CONVERTIBLE BONDS CASE

DELHAIZE 2004

If you want to submit a question to the author of this case, please go to the website www.vernimmen.com

December 2004 Pascal Quiry

The objective of this case is to make you think about the convertible debt both from the perspective of the issuer and investor and of the financial analyst, using as an example the convertible debt issued by Groupe Delhaize in April 2004.

Good luck.

QUESTIONS

1. Carry out a quick financial analysis of Groupe Delhaize.

2. Carry out a quick analysis of the Delhaize stock.

3. How are convertible bonds valued? Why may it have a lower yield to maturity than a plain fixed rate vanilla bond without a conversion option to shares?

4. Analyze the Delhaize convertible bond financial product from the perspective of an investor in terms of return and risk.

5. What should be the average growth rate of Delhaize's share price in order to convert the bond at maturity? If the cost of equity of Delhaize is 9.8% and the dividend yield of the share is 2.6%, would the probability of converting the bond be higher or lower than 50%? Why?

6. What is the accounting cost of the convertible bond for Groupe Delhaize? What is its financial cost, or how can it be calculated? Why?

7. Under what conditions would the convertible bond lower Delhaize's cost of capital? Why?

8. Why in 2004 Groupe Delhaize has decided to raise financing issuing a convertible bond?

9. In a financial analysis, would you consider that convertible bonds are a form of equity or of net debt? Why? You may use Delhaize's stock price to answer.

Optional question: why in the Vernimmen the chapter dedicated to convertible bonds is labeled: “a bit of magic”?

Delhaize presentation

Founded in Belgium in 1867, Groupe Delhaize is a multinational food distributor active in 10 countries. Its main activity is the operation of grocery stores in North America (United States), Europe (Belgium, Greece, Czech Republic, Slovakia and Rumania) and south-east Asia (Thailand and Indonesia).

At the end of 2003, Groupe Delhaize had a retail network (including own, affiliated and franchised stores) of 2,559 stores, and approximately 142,000 employees. Supermarkets represent 85% of the total network, and the remaining 15% consist of stores located near specialized outlets. On top of food distribution, which represented nearly 95% of sales in 2003, Delhaize operates as a food wholesaler for some stores of the retail network, and as a wholesaler for some products such as cosmetics and healthcare or pets items.

United States is the most important market for the group, representing 73% of total sales in 2003. At the end of 2003 Groupe Delhazie had 1,515 stores across the country under the brands Food Lion, Hannaford, Kash n' Karry, and Harveys (since 2003).

Belgium is the original market of the group and represented around 20% of sales in 2003. At the end of 2003 the total retail network of Delhaize in Belgium, Luxembourg and Germany reached 728 stores under different brands. These can be segmented in three categories: supermarkets, proximity stores, and specialized stores. Delhaize Belgium offers as well a home delivery service.

In 2003 Groupe Delhaize generated total sales of 19 bn€ and a net profit of 171 M€. Its market value was approximately 3,800 M€ the April 30, 2004.

Main features of Delhaize convertible bonds

Issuer – Delhaize Group S.A.

Nominal amount of debt issue – € 300,000,000

Number of bonds to be issued – 5,263,158

Nominal value of bonds – €57, representing a premium of 35.8% compared with the Delhaize stock price on April 27, 2004.

Subscription period –Sale to institutional investors will be completed on April 30, 2004

Issuing price – At par value, thus €57 to be paid fully at settlement date

Settlement date – Scheduled on April 30, 2004

Interest rate – 2.75% per annum, thus approximately €1.568 per bond, to be paid in arrears the April 30 of each year (or the next working day if it is not a working day). The first coupon will be paid the April 30, 2005

Scheduled amortization – 100% at maturity, thus €57 per bond, the April 30, 2009 (or the next working day if it is not a working day).

Prepayment – Possible, at issuer's will:

- For the total quantity of bonds on the market, at any moment after May 15, 2007:
  - By repayment at par value increased by the accrued interest since the last interest payment date preceding the anticipated prepayment date, until the actual prepayment date.
  - If the volume weighted arithmetical average of the closing Delhaize share price for a period of 20 trading days chosen by the Group among 30 consecutive trading days preceding the prepayment announcement date exceeds 130% of bond's nominal value.

- If less than 15% of issued bonds are on the market, for the total amount of bonds at any moment subject to a minimum notice of 30 calendar days, by repayment at par value increased by the accrued interest since the last interest payment date preceding the anticipated prepayment date, until the actual prepayment date.

Life – 5 years from settlement date.

Gross annual yield to maturity – 2.75% at maturity (supposing no conversion to shares and no prepayments)

Conversion and/or exchange of bonds in new or issued stocks – The bond holders can request at any moment after 5 days the settlement day, and before 5 trading days preceding the maturity or prepayment date, the allocation of Delhaize stocks at the rate of one (1) share per bond, subject to scheduled adjustments in the case of financial transactions carried out by the Group.

Lock-up – The group commits itself not to issue shares or similar financial instruments for 90 days following the settlement day.

Jurisdiction – English Law.

Bond listing – The bonds will be listed in the Luxembourg Bourse. The shares are listed in Euronext Bruxelles.

Share price - €41.97 the April 27, 2004

Purpose of issue – This issue will be used for the general financing needs of Groupe Delhaize. Particularly, part of the proceeds will be used to lower the Group short-term debt.

Vocabulary and convertible bonds mechanism

A convertible bond is a hybrid instrument, partially debt and partially equity. The holder has the right (but not the obligation) to exchange it for a specific fixed amount of shares.

A convertible bond is above all very similar to a fixed rate bond. The bond issuer have to pay in most cases a fixed coupon in cash, either each year or each semester, and the nominal amount at maturity.

The only difference lays on the fact that the investor can choose a delivery of shares instead than the cash coupon. The number of shares that can be exchanged for each bond is based on the conversion price, fixed at the convertible bond settlement for the life of the security.

In order to better expose the vocabulary and functioning of a convertible bond, we will show as an example the one issued by Delhaize in April 2004.

Size of issue / Raised funds	300 M€
Maturity	5 years
Coupon (annual)	2.75%
Conversion premium	35.8%
Nominal amount	€57
Conversion ratio	1 share per convertible bond
Total amount of underlying shares	5,263,158
Issue price	100% of par value
Repayment price	100% of par value
Issuer bond repurchase option	Repaid in advance if the stock price is higher than €74.10 or at any moment if less than 15% of bonds remain on the market
Yield	2.75%
Spread between yield and treasury bonds	1.85%

Assumptions: stock price: €41.97; 5 years treasury bond: 4.60%

Conversion premium

The Delhaize bond has a conversion premium of 35.8%, which implies a conversion price equal to 135.8% of current share price: 41.97 x 1.358 = 57.00. This is the price that the group will use for accounting purposes to record the fund raising.

Conversion ratio

It is the number of shares (1 in this case) that can be exchanged against each convertible bond. The conversion ratio is in most cases fixed for the life of the security, and subject to adjustments for stock splits, extraordinary dividends or any other dilutive event.

Conversion at maturity

At maturity the holder has to decide whether to receive €57 per bond or one Delhaize share. Clearly, the holder will chose to receive the share only if its market price is greater than €57. In that case it will choose to convert its bonds and Delhaize will issue new shares, and be exempt of its duty to repay the bond principal balance.
If the market price is lower than €57 the holder will normally want Delhaize to repay the bond in cash, and no share will be issued. Thus, the convertible bond allows the issuer to obtain financing with a typical debt cash flow: nominal amount received at issuance, payment of coupons and repayment at maturity.

Coupon and yield to maturity

The coupon is the annual nominal rate at which the issuer pays interest to bondholders.
The yield to maturity is the internal rate of return for bondholders if they buy the bond at the issue price and hold it until all principal is repaid in cash. If there is a repayment premium paid at maturity by the issuer, the yield would then be higher than the nominal rate of the coupon. The inclusion of a repayment premium is frequent in French convertible issues. In this particular case there is no premium since should the Delhaize bond be repaid at maturity on April 30, 2009 it will be at 100% of nominal value.

The nominal rate in a convertible issue is significantly lower than the normal issuer borrowing rate. This low cost is achieved by the equity component of the convertible structure. The bond can effectively be converted in a fixed amount of underlying shares during all security's life. This conversion option offers investors the possibility to participate in the appreciation of the underlying stocks. Because of the value of this option, investors are willing to receive a lower coupon on Delhaize's convertible bond than on its normal bonds.

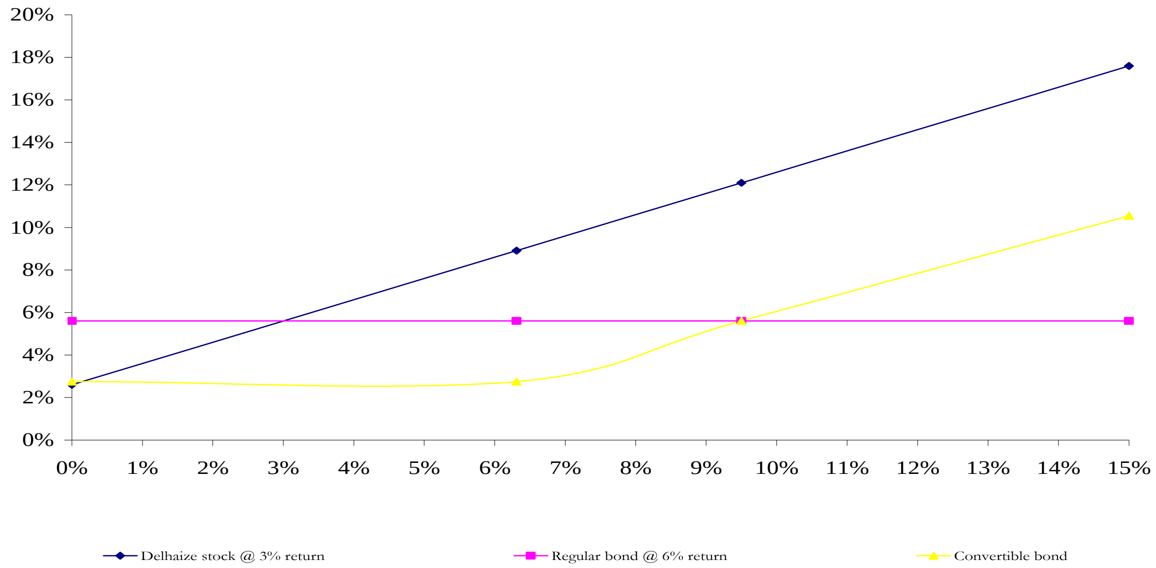
Bond value

It's the present value of the certain cash flows of the bond (interests and amortization) supposing it is held until maturity, using the issuer's borrowing rate as the discount rate. In the previous example, supposing that the issuer borrows at risk-free + 1.00%, so 4.60% + 1.00% = 5.60% on the bond market, the bond value of the convertible is 87.9% of par value.

Whatever the stock price of Delhazie, the convertible price will be higher than the bond value (87.8% x 57 = €50.08), which corresponds to the value of a bond with identical features but without the conversion option. The higher the bond value, the more protected is the investor against a decrease in share price.

Returns profile for a convertible bond

The three curves shown below represent the annual return before tax for an investor holding (i) a Delhaize share of 2.60% yield (ii) a standard Delhaize bond at a 5.60% fixed rate and (iii) a Delhaize convertible bond.



This graph shows the stock price annual growth threshold (6.31%[1]) beyond which the profitability of the convertible bond evolves at the same rate than the underlying bond (due to conversion at maturity), and a stock price annual growth threshold (9.50%) beyond which the returns of the convertible bond is higher than a regular bond.

The tables below show the return of an investment in convertible bonds as a function of Delhaize stock price. Each instrument delivers its first cash flow after one year: coupon of €2.35 for the regular bond, €1.57 for the convertible bond and a dividend of €1.09 for the share[1].

Unlike debt, the investment return of convertible bonds depends on the stock price performance. The tables below show the returns for these three different investments in different scenarios of share price growth rate.

For instance, if the issuer share price rises 15% per year over 5 years, the standard bond, the convertible and the share will offer the investors respective returns of 5.60%, 10.54% and 17.60% (for the share: 15.00% + 2.60% = 17.60%).

Growth of share price (and dividends) of 15% per year

		Regular bond at 5.60%	Convertible Bond	1 share 2.60% return
t = 0	Investment	(41.97)	(57.00)	(41.97)
t + 1 year	Flow 1	2.35	1.57	1.09
t + 2 year	Flow 2	2.35	1.57	1.25
t + 3 year	Flow 3	2.35	1.57	1.44
t + 4 year	Flow 4	2.35	1.57	1.66
t + 5 year	Flow 5	44.32	85.98	86.33
Rate of return		**5.60%**	**10.54%**	**17.60%**

NB:

Coupon: 2.35 = 5.60% x 41.97

Dividend: 1.09 = 2.60% x 41.97. After that the dividends are computed according to the share price at the end of the previous period. For instance 1.25 = 2.60% x (41.97 x 1.15)

[1] Le rendement de l'action est fixé à 2,60% (moyenne observée sur la période 2000 – 2003)

If the share price rises less than 6.31% per year the price of the Delhaize share at maturity will be less than 57%, and the convertible bond will be repaid in cash generating an annual return of 2.75%, significantly higher than a common stock (5.60% per year):

Growth of share price (and dividends) of 6.31% per year

		Regular bond at 5.60%	Convertible Bond	1 share 2.60% return
t = 0	Investment	(41.97)	(57.00)	(41.97)
t + 1 year	Flow 1	2.35	1.57	1.09
t + 2 year	Flow 2	2.35	1.57	1.16
t + 3 year	Flow 3	2.35	1.57	1.23
t + 4 year	Flow 4	2.35	1.57	1.31
t + 5 year	Flow 5	44.32	58.57	58.39
Rate of return		**5.60%**	**2.75%**	**8.91%**

In this case, when the convertible bond behaves like regular debt, which is what usually happens in the case of slow share growth, the investor receives a return on investment well below a fixed rate regular bond.

If the share price rise more than 9.50% per year the annual return on investment will be higher than the one in regular bonds but will still be lower than the one of a share, since the "acquisition cost" of shares obtained through a convertible bond is 35.81% (conversion premium) greater than shares purchased on the market.

Growth of share price (and dividends) of 9.50% per year

		Regular bond at 5.60%	Convertible Bond	1 share 2.60% return
t = 0	Investment	(41.97)	(57.00)	(41.97)
t + 1 year	Flow 1	2.35	1.57	1.09
t + 2 year	Flow 2	2.35	1.57	1.19
t + 3 year	Flow 3	2.35	1.57	1.31
t + 4 year	Flow 4	2.35	1.57	1.43
t + 5 year	Flow 5	44.32	67.65	67.65
Rate of return		**5.60%**	**5.60%**	**12.10%**

Anticipated repayment at the will of the issuer (“issuer call”)

The issuer’s possibility of early repayment is a common covenant in convertible bonds. It gives the issuer the right to repay the convertible bond before maturity at a fixed price. This purchase price is usually the sum of the nominal amount, the accrued interest and a premium.

In order to protect the investor against the risk that the duration of the bond is shorter than expected, it is usually issued with a protection against prepayment for a certain amount of years.

After the end of this protection period and until maturity, the bond becomes prepayable. If this prepayment can be done without conditions over the share price, the call is named “hard”. The call is “soft” if the prepayment is only possible if the underlying share price is greater than a certain level during a fixed amount of days, for instance 20 over 30 consecutive days. In most cases this level is fixed at 110%-140% of the conversion price. The level for Delhaize is 130%.

When a bond is prepaid investors have the right whether to accept the prepayment price or to immediately convert the bond to shares. In order to make this decision, investors compare the prepayment price (€57) with the price of the underlying share.

Therefore, if the value of the Delhaize share is greater than the prepayment price, a decision from the issuer to prepay the bond will cause the conversion, and will allow the issuer to remove from the market a convertible bond that has become a close substitute to shares.

Rationale of a convertible bond issue for Delhaize and for an investor

1. Company perspective

A debt issue at an attractive rate

The convertible bond gives the possibility to Delhaize to finance itself at a significantly lower rate than its usual borrowing rate.

Delhaize is borrowing at a 2.75% rate, thus 1.85% less than the risk-free rate, whereas it would borrow at a higher rate than the risk-free rate for a regular bond issue (close to risk-free + 1.00%)

Sale of shares with a premium over current price

Under the hypothesis that the convertible is converted, the shares issued by the company have a premium over the current value.

In the case of Delhaize, structured with a conversion premium of 35.81%, the company will issues shares at €57 in case the securities are converted, whilst current shares are valued at €41.97.

More capital raised for the same dilution

Thanks to the convertible structure, a company can raise the same amount of funds using less shares than an regular equity issue.

In order to raise 300 M€, Delhaize would need to create 7.15 million shares using a regular equity issue (at a price of €41,97), against only 5.26 million shares using convertible bonds.

A broader investor base

Buyers of convertible bonds are generally not the same than investors in shares or fixed rate bonds. These investors look for an instrument that has certain characteristics of shares, but with some protection against price falls, that is some debt characteristics.

Few investors in shares buy convertibles since they are usually not willing to pay a premium over the current share price, whereas investors in fixed rate bonds are discouraged by the perspective of lower guaranteed returns (the decrease in rate is in the Delhaize case of 4.60% - 2.75% = 1.85%) despite the equity component of the convertible.

2. Investors perspective

Investors in convertible bonds can be classified in four categories:

- Hedge funds: They absorb a very important part of issues, subscribing to the convertible and selling the underlying stock that they borrow. The funds are therefore not affected by the share price and its variations due to the sale, but are instead affected by the evolution of volatility that they expect should increase.

- Investors specialized in convertibles: SICAV managers for instance.

- Traditional investors in fixed rate bonds: For these investors convertibles will provide a lower return than plain vanilla bonds, but a higher potential of extraordinary returns if the underlying share price increases. However if the rise is limited an investment in fixed rate bonds is instead more favorable to the investor.

- Traditional investors in shares: But who are looking for a protection against a fall in share price and a higher recurring revenue.

When investors buy convertible bonds instead than the underlying shares they pay a premium to possess these shares. Thus if the price rises sensibly and investors convert into shares, their return will be lower than if they have directly bought the shares.

From the perspective of share investors, convertible bonds are then equivalent to shares in terms of participation in price increases, but also offer a protection against falls in case of bad performance.

The three types of investors described above buy convertibles because they make possible to participate in the appreciation of the underlying share while obtaining a protection against a fall: their returns profile is asymmetric.

If investors are confident that the share of a company will strongly rise, they should buy stocks in order to get the maximum profit of it. Similarly, if they are sure that the price won't increase, they should buy fixed rate debt to maximize returns.

But since investors cannot be sure of the future trend of share prices, the convertible bonds allow to seize part of the price appreciation without taking the whole market risk in case of bad performance.

When the share rises, the convertible becomes increasingly sensitive to price fluctuations. When the share strongly appreciates and clearly exceeds the conversion price the convertible bond is said to be "in the money" and its value almost equal to the share price.

When the share strongly falls and its value is significantly lower than the conversion price, the convertible price begins to behave like a classic fixed rate bond and will be weakly influenced by share price fluctuations. The value of the bond included in a convertible bond provide a floor to the convertible value. Therefore if the share price strongly declines the convertible will be only slightly influenced.

This attractive profile is granted to investors in return to a lower required rate of return (lower coupon) and an increase of the sale price (conversion premium) of the shares eventually issued.

ANNEXES

1. Delhaize consolidated accounts
2. Delhaize shareholders
3. Delhaize share data
4. Delhaize share value since April 2000
5. Corporate bonds rates
6. The convertible bonds market

Annex 1: Delhaize Consolidated Accounts

Consolidated Income Statement

M€ (end of year)	**1999**	**2000**	**2001**	**2002**	**2003**
Earnings	14,589	18,577	21,920	21,083	19,191
growth %		*27.3%*	*18.0%*	*(3.8%)*	*(9.0%)*
Purchases	(10,807)	(13,696)	(15,968)	(15,323)	(14,002)
Wages and social charges	(1,805)	(2,328)	(2,783)	(2,712)	(2,414)
Other operating costs	(1,001)	(1,308)	(1,528)	(1,515)	(1,342)
Intangible assets amortization	(319)	(466)	(629)	(633)	(539)
Goodwill amortization	(9)	(40)	(90)	(92)	(85)
= Operating Profit (EBIT)	**648**	**740**	**921**	**807**	**809**
Financial income (expense)	(140)	(296)	(464)	(455)	(359)
= Profit before tax and non recurrent items	508	443	457	352	451
Exceptional items	3	(41)	(96)	(13)	(145)
Income Tax	(190)	(146)	(192)	(160)	(131)
Income from associates	0	(0)	0	0	0
Minority interest	(151)	(95)	(19)	(2)	(3)
Net Income	**170**	**161**	**149**	**178**	**171**

Consolidated Income Statement in %

M€ (end of year)	1999	2000	2001	2002	2003
Earnings	100.0%	100.0%	100.0%	100.0%	100.0%
growth %		*27.3%*	*18.0%*	*-3.8%*	*-9.0%*
Purchases	74.1%	73.7%	72.8%	72.7%	73.0%
Wages and social charges	12.4%	12.5%	12.7%	12.9%	12.6%
Other operating costs	6.9%	7.0%	7.0%	7.2%	7.0%
Intangible assets amortization	2.2%	2.5%	2.9%	3.0%	2.8%
Goodwill amortization	0.1%	0.2%	0.4%	0.4%	0.4%
= Operating Profit (EBIT)	4.4%	4.0%	4.2%	3.8%	4.2%
Financial income (expense)	1.0%	1.6%	2.1%	2.2%	1.9%
= Profit before tax and non recurrent items	3.5%	2.4%	2.1%	1.7%	2.3%
Exceptional items	0.0%	0.2%	0.4%	0.1%	0.8%
Income Tax	1.3%	0.8%	0.9%	0.8%	0.7%
Income from associates	0.0%	0.0%	0.0%	0.0%	0.0%
Minority interest	1.0%	0.5%	0.1%	0.0%	0.0%
Net Income	**1.2%**	**0.9%**	**0.7%**	**0.8%**	**0.9%**

Consolidated Cash Flow Statement

M€ (end of year)	**2000**	**2001**	**2002**	**2003**
Net Income	161	149	178	171
+ Depreciation, amortisation and impairment losses on fixed assets and goodwill	505	719	725	624
+ Other non-cash	637	493	(406)	(489)
= Cash Flow	1,303	1,362	497	306
- Changes in OWC	(177)	184	121	235
Cash Flow from Operating Activities (1)	1,126	1,545	618	541
Capital Expenditure	(1,492)	(1,054)	(159)	1
+ Other investments	(3,299)	(1,313)	489	359
= Cash Flow from Investing Activities (2)	(4,790)	(2,367)	330	360
Free Cash Flow after Financial Expense (1) + (2)	(3,664)	(822)	948	900
+ Proceeds from share issue	1	2,258	0	6
- Dividends paid	(126)	(135)	(82)	(93)
= Decrease (increase) in net debt	(3,790)	1,302	866	813
Net debt beginning of period	2,320	6,110	4,808	3,942
Net debt end of period	6,110	4,808	3,942	3,130

Consolidated Balance Sheet

M€ (end of year)	**1999**	**2000**	**2001**	**2002**	**2003**
Intangible assets [1]	431	3,669	4,884	4,302	3,788
+ Tangible assets	2,766	3,792	4,217	3,743	3,204
+ Financial assets	6	26	34	36	106
= Total fixed assets (1)	3,202	7,487	9,135	8,081	7,097
Stocks	1,710	1,981	2,019	1,849	1,497
+ Accounts receivable	449	656	523	487	453
- Accounts Payable	1,770	2,071	2,159	2,075	1,924
= Operating Working Capital (2)	389	566	382	261	26
Capital Employed (1) + (2)	3,591	8,053	9,517	8,342	7,124
Equity (3)	1,271	1,943	4,709	4,400	3,994
Net Debt (4)	2,320	6,110	4,808	3,942	3,130
Capital Employed (3) + (4)	3,591	8,053	9,517	8,342	7,124

[1] Including goodwill

Operating Working Capital turnover ratio

M€ (end of year)	1999	2000	2001	2002	2003
Operating Working Capital	389	566	382	261	26
Earnings	14,589	18,577	21,920	21,083	19,191
OWC / Earnings (days)	9.7	11.1	6.4	4.5	0.5

Profitability

Au 31/12	1999	2000	2001	2002	2003
EBIT after tax / Earnings	2.9%	2.6%	2.7%	2.5%	2.7%
X					
Earnings / Capital Employed	4.06	2.31	2.30	2.53	2.69
= ROCE after tax	11.7%	6.0%	6.3%	6.3%	7.4%
ROE after tax	13.4%	8.3%	3.2%	4.1%	4.3%
Financial leverage(net debt / equity)	1.83	3.14	1.02	0.90	0.78

Annex 2: Delhaize shareholders

Delhaize shareholders as of December 31, 2003

	Shares	Voting rights
Floating	96.8%	96.8%
Sofina S.A.	3.2%	3.2%
Total	**100.0%**	**100.0%**

Annex 3: Delhaize share data

€ (end of year)	2000	2001	2002	2003
High	73.8	71.8	60.0	43.7
Low	48.3	49.0	15.6	12.2
Average	58.9	61.3	39.7	28.1
Number of shares (M)	52.0	92.2	92.4	92.6
EPS (€)	3.1	1.6	1.9	1.8
PER	19.1	37.8	20.6	15.2
Dividends per share (€)	1.36	1.44	0.88	1.00
Yield	2.3%	2.4%	2.2%	3.6%
Payout ratio	44.0%	88.9%	45.6%	54.1%
Market Capitalisation (M€)	3,065	5,649	3,666	2,601
Shareholder's Equity (M€)	1,943	4,709	4,400	3,994
Market Capitalization / Shareholder's Equity	1.6	1.2	0.8	0.7

Data as of April 30, 2004:

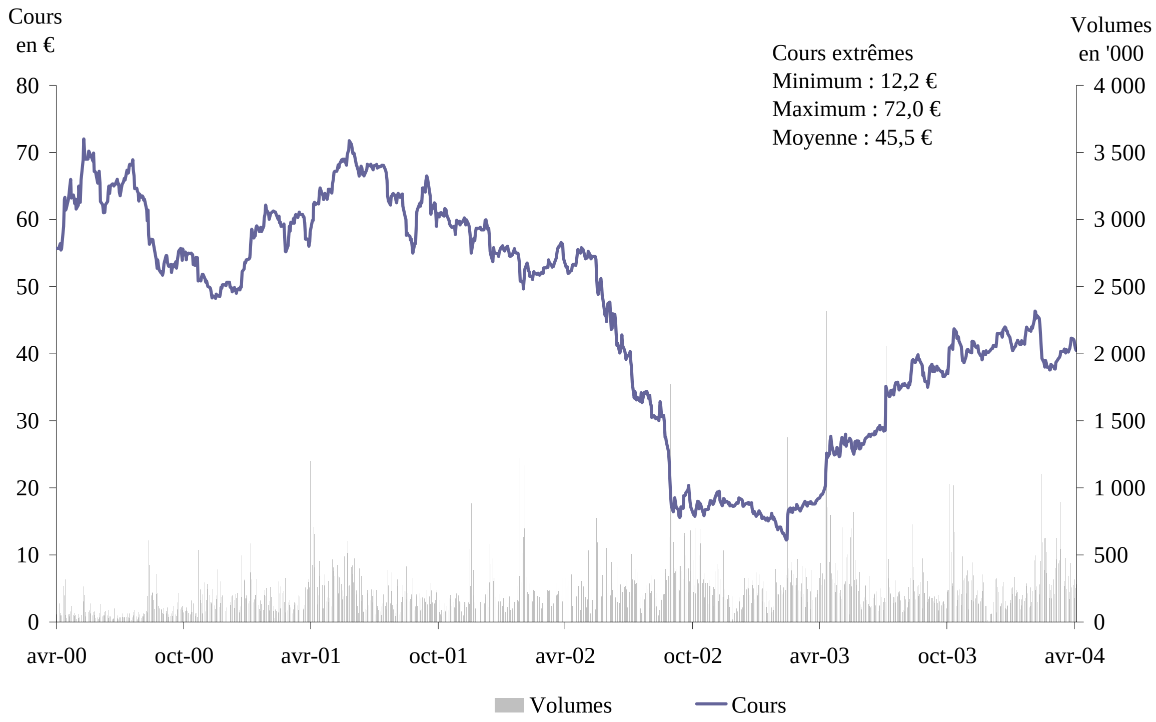
10 year risk-free rate: 4.60%

Market risk premium: 4.30%

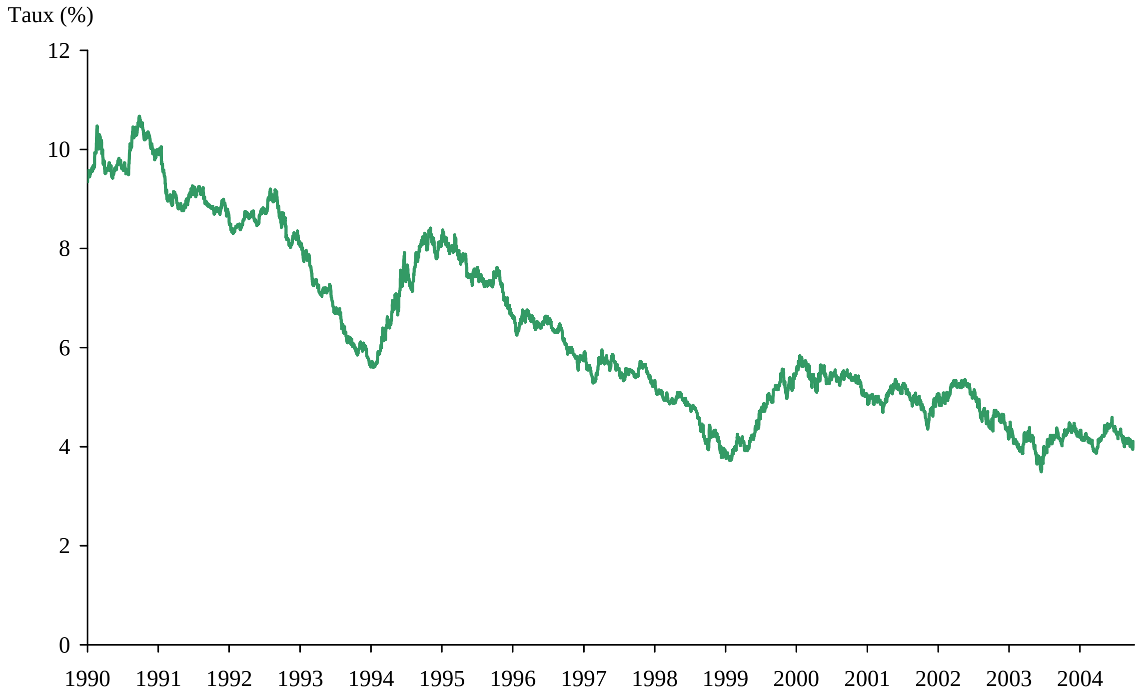
Delhaize β: 1.2

Inflation: 2.0%

Annex 4: Delhaize share value since April 2000



Annex 5: <u>Corporate bonds rates</u>

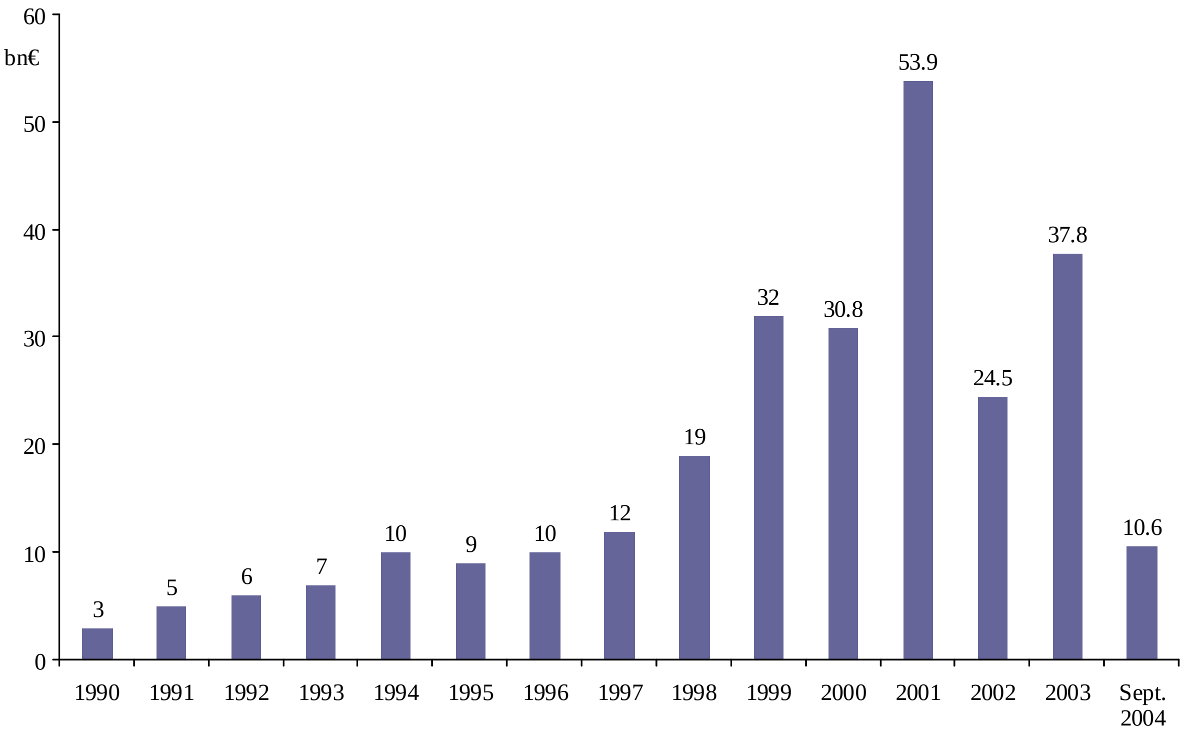


Annex 6: The convertible bonds market

1. European market expansion

Since 1993 convertible bonds have given investors the possibility to reach annual returns of 15%-20%. Before that year most investors in convertibles were traditional share investors that were looking for more recurrent revenues, or investors in fixed rate bonds. Since then many funds devoted to convertible bonds have been created.

Convertible bonds issues in Europe since 1990 (bn€)



2. <u>The convertible bonds market the first half of 2004</u>

A primary market…..

- Sleepy and which do not make up for amortizations (10.6 bn€ issued vs. 24.1 bn€ repaid until today)

- More oriented towards the monetization of non strategic assets than debt refinancing or growth financing (4.5 bn€ of exchangeable bonds vs. 6.1 bn€ of convertibles)

- Under control of the banking and insurance industry (41%) and telecoms (20%)

Germany confirms its leader position obtained in 2003 (28% of 2004 issues), followed by Italy (17% of issues).

A secondary market….

- Which still suffers from a strong volatility contraction

- A noticeable increase in payout ratios

- With mediocre results from the beginning of the year (+1% for the BNP Paribas European Convertible Bonds Index)

An accumulation of convertibles :

- Premiums have recovered to their end of 2003 levels after a decrease in beginning and middle of year…

- … and that cannot rely anymore in a stronger contraction of credits

Many Calls and Puts have been exrcised (Call: Arcelor 3% 2006, Bouygues 1.7% 2006, Colt Tel 2% 2005 et 2006, etc. ; Puts : STM 0% 2009, TI/TIM 1% 2006, etc.)