auditor's findings on both the consolidated accounts and the statutory accounts of the Company with the Statutory Auditor.

In addition, the Audit Committee meets with the external auditor at least quarterly to discuss the results of the external auditor's review of the quarterly information and other matters.

The chart below sets forth the fees charged by Deloitte & Touche to Delhaize Group SA in 2004.

<i>(in EUR)</i>	<b>2004</b>
a. Statutory audit Delhaize Group SA	235,220
b. Limited audit reviews of quarterly and half-yearly financial information	<b>25,000</b>
<b>Subtotal a,b</b>	<b>260,220</b>
c. Other legally required services	39,860
<b>Subtotal c</b>	<b>39,860</b>
d. Accounting consultation and other non-routine audit services	179,953
e. Tax consulting	142,298
<b>Subtotal d,e</b>	<b>322,251</b>
<b>TOTAL</b>	<b>622,331</b>

## C. INFORMATION REGARDING MOVEMENTS IN SHARE CAPITAL

### C.1. CAPITAL

As of December 31, 2004, the Company's share capital amounted to EUR 46,834,280.50, represented by 93,668,561 ordinary shares with no nominal value. At the end of 2003, share capital amounted to EUR 46,312,278.50, represented by 92,624,557 ordinary shares.

As of December 31, 2004, the number of outstanding Delhaize Group ordinary shares, including treasury shares, was 93,668,561. The weighted average number of Delhaize Group shares outstanding, excluding treasury shares, was 92,662,700 in 2004.

<b>Recent Capital Increases</b>	<b>Capital</b>	<b>Share Premium Account</b>	<b>Number of Shares</b>
<b>Capital on December 31, 2001</b>	<b>46,196,352.00</b>	<b>2,264,224,571.50</b>	<b>92,392,704</b>
<b>Capital on December 31, 2002</b>	<b>46,196,352.00</b>	<b>2,264,224,571.50</b>	<b>92,392,704</b>
Increase in capital on October 3, 2003*	24,224.00	1,325,209.06	48,448
Increase in capital on November 20, 2003*	91,702.50	7,617,941.78	183,405
<b>Capital on December 31, 2003</b>	<b>46,312,278.50</b>	<b>2,273,167,722.34</b>	<b>92,624,557</b>
Increase in capital on February 17, 2004*	56,515.00	4,702,206.82	113,030
Increase in capital on May 19, 2004*	53,965.00	4,566,100.46	107,930
Increase in capital on August 4, 2004*	72,140.00	5,576,963.58	144,280
Increase in capital on September 14, 2004*	85,903.00	7,429,811.56	171,806
Increase in capital on October 8, 2004*	91,777.50	8,680,843.80	183,555
Increase in capital on November 16, 2004*	81,581.00	8,152,862.61	163,162
Increase in capital on November 26, 2004*	80,120.50	8,650,106.33	160,241
<b>Capital on December 31, 2004</b>	<b>46,834,280.50</b>	<b>2,320,926,617.50</b>	<b>93,668,561</b>

\* Increase in capital as a consequence of the exercise of warrants under the 2002 Stock Incentive Plan.

### C.2. INCENTIVE PLANS ADOPTED BY THE COMPANY BASED ON DELHAIZE GROUP EQUITY

Delhaize Group offers stock-related incentive plans to certain of its management associates. For associates of its non-U.S. operating companies, Delhaize Group offers stock option plans and warrant plans. For associates of its U.S.-based companies, the incentive plans are based on options, warrants or restricted stock.

Under the warrant plans, the exercise by the associate of a warrant results in the creation of a new share. The stock option plans and the restricted stock plans are based on existing shares.

The following table sets forth the incentive plans adopted by the Company as of December 31, 2004:

Plan	Effective Date of Grants	Type of Award	Number of Shares Underlying Awards Issued	Number of Shares Underlying Awards Outstanding Dec. 31, 2004	Exercise Price	Number of Beneficiaries (at the Moment of Issuance)	Exercise Period (as Applicable) <sup>(1)</sup>
<b>Plans for Management Associates of non-U.S. Operating Companies</b>							
2004 Stock Option Plan	June 2004	Stock Options	237,906	237,643	EUR 38.74	561	Jan. 1, 2008 - June 20, 2011
2003 Stock Option Plan	June 2003	Stock Options	378,700	376,450	EUR 25.81	514	Jan. 1, 2007 - June 24, 2010
2002 Stock Option Plan	June 2002	Stock Options	158,300	154,500	EUR 54.30	425	Jan. 1, 2006 - June 5, 2012 <sup>(2)</sup>
2001 Stock Option Plan	June 2001	Stock Options	134,900	132,300	EUR 64.16	491	Jan. 1, 2005 - June 4, 2011 <sup>(2)</sup>
2000 Warrant Plan	May 2000	Warrants	115,000	107,200	EUR 63.10	461	Exercise periods between June 2004 and Dec. 2009 <sup>(2)</sup>
<b>Plans Mainly for Management Associates of U.S. Operating Companies</b>							
2002 Restricted Stock Unit Plan	May 2004	Restricted ADRs	179,567	176,506	Not applicable	193	25% of the grant will become unrestricted each year starting on the second anniversary following the date of the grant
	May 2003	Restricted ADRs	249,247	236,086	Not applicable	185	idem
	May 2002	Restricted ADRs	120,906	66,099	Not applicable	140	idem
2002 Stock Incentive Plan	May 2004	Warrants	1,517,988	1,446,598	USD 46.40	5,449	Exercisable until 2014
	May 2003	Warrants	2,132,043	1,597,421	USD 28.91	5,301	Exercisable until 2013
	May 2002	Warrants	3,853,578 <sup>(3)</sup>	2,102,843	USD 13.40-USD 76.87	5,328	Exercisable until 2012
2000 Stock Incentive Plan	Various	Stock options	700,311	259,323 <sup>(4)</sup>	USD 13.40-USD 93.04	4,497	Various
	Various	Restricted ADRs	342,771	22,381	Not applicable	128	25% of the grant will become unrestricted each year starting on the second anniversary following the date of the grant

(1) Vesting period for restricted ADRs under the 2002 Restricted Stock Unit Plan and the 2002 Incentive Plan

(2) In accordance with Belgian law, most of the beneficiaries of the stock option and/or warrant plans agreed to extend the exercise period of their stock options and/or warrants for a term of three years. The very few of the beneficiaries who did not agree to extend the exercise period of their options and/or warrants are still bound by the initial expiry dates of the exercise periods of the plans, i.e. June 5, 2009 (under the 2002 SOP), June 4, 2008 (under the 2001 SOP) and December 2006 (under the 2000 Warrant Plan) respectively.

(3) Out of the 3,853,578 warrants issued, 1,793,825 are newly issued warrants. The other 2,059,753 represent outstanding stock options previously issued under Delhaize America's 2000 Stock Incentive Plan and transferred to the Delhaize Group 2002 Stock Incentive Plan (the "2002 Incentive Plan") in connection with the share exchange with Delhaize Group.

(4) Including the stock options granted under the 1996 Food Lion Plan and the 1988 and 1998 Hannaford Plan.

### C.3. AUTHORIZED CAPITAL

The Extraordinary General Meeting of May 23, 2002, authorized the Board of Directors of Delhaize Group SA, for a period of five years expiring in June 2007, within certain legal limits, to increase the capital of Delhaize Group SA or issue convertible bonds or subscription rights which might result in a further increase of capital by a maximum of approximately EUR 46.2 million corresponding to approximately 92.4 million shares.

On April 7, 2004, the Board of Directors of Delhaize Group SA issued a convertible bond offering to institutional investors for an amount of EUR 300 million. They have a maturity of five years. The bonds have been issued at 100% of their nominal value and will be redeemable at maturity at 100% of their nominal value. The initial conversion price has been set at EUR 57.0. The bonds are, subject to the terms and conditions of the offering circular, convertible into 5,263,158 new Delhaize Group ordinary shares at the initial conversion price.

At the end of 2004, the Board of Directors had, after several applications of the authorization granted in 2002, a remaining authorization to increase the capital by a maximum of approximately EUR 39.8 million corresponding to approximately 79.6 million shares. The authorized increase in capital may be realized by contributions in cash or, to the extent permitted by law, by contributions in-kind or by incorporation of available or unavailable reserves or of the share premium account. The Board of Directors of Delhaize Group SA may, for this increase in capital, limit or suppress the preferential subscription rights of Delhaize Group's shareholders, within certain legal limits.

To the extent permitted by law, the Board of Directors is authorized to increase the share capital after it has received notice of a public takeover bid related to the Company. In such a case, the Board of Directors is especially authorized to limit or suppress the preferential right of the shareholders, even in favor of specific persons. Such authorization is granted to the Board of Directors for a period of three years from the date of the Extraordinary General Meeting of May 23, 2002. It may be renewed under the terms and conditions provided by law.

#### Authorized Capital - Status

	Maximum Number of Shares	Maximum Amount (excl. Share Premium) in EUR
Authorized Capital as approved at the May 23, 2002 General Meeting	92,392,704	46,196,352.00
May 22, 2002 Issuance of warrants under the Delhaize Group 2002 Stock Incentive Plan	(3,853,578)	(1,926,789.00)
May 22, 2003 Issuance of warrants under the Delhaize Group 2002 Stock Incentive Plan	(2,132,043)	(1,066,021.50)
April 7, 2004 Issuance of convertible bonds	(5,263,158)	(2,631,579.00)
May 27, 2004 Issuance of warrants under the Delhaize Group 2002 Stock Incentive Plan	(1,517,988)	(758,994.00)
<b>Balance of remaining authorized capital as of December 31, 2004</b>	<b>79,625,937</b>	<b>39,812,968.50</b>

#### ***C.4. ACQUISITION AND TRANSFER OF OWN SHARES***

The Extraordinary General Meeting held on May 23, 2002, authorized the Board of Directors of Delhaize Group SA to purchase Delhaize Group shares, for a period of three years expiring in June 2005, when such a purchase is necessary in order to avoid serious and imminent damage to Delhaize Group SA.

In the absence of any threat of serious and imminent damage, the Board of Directors was also authorized on May 27, 2004 for a period of 18 months expiring in November 2005 to purchase a maximum of 10% of the outstanding Delhaize Group shares at a minimum price of EUR 1.00 and a maximum price not higher than 20% above the highest closing price of the Delhaize Group share on Euronext Brussels during the 20 trading days preceding the acquisition.

In May 2004, the Board of Directors approved the repurchase of up to EUR 200 million of the Company's shares or ADRs from time to time in the open market, in compliance with applicable law and subject to and within the limits of an outstanding authorization granted to the Board by the shareholders, to satisfy exercises under the stock option plans that Delhaize Group offers to its associates. No time limit has been set for these repurchases and they may be discontinued at any time.

In 2004, Delimmo SA, a wholly-owned subsidiary of Delhaize Group SA, sold its 60,000 Delhaize Group shares (having an aggregate par value of EUR 30,000) in the market to Delhaize Group SA for an aggregate consideration of EUR 2,223,000. The shares purchased, representing approximately 0.13% of the share capital as at December 31, 2004, enable Delhaize Group SA to satisfy the exercise of warrants granted pursuant to the 2002 Stock Incentive Plan. Delhaize Group SA did not acquire other Delhaize Group shares or ADRs in 2004. As a consequence, at the end of 2004, the management of Delhaize Group SA had a remaining authorization for the purchase of its own shares or ADRs for an amount up to EUR 197,777,000. At the end of 2004, Delhaize Group SA owned 292,200 treasury shares.

## **D. SIGNIFICANT SUBSEQUENT EVENTS**

On March 10, 2005, Delhaize Group announced the acquisition of the Belgian supermarket chain Cash Fresh for an amount of EUR 113 million, subject to contractual adjustments, with an assumption of debt to be determined at closing. Additionally, EUR 51 million will be paid to acquire real estate assets. Cash Fresh is a profitable chain of 43 stores primarily in northeastern Belgium and recorded sales of EUR 209 million in fiscal year 2004. Cash Fresh represents a strong geographical and strategic fit with Delhaize Belgium.

## **E. INFORMATION ON RESEARCH AND DEVELOPMENT**

The Company does not engage in these activities.

## **F. INFORMATION REGARDING BRANCHES**

At the end of 2004, the Company operated 224 own stores, compared to 219 at the end of 2003.

## **G. FINANCIAL RISK MANAGEMENT**

As an international market participant, the Company has exposure to different kinds of financial risk. The major exposures are foreign currency exchange rate, interest rate and self-insurance risks. The Company does not trade in commodities nor does it have significant concentration of credit risk.

The Company's treasury function provides a centralized service for the management and monitoring of foreign currency exchange and interest rate risks for the Group's operations. The risk policy of the Company is to hedge only interest rate or foreign exchange transaction exposure that is clearly identifiable. The Company does not hedge foreign exchange translation exposure. The Group does not utilize derivatives for speculative purposes.

### **Currency Risk**

Because a substantial portion of its assets is denominated in U.S. dollars, the Company is exposed to fluctuations in the value of the U.S. dollar against the euro. In line with its risk policy, the Group does not hedge this U.S. dollar translation exposure.

### **Interest Rate Risk And Credit Risk**

The Company manages its debt and overall financing strategies using a combination of short, medium and long-term debt. The Group finances its daily working capital requirements, when necessary, through the use of its various committed and uncommitted lines of credit and commercial paper programs. The interest rate on these short and medium-term borrowing arrangements is generally determined either as the inter-bank offering rate at the borrowing date plus a pre-set margin or based on market quotes from banks.

The Company interest rate risk management objectives are to limit the effect of interest rate changes on earnings and cash flows and to lower borrowing costs. The mix of fixed-rate debt and floating-rate debt is managed within policy guidelines.

**Liquidity Risk**

In order to maintain funding availability through the economic and business cycles, the Company closely monitors the amount of short-term funding and mix of short-term funding to total debt, the overall composition of total debt and the availability of committed credit facilities in relation to the level of outstanding short-term debt. The Company has approximately EUR 149.6 million committed bilateral credit facilities. Under these committed bilateral credit facilities, the Company had at the end of 2004 EUR 0.4 million outstanding in Short-Term Credit Institution Borrowings with an average interest rate of 6.80%.

The Company has no credit rating published by a rating agency.

**Self-Insurance Risk**

The Belgian operations of the Company are partially self-insured through Redelcover, a wholly-owned captive reinsurance company based in the Grand-Duchy of Luxembourg, for doubtful debtors, loss of products due to contamination, loss of revenue due to work stoppages and similar insurable risks.