

## INVESTORS' CONFERENCE CALL DELHAIZE GROUP THIRD QUARTER 2009 RESULTS

### » Introduction (Conference Call Company)

Welcome to Delhaize Group's third quarter 2009 earnings conference call.

I now hand over the conference call to Geert Verellen, Vice President of Investor Relations and External Communications.

### » Geert Verellen

Thank you operator. Good afternoon everyone in Europe, good morning in the U.S. Welcome to the conference call concerning Delhaize Group's results for the third quarter of 2009.

This presentation contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statements. Factors that could cause results to differ materially from those in the forward-looking statements are detailed from time to time in reports filed by the Company with the SEC. These forward-looking statements are made as of the date of this presentation. Delhaize Group assumes no obligation to update the information contained in this presentation.

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Today, we have the following people with us:

- Pierre-Olivier Beckers, CEO Delhaize Group
- Stéfan Descheemaeker, CFO Delhaize Group
- Rick Anicetti, CEO Food Lion
- Ron Hodge, CEO Hannaford
- Michel Eeckhout, CEO Delhaize Belgium

During this call we will first look back on our performance in the third quarter of 2009, followed by comments on operations and strategy. Afterwards, we will take questions. For those unable to stay on the call, or who wish to listen to it again, a replay will be available on the Company's website.

I now turn to Pierre-Olivier Beckers for an introduction of our third quarter results.

### » Pierre-Olivier Beckers

Thank you, Geert. Hello everyone and thank you for joining our conference call.

During the third quarter, our Group continued to post a solid performance in a continued challenging environment with low consumer confidence, strong competition and deflation at most of our operations. We are very encouraged that in such a tough economic and competitive environment our Group was able to generate an increase in revenues of 1.9% at identical rates while our operating profit growth was up 2.1%, also at identical exchange rates.

All our operating companies continued to offer a combination of shelf price reductions and promotions, while keeping the quality credentials of our locally adapted and distinct food assortments and services. In the U.S., our targeted promotions and outstanding store execution resulted in improving volume trends for the third consecutive quarter, supported by a higher number of transactions and less pressure on the number of items per transaction.

Our European companies continued their strong momentum. Since the beginning of the year, the market share of Delhaize Belgium has seen its growth accelerate. The strong comparable store sales

growth at Delhaize Belgium this summer shows its ability to blend a high quality assortment with effective pricing and marketing actions. This quarter's market share jump in Belgium was the highest since we acquired the Cash Fresh Group in 2005. Alfa-Beta in Greece continued its double digit revenue growth and was also able to increase its market share again.

Our Group's operating margin remained resilient at 4.7% despite the competitive activity and important price investments and promotions and this was true in particular in the U.S. where despite the very competitive environment we were able to maintain our margins. Gross margin improvements through better inventory management and the strength of our private brand program were supported by cost reductions throughout the Group. All in all, we are on track to realize our EUR 100 million cost savings objective as announced at the beginning of the year.

This quarter Delhaize Group demonstrated again its ability to deliver solid results and to offer real value to customers when they need it most. We continue to act decisively, to meet the enduring economic challenges by taking steps to manage our costs tightly and respond quickly to the changing needs of our customers.

Although we want to acknowledge the volatile environment in which we currently operate, our solid year-to-date results, our operating companies' resilience and our plans for the remainder of the year, give us the confidence to upgrade our earlier communicated guidance range of 0 to 3% operating profit growth for the year to a 1 to 4% range, at identical exchange rates.

Stéfan will now provide you with more insights into our financial results of the third quarter and I will come back later to give you a brief update on our strategic initiatives. Stéfan ...

#### » **Stéfan Descheemaeker**

Thank you, Pierre-Olivier. Welcome everyone.

#### » **Third Quarter 2009 Income Statement**

Except stated otherwise, I will review our results based on actual exchange rates. In this quarter, the U.S. dollar has strengthened on average by 5.2% against the euro compared to the third quarter of last year.

In the third quarter of 2009, Delhaize Group delivered revenue growth of 4.8% despite the enduring uncertain economic climate. At identical rates our Group posted revenue growth of 1.9%. In the U.S., comparable stores sales evolution was -1.3%, almost exclusively due to negative retail inflation of approximately 1.1%. Volumes were almost flat. This is the 3<sup>rd</sup> consecutive quarter we have seen an improving volume trend due to an increase in the number of visits, and less pressure on the number of items per transaction.

In Belgium, total revenues increased by 7.2% in the third quarter, supported by comparable store sales growth of 4.6% and reflecting a clear acceleration compared to the previous quarters. Sustained price position improvements combined with successful promotions and highly impactful communication have resulted in a continued improvement in price perception. The bottom line result is the highest jump in market share since we cycled the Cash Fresh acquisition 3 years ago.

Revenue at Alfa-Beta in Greece grew by 11.2%, as a result of solid comparable store sales and new store openings. Underlying volume trends continued to improve and have resulted in increases in market share. In Romania and Indonesia, our Rest of the World segment, revenues grew by 12.7% or 26.2% at identical exchange rates.

**Gross margin** for the Group increased to 25.6% of revenues and across all operating companies. The increase is mainly driven by continued inventory management improvements and lower transportation costs across the Group and improved buying terms at Delhaize Belgium.

Our operating companies continued to address our customer's financial concerns by offering the most competitive prices and promotions. In our U.S. operations for example, retail inflation was more

negative than cost deflation by 30 basis points, showing the effect of our ongoing commitment to invest in price and promotions.

**Selling, general and administrative** expenses increased to 21.1% of revenues, as a result of the negative inflation impact on revenues, higher staff and advertising costs at Delhaize Belgium, higher staff costs in our U.S. operating companies resulting from health care cost inflation and minimum wage increases. At the same time, we are on track with our cost savings that partly offset some of these increases.

Other operating expenses were higher than normal, particularly in the U.S. due to a change with the discount rate used to calculate closed store provisions in the U.S.

Our **operating profit** increased by 5.7% and our **operating margin** remained strong at 4.7% of revenues.

#### » **Cash Flow**

We generated free cash flow of EUR 30 million compared to EUR 113 million last year, mainly as a result of higher tax payments, the timing of interest payments and the acquisition of Alfa-Beta shares as part of the tender offer. In line with the planned reduction and delay in capital spending, our capital expenditures decreased by almost 35% at identical rates mainly due to lower store remodeling activity in the U.S.

#### » **2009 Outlook**

Based on our solid results in the first nine months of 2009 and our plans for the rest of the year, we upgrade our earlier communicated operating profit growth guidance of 0 to 3% when including the effect of the 53<sup>rd</sup> week in 2008 to 1 to 4% or 4.5 to 7.5% when excluding the effect of the 53<sup>rd</sup> week in 2008 and at identical exchange rates.

We want to remind you of the fact that the fourth quarter operating profit of 2008 was favorably impacted for EUR 30.2 million by the 53<sup>rd</sup> trading week, but negatively for almost the same amount of EUR 30.7 million due to an impairment charge of EUR 14.5 million and a store closing charge of EUR 16.2 million, both related to Sweetbay.

I would like now to turn back to Pierre-Olivier to give you an update on our strategy and our operational initiatives.

#### » **Pierre-Olivier Beckers**

Thanks, Stéfan.

Being successful in a sustainable way is only possible when companies manage to deal with short-term challenges while staying true to their long-term strategy. This is what our Group has been doing for quite a while now and we believe that our current quarter results are once again testimony to that. The past quarters, this strategy has been guiding us through the current recession and is now giving us the confidence that we are well positioned to respond to rapid changes in consumer behavior and the competitive market place.

We are encouraged to see real volume growth in many of our banners on both sides of the Atlantic reflecting our ability to retain and even reinforce the loyalty of our customers and offer them the right products at attractive prices many of them are craving for in these times. We generate the financial resources to fund these efforts thanks to our cost and cash savings efforts and our sales mix improvements.

#### **Sales – Price/Differentiation/Network**

As the year progresses, we see that many consumers continue to be stretched. For many of them, price has become an absolute priority. Consumers remain trading down and are looking for the best

deals anywhere they can find them. Our operating companies continue to be sharp on price and in this quarter launched effective sales-building activities our customers could relate to.

While all our banners continue to provide the right balance between shelf price reduction and promotional offerings, they also continue to put also total value forward to our customers including a variety of assortment, quality of products and services. This is an important ingredient of our long-term strategy of differentiation where we focus on successfully connecting with our customers.

In the Southeast of the U.S., **Food Lion** used continuity programs, better store signage, more aggressive off-shelf merchandising and offers like “Meals for under ten dollars” to increase the number of items per transaction. In addition, Food Lion continued to advertise price-focused messages in different media which improved its positioning.

Also **Hannaford** and **Sweetbay** continued their price investments and promotional activity. Our price investments were real and noticeable to the consumer. For the second consecutive quarter now, our U.S. operations saw the number of transactions grow and our internal retail deflation was 30 basis points higher than the cost deflation decreases.

**Delhaize Belgium** continued its journey towards value leadership. Further price investments at the end of the second quarter were maintained throughout the summer and supplemented by very effective communication and the tremendous success of the Disney Pixar promotion that attracted families with kids into our stores, most of which continue to shop with us.

Seven quarters into its journey of price repositioning, Delhaize Belgium was recognized recently for its efforts by the country's largest consumer organization Test Achats in its influential annual price survey. Sustained price investments have propelled Delhaize Belgium into the second place in the organization's annual price comparison study of the Belgian market. According to our own surveys, Delhaize Belgium's price perception today is at the best level in five years. As a result, our market share in the third quarter showed the highest growth since we cycled the Cash Fresh acquisition in 2006.

**Private brands** are central to our differentiation and also to support our sales and gross margin. Customers are embracing our private brand assortments and we are convinced that they will continue to do so even when the economy picks up again. Smart Option, our value brand in the U.S., proves to be very successful as customers are trading down within the three-tiered private brand range. Also in Greece, private brand continued to grow faster than supplier-branded products and showed more than 16% growth in sales volumes compared to last year.

**Food Lion** continues to renew its network and adapt its stores to local consumer needs. The many market renewals and store conversions have proven to generate increased revenues. The stores that were renewed in the Daytona market in Florida during the last quarter delivered significant growth in comparable store sales. At the end of the third quarter, Food Lion re-launched 35 stores that were part of the market renewal program in Columbia, South Carolina.

In an effort to connect even better with the rapidly growing Hispanic population in the Carolinas, Food Lion converted 61 stores or more than 10% of its North Carolina store base, , to create a Hispanic theme. Key elements of the conversion include an enhanced assortment in addition to the current offering, local marketing and cultural awareness training for the associates. This initiative was further rolled out after a successful trial of 5 Hispanic stores in the same state showing post-conversion sales lifts that are higher than the company average.

In **Belgium**, a second ‘Red Market’ store was opened in October and we have plans to open 4 more in 2010. These new openings will extend this exciting experiment and will help us understand the potential for this type of store in Belgium and elsewhere. Red Market indeed is a ‘real life laboratory’ to test innovative ideas by getting the basics right with a low cost structure and to provide busy consumers with the quickest and cheapest supermarket format in Belgium.

Next to opening business opportunities with new store concepts, we continue filling in the markets where we are active through acquisitions. Beginning of July, Mega Image acquired four stores that previously operated under the Prodas banner, thus strengthening its network in Bucharest. And just a

few weeks ago, we announced that we had agreed to acquire 11 Koryfi stores that will increase Alfa-Beta's presence in the Northeast of Greece.

### **Cost and Cash Management**

Structural cost savings are a key prerequisite for sustained price investments and other sales building initiatives. That is why our Group is so focused on constantly improving its efficiency. Funds generated from doing things differently in a store or adapting our supply chain organization give us an opportunity to reinvest these savings in supporting the growth of our top line and to offset operating cost increases.

We are well on track to achieve our EUR 100 million cost improvement target set at the beginning of the year. These cost improvements have enabled us to offset operating expense increases such as health care costs in the U.S. or salary indexations in Belgium.

One of our key plans in this field is our project to integrate the supply chain of our U.S. operating companies into one single **master network**. In the past quarter we made further progress in the set up of a common IT platform and the implementation of item level hierarchy, store and distribution center numbering and vendor data which are all necessary initial requirements to support further supply chain integration.

Further efficiencies are also being carried out in **Belgium** where we are on track with our Excel plan 2008-2010, our project to increase productivity by combining cost initiatives with sales building initiatives. The plan already delivered significant results in improved inventory losses at store level and in cost reductions. A case in point was the opening early September of our new distribution center for fresh products. Through the automation of the 12 000 m<sup>2</sup> distribution center, we improve accuracy and efficiency in picking fresh foods, guarantee a higher product quality and reduce the delivery times to the stores. Over the next couple of months the center will come fully on line.

In **Greece**, Alfa-Beta has opened a new distribution center allowing for a reduction in logistics costs and higher efficiencies through new technologies such as voice picking.

### **Corporate Responsibility**

Beginning of August we published our second Corporate Responsibility report, which didn't go unnoticed. We are very pleased that our Group has received the 'Award for Best Belgian Sustainability Report 2008' attributed by four renowned institutes.

Even in these pressured times, we remain dedicated to continue our many green and responsible actions because we are convinced that they not only help our environment but also the growth of our business and our profitability through higher customer loyalty and savings.

One of these initiatives is the construction of 'green' buildings. In July, Hannaford opened the most environmentally advanced store of all 85 000 supermarkets in the U.S., the only one in the world that has received the highest possible rating, namely the U.S. Green Building Council's Platinum certification. This store serves as a 'learning laboratory' to test innovations and products that can be used elsewhere in our operations.

Food Lion took some of the learnings from the Hannaford LEED store and broke ground on South Carolina's first 'green' grocery store. The store will significantly reduce energy costs and water consumption. It will open in early 2010.

This quarter, Food Lion was again recognized for its commitment to deploying advanced refrigeration technology at new stores and received therefore the distinguished partner award from the environmental protection agency or EPA.

On the other side of the Atlantic, more specifically in Greece, Alfa-Beta has developed a mobile recycling center that will tour in 18 Greek cities to inform customers on all the aspects of waste reduction. Alfa-Beta already operates 38 recycling centers that have been recycling the equivalent of 6 million kilos of product packaging during the last four years.

## **Conclusion**

Let me conclude. We are absolutely convinced that the choices we make are appropriate to respond to customers' rapidly changing needs. We continue to take redundant costs out of our operations to fund our sales building initiatives and to protect our bottom-line. Striking the right balance between long-term growth and short-term challenges is a key condition to the sustainable growth of our Group.

Notwithstanding the confidence we have in our store formats, people and financial strength, we are mindful of the challenging environment in which we operate. However, our results for the first nine months and full pipeline of initiatives for the rest of the year put us in a position to upgrade our guidance.

This concludes our prepared remarks. We are now available to take questions. At this time, I will turn the program over to our conference call operator, who will give you instructions for asking questions.

### **» Q&A**

Led by Pierre-Olivier Beckers.

### **» Closing**

### **» Geert Verellen**

Thank you for participating in today's conference call. A replay is available on the Company's website. There you can also find the text with our prepared remarks. If you have additional questions, do not hesitate to contact our Investor Relations Department.

On December 2 and 3, 2009, Delhaize Group is holding its annual Analyst and Investor Field trip, this year in Greece. Please contact our Investor Relations department in Brussels or Salisbury for more details. Delhaize Group will announce its full year sales results on January 14, 2010 and 2009 earnings on March 11, 2010.

Thank you and have a nice day.