axfood

1 August 2002

Interim Report, Axfood AB (publ.) for the period 1 January – 30 June 2002

- **Consolidated sales amounted to SEK 16,197 m (15,738), an increase of 2.9%.**
- **Operating profit increased by slightly more than 30% compared with the same period a year ago, to SEK 450 m (338). The Willys chain, Dagab and Axfood Närlivs made the strongest earnings contributions.**
- **Profit after net financial items increased by SEK 122 m, to SEK 395 m (273).**
- **Profit for the period includes a net capital gain of SEK 25 m on sales of real estate.**
- **The new Willys Hemma discount concept opened 36 units during the period.**

Key figures	**Jan.-June**		**April-June**		**Jan.-Dec.**
Mkr	**2002**	2001	**2002**	2001	2001
Net sales	**16,197**	15,738	**8,207**	8,143	32,428
Operating profit before depreciation	**709**	575	**345**	313	1,171
Operating profit[1]	**450**	338	**216**	193	653
Operating margin, %	**2.8%**	2.1%	**2.6%**	2.3%	2.0%
Profit after financial items	**395**	273	**190**	162	527
Profit after tax	**260**	177	**130**	106	328
Earnings per share, m SEK	**4.88**	3.33	**2.44**	1.99	6.16
Equity ratio, %	**19.2%**	16.2%	**-**	-	17.0%
Return on capital employed, %	**21.2%**	11.8%	**-**	-	17.3%
Return on shareholders' equity after tax,%	**34.6%**	18.1%	**-**	-	31.8%
Net asset value per share	**24.86**	19.73	**-**	-	22.70

1. Operating profit for the year includes a net capital gain of SEK 25 m on sales of real estate.

CEO's comments

The Axfood Group's operations during the first half of 2002 were characterised by a strong earnings trend. Willys, Dagab, Axfood Närlivs and Spar Finland are showing the best development. The Willys chain is increasing its market share, and the intensive debate during the spring on lower food prices in Sweden has led to greater awareness of the chain and contributed to its favourable development. We see that consumers are increasingly turning to discount alternatives. Accordingly, Axfood has complemented its discount offering through the launch of Willys Hemma. This concept, which is entirely new for the Swedish market, consists of small stores in residential areas. Willys Hemma has established 36 stores in a short period of time.

Our wholly owned stores are steadily increasing the portion of their purchasing from Dagab, giving us opportunities for continued streamlining of the product assortment. This can lead to further improvements in Dagab's efficiency.

Spar Finland improved its category management and purchasing during the first half of the year, resulting in a considerable earnings improvement.

Hemköp's work on reversing its volume and earnings trend continues. A new pricing strategy and new business hours in the chain's test regions are showing improved sales and earnings.

The forecast for the Group's earnings in 2002, entailing an improvement compared with 2001, remains.

Mats Jansson
President and CEO

Important events during the first half of the year

- The new Willys Hemma chain opened 36 stores.
- Axfood's sales of private label products increased, accounting for 6.3% of total sales at the half-year mark. The increase can be attributed to the successful introduction of the Willys brand.
- The changeover of Dagab's distribution has been completed in large part, leading to efficiency improvements. The changeover will be fully completed by the fourth quarter.

Market trend

Volume growth for Sweden's retail food sector during the first half of 2002 is estimated at 2.1%. Retail food prices in Sweden rose 4.4%. In Finland, volume growth was 2.1% for the period January–May.

Sales and earnings of the Axfood Group

Consolidated wholesale and retail sales for the Axfood Group for the period 1 January – 30 June amounted to SEK 16,197 m (15,738), an increase of 2.9%. Sales for retail operations owned by Axfood in Sweden increased by 10.4%.

The Axfood Group's sales in Sweden during the first half (in own and collaborating stores), including VAT, amounted to SEK 17,126 m (17,107), an increase of 0.1%.

Operating profit for the period amounted to SEK 450 m (338). The operating margin was 2.8% (2.1%). Operating profit included a net capital gain of SEK 25 m on sales of real estate.

Net financial items amounted to SEK –55 m (–65). Profit after financial items was SEK 395 m (273). The margin after financial items was 2.4% (1.7%).

Store operations

The Axfood Group's store operations are conducted via the wholly owned retail chains Hemköp, Willys and Willys Hemma. The Group collaborates with independent grocers via the Spar and Tempo franchise concepts. Vivo Stockholm is run via a separate economic association. The grocers in this chain are customers of Axfood's wholesaling operation. The Vivo brand is owned by Axfood.

Hemköp
Hemköp's work on improving the efficiency of its store operations and enhancing its customer offering continues. Development work is in progress at Hemköp on improving the chain's large stores. The first pilot store will be opening during the third quarter. Hemköp streamlined its work processes during the first half of the year, resulting in approximately 300 fewer full-time employees.

Sales during the first half amounted to SEK 3,132 m (3,210). Same-store sales decreased by 2.6%. Operating profit (EBIT) was SEK 62 m (73). The operating margin for the period was 2.0% (2.3%).

During the period, five stores were converted to other concepts in the Group, five were closed, and one was acquired. Hemköp now has 97 stores.

Willys
Willys is Axfood's chain of large discount stores. The chain comprises 65 stores, of which 27 are still working under the Exet/Matex brand. Conversion of these stores to Willys and the establishment of a homogenous Willys chain is proceeding according to plan.

Sales during the period for wholly owned stores amounted to SEK 3,963 m (3,184). The increase for same stores was 8.7%. Profit (EBIT) totalled SEK 142 m (115). The operating margin was 3.6% (3.6%).

During the first half three stores were converted from other concepts within the Group, three were closed, two were acquired, and one new store was established.

Willys Hemma
Willys Hemma is Axfood's discount chain in the neighbourhood store segment. Willys Hemma was launched in February and had 36 stores at the end of the first half. The chain's launch is proceeding according to plan. During the start-up period, earnings have been charged with conversion costs of slightly more than SEK 10 m.

Sales for Willys Hemma amounted to SEK 512 m (494) during the period, an increase of 3.6%. A loss (EBIT) of SEK –12 m (+10) was reported for the period. The operating margin was negative (+2.0%).

During the first half 29 stores were converted from the HP chain, two were converted from other concepts within the Group, and five were acquired.

Axfood Franchise
Axfood's collaboration with independent grocers is coordinated in Axfood Franchise and the two store concepts Spar and Tempo. The Spar chain comprised 126 stores at the end of the second quarter.

Axfood Franchise is reported under joint-Group items. Profit (EBIT) for the period was SEK 12 m (13).

Change of store structure – Group-owned stores in Sweden, second quarter 2002

	Dec. '01	Acquisitions	Sales/ closures	Conversions to/from	June '02
Hemköp	**106**	1	-5	-5	**97**
Willys	**62**	3	-3	3	**65**
Willys Hemma	**29**	5	-	2	**36**
Spar Finland	**77**	4	-3	-	**78**
Spar	**1**	-	-	-	**1**
	275				**277**

Axfood Partihandel (wholesaling)
Axfood's wholesaling operations (Dagab and Axfood Närlivs) posted sales of SEK 9,925 m (8,877) during the first half.

Dagab's sales during the period amounted to SEK 8,598 m (7,057). The sales increase is partly due to higher invoicing of directly distributed products during the first half, to SEK 1,801 m (918), and partly to a higher portion of purchasing from Dagab by Axfood's wholly owned stores. Dagab's profit (EBIT) amounted to SEK 131 m (107). The operating margin was 1.5% (1.5%).

The changeover of distribution initiated during the first quarter has now been completed in essential respects and is expected to yield annual savings of SEK 20 m starting in 2003. From having been previously chain-steered, distribution is now geographically-steered.

Axfood Närlivs, with customers in the convenience store segment, grew its sales by 4.1% during the first half of the year, to SEK 2,301 m (2,210). Profit (EBIT) was SEK 42 m (32). The operating margin was 1.8% (1.4%).

Spar Finland
Spar Finland Abp consists of 78 wholly owned stores and 227 collaborating stores. The Spar Group has an approximate 9% share of the Finnish retail food market.

Spar Finland's work on systematising purchasing and the product range in its stores has led to significant earnings improvements. The chain has also focused on reducing shrinkage in the stores. A price increase effected during the first quarter has also contributed to the earnings improvement.

Sales during the first half amounted to SEK 2,748 m (2,760), and profit (EBIT) was SEK 20 m (0). The operating margin for the period was 0.7% (0.0%).

Capital expenditures
Capital expenditures during the first half amounted to SEK 224 m. Of these, investments in fixed assets in the wholesaling operations and in the store network in Sweden accounted for SEK 190 m, and investments in fixed assets by Spar Finland for SEK 34 m. In addition, shares in subsidiaries were acquired for SEK 14 m. During the period, Axfood sold real estate, which made net contribution of SEK 25 m to earnings. At the end of the period, Axfood Fastigheter's real estate portfolio had a book value of SEK 484 m.

Financial position

Cash flow from continuing operations amounted to SEK 594 m (500) during the first half. Lending by Handelskredit decreased by SEK 79 m and amounted to SEK 270 m (445) at the end of the period. The Group's liquid assets totalled SEK 392 m (282). Interest-bearing assets amounted to SEK 636 m (694) at the end of the period. Interest-bearing net debt decreased by SEK 531 m, to SEK 1,412 m (1,943) at the end of the period. The debt-equity ratio, net, was 1 (1.6) at the end of the period.

The equity ratio was 19.2% (16.2%).

Employees

The Axfood Group had 8,082 (8,625) full-time employees at the end of the second quarter. The number of employees in the Hemköp chain has decreased by approximately 300 full-time positions. Of the Group's total workforce, slightly more than 5,000 employees worked in stores.

Parent Company

Other operating revenue for the Parent Company amounted to SEK 15 m (13) during the period. After administrative expenses of SEK 42 m and net financial items of SEK –13 m, profit after financial items was SEK –40 m (–36). Capital expenditures totalled SEK 1 m (–).

Accounting principles

The Group applies the accounting recommendations that took effect on 1 January 2002. In other respects, the same accounting principles and calculation methods used in the 2001 Annual Report have been applied.

The next reporting date will be 23 October 2002.

Stockholm, 1 August 2002

Axfood AB (publ.)
The Board of Directors

Net sales per business unit and market (SEK m):

	April-June		Jan.-June		Jan.-Dec.
	2002	2001	**2002**	2001	2001
Hemköp	**1,525**	1,614	**3,132**	3,210	6,536
Willys	**2,025**	1,731	**3,963**	3,184	6,943
Willys hemma	**260**	242	**512**	494	981
Axfood Direkt	**-**	18	**-**	40	82
Axfood Närlivs	**1,226**	1,191	**2,301**	2,210	4,618
Spar Finland	**1,448**	1,457	**2,748**	2,760	5,683
Dagab	**4,445**	3,854	**8,598**	7,057	15,054
Other[1]	**515**	572	**1,009**	1,102	2,247
Internal sales	**- 3,237**	- 2,536	**- 6,066**	- 4,319	- 9,716
Total	**8,207**	8,143	**16,197**	15,738	32,428

Operating profit for the period (EBIT) is broken down as follows (SEK m):					
	April-June		**Jan.-June**		Jan.-Dec.
	2002	2001	**2002**	2001	2001
Hemköp	**20**	34	**62**	73	126
Willys	**75**	65	**142**	115	242
Willys hemma	**- 14**	6	**- 12**	10	20
Axfood Direkt	**-**	- 10	**-**	- 18	- 41
Axfood Närlivs	**26**	21	**42**	32	69
Spar Finland	**13**	5	**20**	0	25
Dagab	**76**	67	**131**	107	258
Other[1]	**20**	12	**65**	26	33
Total	**216**	200	**450**	345	732
Items affecting comparability	**-**	- 7	**-**	- 7	- 79
Operating profit for the period	**216**	193	**450**	338	653

Operating profit for the period before goodwill amortisation (EBITG) is broken down as follows:					
	April-June		**Jan.-June**		Jan.-Dec.
	2002	2001	**2002**	2001	2001
Hemköp	**21**	36	**64**	76	130
Willys	**83**	73	**157**	131	273
Willys hemma	**- 12**	8	**- 8**	13	27
Axfood Direkt	**-**	- 10	**-**	- 18	- 41
Axfood Närlivs	**28**	22	**45**	34	73
Spar Finland	**16**	8	**26**	6	37
Dagab	**90**	80	**158**	132	308
Other[1]	**19**	13	**66**	30	41
Total	**245**	230	**508**	404	848
Items affecting comparability	**-**	- 7	**-**	- 7	- 79
Operating profit before goodwill amortisation	**245**	223	**508**	397	769
Goodwill amortisation	**- 29**	- 30	**- 58**	- 59	- 116
Operating profit for the period [2]	**216**	193	**450**	338	653

1. Includes joint-Group functions and the support companies IT, Fastigheter, Handelskredit, Private Labels and Franchise.
2. Operating profit includes a net capital gain of SEK 25 m on sales of real estate.

Condensed profit and loss account (SEK m):					
	April-June		**Jan.-June**		Jan.-Dec.
	2002	2001	**2002**	2001	2001
Net sales	**8,207**	8,143	**16,197**	15,738	32,428
Cost of goods sold	**- 7,144**	- 7,160	**-14,081**	- 13,855	- 28,425
Gross profit	**1,063**	983	**2,116**	1,883	4,003
Selling/administrative expenses	**- 847**	- 790	**- 1,666**	-1,545	- 3,350
Operating profit	**216**	193	**450**	338	653
Net financial items	**- 26**	- 31	**- 55**	- 65	- 126
Profit after financial items	**190**	162	**395**	273	527
Taxes	**- 56**	- 54	**- 130**	- 95	- 188
Minority share	**- 4**	- 2	**- 5**	- 1	- 11
Profit after tax	**130**	106	**260**	177	328
Operating profit includes depreciation totalling	**- 129**	- 120	**- 259**	- 237	- 518
- of which, goodwill amortisation	**- 29**	- 30	**- 58**	- 59	- 116
Earnings per share, SEK	**2.44**	1.99	**4.88**	3.33	6.16
Earnings per share after dilution, SEK	**2.39**	1.96	**4.79**	3.28	6.07

Condensed balance sheet (SEK m):			
	30/6/2002	30/6/2001	31/12/2001
Assets			
Goodwill	**1,061**	1,161	1,119
Financial fixed assets	**477**	649	541
Other fixed assets	**2,239**	2,221	2,310
Total fixed assets	**3,777**	4,031	3,970
Inventories	**1,489**	1,528	1,559
Accounts receivable, trade	**989**	1,012	991
Other current assets	**836**	774	841
Cash and bank balances	**392**	282	406
Total current assets	**3,706**	3,596	3,797
Total assets	**7,483**	7,627	7,767
Shareholders' equity and liabilities			
Shareholders' equity	**1,323**	1,050	1,208
Minority interests	**110**	189	109
Interest-bearing provisions	**371**	364	365
Noninterest-bearing provisions	**277**	228	272
Interest-bearing liabilities	**1,677**	2,273	2,070
Accounts payable, trade	**1,891**	1,950	2,054
Other noninterest-bearing liabilities	**1,834**	1,573	1,689
Total shareholders' equity and liabilities	**7,483**	7,627	7,767

Cash flow statement (SEK m):			
	Jan.-June 2002	Jan.-June 2001	Jan.-Dec. 2001
Cash flow from operating activities	**594**	500	1,046
Investing activities:			
- Company acquisitions	**-18**	- 16	- 118
- Purchases of fixed assets, net	**- 118**	- 165	- 328
- Reduction of financial fixed assets	**67**	73	153
Cash flow from investing activities	**- 69**	- 108	- 293
Financing activities			
- Change in interest-bearing liabilities	**- 402**	- 388	- 645
- Dividends received, etc.	**-**	-	20
- Dividend	**- 133**	-	-
Cash flow from financing activities	**- 535**	- 388	- 625
Cash flow for the period	**- 10**	4	128

Shareholders' equity, change from 31/12/2001, SEK m			
	30/6/2002	30/6/2001	31/12/2001
Amount at start of year	**1,208**	855	855
Foreign goodwill	**- 3**	-	10
Options	**-**	10	10
Convertibles	**-**	-	- 6
Reversal of write-down/write-down of own shares	**-**	3	5
Translation difference	**- 9**	5	6
Shareholder dividend	**- 133**	-	-
Profit for the period	**260**	177	328
Amount at end of period	**1,323**	1,050	1,208

Key ratios and other data			
	30/6/2002	30/6/2001	31/12/2001
Operating margin (%)	2.8%	2.1%	2.0%
Margin after financial items (%)	2.4%	1.7%	1.6%
Equity ratio (%)	19.2%	16.2%	17.0%
Debt-equity ratio, net (multiple)	1.0	1.6	1.3
Debt-equity ratio (multiple)	1.43	2.13	1.85
Interest coverage (multiple)	7.3	4.7	4.7
Capital employed (SEK m)	3.481	3.876	3.752
Return on capital employed (%)	21.2%	11.8%	17.3%
Return on shareholders' equity (%)	34.6%	18.1%	31.8%
Capital expenditures (SEK m)	224	174	404
Earnings per share (SEK)	4.88	3.33	6.16
Earnings per share after dilution (SEK)	4.79	3.28	6.07
Net asset value per share (SEK)	24.86	19.73	22.70
Number of shares outstanding	53,229,028	53,229,028	53,229,028
Number of shares outstanding after dilution	54,467,663	5,240,426	54,327,524
Number of full-time employees	8,082	8,625	8,514

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