

**SPECIAL REPORT OF THE BOARD OF DIRECTORS PREPARED IN COMPLIANCE WITH ARTICLES  
583 AND 596 OF THE COMPANY CODE IN CONNECTION WITH THE ISSUANCE OF SUBSCRIPTION  
RIGHTS WITH DEROGATION TO THE PREFERENTIAL RIGHT OF SHAREHOLDERS**

The Board of Directors prepared this report in compliance with Articles 583 and 596 of the Company Code in order to describe the purposes and the detailed justification of the issuance of the subscription rights reserved to beneficiaries of the stock option plan entitled "*Delhaize Group 2002 Stock Incentive Plan*" approved by the company in 2002. The Board also explains in this report the exercise price of the subscription rights and describes the financial consequences of the issuance of subscription rights for shareholders.

**1. Context of the issuance of subscription rights**

On 22 May 2002, our Board of Directors approved a new stock option plan entitled "*Delhaize Group 2002 Stock Incentive Plan*" (the «Incentive Plan»). Such plan will mainly allow the issuance and grant of subscription rights to managers and officers of Delhaize America, Inc. and its subsidiaries in the United States.

The Incentive Plan authorizes the company to issue a maximum of 8,000,000 subscription rights benefiting from a favorable tax regime in the US, and an unlimited number of subscription rights that do not benefit from such favorable tax regime. On 22 May 2002, the Board of Directors has already issued and granted 3,853,578 subscription rights under the Incentive Plan.

This report aims at explaining the purposes and the detailed justification of a new issuance of subscription rights under the Incentive Plan.

**2. Purposes of the issuance of subscription rights**

It is proposed that the Board of Directors issues and grants a maximum of 2,900,000 subscription rights under the Incentive Plan. Such issuance will be decided within the authorized capital provided by Section 9 of the Articles of Association of the company.

Each of the subscription rights will allow its holder to subscribe to one new share of our company. The maximum number of new shares which may result from the exercise of the subscription rights will therefore amount to 2,900,000.

The issuance of the subscription rights aims at enhancing the fidelity and motivation of their holders by linking the realization of a financial benefit to the performance of the Delhaize group. It allows to value the active contribution of the holders of subscription rights to the expansion of the group and the achievement of its results. Such issuance is part of an incentive policy for the managers of the companies of the group which was initiated by our company in 1990. Such policy has been continued thereafter by the

issuance by our company in favor of its managers of subscription rights or options attached or not to bonds governed by Belgian regulations and, also, by the adoption by DZA of an incentive plan in the United States and the issuance of subscription rights in 2002 under the Incentive Plan.

### **3. Issuance of subscription rights in the framework of the authorized capital**

The extraordinary shareholders meeting of the company held on 23 May 2002, has renewed for five years the authorization previously granted to the Board of Directors to increase the share capital, notably by the issuance of convertible bonds or subscription rights enabling the creation of shares, up to a capital amount of maximum EUR 46,196,352.

As indicated above under Section 1, the Board of Directors already issued on 22 May 2002 3,853,578 subscription rights under the Incentive Plan in the context of the authorized capital. In the event that all such rights would be exercised, the share capital of the company would be increased up to EUR 1,926,789. In the event that all subscription rights issued in 2003 and referred to in this report would be exercised, the share capital of the company would be increased up to EUR 1,450,000.

The extraordinary shareholders meeting of 23 May 2002 also authorized the Board of Directors to limit or to suppress the preferential right provided by Article 592 of the Company Code, and this not only for the capital increase but also for the issuance of subscription rights.

### **4. Importance and characteristics of the operation of issuance of subscription rights**

#### **a) Number of subscription rights to be issued and date of their grant**

The maximum number of subscription rights to be issued amounts to 2,900,000. The issuance and the grant of these subscription rights to beneficiaries of the Incentive Plan should be decided by the Board of Directors during one of its next meetings.

Each subscription right grants the right to subscribe to one new share of the company.

#### **b) Subscription price of the new shares**

The subscription price of a new share for each subscription right exercised will be equal to the closing sales price of the DG ADS on the New York Stock Exchange on the date of exercise of the subscription right.

The subscription price of a new share will have to be paid in compliance with the modalities provided in the Incentive Plan.

#### **c) Exercise period and duration of the subscription rights**

Each subscription right will in principle be granted for ten years, and in any event will have a maximum duration of ten years, from the date of its issuance, subject to the conditions provided in the Incentive Plan.

Subscription rights not exercised before their expiry date will lapse automatically and may therefore no longer be exercised. Once they vest under the Incentive Plan, the subscription rights may be exercised by their holders at any time until the subscription rights lapse, under the conditions provided in the Incentive Plan.

The Incentive Plan provides also for certain situations in which the subscription rights may be exercised prematurely.

d) Underlying shares and dilutive effect

The new shares of the company issued as a result of the exercise of subscription rights will be bearer shares. These shares will benefit from the same rights than those of the existing shares, including in respect of voting right, right to allocated dividends and right to the boni in the event of a liquidation. Each new share will be entitled to the entire dividend relating to the accounting year during which the subscription right was exercised.

The maximum capital increase of EUR 1,450,000 resulting from the issuance of a maximum of 2,900,000 shares represents approximately 3.14% of the current share capital of the company.

e) Main other characteristics of the subscription rights

The subscription rights will remain registered until they lapse and they will be granted free of charge to their holders. They will also be non-transferable, save in exceptional cases provided in the Incentive Plan.

f) Listing

The subscription rights being registered and non-transferable, they will not be admitted to listing on a stock exchange.

A request for admission to listing on the First market of Euronext Brussels will have been filed prior to the subscription of new shares issued as a result of the exercise of subscription rights. Such admission will be effective at the time of issuance of the new shares.

**5. Grant of the subscription rights**

Further to the Incentive Plan, it is up to the Board of Directors of our company, or to the body appointed by the Board, to determine the beneficiaries and to grant them the subscription rights, as well as to decide as of when the subscription rights may be exercised.

**6. Financial service**

The financial service relating to the subscription of the new shares in case of exercise of the subscription rights will be made by Salomon Smith Barney, Inc., 388 Greenwich Street, New York, New York 10013.

**7. Justification of the derogation to the preferential right and financial consequences of the operation for the shareholders**

Taking into account what has been indicated above under Sections 1 and 2, it must be derogated to the preferential right of shareholders at the time of issuance of the subscription rights and of the new shares which will result from the exercise thereof, in compliance with Articles 596 et 603 of the Company Code.

The interest of the company is indeed to motivate the holders of subscription rights by way of participation to the development of the group. The non-transferable character of the subscription rights and their registered form constitute restrictions which correspond to the *intuitu personae* nature of the issuance of the subscription rights reserved to given individuals.

As indicated above, the maximum potential dilution of the share capital resulting from the new issuance of subscription rights will be approximately 3.14% if the entirety of the 2,900,000 subscription rights is issued and if all such subscription rights are exercised.

The exercise of all 3,853,578 subscription rights already issued in 2002 under the Incentive Plan would have a dilutive effect on the share capital of approximately 4.17%. As a result, the issuance of the new shares resulting from the exercise of all the subscription rights issued in 2002 and to be issued this year under the Incentive Plan, being an aggregate maximum number of 6,753,578 new shares (3,853,578 + maximum 2,900,000), could have a dilutive effect on the share capital of the company of approximately 7.31% (4.17% + 3.14%).

Approved by the Board of Directors of the company on 22 May 2003.