

Interim Report, Axfood AB (publ.)

1 January–30 September 2003

- Retail sales for Axfood's wholly owned businesses in Sweden rose 14.5% during the first three quarters of the year, with same-store sales rising 3.7%. Axfood's consolidated sales during the period amounted to SEK 24,972 m (24,535), an increase of 1.8 %.
- Continued positive development for Willys, the wholesale business, private label products and central purchasing.
- Operating profit for the period January–September was SEK 760 m (752). Operating profit includes a capital gain of SEK 110 m on the sale of real estate (25). Operating profit for the third quarter was SEK 242 m (302).
- Axfood's financial position has been further strengthened. Interest-bearing net debt has decreased from SEK 1,349 m to SEK 561 m.
- Profit after tax was SEK 494 m (437). Earnings per share were SEK 9.28 (8.22).

Key figures SEK m	July-Sept.		Jan.-Sept.		Jan.-Dec.
	2003	2002	2003	2002	2002
Net sales	8,472	8,338	24,972	24,535	33,115
Operating margin, % ¹	2.9	3.6	2.6	3.0	3.0
Operating profit ²	242	302	760	752	1,023
Profit after financial items	229	275	705	670	919
Profit after tax	159	177	494	437	625
Earnings per share, SEK	2.99	3.34	9.28	8.22	11.75
Equity ratio, %	-	-	29.6	22.4	24.6
Return on capital employed, %	-	-	32.3	25.3	28.7
Return on shareholders' equity, %	-	-	40.0	38.6	43.1
Net asset value per share, SEK	-	-	35.88	28.20	31.81

1) Operating margin excluding capital gains from sales of real estate.

2) Operating profit for 2003 includes a capital gain of SEK 110 m on the sale of Axfood Fastigheter. Operating profit for 2002 includes a net capital gain of SEK 25 m on sales of real estate for the first three quarters and SEK 37 m for the full year.

CEO's comments

Sales for Axfood's wholly owned retail businesses in Sweden rose 14.5% during the first nine months of the year. It is especially pleasing to note that Willys' accumulated sales increase for comparable units was 4.1% during the period.

The earnings trend for the first half of the year continued into the third quarter, with Willys, Dagab and Axfood Närlivs all showing a stable earnings trend. Axfood's central purchasing and the private label business have continued high earnings ability. Willys hemma continues to show growth in volume, although at a level that is still too low. New management of the company has been given the task of improving earnings for the chain's 45 existing units. We do not see further expansion of the Willy hemma chain as an option in the immediate future.

Axfood's earnings for the first nine months of the year were hurt by continued poor profitability at Spar Finland and costs for the ongoing refurbishment and conversion programmes at Hemköp and Willys. At Willys these costs amounted to SEK 30 m during the first nine months of the year, with an additional SEK 10 m estimated for the fourth quarter. At Hemköp, store closures and refurbishment costs resulted in SEK 25 m in higher costs for the first three quarters. Additional costs of approximately SEK 5 m are expected for the fourth quarter. These costs for Willys and Hemköp are expected to be approximately SEK 70 m for the full year 2003.

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Spar Finland experienced a negative sales trend also during the third quarter. Competition in the Finnish market remains fierce, with low total growth.

Hemköp's aggressive refurbishment programme continues, and at the end of September the chain had renovated 30 stores. An additional five stores will be renovated in 2003. The sales increase for reopened stores is stable and is between 5% and 10%. The experience after reopenings is favourable and makes us confident that the chain will improve its earnings. An extensive cost-cutting programme has been launched with the aim of reducing Hemköp's overhead costs by approximately SEK 100 m over the next two years.

Conversion of the remaining Exet/Matex units to Willys stores continues. We believe in continued strong expansion for the Willys chain in the years ahead. Moreover, the arrival of new discount players in the Swedish market will contribute to continued high attention to the discount segment, which benefits our expansion plans.

The joint-Group processes that are in progress in the area of supply chain, IT platforms and private label products are all proceeding according to plan.

Axfood's financial position has been further strengthened. Interest-bearing net debt has decreased from SEK 1,349 m to SEK 561 m.

We continue to believe that operating profit for the year (excluding capital gains from sales of real estate) will not exceed the previous year's level.

Mats Jansson
President and CEO

Important events during the period January–September

- Axfood acquired 17 stores with combined sales of approximately SEK 1,8 billion.
- Axfood's sales of private label products have increased from 8,5% of total sales to 14.0% in one years time.
- Axfood sold its Swedish real estate holdings to Crown NorthCorp Ltd. The properties had a book value of approximately SEK 500 m, generating a capital gain of SEK 100 m. The transaction was completed on 30 April.
- New president of Hemköp: Carl-Erik Möller took office on 21 May.
- New president of Willys hemma: Thomas Strömer took office on 29 September.

Sales and earnings of the Axfood Group

Consolidated wholesale and retail sales for the Axfood Group for the period 1 January–30 September amounted to SEK 24,972 m (24,535), an increase of 1.8%.

The Axfood Group's retail food sales in Sweden for the period January–September, including VAT (in own and collaborating stores), totalled SEK 26,116 m (25,677), an increase of 1.7%. Sales by Axfood's wholly owned retail businesses in Sweden increased during the period January–September by 14.5%, with same-store sales rising 3.7%.

The operating margin (excluding capital gains on sales of real estate) was 2.6% (3.0%). Operating profit for the period January–September was SEK 760 m (752). Profit for the first nine months of the year included a net capital gain of SEK 110 m on the sale of real estate (corresponding period in 2002: SEK 25 m). This includes costs of SEK 55 m for ongoing renovation work and conversions at Hemköp and Willys.

Net financial items amounted to SEK -55 m (-82). Profit after financial items was SEK 705 m (670). The margin after financial items was 2.8% (2.7%). Profit after tax was SEK 494 m (437).

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Store operations

Hemköp

Thirty stores have been renovated within the framework of the refurbishment and renewal programme that is currently being conducted at Hemköp. Renovation of an additional five stores is planned for the remainder of 2003. The stores are being rebuilt according to Hemköp's three store formats: centrally located city stores, neighbourhood stores, and stores with a large area and ample parking, which can attract customers interested in doing their "big" shopping.

The sales increase for reopened, renovated stores is between 5% and 10%.

Sales during the period January–September amounted to SEK 4,484 m (4,639). Hemköp's same-store sales rose 1.9% during the same period. An operating loss of SEK -10 m was posted (+69). Overhead costs in connection with the refurbishment programme amounted to SEK 6 m during the third quarter. Earnings were charged with SEK 8 m in costs associated with the closure of three stores. Strategic price adjustments and a stronger marketing programme have also affected the gross margin. During the fourth quarter, costs for the remaining refurbishment programme are estimated to be SEK 5 m. The operating margin for the period January–September was negative (+1.5%).

Hemköp's sales of private label products accounted for 10.7% of the chain's total sales in September (8.0%).

During the period January–September, three stores were converted to other concepts in the Group, four stores were closed or sold, and two were acquired. The Hemköp chain has 91 stores.

Willys

The favourable trend in volume and earnings for Willys continued in the third quarter. The sales increase during the period January–September was 27% compared with the same period a year ago. Same-store sales rose 4.1% during the period. After the end of the period, three Willys stores were opened under franchise agreements.

Four stores were converted from Exet/Matex to Willys during the third quarter. Nine stores remain to be converted, of which five will be converted during the fourth quarter. The cost of conversions during the year is expected to be approximately SEK 40 m, of which SEK 30 m for the first nine months of the year. Sales during the period January–September for wholly owned stores amounted to SEK 7,789 m (6,136). Operating profit was SEK 299 m (265). The operating margin was 3.8% (4.3%).

Willys' sales of private label products in September accounted for 18.7% of total (11.5%).

During the period January–September, three new stores were established, nine were acquired, two were closed and two were converted from other concepts within the Group. The Willys chain has 82 stores.

Willys hemma

Willys hemma operates 45 stores. The stores are located close to residential areas and focus on having more fresh products and a somewhat wider range of products than other comparable hard-discount stores.

Sales of the chain rose 23% during the first three quarters of the year. However, this increase is still too low to have a positive impact on earnings. The newly appointed president, Thomas Strömer, has been assigned with the task of improving earnings of the chain's existing 45 stores.

Sales for Willys hemma during the period January–September amounted to SEK 979 m (796). An operating loss of SEK -16 m (-18) was reported. The operating margin was negative (negative).

Sales of private label products by Willys hemma in September accounted for 21.2% of total (11.5%).

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3(9)

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During the period January–September, one store was acquired and two were converted from other concepts within the Group.

Spar Sverige (name changed from Axfood Franchise)

Spar Sverige is responsible for the Spar franchise chain, which comprises approximately 130 proprietor-run stores with combined annual sales of approximately SEK 5 bn. The same-store sales increase during the first three quarters of the year was 0.3%.

Sales of private label products by Spar Sverige in September accounted for 7.1% of total (4.2%).

Spar Sverige is reported under “other”. Operating profit for the period January–September was SEK 33 m (25).

Change in store structure – Group-owned stores, September 2003

	Dec. 2002	Newly established units	Acquisitions	Sales/closures	Conversions to/from	September 2003	September 2002
Hemköp	96	-	2	-4	-3	91	96
Willys	70	3	9	-2	2	82	69
Willys hemma	42	-	1	-	2	45	41
Spar Finland	79	1	5	-6	-	79	79
Spar Sverige	1	-	-	-	-1	0	1
Total	288	4	17	-12	-	297	286

Axfood Partihandel (wholesaling) – Dagab and Axfood Närlivs

Dagab continues to report steady improvements in volume and earnings. A slight earnings increase was reported during the third quarter.

Of Dagab’s volume, approximately 65% is derived from wholly owned stores. This increase has taken place in pace with the rising percentage of wholly owned stores within Axfood and as a result of an increase in the purchasing degree from wholly owned stores. Dagab’s sales will be slightly lower in pace with the growing portion of private label product sales, since these products have a lower price level. This also has a slight margin impact.

Dagab’s sales during the period January–September amounted to SEK 13,614 m (13,024). Operating profit was SEK 208 m (198). The operating margin was 1.5% (1.5%).

Axfood Närlivs works with three customer categories: contract customers in the service-station segment, small grocery stores, and small businesses or restaurants. Sales in the service-station segment have increased slightly during the year as a result of expanded agreements. Sales in the small grocery store segment during the third quarter continued to be affected by the tough competitive climate. An aggressive marketing campaign has been started to strengthen Axfood Närliv’s market position.

During the third quarter Axfood Närlivs signed an agreement and took over beverage distribution for Carlsberg and Coca-Cola.

Sales for Axfood Närlivs during the period January–September amounted to SEK 3,602 m (3,558). Operating profit was SEK 81 m (71). The operating margin was 2.2% (2.0%).

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Spar Finland

Spar Finland Abp operates 79 wholly owned stores and collaborates with approximately 210 independent stores. In all, the Spar Group has an approximate 8% share of the Finnish retail food market.

Competition in the Finnish retail food market remains fierce and total growth is weak, which is putting pressure on gross margins for all players in the market. Spar Finland's negative sales trend continued during the third quarter. In August two Eurospar stores were reopened following extensive refurbishment.

Sales during the period January–September amounted to SEK 3,877 m (4,189), a decrease of 7.4%. Operating profit was SEK 27 m (48). The operating margin for the period was 0.7% (1.2%).

Operating profit for 2003 is expected to be in the range of SEK 35-40 m.

During the period, one store was reopened, five were acquired, and six were closed.

Capital expenditures

Capital expenditures during the first nine months of the year amounted to SEK 482 m (322). Of these, investments in fixed assets in the wholesaling operations and in the store network in Sweden accounted for SEK 421 m (279), and investments in fixed assets by Spar Finland for SEK 61 m (43). In addition, stores in Sweden were acquired for SEK 140 m (30). The sale of Axfood Fastigheter AB was completed on 30 April and generated a capital gain of SEK 110 m.

Financial position

Cash flow from operating activities amounted to SEK 764 m (709) during the period January–September. Net lending by Handelskredit decreased by SEK 114 m and amounted to SEK 65 m (179) at the end of the period. Cash and cash equivalents held by the Group amounted to SEK 330 m (344). Interest-bearing assets amounted to SEK 403 m (550) at the end of the period. Interest-bearing liabilities amounted to SEK 964 m (1,899) at the end of the period. Interest-bearing net debt decreased by SEK 788 m, to SEK 561 m (1,349), at the end of the period. The debt-equity ratio, net, was 0.3 (multiple) (0.8) at the end of the period.

The equity ratio was 29.6% (22.4%).

Employees

The Axfood Group had an average of 8,587 employees (8,189) during the first nine months of the year. Of the Group's employees, approximately 75% work in stores.

Parent Company

Other operating revenue for the Parent Company during the period January–September amounted to SEK 56 m (23). After a capital gain of SEK 199 m on the sale of Axfood Fastigheter, administrative expenses of SEK 109 m (64), and net financial items of SEK 2 m (-18), profit after financial items was SEK 148 m (-59). Capital expenditures totalled SEK 3 m (2). Cash and cash equivalents held by the Parent Company totalled SEK 12 m (0). Interest-bearing net debt has decreased by SEK 461 m and amounted to SEK 64 m at the end of the period (525).

Accounting principles

The Group applies the accounting recommendations that took effect on 1 January 2003. In other respects, the same accounting principles and calculation methods used in the most recent annual report have been applied. This interim report has been prepared in accordance with Swedish Financial Accounting Standards Council Recommendation RR20, "Interim reporting".

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5(9)

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Future outlook

We continue to believe that operating profit for the full year (excluding capital gains on sales of real estate), will not exceed the previous year's level.

Next reporting date

The year-end report for the 2003 financial year will be released on 29 January 2004.

Stockholm, 22 October 2003

Axfood AB (publ.)

The Board of Directors

Auditors' examination report, Reg. no. 556542-0824

We have conducted a limited review of the accompanying interim report in accordance with the recommendation issued by FAR. A limited review is considerably less in scope than an audit. Nothing has come to our attention that indicates that the interim report does not fulfil the requirements of the Swedish Stock Exchange Act and the Swedish Annual Accounts Act.

Stockholm, 22 October 2003

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Net sales per business unit and market					
SEK m					
	July–Sept.		Jan.–Sept.		Jan.–Dec.
	2003	2002	2003	2002	2002
Hemköp	1,477	1,507	4,484	4,639	6,341
Willys	2,731	2,173	7,789	6,136	8,398
Willys hemma	327	284	979	796	1,108
Axfood Närlivs	1,268	1,257	3,602	3,558	4,713
Spar Finland	1,332	1,441	3,877	4,189	5,537
Dagab ³	4,588	4,426	13,614	13,024	17,906
Other ¹	194	530	1,177	1,539	2,118
Internal sales ⁴	- 3,445	- 3,280	- 10,550	- 9,346	- 13,006
Total	8,472	8,338	24,972	24,535	33,115

Operating profit (EBIT), broken down by business unit and market					
SEK m					
	July–Sept.		Jan.–Sept.		Jan.–Dec.
	2003	2002	2003	2002	2002
Hemköp	- 13	7	- 10	69	106
Willys	116	123	299	265	368
Willys hemma	- 10	- 6	- 16	- 18	- 27
Axfood Närlivs	34	29	81	71	92
Spar Finland	17	28	27	48	55
Dagab	70	67	208	198	282
Other ¹	28	54	171	119	147
Operating profit for the period ²	242	302	760	752	1,023

1) Includes joint-Group functions and the support companies IT, Handelskredit, Private Label and Spar Sverige, plus Fastigheter for the first four months up until the sales date.

2) Operating profit for 2003 included a capital gain of SEK 110 m on the sale of Axfood Fastigheter. Operating profit for 2002 included a net capital gain of SEK 25 m on sales of real estate for the period January–September and SEK 37 m for the full year.

3) Of which, SEK 3,484 m (2,807) from direct distribution for the period January–September and SEK 3,898 m for the period January–December 2002.

4) Of which, SEK 9,652 m (8,629) for Dagab for the period January–September and SEK 11,502 m for the period January–December 2002.

Condensed profit and loss account					
SEK m					
	July–Sept.		Jan.–Sept.		Jan.–Dec.
	2003	2002	2003	2002	2002
Net sales	8,472	8,338	24,972	24,535	33,115
Cost of goods sold	- 7,302	- 7,141	- 21,518	- 21,222	- 28,612
Gross profit	1,170	1,197	3,454	3,313	4,503
Selling/administrative expenses, etc.	- 928	- 895	- 2,804	- 2,561	- 3,480
Items affecting comparability ¹	-	-	110	-	-
Operating profit	242	302	760	752	1,023
Net financial items	- 13	- 27	- 55	- 82	- 104
Profit after financial items	229	275	705	670	919
Taxes	- 66	- 91	- 204	- 221	- 280
Minority share	- 4	- 7	- 7	- 12	- 14
Profit for the period	159	177	494	437	625
Operating profit includes depreciation totalling	- 147	- 134	- 435	- 393	- 533
- of which, goodwill amortization	- 34	- 30	- 102	- 88	- 122
Earnings per share, SEK	2.99	3.34	9.28	8.22	11.75
Earnings per share after dilution, SEK	2.93	3.27	9.09	8.06	11.51

1) Pertains to capital gain on sale of Axfood Fastigheter.

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7(9)

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Condensed balance sheet			
SEK m			
	30/9/2003	30/9/2002	31/12/2002
Assets			
Goodwill	1,009	1,038	1,027
Interest-bearing receivables	65	187	156
Financial fixed assets	202	241	256
Other fixed assets	1,901	2,234	2,243
Total fixed assets	3,177	3,700	3,682
Inventories	1,507	1,489	1,631
Accounts receivable, trade	766	821	826
Interest-bearing receivables	8	19	18
Other current assets	1,041	842	754
Cash and bank balances	330	344	444
Total current assets	3,652	3,515	3,673
Total assets	6,829	7,215	7,355
Shareholders' equity and liabilities			
Restricted shareholders' equity	984	859	984
Unrestricted shareholders' equity	926	642	709
Total shareholders' equity	1,910	1,501	1,693
Minority interests	114	116	119
Interest-bearing provisions	370	374	378
Noninterest-bearing provisions	323	275	323
Total provisions	693	649	701
Interest-bearing long-term liabilities	462	1,021	871
Noninterest-bearing long-term liabilities	0	0	16
Total long-term liabilities	462	1,021	887
Current interest-bearing liabilities	132	504	449
Accounts payable, trade	1,716	1,668	1,822
Other current noninterest-bearing liabilities	1,802	1,756	1,684
Total current liabilities	3,650	3,928	3,955
Total shareholders' equity and liabilities	6,829	7,215	7,355
Contingent liabilities	77	87	83
Pledged assets	1,944	2,469	1,888

Cash flow statement			
SEK m			
	Jan.–Sept.		Jan.–Dec.
	2003	2002	2002
Operating activities			
- Cash flow from operating activities before changes in working capital	686	860	1,256
- Changes in working capital	78	- 151	- 152
Cash flow from operating activities	764	709	1,104
Investing activities			
- Company acquisitions, net	141	- 16	- 9
- Acquisition of fixed assets, net	- 459	- 209	- 318
- Reduction of financial fixed assets	91	144	135
Cash flow from investing activities	- 227	- 81	- 192
Financing activities			
- Change in interest-bearing liabilities	- 381	- 551	- 740
- Dividend to shareholders	- 266	- 133	- 133
Cash flow from financing activities	- 647	- 684	- 873
Cash flow for the period	- 110	- 56	39

Shareholders' equity, change			
SEK m			
	30/9/2003	30/9/2002	31/12/2002
Amount at start of year	1,693	1,208	1,208
Translation difference	- 11	- 11	- 7
Dividend to shareholders	- 266	- 133	- 133
Profit for the period	494	437	625
Amount at end of period	1,910	1,501	1,693

Key ratios and other data			
	30/9/2003	30/9/2002	31/12/2002
Operating margin, % ¹	2.9	3.6	3.0
Margin after financial items, %	2.8	2.7	2.8
Equity ratio, %	29.6	22.4	24.6
Debt-equity ratio, net, multiple	0.3	0.8	0.6
Debt-equity ratio, multiple	0.48	1.17	0.94
Interest coverage, multiple	11.7	8.1	8.4
Capital employed, SEK m	2,988	3,516	3,510
Return on capital employed, %	32.3	25.3	28.7
Return on shareholders' equity, %	40.0	38.6	43.1
Capital expenditures (excluding shares), SEK m	482	322	455
Earnings per share, SEK	9.28	8.22	11.75
Earnings per share after dilution, SEK	9.09	8.06	11.51
Dividend per share, SEK	-	-	5.00
Net asset value per share, SEK	35.88	28.20	31.81
Net asset value per share after dilution, SEK	35.07	27.56	31.09
Number of shares outstanding	53,229,028	53,229,028	53,229,028
Number of shares outstanding after dilution	54,456,377	54,460,250	54,459,993
Holdings of own shares	-	-	-
Average number of full-time employees during the year	8,587	8,189	8,312

1) Operating margin excluding capital gains on sales of real estate.

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9(9)

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