THOMAS C. NEWKIRK
JAMES T. COFFMAN
WILLIAM KUEHNLE
ROGER PASZAMANT
DANIEL T. CHAUDOIN
MATTHEW B. GREINER
KEVIN W. MCARDLE

Attorneys for Plaintiff
SECURITIES AND EXCHANGE COMMISSION
450 Fifth Street, NW
Washington, DC 20549
Telephone: (202) 942-4678 (Kuehnle)
Facsimile: (202) 942-9581 (Kuehnle)

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

SECURITIES AND EXCHANGE COMMISSION, Plaintiff, vs. KONINKLIJKE AHOLD N.V. (ROYAL AHOLD), Defendant.	Civil Action No. **COMPLAINT**

Plaintiff Securities and Exchange Commission ("SEC" or "Commission") alleges:

NATURE OF THE ACTION

1. This is an accounting fraud case. Defendant Koninklijke Ahold N.V. ("Royal Ahold" or "Ahold") is a publicly-held company organized in The Netherlands with securities registered with the SEC pursuant to Section 12(b) of the Securities Exchange Act of 1934 ("Exchange Act"). Ahold's securities trade on the New York Stock Exchange and are evidenced by American Depositary Receipts. As described below, as a result of two frauds and other accounting errors and irregularities, Ahold made materially false and misleading statements in

SEC filings and in other public statements for at least fiscal years 1999 through 2001 and for the first three quarters of 2002.

2. One fraud involved Ahold's wholly-owned subsidiary, U.S. Foodservice (“USF”), a foodservice and distribution company with headquarters in Columbia, Maryland. A significant portion of USF’s operating income was based on payments by its vendors, referred to below as promotional allowances. USF executives engaged in or substantially participated in a scheme that materially inflated the amount of promotional allowances recorded by USF and reflected in operating income on USF's financial statements, which were included in Ahold’s Commission filings and other public statements. USF executives also provided, or assisted in providing, Ahold’s independent auditors with false and misleading information by, for example, persuading personnel at many of USF’s major vendors to falsely confirm overstated promotional allowances to the auditors in connection with year-end audits. The overstated promotional allowances aggregated at least $700 million for fiscal years 2001 and 2002 and caused Ahold to report materially false operating and net income for those and other periods.

3. The other fraud involved the improper consolidation of joint ventures. Ahold fully consolidated several joint ventures into its financial statements despite owning no more than a fifty percent voting interest. To justify full consolidation of certain joint ventures, Ahold gave its independent auditors letters signed by Ahold and its joint venture partners which stated that Ahold controlled the joint ventures ("control letters"). However, at the time or soon after these control letters were executed, Ahold and its joint venture partners executed secret side letters that rescinded the control letters – and thus the basis for full consolidation (the "rescinding letters"). Senior Ahold executives concealed these rescinding letters from Ahold's independent auditors. As a result of the fraud, Ahold reported materially inflated net sales and operating income for at

least fiscal years 1999 through 2001 and for the first three quarters of 2002. By significantly inflating net sales and operating income, the fraud enabled Ahold to portray itself to competitors, suppliers, and the public as a much larger company than it actually was.

4. On February 24, 2003, Ahold announced that it would issue restated financial statements for previous periods and would delay filing its consolidated 2002 financial statements as a result of internal investigations into the two frauds described above. Following the disclosure, Ahold's stock price plummeted from approximately $10.69 per share to $4.16 per share.[1]

5. On or about October 17, 2003, Ahold filed its Form 20-F for the fiscal year ended December 29, 2002, which contained restatements for the fiscal years 2000 and 2001, corrected accounting adjustments for fiscal year 2002, and restated amounts for fiscal years 1998 and 1999 included in the five-year summary data. The restatements indicate that, in its original SEC filings and other public statements, Ahold had overstated: (a) net income by approximately 17.6%, 32.6%, and 88.1% for the fiscal years 2000, 2001 and first three quarters of 2002, respectively; (b) operating income by approximately 28.1%, 29.4%, and 51.3% for the fiscal years 2000, 2001 and first three quarters of 2002, respectively; and (c) net sales by approximately 20.8%, 18.6%, and 13.8% for the fiscal years 2000, 2001 and 2002, respectively. The corrected figures were based in large part upon the two frauds described below.

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[1] Shortly before making its public announcement, Ahold gave the SEC's staff advance notice of the content of the announcement. From that point to the present, Ahold has cooperated fully in the SEC staff's investigation of the issues described in this complaint.

JURISDICTION AND VENUE

6. The SEC brings this action pursuant to Sections 20(b) and 20(d) of the Securities Act of 1933 [15 U.S.C. §§ 77t(b) and 77t(d)] ("Securities Act"), and Sections 21(d) and 21(e) of the Exchange Act [15 U.S.C. §§ 78u(d) and 78u(3)].

7. This Court has jurisdiction over this action pursuant to Sections 20(b) and 22(a) of the Securities Act [15 U.S.C. §§ 77v(a)] and Sections 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(e), 78u-1(a)(1) and 78aa]. Defendant directly or indirectly made use of the means or instrumentalities of interstate commerce, or of the mails, or the facilities of a national securities exchange in connection with the transactions, acts, practices and courses of business alleged herein. Certain of Defendant's transactions, acts, practices and courses of business, including filings made at the SEC headquarters locating in the District of Columbia, occurred within this District, and venue is proper pursuant to Section 22(a) of the Securities Act and Section 27 of the Exchange Act.

DEFENDANT

8. Ahold is a publicly-held company organized in The Netherlands with securities registered with the SEC pursuant to Section 12(b) of the Exchange Act. Ahold's securities trade on the New York Stock Exchange and are evidenced by American Depositary Receipts.

STATEMENT OF FACTS

A. U.S. Foodservice Fraud

9. USF, a foodservice and distribution company with headquarters in Columbia, Maryland, is a wholly-owned subsidiary of Ahold. USF was a publicly held company with securities registered with the SEC pursuant to Section 12(b) of the Exchange Act prior to being acquired by Ahold in April 2000. From the time it acquired USF in April 2000, Ahold and USF

budgeted annual earnings goals for USF. Compensation for USF executives was based, among other things, on USF's meeting or exceeding budgeted earnings targets. USF executives each received a substantial bonus in early 2002 because USF purportedly satisfied earnings goals for fiscal year 2001. USF executives were each eligible for a substantial bonus if USF met earnings targets for fiscal year 2002. As described below, certain USF executives engaged in or substantially participated in a scheme whereby USF reported earnings equal to or greater than the targets, regardless of the company's true performance.

10. A significant portion of USF's operating income was based on payments by its vendors, referred to in various ways such as promotional allowances, rebates, discounts, and program money (referred to below as "promotional allowances"). During at least fiscal years 2001 and 2002, USF made no significant profit on most of its end-sales to its customers. Instead, the majority of USF's operating income was derived from promotional allowances.

11. In a typical promotional allowance agreement, USF committed to purchase a minimum volume from a vendor. The vendor in turn paid USF a per unit rebate of a portion of the original price it charged USF, according to an agreed-upon payment schedule. Most major promotional allowance agreements were reduced to writing.

12. Sometimes the volume-based promotional allowances were paid as they were earned, but it was a common practice for the vendor to "pre-pay" on multi-year contracts at least some portion of the amounts that would be due if USF met all of the projected purchase volume targets in the contract. Promotional allowances were critical to USF's financial results—without them, USF's operating income for fiscal years 2001 and 2002 would have been materially reduced.

13. USF executives engaged in or substantially participated in a scheme whereby USF reported earnings equal to or greater than its earnings targets, regardless of the company's true performance. The primary method used to carry out this fraudulent scheme to "book to budget" was to improperly inflate USF's promotional allowance income. USF executives "booked to budget" by, among other things, causing USF to record completely fictitious promotional allowances sufficient to cover any shortfall to budgeted earnings. USF executives covered-up the false earnings by making it appear that the inflated promotional allowance income had been earned by, among other things, (a) inducing vendors to confirm false promotional allowance income, payments, and receivable balances; (b) manipulating the promotional allowance accounts receivable from vendors and manipulating and misapplying cash receipts; and (c) making false and misleading statements, and material omissions, to the company's independent auditors, other company personnel, and/or Ahold personnel.

14. USF had no comprehensive, automated system for tracking the amounts owed by the vendors pursuant to the promotional allowance agreements. Instead, USF, for purposes of interim reporting, purported to estimate an overall "promotional allowance rate" as a percentage of sales and recorded periodic accruals based on that rate. Information provided by USF executives caused the estimated rate to be inflated. The intended and actual result of inflating USF's promotional allowance income was that USF, and Ahold, materially overstated their operating incomes.

15. USF executives falsely represented to the company's independent auditors that there were no written promotional allowance contracts for the vast majority of promotional allowance agreements when, in fact, they knew, or were reckless in not knowing, that such written contracts existed. These executives falsely represented that USF had only hand-shake

deals with its vendors that a USF executive would re-negotiate at the end of each year to arrive at a mutually agreed-upon final amount due from each vendor for the year. They knew, or were reckless in not knowing, that these representations were false when they were made.

16. USF executives participated in a systematic effort to corrupt the audit process to keep the fraud from being discovered. Ahold's auditors attempted at the end of each fiscal year to confirm with the vendors that they actually paid, or still owed, the promotional allowances recorded by USF. To satisfy the auditors, USF executives successfully convinced vendors to sign audit confirmation letters even though they knew that the letters were false.

17. For each vendor subject to the confirmation process, USF executives prepared a schedule purportedly reflecting the promotional allowances earned by USF for the year, the amount paid by the vendor, and the balance due. USF executives grossly inflated the figures contained in these schedules.

18. The schedules were used both by USF to support the related amounts recorded in its financial statements and by its auditors to perform the year-end audit.

19. USF executives provided information used to prepare confirmation request letters, which they signed, that were sent to major vendors reflecting, among other things, the inflated aggregate promotional allowances purportedly paid or owed to USF during the year.

20. The promotional monies earned, paid and receivable stated in the confirmations were grossly inflated and in many cases were simply fictitious, having no relationship to the actual promotional allowances earned, paid or receivable.

21. As a further part of the fraud, USF executives contacted, or directed subordinates to contact, vendors to alert them that they would receive confirmation letters and to ask them to sign and return the letters without objection.

22. If a vendor balked at signing the fraudulent confirmation, USF executives pressed the vendor by, for example, falsely representing that the confirmation was just "an internal number" and that USF did not consider the receivable reflected in the confirmation to be an actual debt that it would seek to collect.

23. USF executives sent, or directed subordinates to send, side letters to vendors who continued to object to the fraudulent confirmations. The side letters assured the vendors that they did not, in fact, owe USF amounts reflected as outstanding in the confirmation letters.

24. USF executives, in order to prevent the discovery of the fraudulent scheme, took various additional steps to make it appear that USF's promotional allowance receivable balance was being paid by the vendors. Among other things, these USF executives made, or caused to be made, accounting entries that unilaterally deducted material amounts from the balances that USF owed to certain vendors for the products USF had purchased, and simultaneously credited the promotional allowance receivable balance for the amount of such deductions. These "deductions" were made at year-end and had the net effect of making it appear that USF had made material progress in collecting promotional allowance payments allegedly due.

25. The large year-end deductions facilitated the fraudulent recording of promotional allowance income because these deductions made it appear that the amounts recorded had been earned and paid. The USF executives concealed the fact that the deductions were not authorized, were not legitimate, and that a substantial percentage of the deductions were reversed in the early part of the following fiscal year.

26. USF executives also knew, or were reckless in not knowing, that the amounts paid by some vendors included prepayments on multi-year contracts. But they falsely represented to USF personnel, Ahold personnel, and/or the company's independent auditors that none of the

promotional allowance agreements included such prepayments. As a result, USF treated the prepayments by vendors as if they were payments for currently owed promotional allowances. This made it falsely appear that USF was making material progress in collecting the inflated promotional allowance income it had recorded.

27. As a result of the schemes described above, USF materially overstated its operating income during at least fiscal years 2001 and 2002. Consequently, for at least those fiscal years, Ahold made false and misleading statements in filings with the Commission and other public statements that incorporated USF's materially overstated operating income, including without limitation, year-end results included in Form 20-F and quarterly information included in Forms 6-K and earnings press releases.

28. On February 24, 2003, Ahold announced that it would issue restated financial statements for previous periods and would delay filing its consolidated 2002 financial statements as a result of an initial internal investigation based, in part, on the overstatement of income at USF. Ahold announced in May 2003 that USF's income had been overstated by more than $800 million since April 2000.

B. **Joint Venture Accounting**

29. Beginning no later than the early 1990's, Ahold expanded into various markets outside the Netherlands by forming joint ventures with existing food retailers in those markets.

30. In July 1992, Ahold acquired 49 percent of the shares of Jerónimo Martins Retail ("JMR"), a Portuguese company with food retail and wholesale operations in Portugal. The remaining 51 percent of the shares are owned by the Portuguese entity Jerónimo Martins & Filho ("JMH"). The JMR shareholders' agreement provides that the joint venture is to be run by a seven-member board of directors deciding unanimously. Four of the directors are appointed by

JMH and three are appointed by Ahold. Ahold began consolidating the results of JMR in its financial statements for fiscal year 1992.

31. In December 1996, Ahold acquired 50 percent of the voting shares of Bompreço S.A., a Brazilian company operating supermarkets in Brazil ("Bompreço"). The remaining voting shares were held by BompreçoPar, another Brazilian entity. The shareholders' agreement gave Ahold and BompreçoPar an equal number of seats on the board of directors. The agreement provided that all board decisions had to be made by majority vote and contained deadlock provisions for situations in which a majority vote could not be achieved. Ahold began consolidating Bompreço's balance sheet in its financial statements for the fourth quarter of 1996. Ahold began fully consolidating Bompreço's financial results in its financial statements for the first quarter of 1997. In July 2000, Ahold acquired BompreçoPar's remaining stake in Bompreço. In March 2004, Ahold sold its interest in Bompreço to Wal-Mart Stores Inc.

32. In January 1998, Ahold acquired 50 percent of the shares of Disco Ahold International Holdings ("DAIH"), a company organized under the laws of the Netherlands Antilles. The remaining shares were owned by Velox Retail Holdings ("Velox"), a company organized under the laws of the Cayman Islands. DAIH operated several South American supermarket chains including Disco S.A. in Argentina and Santa Isabel S.A. in Chile. The shareholders' agreement provided that the partners would have the same voting rights and an equal number of seats on the board of directors so long as each partner held at least one third of the issued shares in DAIH. The agreement also provided that board decisions had to be made by majority vote except for certain major decisions, which required a unanimous vote. The agreement contained deadlock provisions for situations in which a majority or unanimous vote could not be achieved. Ahold began consolidating DAIH in its financial statements for the

fourth quarter of 1998. Prior to July 2002, Ahold's share interest in DAIH fluctuated between 50 and 62 percent, with Velox holding the remaining shares. In July and August 2002, Ahold acquired all of the remaining shares from Velox.

33. In December 1999, Ahold acquired 50 percent of the shares of Paiz Ahold, a corporation organized under the laws of the Netherlands Antilles. The remaining shares were held by Coban Holdings ("Coban"), a company organized under the laws of the Bahamas. Paiz Ahold held a controlling interest in La Fragua, the largest supermarket and hypermarket enterprise in Guatemala. The shareholders' agreement gave Coban and Ahold the same number of votes on the board of directors and provided that board decisions had to be made by majority vote except for certain major decisions, which required a unanimous vote. The agreement contained deadlock provisions for situations in which a majority or unanimous vote could not be achieved. Ahold began consolidating the results of Paiz Ahold in its financial statements for the first quarter of 2000. In November 2001, Paiz Ahold entered into a new joint venture with CSU International under the name CARHCO. Paiz Ahold holds two-thirds of the shares in CARHCO, and CSU International holds the remaining one third of the shares. CARHCO holds the interest in La Fragua formerly held by Paiz Ahold. Beginning in the first quarter of 2002, Ahold deconsolidated the new joint venture from its financial statements.

34. In the spring of 2000, Ahold acquired a 50 percent stake in the ICA Group ("ICA"), an integrated retail and wholesale trade enterprise that operates supermarkets and discount stores in Scandinavia. The remaining shares were held by ICA Förbundet (30 percent), a Swedish company, and Canica (20 percent), a Norwegian company. The shareholders' agreement provided that ICA Förbundet and Canica (collectively the "Partners") would act jointly as one party in all matters relating to the joint venture in order to create a fifty-fifty balance between

Ahold and the Partners. In a separate agreement, the Partners agreed to act or vote in accordance with mutually agreed positions. The shareholders' agreement gave Ahold and the Partners the same number of seats on the board of directors. The agreement also provided that all board decisions had to be approved by a unanimous vote and contained deadlock provisions for situations in which a unanimous vote could not be achieved. Ahold began consolidating ICA in its financial statements for the second quarter of 2000.

35. In 1997, the increasing importance of joint ventures in Ahold’s growth strategy and the relative importance of Ahold’s international operations led to discussions between Ahold and its independent auditors, Deloitte Touche Tohmatsu's Netherlands affiliate ("Deloitte Netherlands"), regarding the requirements for full consolidation of joint ventures under Dutch and U.S. generally accepted accounting principles ("GAAP"). As a foreign issuer, Ahold prepares its financial statements pursuant to Dutch GAAP but includes a reconciliation to U.S. GAAP and condensed U.S. GAAP financial statements in its Forms 20-F filed annually with the Commission.

36. Consolidation is appropriate under U.S. GAAP only if the entity seeking to consolidate controls the entity to be consolidated. Control generally exists through ownership of a majority voting interest. However, pursuant to publication 96-16 of the of the Financial Accounting Standards Board's Emerging Issues Task Force ("EITF 96-16"), even in cases where a company owns a majority voting interest, consolidation is inappropriate if the minority shareholder possesses the right to effectively participate in significant decisions that would be expected in the ordinary course of business through, for example, the right to veto such decisions. Deloitte Netherlands summarized EITF 96-16 and other Dutch and U.S. GAAP relating to consolidation in a memorandum sent to senior Ahold executives in September 1997.

37. During its review of Ahold's financial statements for fiscal year 1997, Deloitte Netherlands consulted with the national office of Deloitte & Touche LLP, Deloitte Netherlands' affiliate in the United States ("Deloitte U.S."), and concluded that Ahold's consolidation of joint ventures was unacceptable under U.S. GAAP. In response, Ahold represented to Deloitte Netherlands that it intended to modify the joint venture agreements, either by amending the agreements themselves or through side letters, to make full consolidation acceptable.

38. At a September 1998 meeting, Ahold's executive board discussed the fact that Deloitte Netherlands had concluded that Ahold's consolidation of joint ventures violated U.S. GAAP and that Bompreço was considered the main problem. Ahold's chief financial officer ("CFO") at the time informed the executive board that he intended to prepare a letter explaining that Ahold controlled Bompreço.

39. That same month, Ahold's CFO drafted a letter from Ahold to BompreçoPar which stated that, pursuant to the partners' interpretation of the shareholders' agreement, in the event of a disagreement that could not be resolved to the partners' mutual satisfaction, Ahold's proposal to solve the issue would be decisive. Ahold gave Deloitte Netherlands a copy of the draft. After consulting with Deloitte U.S, Deloitte Netherlands informed Ahold that the letter, if countersigned by BompreçoPar, would allow for the continued consolidation of Bompreço provided there was no other way that BompreçoPar could obtain control.

40. In May 1999, Ahold's CFO signed, and BompreçoPar countersigned, a letter similar to the draft approved by Deloitte Netherlands (the "Bompreço control letter"). Ahold gave a copy of the Bompreço control letter to Deloitte Netherlands. Deloitte Netherlands and Deloitte U.S. relied upon the Bompreço control letter to conclude that the continued consolidation of Bompreço conformed with U.S. GAAP.

41. However, at or around the time the Bompreço control letter was executed, BompreçoPar sent Ahold's CFO a second letter (the "Bompreço rescinding letter") which stated:

> Aware of the contents of [the Bompreço control] letter, . . . this is to inform you that we do not agree with the interpretation given by you of our Shareholders' Agreement.

The Bompreço rescinding letter nullified the control letter and thus the basis for the auditors' acceptance of the continued consolidation of Bompreço. BompreçoPar told Ahold that BompreçoPar wanted two members of Ahold's executive board to countersign the Bompreço rescinding letter. Ahold's CFO and chief executive officer ("CEO") at the time countersigned the Bompreço rescinding letter on behalf of Ahold.

42. Senior executives at Ahold concealed the existence of the Bompreço rescinding letter from Deloitte Netherlands. They also signed, approved, or were otherwise responsible for Commission filings and other public statements that they knew or were reckless in not knowing falsely represented that Ahold controlled Bompreço such that consolidation was appropriate.

43. In March 2000, during its audit of Ahold's financial statements for fiscal year 1999, Deloitte U.S. again questioned the basis for Ahold's consolidation of joint ventures under U.S. GAAP. Deloitte Netherlands and Deloitte U.S. eventually concluded that Ahold could not continue to consolidate its joint ventures (other than Bompreço) under U.S. GAAP in the absence of control letters similar to the Bompreço control letter. In April 2000, Deloitte U.S. and Deloitte Netherlands communicated their conclusion to Ahold and informed Ahold that if it did not provide the control letters prior to an offering scheduled for May 2000, Ahold would have to restate its financial statements.

44. In late April 2000, Ahold's CFO signed, and Velox countersigned, a control letter for DAIH that was virtually identical to the Bompreço control letter. Ahold gave a copy of the

letter to Deloitte Netherlands. Deloitte Netherlands and Deloitte U.S. relied upon the DAIH control letter to conclude that the continued consolidation of DAIH conformed with U.S. GAAP.

45. However, at or around the time they executed the DAIH control letter, Ahold's CFO and Velox executed a second letter that nullified the control letter (the "DAIH rescinding letter"). The text was substantively identical to the Bompreço rescinding letter. Ahold's CFO concealed the DAIH rescinding letter from Deloitte Netherlands. Ahold's former CFO also knowingly signed, approved, or was otherwise responsible for Commission filings and other public statements that he knew or was reckless in not knowing falsely represented that Ahold controlled DAIH such that consolidation was appropriate.

46. In May 2000, Ahold signed, and the ICA Partners countersigned, a control letter for ICA. An executive vice president and member of Ahold's executive board at the time who was in charge of European operations (“EVP”) signed the ICA control letter on behalf of Ahold, and Ahold gave a copy of the letter to Deloitte Netherlands. Deloitte Netherlands and Deloitte U.S. relied upon the ICA control letter to conclude that the continued consolidation of ICA conformed with U.S. GAAP.

47. However, at or around the time they executed the ICA control letter, the EVP and the Partners executed a second letter that nullified the control letter (the "ICA rescinding letter"). Senior Ahold executives concealed the existence of the ICA rescinding letter from Deloitte Netherlands and others at Ahold. Senior Ahold executives also signed, approved, or were otherwise responsible for Commission filings and other public statements that they knew or were reckless in not knowing falsely represented that Ahold controlled ICA such that consolidation was appropriate.

48. In April 2000, senior Ahold executives informed Deloitte Netherlands that Ahold would not be providing a control letter for JMR. Instead, these executives falsely represented to Deloitte Netherlands that Ahold controlled JMR such that full consolidation was appropriate. Senior Ahold executives also signed, approved, or were otherwise responsible for Commission filings and other public statements that they knew or were reckless in not knowing falsely represented that Ahold controlled JMR such that consolidation was appropriate.

49. In July and August 2000, Ahold's CFO signed, and Coban countersigned, a control letter for Paiz Ahold. Ahold did not give a copy of the Paiz Ahold control letter to Deloitte Netherlands. However, Ahold used the letter internally to support its position that it controlled Paiz Ahold.

50. In September 2000, Coban sent a second letter to Ahold's CFO that nullified the control letter (the “Paiz Ahold rescinding letter”). The Paiz Ahold rescinding letter stated that Coban did not agree with the content of the control letter and interpreted the shareholders' agreement as stating that all major decisions would be made by consensus between the partners. Ahold's CFO countersigned the Paiz Ahold rescinding letter on behalf of Ahold and concealed its existence from Deloitte Netherlands. Ahold's CFO also knowingly signed, approved, or was otherwise responsible for Commission filings and other public statements that he knew or was reckless in not knowing falsely represented that Ahold controlled Paiz Ahold such that consolidation was appropriate.

51. In the fall of 2002, Ahold’s chief internal legal counsel at the time and Ahold's head of the internal audit department became aware of the existence of the ICA rescinding letter and urged Ahold's CEO to disclose the letter to the audit committee of Ahold's supervisory board and to Deloitte Netherlands. In October 2002, the audit committee and Deloitte Netherlands were

informed of the existence of the ICA rescinding letter. The audit committee subsequently initiated an internal investigation into the circumstances surrounding the ICA control and rescinding letters

52. Throughout the fall of 2002 and early 2003, senior Ahold executives continued to conceal the existence of the rescinding letters for Bompreço, DAIH, and Paiz Ahold from the audit committee, the supervisory board, Deloitte Netherlands, and the lawyers and accountants conducting the internal investigation. These senior Ahold executives knew or were reckless in not knowing that the rescinding letters rendered Ahold's previous Commission filings and other public statements materially false and misleading. In February 2003, the audit committee, the supervisory board, Deloitte Netherlands, and the internal investigators finally learned of the existence of the rescinding letters for Bompreço, DAIH, and Paiz Ahold. An expanded internal investigation ensued into the circumstances surrounding these rescinding letters.

53. On February 24, 2003, Ahold announced that it would issue restated financial statements for previous periods and would delay filing its consolidated 2002 financial statements as a result of internal investigations into its joint venture accounting and other matters. As discussed above, on or about October 17, 2003, Ahold filed its Form 20-F for fiscal year 2002, which contained restatements for prior periods. Ahold stated in the 2002 annual report and Form 20-F that it had historically consolidated ICA Ahold and other joint ventures on the basis of the control letters. Ahold also stated that the undisclosed rescinding letters nullified the control letters and resulted in the decision to deconsolidate ICA Ahold and other joint ventures under Dutch and U.S. GAAP. The restatements demonstrate that, as a result of the improper consolidation of joint ventures, Ahold materially misstated net sales, operating income, and other items in SEC filings and other public statements for at least fiscal years 1999 through 2001. For

example, Ahold materially overstated net sales by approximately EUR 4.8 billion ($5.1 billion) for fiscal year 1999, EUR 10.6 billion ($9.8 billion) for fiscal year 2000, and EUR 12.2 billion ($10.9 billion) for fiscal year 2001. Ahold materially overstated operating income by approximately EUR 222 million ($236 million) for fiscal year 1999, EUR 448 million ($413 million) for fiscal year 2000, and EUR 485 million ($434) for fiscal year 2001.[2]

C. Other Misstatements

1. Failure to Properly Allocate ICA Purchase Price

54. Under Dutch and U.S. GAAP, when one company purchases another, the buyer must allocate the purchase price to the acquired company's assets and liabilities on the basis of the fair market value of each individual asset and liability as of the date of acquisition. Correspondingly, the purchaser must initially record the acquired assets and liabilities in its books at their fair market value as of the date of acquisition.

55. When Ahold acquired its interest in ICA in the spring of 2000, ICA's assets included an extensive real estate portfolio. Thus, under Dutch and U.S. GAAP, Ahold was required to allocate the purchase price based upon the fair market value of each acquired real estate parcel as of the date of acquisition. Ahold was also required to initially record the ICA real estate in its books on the basis of the fair market value as of the date of acquisition. Ahold did not comply with these requirements. Instead, Ahold simply allocated the purchase price, and recorded the ICA real estate in its books, on the basis of the existing book value of the real estate, without determining the fair market value as of the date of acquisition.

56. The fair market value of the ICA real estate at the time of Ahold's acquisition significantly exceeded the book value. Thus, by improperly recording the ICA real estate in its

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2 The conversion from euros to dollars is based on exchange rates of $1.0637 per euro for 1999, $0.9212 per

books on the basis of book value, Ahold significantly understated the value of the ICA real estate. Moreover, after the acquisition, ICA often sold real estate to generate income, and Ahold booked the gains from those sales. Because the gains were computed on the basis of the understated book value, the gains - and thus Ahold's net income -- were overstated.[3]

57. During late 2002 and 2003, Ahold finally conducted independent appraisals to determine the fair market value of the ICA real estate as of the date of Ahold's acquisition. These appraisals revealed that the market value exceeded the book value by approximately EUR 95.6 million ($88 million). The appraisals and additional analysis performed by Ahold also revealed that Ahold had overstated the gains from ICA real estate sales during 2000 through 2002 by approximately EUR 62 million ($57 million).[4]

2. Excess Provisions Relating to The Superdiplo Acquisition

58. In December 2000 or January 2001, Ahold acquired a controlling interest in Superdiplo, S.A. ("Superdiplo"), a Spanish company operating food retail stores and supermarkets in the Canary Islands and parts of mainland Spain. In connection with the acquisition, Ahold set up approximately EUR 124 million in provisions purportedly to cover the costs of restructuring Superdiplo. However, the provisions did not conform with Dutch and U.S. GAAP in numerous respects.

59. Following an internal investigation, Ahold determined that approximately EUR 104 million ($96 million) of the Superdiplo restructuring provisions had to be reversed due to noncompliance with GAAP and for other reasons. Ahold also determined that approximately

euro for 2000, and $0.8956 per euro for 2001.

3 In addition, by recording the ICA real estate on the basis of the understated book value rather than fair market value as of the date of acquisition, Ahold subsequently recorded understated depreciation expenses on depreciable ICA real estate, such as buildings, which further inflated Ahold's net income.

EUR 49 million ($45 million) in costs that had been charged against the restructuring provisions during 2001 and 2002 should have been expensed and charged against income.[5]

3. Improper Transactions at Disco

60. In July 2002, Ahold representatives discovered invoices for suspicious transactions at DAIH's Argentine operating subsidiary. Ahold subsequently ordered internal investigations into the suspicious transactions.

61. The investigations revealed that Disco personnel had participated in an improper payment scheme involving the use of fictitious invoices to conceal or mischaracterize payments. As a result of the scheme, Ahold determined that approximately EUR 10 million ($9.2 million) in payments that should have been booked as expenses during 2001 and 2002 were improperly capitalized as tangible fixed assets.[6]

4. Other Accounting Irregularities at U.S. Operating Companies

62. At a significant number of the operating subsidiaries examined, the subsidiaries incorrectly applied U.S. GAAP and Ahold accounting principles when examining charges necessary to reflect properly the impairment of assets which resulted in actual or potential overstatements of assets, understatements of expenses and overstatements of income.

63. Ahold has several subsidiary operating companies that do business in the United States ("OpCos" hereinafter) as owners and operators of retail grocery and convenience stores.

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4 The conversion from euros to dollars is based on an average exchange rate of $0.9197 per euro for 2000, 2001, and 2002.

5 The conversion from euros to dollars is based on an average exchange rate of $0.919 per euro for 2001 and 2002.

6 The conversion from euros to dollars is based on an average exchange rate of $0.919 per euro for 2001 and 2002.

Some of these OpCos engaged in a variety of accounting and financial practices in violation of the securities laws.

64. One area of abuse centered on promotional allowances. Some Ahold OpCos recognized promotional allowance money in contravention of U.S. GAAP by booking the money in periods where it was needed to satisfy budgetary requirements and earnings expectations instead of the period in which it was earned. Specifically, some of these OpCos recognized prepayments when additional income was needed, usually all at once when the money was received, instead of amortizing the revenue across the length of the performance period. In addition to timing issues, some of the OpCos occasionally recognized promotional allowance income where there was no adequate evidentiary basis for doing so, i.e., the OpCo merely made up the income. Some OpCos lacked sufficient internal controls which allowed income from promotional allowances to be recognized when needed instead of when earned.

65. Some Ahold OpCos also used improper accounting practices with monies referred to as ‘Vendor Held Funds.’ The OpCo would, for example, contract to buy a good from a vendor at $1.00 per unit, but then would pay the vendor $1.03 per unit, and the $.03 overpay would be accumulated at the vendor for later recall and use by the OpCo. The OpCo had discretion to bring this money back onto their own books to increase income, and did so to smooth earnings, in effect using the Vendor Held Funds as a rainy day fund to move income from one period to a later period.

66. Finally, a series of small, general reserves were used by at least some Ahold OpCos to improperly smooth earnings. For example, some reserves used for liabilities resulting from potential store closures contained funds that amounted to a general reserve. Similarly, some

OpCos had other "cookie jar" reserves related to advertising accruals, inventory reserves, and some purchase accounting reserves.

FIRST CLAIM FOR RELIEF

Fraud

Violations of Section 17(a) [15 U.S.C. § 77q(a)] of the Securities Act, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5]

67. Paragraphs 1 through 66 are re-alleged and incorporated by reference.

68. By reason of the foregoing, defendant directly or indirectly, acting intentionally, by use of the means or instrumentalities of interstate commerce or of the mails, in connection with the offer, sale, or purchase of securities: (a) employed devices, schemes or artifices to defraud; (b) made untrue statements of material fact or omitted to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading; (c) obtained money or property by means of any untrue statement of a material fact or any omission of a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (d) engaged in transactions, acts, practices, or courses of business which operated as a fraud or deceit upon other persons.

69. By reason of the foregoing, defendant violated, and unless restrained will violate, Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act, and Exchange Act Rule 10b-5.

SECOND CLAIM FOR RELIEF

Reporting

Violations of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Exchange Act Rules 12b-20, 13a-1 and 13a-16 [17 C.F.R. § 240.12b-20, § 240.13a-1, and § 240.13a-16]

70. Paragraphs 1 through 66 are re-alleged and incorporated by reference.

71. The Exchange Act and rules promulgated thereunder require every issuer of a registered security to file reports with the SEC that accurately reflect the issuer's financial performance and provide other true and accurate information to the public.

72. By reason of the foregoing, defendant violated, and unless restrained will violate, violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-16 thereunder.

THIRD CLAIM FOR RELIEF

Record Keeping

Violations of Section 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A) and 78m(b)(2)(B)]

73. Paragraphs 1 through 66 are re-alleged and incorporated by reference.

74. The Exchange Act and rules promulgated thereunder require each issuer of registered securities to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect the business of the issuer and to devise and maintain a system of internal controls sufficient to provide reasonable assurances that, among other things, transactions are recorded as necessary to permit preparation of financial statements and to maintain the accountability of accounts.

75. By reason of the foregoing, defendant violated, and unless restrained will violate, Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.

PRAYER FOR RELIEF

WHEREFORE, the SEC respectfully requests that this Court enter a judgment:

a) permanently enjoining defendant from violating Section 17(a) of the Securities Act, Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act, and Exchange Act Rules 10b-5, 12b-20, 13a-1, and 13a-16; and

b) granting such other relief as this Court may deem just and appropriate.

Dated: October 13, 2004

Respectfully submitted,

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Thomas C. Newkirk (DC Bar No. 225748)
James T. Coffman
William Kuehnle (Trial Attorney-DC Bar No. 7401)
Roger Paszamant
Daniel T. Chaudoin (DC Bar No. 458659)
Mathew B. Greiner (DC Bar No. 448480)
Kevin W. McArdle (DC Bar No. 454569)

Attorneys for Plaintiff
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549
Telephone: (202) 942- 4678 (Kuehnle)
Facsimile: (202) 942-9581 (Kuehnle)