

Axfood (publ.) – Interim Report

For the period January 1–June 30, 2000

- New corporate strategy and organizational structure adopted.
- Consolidated sales increased by 4.5 percent, to SEK 14.7 bn.
- Income after financial items amounted to SEK -38 m (92). Earnings were affected by the following factors:
 - A structural reserve of SEK 164 m. The restructuring program will generate annual savings of SEK 150 m starting in 2001, affecting approximately 300 persons.
 - Other restructuring costs affecting comparability totaling SEK 24 m.
 - Transaction costs of SEK 25 m attributable to the acquisition of D&D.
 - SPP's repayment of client-company funds, totaling SEK 85 m, booked as income. Adjusted for all items affecting comparability, income after net financial items amounted to SEK 90 m.
- Operating income amounted to SEK 49 m. Income adjusted for items affecting comparability totaled SEK 152 m (150).
- Income includes Spar Finland Apb and the Swedish discount chains that were acquired during the period.
- In line with the Group's strategy, an agreement in principle was reached on the acquisition of a Swedish discount chain, HP Billigt & Nära AB, with sales of SEK 800 m.

	Jan.-June 2000	Pro forma ¹⁾ Jan.-June 1999
Sales, SEK m	14,718	14,081
Operating income before depreciation, SEK m	252	299
Operating income after depreciation, SEK m	49	130
Operating income adjusted for items affecting comparability	152	150
Operating margin, percent	0.3%	0.9%
Income after financial items, SEK m	-38	92
Income after tax, SEK m	-29	53
Earnings per share, SEK	-0.54	1.05
Total assets, SEK m	7,319	6,529
Equity ratio, percent	13.6%	12.4%
Return on capital employed, percent	1.5%	8.2%
Return on shareholders' equity after tax, percent	neg.	16.6%

1) Pro forma figures for Hemköp, D&D Dagligvaror, Spar i Sverige, Spar Inn Snabbgross, and Spar Finland.

In view of the fact that 2000 is the Group's first financial year with its current structure, comparisons with the corresponding year-earlier period are not relevant. Therefore, to facilitate comparison, pro forma income statement and balance sheet figures for the current Axfood Group have been provided.

CEO's comments

On June 14 the Board adopted a new corporate strategy based on the vision that Axfood will be the leading and most attractive food company in the Nordic region, with strong market positions in the respective countries. The long-term target is an operating margin of 3 percent. This will be achieved through:

- 1) Implementation of a new brand strategy in the Group, whereby the stores will operate under six brands in order to achieve maximum customer benefit and cost effectiveness. Growth will take place in the wholly owned segments of high service (Hemköp), discount, and e-commerce.
- 2) Increased integration of the retail and wholesale trades.
- 3) Utilization of economies of scale in purchasing, logistics, IT, and a greater proportion of private label goods.
- 4) A distinct and efficient organizational structure with shorter reporting channels.

As part of the implementation of the new strategy, we have decided on an efficiency-improvement and restructuring program covering administration, wholesaling and the store network. The restructuring program has been charged against the half-year result in the amount of SEK 164 m and will generate annual savings of more than SEK 150 m starting in 2001. Approximately 300 persons will be affected.

Sales and earnings

According to preliminary industry statistics, sales in Sweden for the food retail and wholesale sector amounted to SEK 86.1 bn during the first half of 2000, an increase of 3.6 percent in volume and 4.7 percent in current prices, compared with the corresponding period a year ago. Together with collaborating retailers within Axfood, retail sales amounted to SEK 15.9 bn, including VAT, representing an increase of 3.9 percent in terms of volume and 5.0 percent in current prices.

Consolidated net sales for the period January–June amounted to SEK 14.7 bn, including SEK 12.2 bn in Sweden, an increase of 4.5 percent compared with 1999 pro forma.

Operating income amounted to SEK 49 m (130) during the period. The operating margin was 0.3 percent (0.9). Operating income was charged with SEK 103 m in structural items.

Net financial items amounted to SEK -62 m (-39). Income after financial items thus amounted to SEK -38 m (92). Income after financial items was charged with SEK 164 m for a restructuring reserve, SEK 24 m for structural costs affecting comparability, and SEK 25 m in transaction costs attributable to the acquisition of D&D. SPP's repayment of client-company funds, totaling SEK 85 m, has been booked as income. The margin after financial items was -0.3 percent (0.6).

The loss generated by the Finnish operations is attributable to costs in connection with the restructuring of store concepts and lower volumes.

Important events

During the period, the discount chains Exet, XL and L-köp were acquired, numbering 28 stores in all and with total sales of approximately SEK 2 bn.

In addition, during the second quarter shares were acquired in Spar Finland, corresponding to 65.9 percent of the number of votes and 40.1 percent of the capital.

An agreement in principle was reached on the acquisition of HP Billigt & Nära, with a total of 25 stores and sales of approximately SEK 800 m. This acquisition will take effect on 1 January 2001 and will be paid by own shares, which will be repurchased during the autumn. The decision to repurchase the Company's own shares will be made at an extraordinary general meeting in October. Earnings per share will be favorably affected by the acquisition. This acquisition further boosts Axfood's market share in the discount segment in Sweden.

Capital expenditures

Capital expenditures amounted to SEK 489 m (209); attributable to the acquisition. The pace of new store establishment and store reopenings remained high. During the period, more than 15,500 square meters of retail space in Sweden were added.

Financial position

The Group's liquidity, including undrawn credit facilities, totaled SEK 671 m as per June 30. Interest-bearing assets amounted to SEK 772 m. Interest-bearing net debt amounted to SEK 2,145 m.

The equity ratio was 13.6 percent (12.4), while the debt-equity ratio, net, was 2.2 (2.3).

Employees

The average number of full-year employees was 8,252 (7,273). The increase is mainly attributable to acquisitions and staff at new stores.

Falun, Sweden, August 8, 2000

Axfood AB (publ.)

Mats Jansson
President and CEO

This interim report has not been subject to examination by the Company's auditors.

Axfood AB is one of the largest listed food wholesale and retail companies in the Nordic region. Axfood was formed through the merger between Hemköp and D&D Dagligvaror, and the acquisitions of Spar i Sverige, Spar Inn Snabbgross, and Spar Finland.

The company conducts wholesale and retail trading through a number of store profiles, including Hemköp, Spar, Vivo, Tempo, Willys and Billhalls. Consolidated annual sales are estimated at approximately SEK 30 bn, with approximately 8,000 full-year employees.

The company has over 1,000 stores in Sweden, of which 250 are wholly or partly owned, while the remainder are run by independent merchants tied to the company through agreements. In addition, the company has some 330 stores in Finland, of which 85 are wholly owned and the remainder operated by independent merchants. Axfood has a market share of nearly 20 percent in Sweden and approximately 10 percent in Finland.

Axfood AB is listed on the A-list of the OM Stockholm Exchange. Axel Johnson AB is the principal owner, with approximately 45 percent of the shares.

**Net sales, pro forma, per business and market
SEK bn**

	Jan.-June	Pro forma ¹⁾ Jan.-June	Pro forma ¹⁾ Full year
	<u>2000</u>	<u>1999</u>	<u>1999</u>
Wholesale	9.3	9.4	18.3
Retail	7.4	6.0	12.6
Other	0.8	0.6	1.3
Internal sales	<u>-2.8</u>	<u>-1.9</u>	<u>-3.1</u>
Total	14.7	14.1	29.1

**Operating income for the period, broken down by company:
SEK m**

	Jan.-June	Pro forma ¹⁾ Jan.-June	Pro forma ¹⁾ Full year
	<u>2000</u>	<u>1999</u>	<u>1999</u>
Hemköp	53	71	162
D&D Dagligvaror	83	66	167
Spar i Sverige	5	-3	-2
Spar Inn Snabbgross/Spar Direkt	-2	4	13
Spar Finland	-21	-2	15
Acquired chains in Sweden	26	-	-
Structural costs, net/SPP	-68	-	-
Joint-Group	<u>-27</u>	<u>-6</u>	<u>-11</u>
Total operating income for the period	49	130	344

1) Pro forma figures for Hemköp, D&D Dagligvaror, Spar i Sverige, Spar Inn Snabbgross and Spar Finland.

Financial calendar:

Nine-month interim report, January–September 2000

November 7, 2000

CONDENSED INCOME STATEMENT

SEK m

		Pro forma ¹⁾	Pro forma ¹⁾
	Jan.-June	Jan.-June	Full year
	<u>2000</u>	<u>1999</u>	<u>1999</u>
Net sales	14,718	14,081	29,077
Operating income	49	130	344
Transaction costs attributable to merger	-25	-	-
Income after financial items	-38	92	261
Taxes ²⁾	-3	-37	-105
Minority share	12	-2	-15
Income/loss for the period	-29	53	141
Earnings per share (SEK)	-0.54	1.05	2.77

1) Pro forma figures for Hemköp, D&D Dagligvaror, Spar i Sverige, Spar Inn Snabbgross and Spar Finland.

2) Tax in the interim report is calculated using a standard tax rate of 28 percent. Nondeductible goodwill amortization by the Group has been taken into account, which explains the higher tax charge.

CONDENSED BALANCE SHEET

SEK m

		Pro forma ¹⁾	Pro forma ¹⁾
	<u>6/30/00</u>	<u>6/30/00</u>	<u>12/31/99</u>
ASSETS			
Fixed assets	3,915	3,497	3,467
Inventories	1,451	1,359	1,425
Other current assets	1,775	1,634	1,629
Cash and bank balances	178	39	192
Total assets	7,319	6,529	6,713
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	824	621	741
Minority interests	168	189	185
Interest-bearing liabilities	2,917	2,557	2,695
Noninterest-bearing liabilities	3,410	3,162	3,092
Total shareholders' equity and liabilities	7,319	6,529	6,713

1) Pro forma figures for Hemköp, D&D Dagligvaror, Spar i Sverige, Spar Inn Snabbgross and Spar Finland.

CASH FLOW STATEMENT

SEK m

	Jan.-June	Pro forma ¹⁾ full year
	<u>2000</u>	<u>1999</u>
Cash flow from operating activities	117	365
Cash flow from investing activities	-402	-326
Cash flow from financing activities	<u>273</u>	<u>36</u>
Cash flow for the period	-12	75

1) Pro forma figures for Hemköp, D&D Dagligvaror, Spar i Sverige, Spar Inn Snabbgross and Spar Finland.

KEY RATIOS AND OTHER INFORMATION

SEK m

	Jan.-June	Pro forma ¹⁾ Jan.-June	Pro forma ¹⁾ Full year
	<u>2000</u>	<u>1999</u>	<u>1999</u>
Operating margin (%)	0.3	0.9	1.2
Margin after financial items (%)	-0.3	0.6	0.9
Equity ratio (%)	13.6	12.4	13.8
Debt-equity ratio, net (factor)	2.2	2.3	2.0
Debt-equity ratio (factor)	2.9	3.2	2.9
Interest coverage (factor)	0.4	2.9	3.5
Capital employed (SEK m)	3,909	3,367	3,620
Return on capital employed (%)	1.5	8.2	10.3
Return on shareholders' equity (%)	neg.	16.6	20.0
Capital expenditures (SEK m)	489	209	622
Earnings per share (SEK)	-0.54	1.05	2.77
Shareholders' equity per share (SEK)	15.49	12.24	14.60
Number of shares outstanding	53,229,028	50,729,028	50,729,028
Number of full-year employees	8,252	7,273	7,364

1) Pro forma figures for Hemköp, D&D Dagligvaror, Spar i Sverige, Spar Inn Snabbgross and Spar Finland.

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