

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

- Consolidated sales amounted to SEK 24,535 m (23,872), an increase of 2.8 per cent. Retail sales for Axfood's wholly owned businesses in Sweden rose by 10.3 per cent.
- Operating profit for the period January – September totalled SEK 752 m (498).
- Operating profit for the third quarter was SEK 302 m (160), an increase of 89 percent compared with the third quarter a year ago. The Willys chain, Dagab and Axfood Närlivs made the strongest earnings contributions.
- Profit after net financial items increased by SEK 267 m, to SEK 670 m (403).
- Axfood has acquired three stores in the Norrköping area. The stores have combined annual sales of SEK 500 m and will be Willys stores.

Key figures	July-September		January-September		Jan.-Dec.
SEK m	2002	2001	2002	2001	2001
Net sales	8,338	8,134	24,535	23,872	32,428
Operating profit before depreciation	436	282	1,145	857	1,171
Operating profit ¹	302	160	752	498	653
Operating margin	3.6%	2.0%	3.1%	2.0%	2.0%
Profit after financial items	275	130	670	403	527
Profit for the period	177	80	437	257	328
Earnings per share, SEK	3.34	1.50	8.22	4.83	6.16
Equity ratio	-	-	22.4%	17.2%	17.0%
Return on capital employed ²	-	-	25.3%	13.5%	17.3%
Return on shareholders' equity after tax ²	-	-	38.6%	22.1%	31.8%
Net asset value per share	-	-	28.20	21.34	22.70

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

2. Moving 12 months.

CEO's comments

Axfood is showing very strong earnings for the third quarter – the first in which we have passed the 3 per cent operating margin, which is our long-term target through 2005. It also means that our accumulated earnings are strong, with an operating margin of 3.1 per cent. Willys has reached a new level of profitability that is based on good growth in volume and a higher gross profit. This improvement has been enabled by the introduction of the Willys private label and efficient category management. Dagab, Axfood Närlivs and Spar Finland, also show continued favourable earnings trend during the third quarter.

Willys hemma has had an aggressive rate of establishment during the year and now has

41 stores. This makes Willys hemma the leading player in the small-store format of the discount segment. Earnings for Willys hemma will be weighted by establishment costs in 2002. Hemköp showed continued weak development during the third quarter, mainly due to price reductions that have not yet led to volume growth. The process of change at Hemköp continues.

During the third quarter an additional two central projects were started that will affect Axfood's earnings and cash flow. The first one involves the continued streamlining of the Group's staffs and salaried employee structure, which will reduce payroll costs in the coming two years by approximately SEK 70 m per year, corresponding to 150 full-time positions. We have also started a Supply Chain project. Through an increasingly distinct integration of the various links within Axfood's supply chain – such as purchasing, logistics, and stores – we can both improve quality and cut costs. This project will be the largest single undertaking within the Axfood Group and will continue for three years. The cost savings will be substantial. We have another two projects that have been under way for some time. The first of these is concerns private labels. Increasing the portion of total sales made up of private label goods will boost the Group's operating profit by approximately SEK 90 m per year and improve store margins. At the same time, our private label initiative offers customers quality-assured products at prices that are 15-10 per cent lower. The second prioritised process is Axfood's central purchasing, which is making a substantial yearly earnings contribution to the Group.

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 third quarter

- Three stores (Matex) were acquired in the Norrköping area. The stores have combined annual sales of approximately SEK 500 m and will join the Willys chain as per 1 January 2003.
- Axfood's sales of private label products continue to rise and accounted for 8.5 per cent of total sales in Sweden in September.
- Two central projects are being started: a continued reduction of the Group's overhead costs and a Supply Chain project, which will continue for three years.

Market trend

According to statistics published by the Swedish Research Institute of Trade (HUI), volume growth for Sweden's retail food sector during the period January – September was 2.2 per cent. Retail food prices rose during the same period by 3.8 per cent in Sweden and by 3.7 per cent in Finland.

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 24,535 M (23,872), an increase of 2.8 per cent.

The Axfood Group's sales in Sweden for the period January – September, including VAT (in own and collaborating stores), totalled SEK 26,452 M (25,977), an increase of 1.9 per cent. Sales for retail operations owned by Axfood in Sweden increased by 10.3 per cent during the same period.

Operating profit for the period January – September was SEK 752 m (498). The operating margin was 3.1 per cent (2.0). Operating profit includes a net capital gain of SEK 25 m on sales of real estate.

Net financial items amounted to SEK -82 m (-95). Profit after financial items was SEK 670 m (403). The margin after financial items was 2.7 per cent (1.7).

As per 30 September 2002, a reserve of SEK 2 m remains (SEK 17 m as per 31 December 2001) of total restructuring costs.

The Axfood Group's receivable of client-company funds from Alecta amounts to a nominal value of SEK 39 m.

Store operations

The Axfood Group's store operations are conducted via the wholly owned retail chains Hemköp, Willys and Willys hemma. The Group cooperates 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

The change programme that is being gradually implemented at Hemköp has not yet resulted in improved earnings or higher sales. Earnings were under pressure during the third quarter, mainly due to the fact that the price reduction for the most common food items has not yet led to higher sales. Hemköp will be opening its pilot large-format store in Eskilstuna on 24 October.

Sales during the period January – September amounted to SEK 4,639 m (4,741). Operating profit (EBIT) was SEK 69 m (93). The operating margin for the period was 1.5 per cent (2.0).

During the period January – September, one store was acquired, six were converted to other concepts within the Group, and five were closed. Hemköp now has 96 stores.

Willys

Willys is Axfood's chain of large discount stores. The chain comprises 69 stores, of which 27 are still operating under the Exet/Matex brand. Conversion of these stores to Willys and the establishment of a homogenous Willys chain is proceeding according to plan.

The Willys stores continued to show very strong volume growth during the third quarter. The company's profitability has improved further as measures implemented during the past six months are now being realised in the third quarter. This applies among other things to the positive launch of the Willys private label brand, which now accounts for 11.5 percent of total sales. The private label products are important for maintaining Willys' leading discount

position. Willys has also successfully begun work on product range and category management in its stores.

Sales during the period January – September for wholly owned stores amounted to SEK 6,136 m (5,014). Profit (EBIT) totalled SEK 265 m (174). The operating margin was 4.3 per cent (3.5).

To date during the year two new stores have been established, four have been acquired, four have been converted from other concepts within the Group and three have been closed.

Willys hemma

Willys hemma is the leading discount chain in the small-format segment of the discount market. Willys hemma was launched in February and had 41 stores at the end of September. The chain's launch is proceeding according to plan.

Sales for Willys hemma amounted to SEK 796 m (732) during the period, an increase of 8.7 per cent. A loss (EBIT) of SEK –18 m (+15) was reported for the period. The operating margin was negative (+2.0 percent).

To date during the year 29 stores have been converted from the HP chain, ten have been acquired and two have been converted from other concepts within the Group.

Axfood Franchise

Axfood's collaboration with independent grocers is coordinated in Axfood Franchise and the two store concepts Spar and Tempo. The Spar chain consisted of 126 stores at the end of the third quarter. An increase in the franchise fee for the Spar concept was effected during the third quarter.

Axfood Franchise is reported under joint-Group items. Profit (EBIT) for the period was SEK 25 m (22).

Change of store structure – Group-owned stores, status as per September 2002

	Dec. 2001	Newly established units	Acquisitions	Sales/ closures	Conversions to/from	Sept. 2002
Hemköp	106	-	1	-5	-6	96
Willys	62	2	4	-3	4	69
Willys hemma	29		10	-	2	41
Spar Finland	77		5	-3	-	79
Spar	1		-	-	-	1
	275	2	20	-11	0	286

Axfood Partihandel (wholesaling)

Axfood's wholesaling operations (Dagab and Axfood Närlivs) posted sales of SEK 15,037 m (13,462) during the period January – September.

Dagab's sales during the period January – September amounted to SEK 13,024 m (10,766). Dagab's profit (EBIT) totalled SEK 198 m (160). The operating margin was 1.5 per cent (1.5). The outcome for the third quarter can be credited to favourable sales, cost control and stable gross margins.

During the third quarter Axfood Närlivs renewed its agreement with Svenska Shell entailing a SEK 95 m increase in annual volume. In addition, Axfood Närlivs has gathered its volume in southern Sweden at a single warehouse operation. Sales for Axfood Närlivs during the period January – September amounted to SEK 3,558 m (3,428), an increase of 3.8 per cent. Profit (EBIT) was SEK 71 m (55). The operating margin was 2.0 per cent (1.6).

In October the decision was made to transfer the Tempo chain from Axfood Franchise to Axfood Närlivs with effect from 1 January 2003. Axfood will thereby be gathering all its cooperation with private convenience store operators (small convenience stores) in Axfood Närlivs.

Spar Finland

Spar Finland Abp consists of 79 wholly owned stores and 227 collaborating stores. The Spar Group has an approximate 9 per cent share of the Finnish retail food market.

Spar Finland's work on systematising purchasing and the product range in its stores continues to generate significant earnings improvements. Both the Spar and Eurospar concepts are showing tangible improvements. Active work on reducing waste in the stores has also yielded good results.

Sales during the period January – September amounted to SEK 4,189 m (4,233), and profit (EBIT) was SEK 48 m (23). The operating margin for the period was 1.2 per cent (0.5).

To date during the year five stores have been acquired and three have been closed.

Capital expenditures

Capital expenditures during the first nine months of the year amounted to SEK 322 m. Of these, investments in fixed assets in the wholesaling operations and in the store network in Sweden accounted for SEK 279 m, and investments in fixed assets by Spar Finland for SEK 43 m. In addition, shares in subsidiaries were acquired for SEK 30 m. The sale of parts of the real estate holdings made a net contribution of SEK 25 m to earnings.

Financial position

Cash flow from continuing operations amounted to SEK 709 m (677) during the period January – September. In one year's time, net lending by Handelskredit after provisions for possible loan losses has decreased by SEK 180 m and amounted to SEK 179 m (359) at the end of the period. The Group's liquid assets amount to SEK 344 m (281). Interest-bearing assets amounted to SEK 550 m (677) at the end of the period. Interest-bearing net debt has decreased by SEK 498 m, to SEK 1,349 m (1,847) at the end of the period. The debt-equity ratio, net, was 0.8 (multiple) (1.5) at the end of the period.

The equity ratio was 22.4 per cent (17.2).

Employees

The Axfood Group had 8,189 (8,455) full-time employees at the end of the third quarter. Of the Group's total workforce, slightly more than 5,000 employees work in stores.

Parent Company

Other operating revenue for the Parent Company amounted to SEK 23 m (18) during the period. After administrative expenses of SEK 64 m (52) and net financial items of SEK –18 m (–19), profit after financial items was SEK –59 m (–53). Capital expenditures totalled SEK 2 m (1). The Parent Company's liquid assets totalled SEK 0 m (0). Interest-bearing external assets amounted to SEK 1 m (1) at the end of the period. Interest-bearing net debt has decreased by SEK 108 m and amounted to SEK 525 m (633) at the end of the period.

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.

Next report

The year-end report for 2002 will be released on 6 February 2003.

Stockholm, 23 October 2002

Axfood AB (publ.)
The Board of Directors

Reg. no. 556542-0824

We have conducted a limited review of the accompanying interim report in accordance with the recommendation issued by the Swedish Institute of Authorised Public Accountants (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 fulfill the requirements of the Swedish Stock Exchange Act and the Swedish Annual Accounts Act.

Stockholm, 23 October 2002

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Net sales per business unit and market					
SEK m	July–Sept.		Jan.–Sept.		Jan.–Dec.
	2002	2001	2002	2001	2001
Hemköp	1,507	1,531	4,639	4,741	6,536
Willys	2,173	1,830	6,136	5,014	6,943
Willys hemma	284	238	796	732	981
Axfood Direkt	-	16	-	56	82
Axfood Närlivs	1,257	1,218	3,558	3,428	4,618
Spar Finland	1,441	1,473	4,189	4,233	5,683
Dagab ³	4,426	3,709	13,024	10,766	15,054
Other ¹	530	577	1,539	1,679	2,247
Internal sales ⁴	- 3,280	- 2,458	- 9,346	- 6,777	- 9,716
Total	8,338	8,134	24,535	23,872	32,428

Operating profit (EBIT) for the period, is broken down as follows:					
Mkr	July–Sept.		Jan.–Sept.		Jan.–Dec.
	2002	2001	2002	2001	2001
Hemköp	7	20	69	93	126
Willys	123	59	265	174	242
Willys hemma	- 6	5	- 18	15	20
Axfood Direkt	-	- 12	-	- 30	- 41
Axfood Närlivs	29	23	71	55	69
Spar Finland	28	23	48	23	25
Dagab	67	53	198	160	258
Other ¹	54	15	119	41	33
Total	302	186	752	531	732
Items affecting comparability	-	- 26	-	- 33	- 79
Operating profit for the period	302	160	752	498	653

Operating profit for the period before goodwill amortisation (EBITG) is broken down as follows:					
SEK m	July–Sept.		Jan.–Sept.		Jan.–Dec.
	2002	2001	2002	2001	2001
Hemköp	8	22	72	98	130
Willys	131	66	288	197	273
Willys hemma	- 4	7	- 12	20	27
Axfood Direkt	-	- 12	-	- 30	- 41
Axfood Närlivs	30	24	75	58	73
Spar Finland	30	26	56	32	37
Dagab	80	66	238	198	308
Other ¹	57	17	123	47	41
Total	332	216	840	620	848
Items affecting comparability	-	- 26	-	- 33	- 79
Operating profit before goodwill amortisation	332	190	840	587	769
Goodwill amortisation	- 30	- 30	- 88	- 89	- 116
Operating profit for the period ²	302	160	752	498	653

1. Includes joint-Group functions and the support companies IT, Fastigheter, Handelskredit, Private Labels and Franchise.
2. Operating profit for the year includes a net capital gain of SEK 25 m on sales of real estate.
3. Of which, SEK 2,807 m (1,566) from direct distribution for the period January – September.
4. Of which, SEK 8,629 m (5,877) for Dagab for the period January – September.

Condensed profit and loss account					
SEK m					
	July–Sept.		Jan.–Sept.		Jan.–Dec.
	2002	2001	2002	2001	2001
Net sales	8,338	8,134	24,535	23,872	32,428
Cost of goods sold	- 7,141	- 7,116	-21,222	- 20,971	- 28,425
Gross profit	1,197	1,018	3,313	2,901	4,003
Selling/administrative expenses	- 895	- 858	- 2,561	-2,403	- 3,350
Operating profit	302	160	752	498	653
Net financial items	- 27	- 30	- 82	- 95	- 126
Profit after financial items	275	130	670	403	527
Taxes	- 91	- 45	- 221	- 140	- 188
Minority share	- 7	- 5	- 12	- 6	- 11
Profit for the period	177	80	437	257	328
Operating profit includes depreciation totalling	- 134	- 122	- 393	- 359	- 518
- of which, goodwill amortisation	- 30	- 30	- 88	- 89	- 116
Earnings per share, SEK	3.34	1.50	8.22	4.83	6.16
Earnings per share after dilution, SEK	3.27	1.48	8.06	4.76	6.07

Condensed balance sheet				
SEK m				
	30/9/2002	30/9/2001	31/12/2001	
<i>Assets</i>				
Goodwill	1,038	1,139	1,119	
Financial fixed assets	428	604	541	
Other fixed assets	2,234	2,214	2,310	
Total fixed assets	3,700	3,957	3,970	
Inventories	1,489	1,501	1,559	
Accounts receivable, trade	821	954	991	
Other current assets	861	659	841	
Cash and bank balances	344	281	406	
Total current assets	3,515	3,395	3,797	
Total assets	7,215	7,352	7,767	
Shareholders' equity and liabilities				
Restricted shareholders' equity	859	808	855	
Unrestricted shareholders' equity	642	328	353	
Minority interests	116	127	109	
Interest-bearing provisions	374	365	365	
Noninterest-bearing provisions	275	244	272	
Interest-bearing long-term liabilities	1,021	1,331	1,179	
Noninterest-bearing long-term liabilities	-	5	18	
Current interest-bearing liabilities	504	828	891	
Accounts payable, trade	1,668	1,840	2,054	
Other current noninterest-bearing liabilities	1,756	1,476	1,671	
Total shareholders' equity and liabilities	7,215	7,352	7,767	

Cash flow statement			
SEK m	Jan.–Sept. 2002	Jan.–Sept. 2001	Jan.–Dec. 2001
<i>Operating activities</i>			
- Cash flow from operating activities before changes in working capital	860	659	891
- Changes in working capital	- 151	18	155
Cash from operating activities	709	677	1.046
<i>Investing activities</i>			
- Company acquisitions, net	- 16	- 107	- 118
- Purchases of fixed assets, net	- 209	- 231	- 328
- Reduction of financial fixed assets	144	105	153
Cash flow from investing activities	- 81	- 233	- 293
<i>Financing activities</i>			
- Change in interest-bearing liabilities	- 551	- 441	- 645
- Dividends received, etc.	-	-	20
- Dividend to shareholders	- 133	-	-
Cash flow from financing activities	- 684	- 441	- 625
Cash flow for the period	- 56	3	128

Shareholders' equity			
SEK m	30/9/2002	30/9/2001	31/12/2001
Amount at start of year	1,208	855	855
Option premiums	-	10	10
Redemption of convertibles in subsidiaries	-	-	- 6
Reversal of write-down / write-down of own shares	-	-	5
Translation difference	- 11	14	16
Dividend to shareholders	- 133	-	-
Profit for the period	437	257	328
Amount at end of period	1,501	1,136	1,208

Key ratios and other data			
	30/9/2002	30/9/2001	31/12/2001
Operating margin	3.1%	2.0	2.0%
Margin after financial items	2.7%	1.7%	1.6%
Equity ratio	22.4	17.2%	17.0%
Debt-equity ratio, net, multiple	0.8	1.5	1.3
Debt-equity ratio, multiple	1.17	2.00	1.85
Interest coverage, multiple	8.1	4.8	4.7
Capital employed, SEK m	3,516	3,787	3,752
Return on capital employed ¹	25.3%	13.5%	17.3%
Return on shareholders' equity after tax ¹	38.6%	22.1%	31.8%
Capital expenditures, gross SEK m	322	382	404
Earnings per share, SEK	8.22	4.83	6.16
Earnings per share after dilution, SEK	8.06	4.76	6.07
Dividend per share	2.50	-	-
Net asset value per share, SEK	28.20	21.34	22.70
Number of shares outstanding	53,229,028	53,229,028	53,229,028
Number of shares outstanding after dilution	54,460,250	54,291,279	54,327,524
Holdings of own shares	-	-	-
Number of full-time employees	8,189	8,455	8,514

1. Moving 12 months.