

*Our Own
Annual Report 1999*





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Hemköp is one of Sweden's leading retail food chains, with 100 Hemköp stores nationwide. The business concept is based on the cornerstones of quality, the environment and health, with an emphasis on good ethics. Hemköp's overall mission is to create growth in value through enhanced customer benefit. This will be achieved by expanding the store network and maintaining high customer confidence.

Annual General Meeting

The Annual General Meeting of Hemköpskedjan AB (publ.) will be held at 5 p.m. on Thursday, May 11, 2000. Location: Kongresshallen, Falu Folkets Hus, Myntgatan, Falun, Sweden.

Notification

Shareholders who wish to attend the Annual General Meeting must notify the Company of their intention not later than 4 p.m. on Friday, May 5, 2000, by writing to the following address:

Hemköpskedjan AB
Box 828
SE-791 29 Falun

Notification may also be made by phone, at +46-23-589 00, by fax, at +46-23-71 19 77, or by e-mail at: receptionen@hemkop.se

Notification should include name, address, social security number/company registration number, telephone number and number of shares held.

Participation

To be able to participate in the Meeting, shareholders must be recorded in the register of shareholders maintained by the Swedish Securities Register Center (VPC AB) not later than Friday, April 28, 2000,

and they must notify the Company of their intention to participate in the Meeting not later than 4 p.m. on Friday, May 5, 2000.

Shareholders whose shares are registered in the name of a nominee must temporarily re-register their shares in their own names to be entitled to participate in the Meeting. Shareholders must notify their nominee in ample time prior to April 28, 2000.

Proposed dividend

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 2.60 per share be paid. The Board proposes Tuesday, May 16, 2000 as the record date. Provided that the Annual General Meeting votes in accordance with the Board's proposal, dividends are expected to be sent out by VPC on Friday, May 19, 2000, to shareholders included in the register of shareholders on the record date.

Shareholders are requested to inform their custody services department of any changes in name or address.

Agenda

The agenda and matters to be dealt with by the Annual General Meeting will be presented in a notice in daily newspapers.



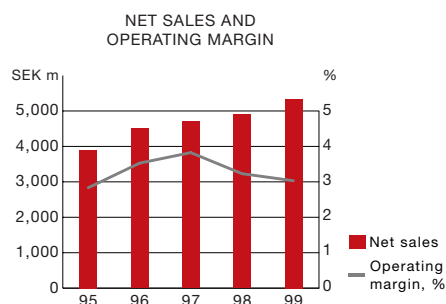
1999 at a glance

- Hemköp's net sales rose 7.7 percent, to SEK 5,338 m, corresponding to volume growth of 6.6 percent.
- Operating income was SEK 162 m (161). The operating margin was 3.0 percent (3.2).
- Capital expenditures totaled SEK 135 m (123).
- Five new stores were added, bringing the number of Hemköp stores to 100 at year-end.
- Håkan Matz took over as President on July 1.
- In November the boards of Hemköp and D&D announced their intention to combine the two companies and acquire Spar i Sverige and a voting majority in Spar Finland, thereby forming one of the largest food wholesale and retail companies in the Nordic countries.
- A dividend of SEK 2.60 per share (2.60) has been proposed.

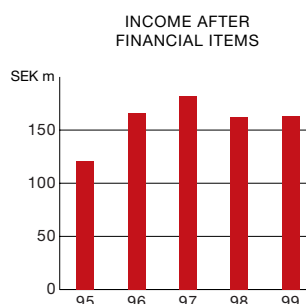
Key ratios

SEK m	1999	1998	Change, %
Net sales	5,338	4,958	7.7
Operating income	162	161	1.0
Income after financial items	163	162	0.4
Operating margin, %	3.0	3.2	
Net earnings per share, SEK	4.68	4.66	0.4
Dividend per share, SEK	2.60*	2.60	–
Capital expenditures	135	123	9.8
Number of full-year employees	2,711	2,526	7.3

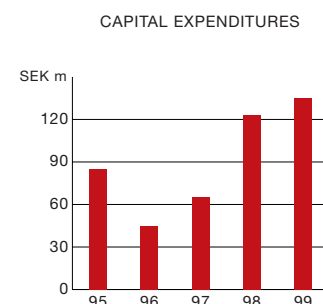
* Proposed dividend



Net sales increased to SEK 5,338 m. The sales increase is mainly attributable to new and refurbished stores.



Income after financial items increased to SEK 163 m. The profit margin was 3.1 percent.



Capital expenditures increased to a record SEK 135 m.

President's comments 1999

The general market conditions for trade were favorable in 1999. Falling unemployment, an economic upswing and greater scope for private consumption led to good growth in the market.

For Hemköp, 1999 was a year of development. We grew our sales by 7.7 percent, or 6.6 percent in volume, which means that we continue to capture significant market shares. We also passed the five billion kronor mark in sales for the first time. This shows the high level of confidence the market has in us and the broad acceptance of our quality concept. We have expanded strongly during the past two years. An extensive new-establishment program, which has added a total of eleven new stores and three new bakeries, resulted in a SEK 20 m higher charge against operating income than in the preceding year, mainly due to higher payroll costs and depreciation. The operating margin amounted to 3.0 percent. This is good in our industry but still lower than our long-term target, which is 3.5 percent over a business cycle. Earnings in 2000 will be favorably effected by the fact that several of the newly established stores will have been operating long enough to begin achieving satisfactory profitability.

Rise in capital expenditures

During the year we invested SEK 135 m, compared with SEK 123 m in 1998. Among major projects were Hemköp Plus, an all new large-format supermarket concept which we launched in Valbo, outside Gävle. We followed this up with the refurbishment of a store in Linköping. These two stores, which have substantially larger retail space than our traditional supermarkets, have a particularly keen focus on families with children, while maintaining the familiar Hemköp profile.

In all, we inaugurated five new stores and two bakeries in 1999, and we finished nine refurbishments.

Extensive structural deals

In November the boards of Hemköp and

D&D Dagligvaror announced their intention to combine their operations in a major, listed company. In March 2000 we are carrying out our largest deal ever, as Hemköpskedjan acquires the shares in D&D through a non-cash issue. Through this deal a new group with the working name the "New Food Company" is being formed. Following the acquisition of Spar Sverige, Spar Inn Snabbgross and a voting majority in Spar Finland, the New Food Company will be one of the leading players in the food retail and wholesale industry in the Nordic countries, with a market share of approximately 20 percent in Sweden and 10 percent in Finland.

The New Food Company

The New Food Company will address a wide range of shifting consumer demands. This includes strong concepts with distinct profiles in all segments, from the high-quality food specialist concept to strictly discount stores. This means that we have good prospects for meeting the differentiation of customer needs that now exists in the market.

We can also say that the Nordic countries will be our base for future startups. Considering our distinct market profile, Hemköp will benefit greatly from this.

I see it as an advantage that we will now be able to expand within the framework of a strong food retail and wholesale group that is already active in other markets.

Shifting consumer demands

The retail food market is characterized by shifting consumer demands and the emergence of new consumption patterns. One strong trend is toward a higher demand for service, quality and processed products. Another is the focus on low prices.

This is leading to continued polarization between food-specialist and discount stores. Our focus at Hemköp is primarily on quality-conscious customers.

Our customers ask for processed products, like ready-made meals that are wholesome, appetizing, and easy to prepare at home. At the same time, they enjoy cooking and want top-grade products. For these customers, the culinary experience is most important.

Quality, the environment and health

Furthermore, we can see that environmental awareness is here to stay. Consumers everywhere expect that ingredients as well as processed products are safe and meet high environmental standards. Suppliers that do not meet these high expectations will have a hard time surviving in the future.

We also see a greater focus on health aspects in shoppers' choices of food products. This applies for everything from basic merchandise to functional foods. People want food that is healthy. The fact that 18 percent of the population has some form of food-related allergy or oversensitivity – and that this number is growing – gives us an incentive at Hemköp to learn more and to offer a more suitably adapted assortment. Along these lines, we are starting a training program for special nutritionists in our stores in 2000.

Hemköp's concept is based on quality, the environment and health, with an emphasis on good ethics. So for us it is only natural to take the lead in this area.

Falun, Sweden, March 2000

Håkan Matz, President and CEO

"We will always show that we care and offer our customers the highest quality in the market's best food stores."



Good year for the retail industry

The favorable climate for private consumption ensured that 1999 was a good year for the retail industry. The strong economy is expected to continue to have a favorable impact on the retail industry in the year 2000 as well. The food industry is changing fast, and competition is getting stiffer. For players in the Swedish market, the home market is increasingly Nordic in scope.

The Swedish economy developed strongly in 1999, and GDP rose 3.8 percent compared with 1998, according to SCB (Statistics Sweden).

This strong growth derived mainly from a 4.1 percent increase in household consumption of goods and services. Household expenditure on cars, furniture, clothes and home electronics accounted for a large part of this increase.

Public sector consumption also noted a 1.8 percent increase.

Record Christmas sales

According to figures released by the Swedish Research Institute of Trade (HUI) for 1999, sales for the year closed strongly, with excellent sales through December and up to Christmas, making it the best Christmas season of the decade.

According to HUI, the retail sector noted a 4.3 percent increase in sales in 1999, calculated at current prices, reporting total sales of approximately SEK 330 billion, including VAT. This makes 1999 the next best year of the decade for the retail sector. Only the record year of 1998 showed even more favorable growth.

Consumption of food and household commodities amounted to approximately SEK 175 billion, including VAT. According to figures published by HUI, sales rose by 3.3 percent at current prices (2.3 percent at fixed prices). Sales of consumer durables rose by 5.5 and 5.3 percent respectively. Furniture, home electronics and jewelry accounted for the largest increase.

Favorable forecast

The macroeconomic fundamentals that explained the upward trend in 1999 – the decline in unemployment, continued relatively low interest rate pressure combined with fairly low inflation and increased real income levels – will, according to HUI's

forecast, continue to have a favorable affect on trade in the year 2000.

Retail food industry restructures

The Swedish retail food industry has traditionally been noted for its stability and low degree of internationalization. International food chains have established only limited operations in Sweden, although in recent years some of these have entered the market mainly through acquisitions in the convenience store sector.

These include Norway's Narvesen, with Seven Eleven and Pressbyrå, and the service station chains Shell and Statoil, which have invested in a limited range of food and household products. In 1999, ICA and Statoil formed a joint-venture company to operate Statoil's service stations in Scandinavia.

Now, however, significant changes are affecting the retail food market, in Sweden and in most European countries.

Larger chains in Europe

The trend throughout Europe is towards fewer but larger players. Expansion in the form of cross-border acquisitions is becoming increasingly common.

Industry analysts estimate that the 25–30 largest players at the beginning of the 21st century will control 75–80 percent of the market. Another estimate is that five large chains will command a 40-percent share of the European market by the year 2005.

During an eventful 1999, America's Wal-Mart continued its European expansion by acquiring Britain's Asda. In France, Carrefour merged with Promodès, to form one of the world's largest retail food companies.

Increased competition

Competition in the retail food sector is increasing, at the same time that suppliers and producers are growing in size and ne-

gotiating power. Producers have also been involved in major acquisitions and mergers. To secure and maintain a leading market position in future, food companies, food chains and related organizations will have to be large and efficient, with a clearly-defined market presence and substantial resources. The pace of consolidation and internationalization is accelerating, and foreign companies and chains are expressing an increased interest in the Nordic market.

A Nordic perspective

In early December 1999, Holland's listed retail food giant Ahold announced its plans to acquire a 50-percent stake in ICA. A merger between ICA and the Norwegian Hakon Gruppen had been implemented earlier in the year.

At the same time, KF (the Swedish Cooperative Society) is developing its Nordic collaboration with its fellow cooperative societies in Denmark, Norway and Finland.

It is clear that, for the majority of Swedish players, the concept of a domestic market has now expanded from a national to a more Nordic perspective.

Large new listed group

In November, the boards of Hemköp and D&D announced their plans to form a new, listed retail food group.

The merger between Hemköp and D&D, in combination with the acquisition of Spar Sweden, Spar Inn Snabbgross and the voting majority in Spar Finland, will create one of the largest food wholesale and retail companies in the Nordic region.

The merger will generate a number of positive synergies as well as offer consumers a broader range of products and even better service. The more than 1,000 stores in Sweden, with a total of some 330 stores in Finland, will have joint sales, including VAT, in excess of SEK 40 billion. ■

Leading Nordic company

Hemköp and D&D are now joining forces to create a competitive, listed company in the Nordic market. With strongly profiled stores, the New Food Company will be positioned to serve customers even better, while increasing sales and profitability.

The combination of Hemköp and D&D creates a competitive, listed company in the Nordic market. The merger is effected by Hemköpskedjan AB acquiring the shares in D&D Dagligvaror AB through a non-cash issue of shares. Spar Sweden and Spar Inn Snabbgross, plus Axel Johnson's holding in Spar Finland, will be acquired by the new corporate group. The intention is that the New Food Company will start operations in March 2000. Mats Jansson has been appointed President and Chief Executive Officer of the new company.

The combination of Hemköp and D&D, and the acquisitions conditional on its implementation, will create a leading food company in the Nordic market. The new company, provisionally named the "New Food Company," will have total net sales of approximately SEK 30 billion, with market shares of about 20 percent in Sweden and about 10 percent in Finland.

Net sales

SEK m	1999 pro forma	1998 pro forma
Sweden		
Wholesale operations	14,692	14,446
Retail operations	10,985	10,524
Other	1,065	944
Intra-group sales	-3,080	-2,925
Total, Sweden	23,662	22,989
Finland		
Wholesale operations	3,587	3,899
Retail operations	1,606	1,673
Other	222	221
Total, Finland	5,415	5,793
Total	29,077	28,782

The New Food Company will conduct food wholesale and retail trading through a number of supermarket chains featuring strong brand names such as Hemköp, Spar, Vivo, etc. Approximately 40 percent

of consolidated net sales will be generated by retail operations.

The New Food Company controls more than 1,000 stores in Sweden, approximately 250 of which are wholly or jointly owned, the remainder being owned by independent retailers operating under contract to D&D. The company will have some 330 stores in Finland, 85 of which are wholly owned, the others being operated by independent retailers. The number of full-year employees will amount to approximately 7,000. The New Food Company (formerly Hemköp) will continue to be listed on the OM Stockholm Exchange's A-list.

Hemköp and D&D Varuförsörjning (formerly Dagab) have a long-standing business relationship. Hemköp's largest supplier is D&D Varuförsörjning. D&D's largest single "external" customer is Hemköp. The relationship was strengthened during the summer of 1998 when Hemköp and D&D concluded agreements covering the establishment of stores and the take-over of store locations. Bringing the two operations together in a single group is a natural step in this cooperative relationship.

The New Food Company can achieve substantial savings by coordinating purchasing, logistics and investments. Through a number of strong brands, the New Food Company will be able to optimize its store locations and store concepts in order to satisfy customer needs more efficiently, while increasing sales and profitability. The New Food Company intends to play a continuing active role in the development of the retail food industry and to secure a leading position in the Nordic market.

ECONOMIES OF SCALE

The combination between Hemköp and D&D offers excellent opportunities for

efficiency improvements and cost savings that will strengthen the competitiveness of the New Food Company. It is estimated that the net effect of the synergies generated by the combination, as well as underlying organic growth, will positively affect income after financial items by a total of approximately SEK 400 m over the next three years. These synergies are expected to derive partly from the combination of Hemköp and D&D and the acquisitions of the Spar companies, and partly from implementation of the current rationalization program being conducted in conjunction with the merger of D-Gruppen AB and Dagab AB.

Positive synergies

The Boards of Directors of Hemköp and D&D have identified the following principal areas where the combination of the two companies is expected to yield positive synergies:

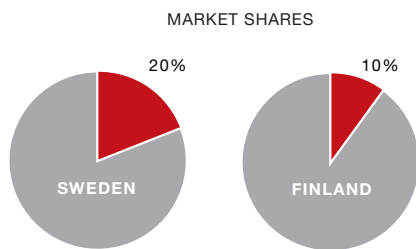
- Purchasing and logistics
- Optimization of store structure
- Information Technology (IT)
- Exchange of expertise
- Administration

Purchasing and logistics

The New Food Company will be able to improve the efficiency of flows of information, goods and capital. It will be possible, for example, to coordinate and optimize purchasing and logistics. The New Food Company will achieve a size that will give it substantial strength in purchasing, which is expected to result in more advantageous purchasing terms and more efficient logistics.

Optimization of store structure

The coordination of Hemköp, D&D, Spar Sweden, Spar Inn Snabbgross and Spar Finland produces a store structure featuring a number of specialized store profiles. These



The New Food Company will have a leading position in the Nordic market.

THE LARGEST FOOD COMPANIES IN THE NORDIC MARKET

Group	Market
ICA/Ahold	Swe/Nor
New Food Company	Swe/Fin
NorgesGruppen	Nor
KF/Konsum	Swe
FDB	Dk
Keskogruppen	Fin

The New Food Company will be one of the largest players in the food wholesale and retail sector in the Nordic region.

include supermarkets (e.g. Hemköp, Vivo, Billhalls), discount stores (e.g. Spar, Exet, Matex, XL, Willys) and convenience stores (e.g. Tempo, Matnära).

Working together, the companies will be better able to adapt existing and new store profiles, based on store location and size, and on the needs and wishes of local customers. For example, a store could adopt a new profile, better suited to its location and size.

The New Food Company will thereby be able to serve its customers much more efficiently. The Boards of Directors of Hemköp and D&D believe this will result in increased profits for independent retailers as well as for the New Food Company.

IT

The merger will permit coordination of IT investment and IT expertise between the companies, creating more efficient information systems and superior service and quality. Selecting from the best IT expertise and the best IT systems in each company will yield significant economies of scale. Economies of scale are also anticipated in connection with the company's program for full-service electronic shopping via the Internet. Spar Sweden's and D&D's experience of e-commerce is, in particular, expected to play a valuable part in the operations of the New Food Company.

Exchange of expertise

The combination of Hemköp and D&D will provide a strong joint core of expertise and know-how in establishing stores and developing store networks. Hemköp and Spar Sweden, with their strong brand names, will contribute expertise in operating stores in chain organizations. Concentrating resources in a single company, and utilizing joint expertise to enhance competitiveness and marketing efficiency, will

ensure favorable conditions for increased sales and higher margins.

Administration

Administrative functions, such as head office operations and other intra-Group functions, will be coordinated and integrated.

D&D implements efficiencies

Since the combination of D-Gruppen and Dagab in March 1999, D&D has been implementing structural changes and efficiencies to streamline the product range, strengthen logistics and improve purchasing terms.

EARNINGS TREND

The New Food Company reported pro forma sales of approximately SEK 29 billion for 1999, and income after financial items of SEK 261 m. Restructuring costs of approximately SEK 90 m have been charged to earnings, of which approximately SEK 40 m in the final quarter.

The merger is not expected to have any appreciable effect on earnings per share in the year 2000. However, earnings per share in 2001 are expected to increase substantially, compared with earnings projected for 2000.

The forecasts assume that the structural changes and efficiency-improvement program implemented by D&D will proceed as planned, and that the New Food Company fully realizes the potential to be derived from the combination in terms of positive synergies and efficiency gains.

LOOKING AHEAD

The New Food Company will operate in the food retail and wholesale sector, which is a mature industry with stable but limited growth. Annual volume growth in the past ten years has been approximately one per-

cent. However, the New Food Company plans to grow faster than the market average. Growth will be achieved organically, through expansion and by generating higher sales from existing units in new and current markets, as well as through acquisitions in Sweden, the other Nordic countries and the Baltic States.

The aim of the New Food Company is to increase the percentage of sales generated from its own retail operations, thereby boosting margins and improving profitability. The New Food Company today controls store locations via contracts with independent retailers and by owning most of the store brand names.

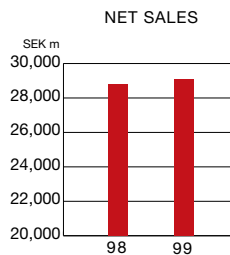
In the Baltic States, the New Food Company intends to participate in the food industry's growth and to expand its present food wholesale and retail operations.

Through collaboration with United Nordic Inc AB, a purchasing company owned jointly by D&D and the wholesalers Dagrofa a/s in Denmark, TukoSpar Oy in Finland and Unil A/L in Norway, the New Food Company secures a stronger negotiating position when purchasing imported goods, especially from distant markets.

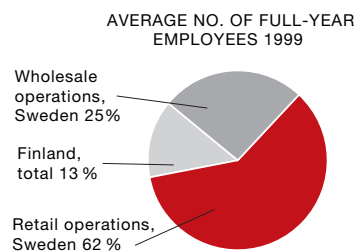
FINANCIAL OBJECTIVES AND DIVIDEND POLICY

The New Food Company will create increased value for shareholders through sales growth and cost efficiency. By utilizing its expertise in chain operations and its strong brand names, the New Food Company will optimize the existing store structure in order to offer the right products at the right price to the right customers. Growth will be secured through acquisitions and the establishment of new stores in Sweden, the other Nordic countries and the Baltic States.

The New Food Company's financial



Consolidating resources to a single company will establish conditions favorable to increased sales and improved margins.



The new company will number approximately 7,000 full-year employees in Sweden and Finland.

objectives and dividend policy will be established by the company's Board of Directors when the combination has been implemented. The financial objectives and dividend policy described below, which have been subject to initial consideration by the Boards of Directors of Hemköp and D&D, are deemed reasonable.

Financial objectives

Sales are expected to increase by approximately 5 percent annually, through organic growth and acquisitions.

It is anticipated that the New Food Company's internal profitability target will be an average operating margin of approximately 3 percent over a business cycle. The operating margin reported for 1999 was 1.2 percent pro forma. The company's equity ratio target should be about 20 percent. The equity ratio reported for 1999 was 13.8 percent pro forma.

Dividend policy

The New Food Company will establish the size of future dividends based on the company's long-term growth and earnings trend, as well as the need for a strong balance sheet, a high degree of liquidity and a generally strong financial position.

Organization and operations

Hemköp, D&D, Spar Sweden, Spar Inn Snabbgross and Spar Finland will be gathered under the current listed parent company, Hemköp. It is proposed that Hemköp's name be changed.

The New Food Company will develop, acquire, refine and conduct retail food and wholesale operations, and will offer support functions such as purchasing, logistics, IT-support and market analysis.

Through wholly and jointly-owned

stores, as well as independent cooperating retailers, retail operations will initially comprise approximately 30 chains of stores with different product and price strategies, targeting different customer segments. The store profiles include supermarkets, discount stores and convenience stores. Wholesale operations will be devoted mainly to supplying units of the New Food Company and affiliated retailers, but will also serve unaffiliated retailers.

Intra-group functions include the establishment of stores, information and financial functions. Coordination of store reprofiling and store establishment will ensure that the appropriate concept is implemented at each location and outlet. The store establishment function handles the transfer, purchase and sale of retail stores.

Support functions will also comprise negotiating and purchasing know-how, knowledge of consumption patterns and retail store operations, and marketing and development of the New Food Company's branded products, such as Eldorado, Fauna and Garant.

Personnel

As of year-end 1999, the average number of full-time employees working for the New Food Company, calculated pro forma, was 7,364.

Average no. of full-time employees

	1999 pro forma	1998 pro forma
Sweden		
Wholesale operations	1,853	1,789
Retail operations	4,582	4,363
Total Sweden	6,435	6,152
Finland	929	987
Total	7,364	7,139

Environment

The New Food Company is committed to a fundamental objective: to contribute to the sustainable development of society, based on respect for the ecocycle. Strong local support of this objective by stores, suppliers and customers is an important factor in meeting this commitment.

Board of Directors

The Board of the New Food Company comprises the following members:

Göran Ennerfelt, Chairman
 Roger Källman, Vice Chairman
 Marcus Storch, Vice Chairman
 Claes Andersson
 Peggy Bruzelius
 Nils-Erik Johansson
 Antonia Ax:son Johnson
 Gösta Törnroth
 Annika Åhnberg ■



Mats Jansson is President and CEO of the New Food Company.

Hemköp – a presentation

Hemköp is one of Sweden's leading retail food chains. At year-end 1999 the chain had 100 Hemköp stores, from Boden in the north to Ystad in the south. Five of these stores opened in 1999.

Hemköp was introduced on OM Stockholm Exchange in June 1997, and in early 2000 Hemköp is in the process of acquiring D&D, forming a new group under the working name the New Food Company. The listed New Food Company will be the parent company of Hemköp. Hemköp is thereby included in the New Food Company as a chain with a strong store profile.

Business concept

Hemköp's business concept is to conduct food retailing. Hemköp strives to meet consumers' needs and demand for retail food products by working from a long-term perspective based on the cornerstones of quality, the environment and health – with an emphasis on good ethics. Customers are offered a locally adapted assortment of products with a distinct quality profile in spacious, well arranged stores, and a high degree of personal service.

Hemköp will achieve competitive advantages as well as sustained, good profitability by combining employee commitment and participation with a long-term approach to business and efforts to instill strong customer confidence.

Earnings and market share

During the period 1995–99, Hemköp's operating margin averaged 3.2 percent per year. Sales including VAT rose from SEK 4,810 m in 1995 to SEK 6,084 m in 1999, an average annual increase of 6.1 percent, compared with 1.5 percent for the industry. Operating income during the same period improved from SEK 108 m to SEK 162 m, or an average of 10.7 percent per year.

Hemköp's share of the Swedish retail food market, defined as sales of food products through retail food stores, is approximately 4.5 percent. Hemköp has stores in

some 70 cities or towns, with strong local positions. In some local markets Hemköp's market share is over 40 percent. The goal is to have a leading position in every local market in which Hemköp is represented.

Hemköp's vision and objectives

Hemköp's vision is to always show that it cares and to give its customers the highest quality in the market's best food stores.

Financial targets

Hemköp's profitability target is to achieve a minimum operating margin of 3.5 percent over a business cycle. During the period 1995–99, the lowest margin was in 1995, at 2.7 percent, and highest in 1997, at 3.8 percent. Hemköp's equity ratio target is 20–25 percent, which is judged to be adequate for this type of operation. At year-end 1999 the equity ratio was 35 percent. Compared with the industry average, Hemköp has a higher margin and a faster rate of growth.

Market and customer objectives

Hemköp's market objective is to grow faster than the overall market and to increase its market share in the process. The ongoing expansion will take place through development of the existing operations and through establishment of new stores, primarily in major cities.

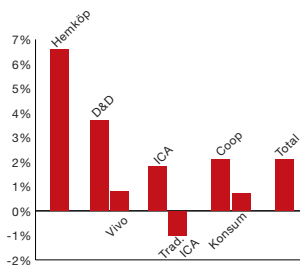
Hemköp's quality objective is to have a sustained high level of overall quality with regard to the product assortment, stores and staff. A caring attitude, commitment and knowledge will ensure that the consumers' expectations are met or exceeded.

Surveys conducted by the Swedish Institute of Public Opinion Research (SIFO) show that Hemköp receives high marks with respect to knowledge about and attitudes to Hemköp. In their own evaluations, customers give Hemköp high scores compared with its competitors, citing value for money, appealing freshness, quality consciousness and environmental profile as the most important criteria.

STORE STRUCTURE 1999

Retail space, sq.m.	No. of stores	Share of net sales, %	Retail space, average, sq.m.	Net sales, average, SEK m
–1,000	21	12.6	818	31.9
1,001–1,500	48	43.7	1,219	48.5
1,501–	31	43.7	2,099	75.0
Net sales, SEK m				
–35	29	14.6	970	26.9
35–50	23	18.4	1,238	42.5
50–75	30	34.3	1,608	60.8
75–	18	32.8	1,994	96.9
Region				
North	57	51.8	1,419	48.4
South	43	48.2	1,392	59.6
Store location				
Shopping centers	61	60.1	1,238	52.4
Suburban	30	29.4	1,482	52.1
External	9	10.5	2,306	62.4
Hemköp total	100	100.0	1,408	53.4

INDUSTRY TREND IN VOLUME, 1999



Hemköp's goal is to grow faster than the overall market and to increase its market share in the process. Discount stores and large format supermarkets account for most of the other growth in Sweden's retail food market.

At year-end 1999, 74 of 100 Hemköp stores sold bread from Hemköp bakeries. Of Hemköp's 17 bakeries, 16 are certified by KRAV, an organic foods certification agency.

Human resource objective

Hemköp's human resource objective is to have a strong company culture based on consideration, security, participation and a positive view of people, where the employees take a sense of pride in their work. Committed, motivated employees will ensure quality and enhanced value-added through competence, creativity, and by taking a holistic view of their jobs. Hemköp aims to be the most attractive employer in the business.

Environmental and health objectives

Hemköp's environmental objective is to be a front-runner in contributing to sustainable development and weighing in environmental considerations in every decision on all levels. By fostering a holistic view and ecocycle compliance, Hemköp will reduce the use of resources and costs, and thereby create scope for continuous improvement. Hemköp shall offer a large and growing assortment of ecolabeled products. All stores will be environmentally certified by year-end 2001.

Hemköp's health objective is to promote the development of wholesome food products and avoid unnecessary additives. The Company shall be best at meeting the shopping needs of health-conscious consumers and be the best food store for consumers with special dietary needs.

Reorganization

Food products account for 83 percent of Hemköp's sales. The remainder consist primarily of household chemical products, pet food and other nonfood products.

Effective January 1, 2000, Hemköp was reorganized from four to two regions: North and South. The North region accounts for a slightly larger portion of total sales. However, in recent years the rate of





Customer expectations will be met or exceeded through care, commitment and knowledge.



In 1999 a new concept of ready-made meat dishes was launched throughout the chain. The dishes are prepared in the respective stores.



Hemköp's "Our Own" private label includes more than 300 items and accounts for 8.2 percent of total sales.

◆ growth has been somewhat faster in southern Sweden, which is in line with the Company's long-term strategy.

Hemköp's head offices are located in Falun. The executive management's most important duties are to provide business support to the stores, sign purchasing agreements, develop a uniform concept and image in the market, and ensure access to new store locations.

Decisions near the customer

Hemköp has a strong brand name and a well established concept for developing individual stores. Each unit is a separate stock corporation. The employees are included in a profit-sharing plan which gives them a share in their own store's net result in relation to the number of hours worked.

Each store has a management committee which is headed by the store manager and includes the chairman of the store's local union chapter. Other members are elected from among the store's staff and belong to the management committee for a limited period of time. This gives many employees the opportunity to participate directly in the management of their store, which increases understanding of the operating conditions and satisfies the need for personal involvement. Moreover, decisions are made near the customers, which further stimulates the dialogue between the local stores and their customers.

Hemköp's concept

Distinctive for Hemköp's concept is the long-term work on improving customer confidence through the continuous development and integration of the Company's three cornerstones – quality, the environment and health, with an emphasis on good ethics – values that have become increasingly important

to customers. The concept also entails developing Hemköp's stores in the food specialist segment. Hemköp's strength factors are:

- a strong brand
- a distinct concept that the customers appreciate
- attractive stores with a distinctive fresh-food profile
- quality products combined with everyday low prices for basic items
- a strong cash flow and balance sheet
- committed and motivated employees in a unique company culture

Production

Hemköp's quality concept entails offering customers high quality in its products and service as well as in the store environment. Guaranteeing high product quality as a food retailer requires having insight into the entire production chain. Hemköp achieves this by signing exclusive agreements with breeders of lamb, pigs and cattle, as well as with egg producers and fruit and vegetable growers. At these "own" farms, Hemköp can be sure that the producers live up to the Company's high standards for everything from what the animals are fed to how the animals are cared for. As a natural consequence of this approach, Hemköp sells only fresh meats produced in Sweden and only eggs from free-range hens, for example.

By taking responsibility for the processing of products, Hemköp can control both the content and processes. A prime example is the bread that Hemköp sells from its own bakeries, which is free of unnecessary additives. As of year-end 1999, 74 of 100 Hemköp stores sold bread from Hemköp bakeries. The goal is that essentially all stores will be supplied with bread from Hemköp bakeries. Of Hemköp's 17 bak-

eries, 16 are certified by the KRAV organic labeling agency to bake organic bread.

Product range

Hemköp's ambition is to offer greater breadth and depth of products than competing retail food stores. The assortment is a key competitive weapon which is under continuous development in order to satisfy a growing customer base.

Every store carries an average of 8,000–10,000 items, some up to 15,000. The focus on high quality entails that brand-name products are given priority and that products with poor quality are not accepted.

Private label

Hemköp's quality concept and demand for insight into the entire production process are also the driving forces behind the development of Vårt Eget ("Our Own"), its own house brand.

The share of private label items is showing rapid growth. At year-end 1999 Hemköp offered slightly more than 300 private label items (excluding breads), many of which are ecolabeled. Sales of private label products, including eggs and bread from own bakeries (but excluding fresh meats, fruits and vegetables), account for 8.2 percent of Hemköp's total sales, and have higher average margins than corresponding, other brand-name products.

The goal is to have private label products in all segments in order to be able to offer customers a competitively priced alternative with high quality and close product control.

Pricing

Hemköp offers everyday low prices for basic items without profiling itself as a discount store. The goal is to maintain the right balance between quality, assortment and ser-



Hemköp has a strong company culture based on a high level of personal responsibility, short decision-making channels, and a slim administration.



In public opinion surveys, customers give Hemköp high marks with respect to value for money, quality consciousness and environmental profile.

Hemköp has taken a stance on a number of issues pertaining to good ethics in animal care and the environment. Hemköp sells only fresh meat produced in Sweden and only eggs from free-range hens.

vice, so that customers will have a value-for-money experience when shopping at Hemköp. Hemköp's consistent pricing strategy is a strong contributing factor behind customer confidence as well as profitability.

In the early 1990s Hemköp phased out the system of special offers and weekly advertising, which were typical in the retail food business. In its place Hemköp introduced the Everyday Low Prices concept, which entails permanent cuts of up to 35 percent for more than 3,000 basic items.

The Everyday Low Prices concept gives customers more freedom of choice while raising quality consciousness among suppliers and producers. Since consumers' choices are not steered by temporary price cuts, quality plays a larger role.

Multi-Price is an extension of the Everyday Low Prices concept, whereby the stores offer a discount for high volume purchases of the same item on a single occasion. Multi-Price entails a discount of 7–25 percent on the price of a single package and is offered for basic items such as milk, flour, pasta and coffee. For Hemköp, the Multi-Price concept contributes to higher sales of the products concerned as well as to higher average sales per customer visit.

Products marked as "Temporary Shipment" consist mainly of perishables purchased in bulk. These are sold at an attractive price and as long as stocks last. Temporary Shipments give Hemköp a measure of purchasing flexibility and complement the product range.

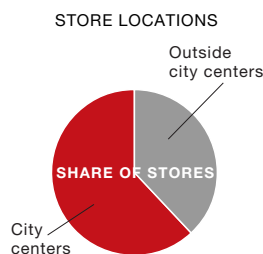
Marketing

Hemköp's marketing is partly strategic, partly operational. Strategic marketing is based primarily on activities aimed at increasing customer confidence and is ♦





In 1999 Hemköp was Sweden's first nationwide chain to incorporate a smart chip to its cards, giving customers an e-cash option.



Hemköp has a good balance in its store structure, with stores operating at attractive city locations as well as at shopping centers in outlying areas.

conducted jointly throughout the chain. These activities are complemented by various campaigns designed to generate returns for a long time and thereby contribute to the cost effectiveness of marketing.

Operational marketing is conducted at the local level within the framework of the overall concept. With the elimination of special offers and weekly advertising, this form of marketing is now very limited.

Hemköp's customer magazine, *Matnyttigt* ("Food for Thought") is published four times a year in approximately 1.5 million copies. The magazine seeks to promote a dialogue with customers, increase knowledge about Hemköp and promote Hemköp's concept. Hemköp Club customers are entitled to attractive weekly offers.

Hemköp also has a customer charge card linked to a savings/debit account, to which customers can make monthly deposits in advance. Customers earn interest on positive balances in their accounts. In 1999 Hemköp was Sweden's first nationwide chain to incorporate a smart chip to its cards, giving customers an e-cash option.

Company culture and staff

Hemköp had approximately 4,300 employees in 1999, corresponding to 2,700 full-year employees. Hemköp's success in the market can be credited in large part to its strong company culture, which is based on competent, motivated and committed employees and a decentralized organization.

Through Hemköp's profit-sharing plan, in which 10 percent of each store's net result is distributed to the employees in proportion to the number of hours worked during the year, a solid foundation for profitability-consciousness is created throughout the organization. The store managers and corporate management are included in

an incentive program offering stock options and bonuses.

The store managers have a key role as interpreters and promoters of the company culture. Internal management recruitment and training are therefore important aspects of Hemköp's strategy.

Sixty percent of store managers come from within the ranks. The current management training program is extensive, and the intention is that it will meet most of the future need for competent store managers who are committed to the Hemköp concept.

Suppliers and purchasing

D&D Varuförsörjning is Hemköp's principal supplier of groceries, processed meats, frozen goods and household chemical products. D&D Varuförsörjning serves as a supplier of goods in stock as well as a distributor and logistics partner for deliveries from other Swedish and foreign suppliers. D&D Varuförsörjning accounts for roughly 50 percent of Hemköp's total purchasing. The relationship between Hemköp and D&D Varuförsörjning is governed by contracts signed on strictly business terms.

Other suppliers include suppliers of dairy products, bread, meat, processed meats, beverages and newspapers/magazines. Saba Trading is Hemköp's principal supplier of fruits and vegetables.

Expansion and capital expenditure

Hemköp's operations generate a steady, strong cash flow, which has enabled the Company to finance its capital expenditures with own funds. The chain's ongoing expansion will take place through development of existing operations as well as through new store establishment.

Originally, Hemköp established units primarily in traffic-oriented locations out-

side city centers. During the last ten years, a number of centrally located stores were added to the chain.

Compared with other major food retailers, Hemköp has an advantageous store structure. Average gross sales amounted to SEK 53.4 m per store in 1999, excluding VAT. Hemköp does not have any small stores with sales under SEK 20 m. Hemköp can therefore concentrate on aggressive expansion of the store network.

The challenge is gaining access to good premises with the right location and a reasonable rent. New establishment can take place by taking over existing stores or through new construction. Hemköp makes use of both alternatives. Hemköp's capital expenditures totaled SEK 135 m in 1999, compared with SEK 123 m in 1998. During the year, five new stores were opened, and nine underwent major refurbishment and/or expansion. An entirely new large-format supermarket concept, Hemköp Plus, was introduced in Valbo and Linköping.

In 1998 and 1999 a large number of store locations were reviewed, with a central focus on the metropolitan areas of Stockholm, Gothenburg and Malmö. The key criterion is that each establishment must be able to generate gross annual sales of at least SEK 60 m.

Environmental work

Hemköp's ambition is to set the standard for environmental work in the industry, and in cooperation with customers, suppliers and authorities, to be a driving force in sustainable development. In the course of this work, laws and regulatory directives are viewed as a minimum standard. As a part of its environmental effort, each year Hemköp presents its own environmental award to a supplier or producer.



Hemköp aims to be a front-runner in its environmental work and to be a driving force in sustained development.

Hemköp attaches great importance to having a distinct profile and has established solid customer confidence, according to independent studies. The business concept is based on the cornerstones of quality, the environment and health, with an emphasis on good ethics.

Holistic view

Hemköp takes a holistic view of its organization, products and services. In purchasing and pricing, priority is given to products and materials that meet ecocycle requirements. Certified organic products (KRAV-labeled) and a developed network of local producers form the platform for this.

Hemköp also offers an extensive range of products bearing the Nordic “Swan” and “Good Environmental Choice” environmental labels. Hemköp’s “Our Own” brand also has a distinct environmental profile. Of the more than 300 items under this private label, some 60 are ecolabeled. Hemköp makes shopping for ecolabeled goods easy through clear shelf marking.

Hemköp also works consistently on giving exposure to ecolabeled products and giving these a good placement in the stores. This is one reason why Hemköp’s sales of ecolabeled products are higher than the industry average.

Hemköp requires an environmental declaration from all suppliers. Based on this declaration, suppliers are classified in various environmental categories. Suppliers with the lowest values are urged by Hemköp to implement measures to improve their environmental standing. Hemköp can also refrain from dealing with suppliers for environmental reasons.

Organization of environmental work

Hemköp’s environmental work is based on a strong, local base of support among employees, suppliers and customers. An environmental review is performed every year at each store, and new, quantifiable objectives are set. All employees are urged to understand why environmental matters have such a central role in Hemköp’s business concept and what the individual’s role





During the autumn Hemköp carried out a promotional campaign for organic products in cooperation with the internationally renowned nature photographer Mattias Klum.

Från början var
alla bananer ekologiska.

Ekologiska bananer odlas utan besprutning och konstgödsel och får därför märkas med KRAV. Bilden på den uppsmanande Krabbe-makakhanen är tagen av den världskände fotografen Mattias Klum vid en fjorton månaders expedition i Borneos regnskogar.

HEMKÖP
Vi tar miljön på allvar.

Ad text reads: "In the beginning, all bananas were organic."

♦ is in reducing any adverse environmental impact of operations.

Adaptation and structuring of operations in accordance with the ISO 14001 environmental management standard has been started as part of Hemköp's long-term, systematic work on fulfilling its environmental objectives.

Ethics and values

Hemköp has a serious and clearly stated view on morals and ethics in customer and business relations. The overriding objective is to foster enduring customer benefit and profitable relations. This presupposes that a good business relationship must be beneficial for both parties.

Hemköp's stores sell only fresh meats from Sweden. By signing agreements with breeders who produce exclusively for Hemköp, the company gains insight into the entire process, from producer to the individual stores. Hemköp has voiced its opposition to the controversial "Belgian Blue" steer, and it opposes the routine use of antibiotics in animal feed and long and distressing animal transports.

In consultation with consumer organizations and the retail trade, Hemköp has been a driving force behind demands for clear labeling of products with genetically modified ingredients. Customer benefit and consumer knowledge about genetic modification and its consequences are currently limited. Hemköp's policy is that consumers themselves must be given the right to choose – or not to choose – genetically modified foods. ■

Administration report

HEMKÖPSKEDJAN AB (PUBL.), REG. NO. 556542-0824

The Board of Directors and President of Hemköpskedjan AB (publ.) herewith submit their annual report and consolidated accounts for the 1999 financial year.

Operations

Hemköp is a retail food chain with 100 Hemköp stores (95) from Boden in the north to Ystad in the south. Operations are organized in two regions. During the financial year the number of regions was decreased from four to two, North and South. The Hemköp Group conducts primarily food retailing, with a strong focus on quality, the environment and health. The Group also has a bakery operation comprising 17 bakeries (15), which supply bread exclusively to Hemköp stores. At year-end, 74 stores (67) sold bread from Hemköp bakeries.

The division of the store network between the two regions at year-end was as follows:

	No. of stores		Share of sales, %	
	1999	1998	1999	1998
North region	57	54	52	52
South region	43	41	48	48
	100	95	100	100

In addition to the Parent Company, the Hemköp Group includes Hemköpskedjan Svenska AB, Hemköpskedjan Lokallyres AB, Hemköp i Falun AB, Hemköpsbageriet i Falun AB, and 102 store companies, of which 100 are active. The store companies conduct business on commission from Hemköpskedjan Svenska AB. Hemköp i Falun AB conducts consulting activities in trading, while Hemköpskedjan Lokallyres AB signs and administers leasing contracts for premises in which the store companies operate.

The market

Hemköp continues to capture additional

market shares in the Swedish retail food market. Volume growth for the industry as a whole improved compared with 1997 and 1998, amounting to 2.3 percent for the year according to industry statistics (HUI – the Swedish Research Institute of Trade). Discount stores and large format supermarkets accounted for the strongest growth, while traditional retail food stores are showing more modest development. Christmas sales entailed an improvement compared with the last two years, with volume in the industry up by approximately 4.5 percent.

Sales and earnings

Hemköp's net sales rose 7.7 percent (5.0) in 1999, to SEK 5,338 m (4,958), entailing growth in volume of 6.6 percent (3.2). The sales increase is mainly attributable to new and refurbished stores, however, comparable units also showed a positive trend and are doing well in the market.

Operating income increased by 1 percent, to SEK 162 m (161). The operating margin was 3.0 percent (3.2). The ambitious new-establishment program, which has resulted in the addition of eleven new stores and three new bakeries during the last two years, has entailed a sharp rise in capital expenditures. In 1999, the burden of these stores on operating income was SEK 20 m higher than in the preceding year. This is mainly due to weaker sales than expected for these newly established stores, which put pressure on the gross margin and contributed to relatively higher payroll costs and depreciation.

Net financial items totaled SEK 0.6 m, compared with SEK 1.6 m a year earlier. Income after financial items totaled SEK 163 m (162). The profit margin was 3.1 percent (3.3).

Financial position

The Group's liquid assets as per December

31 totaled SEK 181 m (216). Net interest-bearing assets amounted to SEK 164 m (199). In addition, the Group has undrawn credit facilities of SEK 80 m (80).

The equity ratio was 35.2 percent (34.7). The debt-equity ratio was 0.0 (0.1).

Capital expenditures

Capital expenditures totaled SEK 135 m (123). Most of the capital expenditures pertained to newly established and refurbished stores and bakeries, as well as investments in a computerized checkout system.

Significant events

Hemköp established five new stores during the year: in Västerås, Valbo and Oskarshamn during the spring, and in Lerum and Borlänge during the autumn. The Valbo store is Hemköp's largest unit to date with approximately 5,500 sq. m. of retail space and a new, large format profile, launched under the name Hemköp Plus. In addition, nine stores were refurbished, four of which involved expansion, thus giving them additional retail space. The decision has been made to close two stores, in Ljungby and Sala, which will take place in autumn 2000.

New bakeries began operating in Valbo and Oskarshamn. After year-end an additional supply bakery for Hemköp stores in the Stockholm region was acquired.

During the year, a further 18 stores were equipped with Hemköp's new, computerized checkout system, which has thus been installed in 66 of Hemköp's 100 stores. The total expenditure for this was just under SEK 13 m for the year. The investment will lead to more streamlined and cost-effective handling in the store's checkout counters and more efficient purchasing routines. The project will be concluded in 2000.

The New Food Company

During the financial year, the boards of Hemköp and D&D Dagligvaror (D&D) agreed on the terms of a combination between the two companies as equal partners. The deal entails the creation of one of the largest food retail and wholesale groups in the Nordic countries. In connection with the combination, D&D acquired all the shares in Axel Johnson AB's wholly owned subsidiaries Spar i Sverige AB and Spar Inn Snabbgross AB.

Hemköpskedjan is thereafter acquiring Axel Johnson's shareholding in Spar Finland Abp, consisting of 145,000 K-shares and 25,000 A-shares, as well as Merita-Nordbanken's shareholding in Spar Finland, consisting of 243,532 K-shares and 41,797 A-shares, against cash payment totaling approximately FIM 153 m (approx. SEK 223 m). After the acquisition, the shareholding in Spar Finland will correspond to 65.9 percent of the votes and 40.1 percent of the capital. Spar Finland is quoted on the Helsinki Stock Exchange's I-list.

Axel Johnson AB will own approximately 47 percent of the votes and capital in the new company, after a single class of shares has been introduced.

Of the shareholders in D&D to whom the offer is directed, slightly more than 98.4 percent had accepted the offer as per February 25, 2000, corresponding to a new issue of SEK 1,511 m. This entails that all conditions for the implementation of the deal have been met. The acceptance period for the offer has been extended until March 17, 2000.

Outlook for 2000

Volume growth in the retail food market was weak in 1997 and 1998, while 1999 saw a turnaround. The level reached during the year is expected to be sustained in the years immediately ahead. According to estimations conducted by the Swedish Research Institute of Trade, the market in general will be positively affected also in 2000, as a number of fundamental, macroeconomic factors, such as inflation, real wages, tax burden, etc., are showing a favorable trend.

A number of restructuring measures are currently in progress in the Swedish food retail and wholesale market. The Dutch company Ahold has announced plans to acquire

50 percent of ICA, while KF is increasing its involvement with its counterparts in Denmark and Norway. In view of this, price increases in the retail food market are expected to remain moderate.

A wage agreement was reached for 2000, which will entail an approximate 3 percent increase in payroll costs beginning in April. This increase will be met through continued enhancement of value-added and rationalization in the stores.

The work of the Board of Directors

In 1999 Hemköp's board of directors consisted of seven members elected by the Annual General Meeting and two employee representatives with alternates. Among the directors elected by the Annual General Meeting are persons with ties to the Axel Johnson Group, as well as independent persons. The President was a board member during the year.

A new board, comprising nine members, was elected at an extraordinary general meeting in February 2000. The new board will take office when Hemköp's acquisition of D&D has been completed, i.e., when all the conditions for the implementation of the new issue have been met.

According to the current work plan, the Board shall have at least five meetings a year. In 1999 the Board met ten times. At each meeting the President presents a financial report on operations. In addition, he furnishes the Board with monthly reports on significant events and summary financial information. Each year the Board deals with reports from the auditors which describe to what extent the Company's organization is designed so as to ensure satisfactory control of bookkeeping, cash management and the Company's financial position.

The Company has a compensation committee, which deals with matters concerning the employment and retirement terms of senior executives. The members of this committee are Antonia Ax:son Johnson, Göran Ennerfelt, and Marcus Storch.

Business relations

with the Axel Johnson Group

All relations with other companies in the Axel Johnson Group, including its associated company D&D, are conducted on commer-

cial terms. D&D Varuförsörjning AB (formerly Dagab AB) is used by Hemköp for logistics, inventory management and transport of about 50 percent of Hemköp's products. However, negotiations on price agreements are made directly between Hemköp and the respective producer or supplier.

A two-year cooperation agreement with D&D on store establishment has been in effect since July 1998. During the term of the agreement, Hemköp is to acquire at least ten new stores in return for an annual fee of 0.5 percent of these stores' net sales.

Companies within the Axel Johnson Group are landlords for 40 of the 100 store premises leased by Hemköp. The leases are set according to commercial terms and are on a level with other leasing agreements. Starting in 1999, all leasing agreements are sales-based.

SPP

According to a preliminary statement from SPP, Hemköp may be repaid approximately SEK 7.7 m in premiums paid to SPP. No settlement date has been set. These funds have not been applied to income in any way during the financial year.

Parent Company

Net sales of the Parent Company amounted to SEK 24.9 m (24.0) during the financial year. Income after financial items totaled SEK 0.6 m (1.2, excluding the anticipated dividend).

Proposed disposition of earnings

Group

According to the consolidated balance sheet, unrestricted shareholders' equity in the Group amounts to SEK 162.8 m. No appropriation to restricted reserves is proposed.

Parent Company

Available for distribution by the Annual General Meeting:

Retained earnings	82,445,900
Net income for the year	571,914
Total, SEK	83,017,814

The Board of Directors and the President propose the following disposition of earnings:

A dividend of SEK 2.60 per share	65,000,000
To be retained in the business	18,017,814
Total, SEK	83,017,814

Income statements

Amounts in SEK m	Note	Group		Parent Company	
		1999	1998	1999	1998
Net sales	4	5,337.8	4,957.8	24.9	24.0
Cost of goods sold	1,2,4	-4,148.3	-3,858.6	-	-
Gross income		1,189.5	1,099.2	24.9	24.0
Selling expenses	1,2,3	-983.9	-895.2	-	-
Administrative expenses	1,2,3	-140.6	-127.9	-24.8	-23.8
Other operating revenue		97.2	84.5	0.5	1.0
Operating income		162.2	160.6	0.6	1.2
<i>Financial items</i>					
Income from participations in Group companies	5	-	-	-	78.0
Other interest income and similar items	6	1.5	2.5	0.0	0.0
Interest expenses and similar items	7	-0.9	-0.9	0.0	0.0
Income before tax		162.8	162.2	0.6	79.2
Tax on income for the year	8	-45.8	-45.6	0.0	-
Net income for the year		117.0	116.6	0.6	79.2

Balance sheets

Amounts in SEK m	Note	Group		Parent Company	
		Dec.31, 1999	Dec.31, 1998	Dec.31, 1999	Dec.31, 1998
ASSETS					
Fixed assets					
<i>Intangible assets</i>					
Renting and similar rights	9	15.2	15.2	–	–
Goodwill	10	7.9	9.1	–	–
		23.1	24.3	–	–
<i>Tangible assets</i>					
Land and buildings	11	3.4	3.5	–	–
Equipment, tools and fixtures	12	360.9	291.9	–	–
		364.3	295.4	–	–
<i>Financial assets</i>					
Participations in Group companies	13	–	–	133.2	133.2
Other long-term receivables	14	8.9	9.3	8.1	8.4
		8.9	9.3	141.3	141.6
Total fixed assets		396.3	329.0	141.3	141.6
Current assets					
<i>Inventories, etc.</i>					
Finished products and goods for resale		326.5	279.5	–	–
		326.5	279.5	–	–
<i>Current receivables</i>					
Accounts receivable – trade		75.7	44.8	–	–
Receivables from Group companies		10.2	1.5	98.0	171.2
Income taxes recoverable		13.1	–	1.1	1.1
Other receivables		1.6	1.6	0.6	–
Prepaid expenses and accrued income		39.7	39.7	7.5	–
		140.3	87.6	107.2	172.3
<i>Cash and bank balances</i>		181.0	215.5	–	–
Total current assets		647.8	582.6	107.2	172.3
TOTAL ASSETS		1,044.1	911.6	248.5	313.9

Amounts in SEK m		Group		Parent Company	
	Note	Dec.31, 1999	Dec.31, 1998	Dec.31, 1999	Dec.31, 1998
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	15				
<i>Restricted shareholders' equity</i>					
Share capital		125.0	125.0	125.0	125.0
Restricted reserves/statutory reserve		80.1	41.1	25.0	23.2
		205.1	166.1	150.0	148.2
<i>Unrestricted shareholders' equity</i>					
Unrestricted reserves/retained earnings		45.8	33.2	82.4	70.0
Income for the year		117.0	116.6	0.6	79.2
		162.8	149.8	83.0	149.2
		367.9	315.9	233.0	297.4
Provisions					
Provisions for pensions	16	8.0	8.4	8.0	8.4
Provisions for deferred tax		67.2	52.7	–	–
		75.2	61.1	8.0	8.4
Long-term liabilities	17				
Other liabilities		7.3	6.5	–	–
		7.3	6.5	–	–
Current liabilities					
Accounts payable – trade		365.8	217.2	0.1	0.2
Liabilities to Group companies		7.9	75.5	0.5	0.2
Income tax liability		–	26.6	–	–
Other liabilities		33.6	33.7	0.9	0.9
Accrued expenses and deferred income		186.4	175.1	6.0	6.8
		593.7	528.1	7.5	8.1
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,044.1	911.6	248.5	313.9
Pledged assets					
<i>For own liabilities and provisions</i>					
Property mortgages	17	3.3	3.3	–	–
Chattel mortgages	17	32.3	32.3	–	–
Unit linked insurance plans	16	7.7	8.1	7.7	8.1
Shares in Group companies (net assets)		0.9	0.4	–	–
		44.2	44.1	7.7	8.1
Contingent liabilities					
Guarantee undertakings, others		–	0.2	–	–
		–	0.2	–	–

Cash flow statements

Amounts in SEK m	Group		Parent Company	
	1999	1998	1999	1998
Operating activities				
Income after financial items	162.8	162.2	0.6	79.2
Depreciation charged to income	67.4	54.9	–	–
Paid tax	–71.0	–40.2	0.0	–0.5
Funds provided by the year's operations	159.2	176.9	0.6	78.7
Change in working capital				
Change in inventories	–47.0	–26.8	–	–
Change in current receivables, excl. income taxes recoverable	–39.6	–5.3	65.1	–13.8
Change in current liabilities, excl. tax liability	92.2	25.4	–0.6	0.1
	5.6	–6.7	64.5	–13.7
Cash flow from operating activities	164.8	170.2	65.1	65.0
Investing activities				
Capital expenditures	–135.1	–123.5	–	–
Cash flow after capital expenditures	29.7	46.7	65.1	65.0
Financing activities				
Change in pension liabilities	–0.4	–0.9	–0.4	8.4
Change in other long-term liabilities	0.8	–9.5	–	–
Change in financial fixed assets	0.4	0.8	0.3	–8.4
Shareholder dividend	–65.0	–65.0	–65.0	–65.0
	–64.2	–74.6	–65.1	–65.0
Change in liquid assets	–34.5	–27.9	–	–
Liquid assets at start of year	215.5	243.4	–	–
Liquid assets at year-end	181.0	215.5	–	–

Accounting principles and notes

(All amounts in SEK m unless otherwise stated)

General

The recommendations of the Swedish Financial Accounting Standards Council have been applied in preparing the consolidated financial statements. No material changes in Hemköpskedjan's accounting or valuation principles have been made since the preceding year-end accounts.

Principles of consolidation

In the preparation of the consolidated financial statements, the acquisition method has been used.

The recommendations of the Swedish Financial Accounting Standards Council have been applied in the consolidated financial statements. Thus the consolidated financial statements show no changes in untaxed reserves in the income statements and no untaxed reserves in the balance sheets. For appropriations made in individual Group companies, the deferred tax liability, 28 percent, is shown in the consolidated balance sheet as tax, while the remainder is included under "Net income for the year." Consequently, in the consolidated balance sheet, 28 percent of the untaxed reserves of Group companies is shown under "Provisions for deferred tax," while the remainder is shown among restricted reserves under "Shareholders' equity."

Group information

The Company is a subsidiary of Priab AB (reg. no. 556039-2226, reg. office: Stockholm). Priab AB belongs to the Axel Johnson Group, in which Axiom International AB (reg. no. 556245-2549, reg. office: Stockholm), prepares the consolidated accounts for the largest group. Priab AB's holding at year-end 1999 amounted to 44 percent of the capital, corresponding to 66 percent of the number of votes.

Other valuation principles

Receivables

Receivables have been stated individually according to the amount at which they are expected to be paid.

Inventories

Inventories have been valued at the lower of cost or market.

Depreciation of fixed assets

Depreciation is calculated on a straight-line basis according to the acquisition value of assets. The depreciation rates are based on the estimated economic life of the assets. The following rates have been applied:

Depreciation rates, %

Inventories	12.5
Buildings	2.5
Fixtures and fittings	5.0
Land improvements*	5.0
Refurbishment of rented premises	12.5
Goodwill	10–20

*3.75 percent on acquisitions prior to September 1, 1990.

Leasing

In the consolidated financial statements, leasing is classified either as financial or operational. Leasing is considered to be financial if the economic risks and benefits associated with ownership are in all significant respects transferred to the lessee. If this is not the case, it is considered to be operational leasing. In brief, financial leasing means that the asset concerned is entered as an asset item in the balance sheet, while a corresponding liability is entered on the passive side. In the income statement, the leasing cost is broken down into depreciation and interest expense. Starting on January 1, 1997, all leasing contracts, with the exception of operational leasing contracts, are reported according to the rules for financial leasing. The acquisition value of assets leased under leasing contracts entered into before January 1, 1997, amounted to a total of SEK 2.5 m (5.8) as per December 31, 1999. The contracts have a term of 3–4 years. All leasing contracts for premises are treated as operational leasing.

Note 1 INFORMATION ON EMPLOYEES; COMPENSATION TO DIRECTORS, CEO AND AUDITORS

Average number of employees

(a full-year employee is calculated on the basis of 1,600 hours/year)

	1999	Of whom, men	1998	Of whom, men
Parent Company	46	21	41	21
Subsidiaries	2,665	799	2,485	747
Total, Group	2,711	820	2,526	768

Wages, salaries and other remuneration and social security charges

	Wages, salaries and other remuneration	Social security charges	Wages, salaries and other remuneration	Social security charges
Parent Company	15.3	6.2	14.3	5.6
Of which, pension costs		1.0		0.9
Subsidiaries	521.1	203.2	473.7	182.4
Of which, pension costs		20.3		18.5
Total, Group	536.4	209.5	488.0	188.0
Of which, pension costs ^{1), 2)}		21.4		19.4

¹⁾ Of the Parent Company's pension costs, SEK 0.4 m (0.4) pertains to the board of directors, CEO and vice presidents. Of pension costs for subsidiaries, SEK 1.2 m (1.3) pertains to president.

²⁾ Outstanding pension commitments for the Group with respect to boards, president and vice president amounted to SEK 4.2 (4.1) m.

Wages, salaries and other remuneration, broken down by directors, etc., and other employees

	1999		1998	
	Board, president and vice presidents	Other employees	Board, president and vice presidents	Other employees
Parent Company	4.0 ¹⁾	11.3	4.2 ¹⁾	10.1
Subsidiaries	34.4 ²⁾	486.7	34.2 ²⁾	439.5
Total, Group	38.4	498.1	38.4	449.6

¹⁾ Of which, bonuses 1.0 (1.3). ²⁾ Of which, bonuses 15.7 (15.2).

The annual fee payable to the Board was set by the 1999 Annual General Meeting at SEK 700,000, of which SEK 200,000 is payable to the Chairman. These payments were made in full after year-end.

Salary and other remuneration, excluding bonuses, for the CEO amounted to SEK 1,599,000, of which SEK 836,000 was paid to Nils-Erik Johansson for the period January-June 1999, and SEK 763,000 to Håkan Matz for the period July-December 1999. The bonus payable to the CEO amounts to one percent for Nils-Erik Johansson and one-half percent for Håkan Matz, of the Hemköp Group's consolidated income before allocations and taxes that exceeds SEK 63 m, but not more than one year's salary, and is paid yearly in arrears. For 1999, a bonus provision of SEK 759,000 was made. Nils-Erik Johansson retired with pension on June 30, 1999. According to the CEO's employment contract, the period of notice is six months for either party. If the Company serves notice, the CEO is entitled to severance pay equivalent to 12 months' salary, in addition to salary during the notice period. The retirement age for the CEO is 62. There are no agreements with senior executives of companies in the Hemköp Group concerning severance pay. Pensions are payable to senior executives in accordance with customary pension plans. In addition to base salaries, the Group offers a profit-sharing plan to all employees except for store managers and executive management, who are paid bonuses. According to this plan, 10 percent of each store's profit is allocated to the employees in relation to time worked. In 1999 a total of SEK 21.0 m (18.9) was paid in profit-sharing. Axel Johnson AB has issued stock options for Hemköp stock to about 90 senior executives of Hemköp. These options expire in 2000.

Fees to the auditors, Per Bergman and Ola Forsberg (KPMG), amounted to a total of SEK 0.5 m (0.5) for their auditing assignment with the Group, and SEK 0.4 m (0.2) for other assignments within the Group. No part of these fees have been charged to the Parent Company, but have been reported in their entirety by the subsidiary Hemköpskedjan Svenska AB.

Note 2 DEPRECIATION

Depreciation according to plan, by asset	Group	
	1999	1998
Goodwill	1.2	1.2
Land and buildings	0.1	0.1
Equipment, tools and fixtures	66.1	53.6
	67.4	54.9
Depreciation according to plan, by function		
Cost of goods sold	8.1	6.6
Selling expenses	51.9	42.3
Administrative expenses	7.4	6.0
	67.4	54.9

Note 3 OPERATIONAL LEASING

All store and office premises, which include 16 of 17 bakeries, are leased and treated according to the rules for operational leasing. The average remaining term of leasing contracts at the end of 1999 was just under 4 years. Leasing contracts are normally extended for periods of 3-5 years. Eighty-two percent of the leasing contracts are sales-based, while the remainder have fixed rents. The Parent Company has not entered into any leasing contracts.

	Group					
	1999		1998			
Rents for the financial year	191.3		181.4			
Contracted future rents ¹⁾						
2000	2001	2002	2003	2004	2005-	
209.1	201.7	182.6	131.2	53.9	78.4	

¹⁾ Budgeted sales for 2000 have been used to calculate rents under sales-based leasing contracts. Leasing contracts with fixed rents are based on 1999 levels.

Note 4 INTRA-GROUP SALES AND PURCHASING

Of the Parent Company's net sales, 100 percent are attributable to Group companies. Of the Group's purchasing, approximately 50 (50) percent is attributable to purchases that are supplied or handled by other companies in the Axel Johnson Group, including the associated company D&D.

Note 5 INCOME FROM PARTICIPATIONS IN GROUP COMPANIES

Pertains to the anticipated dividend from the wholly owned subsidiary Hemköpskedjan Svenska AB.

Note 6 OTHER INTEREST INCOME AND SIMILAR ITEMS

	Group		Parent Company	
	1999	1998	1999	1998
Interest income, other	1.5	2.5	0.0	0.0

Note 7 INTEREST EXPENSE AND SIMILAR ITEMS

	Group		Parent Company	
	1999	1998	1999	1998
Annual interest in financial leasing contracts	0.3	0.4	-	-
Other	0.6	0.5	0.0	0.0
	0.9	0.9	0.0	0.0

Note 8 TAX ON INCOME FOR THE YEAR

	Group	
	1999	1998
Paid tax	-31.3	-31.3
Deferred tax	-14.5	-14.3
	-45.8	-45.6

Deferred tax is wholly attributable to the untaxed reserves in the individual Group companies.

Note 9 RENTING AND SIMILAR RIGHTS

The book value corresponds to the acquisition value.

Note 10 GOODWILL

	Group	
	1999	1998
Accumulated acquisition values	12.5	12.5
<i>Accumulated depreciation according to plan</i>		
At start of year	-3.4	-2.2
Annual amortization	-1.2	-1.2
At year-end	-4.6	-3.4
Residual value according to plan at year-end	7.9	9.1

Note 11 LAND AND BUILDINGS

	Group	
	1999	1998
Buildings	2.3	2.3
Accumulated acquisition values		
<i>Accumulated depreciation according to plan</i>		
At start of year	-0.4	-0.3
Depreciation for the year	-0.1	-0.1
At year-end	-0.5	-0.4
	1.8	1.9
Buildings on leasehold land		
Accumulated acquisition values	1.4	1.4
<i>Accumulated depreciation according to plan</i>		
At start of year	-1.3	-1.2
At year-end	0.0	-0.1
	-1.3	-1.3
	0.1	0.1
Land and land improvements		
Accumulated acquisition values	1.9	1.9
<i>Accumulated depreciation according to plan</i>		
At start of year	-0.4	-0.4
Depreciation for the year	-0.4	-0.4
At year-end	1.5	1.5
Residual value according to plan at year-end	3.4	3.5
Tax assessment values, buildings	2.1	2.1
Tax assessment values, buildings on leasehold land	9.4	8.4
Tax assessment values, land	0.2	0.2
	11.7	10.7

Note 12 EQUIPMENT, TOOLS AND FIXTURES

	Group	
	1999	1998
<i>Accumulated acquisition values</i>		
At start of year	488.6	373.7
New acquisitions	135.1	123.6
Sales and disposals	-54.3	-8.7
	569.4	488.6
<i>Annual depreciation according to plan</i>		
At start of year	-196.7	-151.8
Sales and disposals	54.3	8.7
Depreciation for the year	-66.1	-53.6
At year-end	-208.5	-196.7
Residual value according to plan at year-end	360.9	291.9
<i>Equipment held under financial leasing contracts is included as follows:</i>		
Acquisition value	12.3	9.4
Accumulated depreciation	-2.5	-1.2
	9.8	8.2

Under other current and long-term liabilities for the Group, the corresponding liabilities are shown for future payments relating to financial leasing. These fall due as follows:

2000	2001	2002	2003
2.3	3.2	2.6	1.3

Note 13 PARTICIPATIONS IN GROUP COMPANIES

The Parent Company's participations in Group companies, amounting to SEK 133.2 m (133.2) consist of all 100,000 shares in Hemköpskedjan Svenska AB (reg. no. 556113-8826, registered office: Falun). Of Hemköpskedjan Svenska AB's shareholdings in subsidiaries, the holding in Hemköpskedjans Lokalhyres AB accounts for 99 percent of the capital and votes, while the other subsidiaries are wholly owned, as follows:

Subsidiary	Reg'd office (municipality)	Reg. no.
Alfta Hemköp AB	Ovanåker	556149-6307
Arboga Hemköp AB	Arboga	556021-3471
Avesta Hemköp AB	Avesta	556109-1942
Boden Hemköp AB	Boden	556507-3813
Bollnäs Hemköp AB	Bollnäs	556009-6462
Borlänge Hemköp AB	Borlänge	556092-2857
Borås Hemköp AB	Borås	556507-3789
Brotorget Hemköp AB	Bollnäs	556472-5223
Dala Hemköp AB	Falun	556575-6789
Delsbo Hemköp AB	Hudiksvall	556049-7777
Eksjö Hemköp AB	Eksjö	556448-7741
Eskilstuna Hemköp AB	Eskilstuna	556444-0401
Falun i City AB	Falun	556432-4134
Farsta Hemköp AB	Stockholm	556510-1580
Frölunda Hemköp AB	Göteborg	556510-1564
Förlöf Livs AB	Båstad	556562-1314
Gussarvets Hemköp AB	Hedemora	556166-5182
Gävle Hemköp AB	Gävle	556117-1793
Hallstahammars Hemköp AB	Hallstahammar	556120-5054
Halmstad Hemköp AB	Halmstad	556457-9877
Hedemora Hemköp AB	Hedemora	556481-4407
Helsingborgs Hemköp AB	Helsingborg	556526-0220
Hemköp Braxen AB	Linköping	556493-4080
Hemköp City i Stockholm AB	Stockholm	556531-0256
Hemköp i Alvesta AB	Alvesta	556165-4996
Hemköp i Falun AB	Falun	556031-0459
Hemköp i Hudiksvall AB	Hudiksvall	556368-3399
Hemköp i Skarpnäck AB	Stockholm	556038-7960
Hemköp Karlavägen AB	Ludvika	556441-3200
Hemköp Kvarnatorget AB	Uppsala	556153-1731
Hemköp Siljan AB	Mora	556511-4617
Hemköp Stenstan AB	Sundsvall	556439-2438
Hemköp Stora Torget i Örnköldsvik AB	Örnköldsvik	556472-5207
Hemköp Storsjön AB	Östersund	556441-3143
Hemköp Sveatorget i Borlänge AB	Borlänge	556439-2446
Hemköp Värnhemstorget AB	Malmö	556462-8153
Hemköpsbageriet i Falun AB	Falun	556446-1050
Hemköpskedjans Lokalhyres AB	Falun	556559-4115
Hälsinglands Hemköp AB	Söderhamn	556176-7020
Härnösands Hemköp AB	Härnösand	556441-3184
Järna Hemköp AB	Vansbro	556116-8161
Jönköpings Hemköp AB	Jönköping	556138-7845
Karlshamns Hemköp AB	Karlshamn	556540-1311
Karlstad Hemköp AB	Karlstad	556453-0235
Kramfors Hemköp AB	Kramfors	556192-3466
Kristianstads Hemköp AB	Kristianstad	556196-5293
Köpings Hemköp AB	Köping	556131-2033
Laholmsvägen Hemköp AB	Halmstad	556453-0292
Landskrona Hemköp AB	Landskrona	556481-4357
Leksands Hemköp AB	Leksand	556115-9905
Lerum Hemköp AB	Lerum	556571-2162
Lillfjärdens Hemköp AB	Hudiksvall	556511-4609
Limhamns Hemköp AB	Malmö	556558-9560
Linköpings Hemköp AB	Linköping	556098-3362
Ljungby Hemköp AB	Ljungby	556065-7735
Ludvika Hemköp AB	Ludvika	556111-2656
Malmö Hemköp AB	Malmö	556457-9885
Malungs Hemköp AB	Malung	556110-2152
Mjölby Hemköp AB	Mjölby	556551-6621
Mora Hemköp AB	Mora	556079-0726
Mölnåls Hemköp AB	Mölnåls	556072-5607
Mörby Hemköp AB	Stockholm	556457-9950
Nordstan Hemköp AB	Göteborg	556481-4308

Note 13 (continued)

Subsidiary	Reg'd office (municipality)	Reg. no.
Norrbottnens Hemköp AB	Luleå	556515-0942
Norrköpings Hemköp AB	Norrköping	556098-8288
Nyköpings Hemköp AB	Nyköping	556472-5215
Nässjö Hemköp AB	Nässjö	556453-0250
Origo Livs AB	Falun	556124-8914
Orsa Hemköp AB	Orsa	556551-6605
Oskarshamn Hemköp AB	Oskarshamn	556571-2154
Piteå Hemköp AB	Piteå	556457-9935
Rättviks Hemköp AB	Rättvik	556122-2315
Sala Hemköp AB	Sala	556121-4353
Sandvikens Hemköp AB	Sandviken	556444-0419
Skellefteå Hemköp AB	Skellefteå	556034-3377
Skutskär Hemköp AB	Älvkarleby	556462-8161
Skärholmen Hemköp AB	Stockholm	556457-9927
Skönsbergs Hemköp AB	Sundsvall	556094-4570
Smeden Hemköp AB	Eskilstuna	556513-6370
Sollefteå Hemköp AB	Sollefteå	556092-3665
Strängnäs Hemköp AB	Strängnäs	556040-9046
Sundbybergs Hemköp AB	Sundbyberg	556094-6831
Sundsvalls Hemköp AB	Sundsvall	556018-5943
Svalan, Hemköp AB	Falun	556098-5102
Säters Hemköp AB	Säter	556558-9586
Sölvesborgs Hemköp AB	Sölvesborg	556141-7550
Tjärna Hemköp AB	Borlänge	556510-1549
Tranås Hemköp AB	Tranås	556434-6129
Uddevalla Hemköp AB	Uddevalla	556486-1879
Umeå Hemköp AB	Umeå	556471-4581
Upplands Hemköp AB	Uppsala	556471-4573
Valbo Hemköp AB	Gävle	556565-7110
Vansbro Hemköp AB	Vansbro	556090-4814
Vimmerby Hemköp AB	Vimmerby	556448-7758
Visby Hemköp AB	Gotland	556443-1590
Vällingby Hemköp AB	Stockholm	556488-1620
Västerviks Hemköp AB	Västervik	556441-3135
Västerås Hemköp AB	Västerås	556558-9578
Västmanlands Hemköp AB	Falun	556566-3852
Ystad Hemköp AB	Ystad	556481-4324
Älmhults Hemköp AB	Älmhult	556088-9932
Ängelholms Hemköp AB	Ängelholm	556551-6613
Örebro Hemköp AB	Örebro	556453-0276
Örnsköldsviks Hemköp AB	Örnsköldsvik	556044-3755
Östersunds Hemköp AB	Östersund	556058-1661

Note 14 OTHER LONG-TERM RECEIVABLES

	Group		Parent Company	
	1999	1998	1999	1998
<i>Accumulated acquisition values</i>				
At start of year	9.3	10.1	8.4	–
Receivables taken over from Hemköpskedjan Svenska AB	–	–	–	8.4
Settled receivables	–0.4	–0.8	–0.3	–
Book value at year-end	8.9	9.3	8.1	8.4

Note 15 SHAREHOLDERS' EQUITY

	Share capital	Restricted reserves	Unrestricted equity	Total
<i>Change in shareholders' equity, Group</i>				
Amount at beginning of year	125.0	41.1	149.8	315.9
Disposition of profits in accordance with decision of the year's Annual General Meeting				
Shareholder dividend			–65.0	–65.0
Provision to statutory reserve		1.8	–1.8	–
Transfers between restricted and unrestricted shareholders' equity		37.2	–37.2	–
Income for the year			117.0	117.0
Amount at year-end	125.0	80.1	162.8	367.9

Note 15 (continued)

	Share capital	Restricted reserves	Unrestricted equity	Total
<i>Change in shareholders' equity, Parent Company</i>				
Amount at beginning of year	125.0	23.2	149.2	297.4
Disposition of profits in accordance with decision of the year's Annual General Meeting:				
Shareholder dividend			–65.0	–65.0
Provision to statutory reserve		1.8	–1.8	–
Income for the year			0.6	0.6
Amount at year-end	125.0	25.0	83.0	233.0

The Parent Company issued 4,000,000 Class A shares and 21,000,000 Class B shares, or 25,000,000 shares in total, each with a par value of SEK 5.00. Each A-share carried entitlement to five votes, while each B-share carried entitlement to one vote. After the end of the year, in connection with an extraordinary general meeting, it was decided that there would only be one class of shares.

Note 16 PROVISION FOR PENSIONS

	Group		Parent Company	
	1999	1998	1999	1998
Pensions	8.0	8.4	8.0	8.4
<i>Pledged assets for pension commitments</i>				
Unit linked insurance plans	7.7	8.1	7.7	8.1

The Company's pension commitments, which are not secured through the payment of pension premiums, amounted to SEK 8.0 m (8.4). Of the amount entered as a liability in the balance sheet, SEK 7.7 m (8.1) has been reserved with taxed funds.

Note 17 LONG-TERM LIABILITIES

All long-term liabilities are payable within 1–5 years from the balance sheet date. Bank overdraft facilities amount to SEK 80.0 m (80.0). This facility was undrawn as at December 31, 1999.

	Group	
	1999	1998
<i>Assets pledged to credit institutions</i>		
Property mortgages	3.3	3.3
Chattel mortgages	32.3	32.3
	35.6	35.6

Falun, March 9, 2000

Antonia Ax:son Johnson Göran Ennerfelt Håkan Thylén
Chairman

Bo Lundquist Marcus Storch Håkan Matz
President and CEO

Hans-Gunnar Johansson Inger Sjöstrand
Union representative Union representative

Our Audit Report was submitted on March 10, 2000

Per Bergman Ola Forsberg
Authorized Public Accountant Authorized Public Accountant

Audit report

TO THE ANNUAL GENERAL MEETING OF HEMKÖPSKEDJAN AB (PUBL.)
REG. NO. 556542-0824

We have audited the parent company and consolidated financial statements, the accounts and the administration of the Board of Directors and the President of Hemköpskedjan AB (publ.) for the 1999 financial year. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. Those Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the financial statements. As a basis for our opinion with respect to discharge from liability, we have examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any board member or the President or whether they have in any other way acted in contravention of the Swedish Companies Act, the Swedish Annual Accounts Act, or the Company's Articles of Association. We believe that our audit provides a reasonable basis for the opinion set out below.

The parent company and consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act and give a true and fair view of the result and the financial position of the Group in accordance with Generally Accepted Auditing Standards in Sweden.

We recommend that the Annual General Meeting adopt the income statements and balance sheets of the parent company and the Group, dispose of the profit of the parent company in accordance with the proposal in the Administration Report, and discharge the members of the Board of Directors and the President from liability for the financial year.

Falun, Sweden, March 10, 2000

Per Bergman
Authorized Public Accountant

Ola Forsberg
Authorized Public Accountant

Five-year overview and definitions

DEFINITIONS

Operating margin

Operating income after depreciation, as a percentage of net sales for the year.

Margin after financial items

Income after financial items as a percentage of net sales for the year.

Equity ratio

Shareholders' equity as a percentage of total assets.

Capital employed

Total assets less noninterest-bearing liabilities including deferred tax liabilities. Average capital employed is calculated as capital employed at the start of the year plus capital employed at the end of the year, divided by two.

Return on capital employed

Income after financial items, plus financial expenses, as a percentage of average capital employed.

Return on shareholders' equity

Net income as per the income statement as a percentage of average shareholders' equity. Average shareholders' equity is calculated as shareholders' equity at the beginning of the year plus shareholders' equity at the end of the year, divided by two.

Earnings per share

Net income for the year divided by the number of shares outstanding.

Equity per share

Shareholders' equity divided by the number of shares outstanding.

Net interest-bearing assets

Liquid assets less interest-bearing liabilities.

Net debt-equity ratio

Interest-bearing liabilities less liquid assets, divided by shareholders' equity.

Debt-equity ratio

Interest-bearing liabilities divided by shareholders' equity.

Interest cover ratio

Income after financial items plus financial expenses, divided by interest expenses.

Number of full-year employees

Total number of hours worked divided by the year's work time of 1,600 hours.

Amounts in SEK m	1999	1998	1997	1996	1995
Income statement					
Net sales	5,338	4,958	4,724	4,466	3,960
Operating income	162	161	179	157	108
Income after financial items	163	162	182	166	121
Appropriations	–	–	–	–154	–104
Taxes	–46	–45	–51	–3	–5
Net earnings for the year	117	117	131	9	12
Balance sheet					
Intangible assets	23	24	26	27	27
Tangible assets	364	295	226	204	198
Financial assets	9	9	10	76	79
Inventories	327	280	253	235	234
Other current assets	140	88	82	88	106
Liquid assets ¹⁾	181	216	243	283	199
Assets	1,044	912	840	913	843
Shareholders' equity	368	316	264	133	124
Subordinated loan owed to Parent Company	–	–	–	63	63
Interest-bearing liabilities	17	17	46	122	115
Noninterest-bearing liabilities	659	579	530	595	541
Shareholders' equity and liabilities	1,044	912	840	913	843
Cash flow					
Income after financial items	163	162	182	166	121
Depreciation and write-downs	67	55	46	41	36
Paid tax	–71	–40	–3	–	–
Change in operating capital	6	–7	48	30	5
Capital expenditures	–135	–123	–66	–47	–82
Cash flow after capital expenditures	30	47	207	190	80
Key ratios²⁾					
Operating margin (%)	3.0	3.2	3.8	3.5	2.7
Margin after financial items (%)	3.1	3.3	3.8	3.7	3.0
Equity ratio (%)	35	35	31	15	15
Return on capital employed (%)	46	51	65	–	–
Return on equity (%)	34	40	52	–	–
Earnings per share (SEK)	4.68	4.66	5.24	–	–
Equity per share (SEK)	14.72	12.64	10.57	–	–
Net interest-bearing assets (SEK m)	164	199	197	–	–
Net debt-equity ratio (multiple)	–0.4	–0.6	–0.7	–	–
Debt-equity ratio (multiple)	0.0	0.1	0.2	–	–
Interest cover ratio (multiple)	181.9	181.3	73.7	18.3	11.8
Number of full-year employees	2,711	2,526	2,405	2,298	2,155
Number of Hemköp stores	100	95	90	88	87

¹⁾ Includes central account with Axel Johnson AB during the years 1995–96.

²⁾ The key ratios left out here have no relevance, since during the period 1995–96, Hemköp was a wholly owned subsidiary within the Axel Johnson Group, as a result of which its earnings and the financial position were affected by Group contributions.

Hemköp share information

Hemköp's Class B shares were introduced on the OM Stockholm Exchange in June 1997. At year-end 1999 Hemköp's market capitalization was SEK 1,938 m, compared with SEK 2,100 m a year earlier and SEK 1,950 m at the time of introduction.

Share capital

Hemköp's share capital at year-end 1999 amounted to SEK 125 m, divided into 25,000,000 shares with a par value of SEK 5 each. Of these, 4,000,000 were A-shares with five votes each, and 21,000,000 were B-shares with one vote each.

Dividend

The Board proposes a dividend of SEK 2.60 per share for the 1999 financial year, which is the same as the preceding year's dividend and corresponds to 56 percent of net income for the year.

Ownership

Hemköp had approximately 10,400 shareholders at year-end 1999. The principal shareholder, Axel Johnson AB, held 43.8

percent of the capital. Swedish institutions owned 25.9 percent. Foreign ownership was 9.0 percent, representing a decrease from 24.7 percent a year earlier.

Price trend

During 1999 Hemköp's shares were quoted at a high of SEK 86 and a low of SEK 56 per share. The price trend for the year was a decline of 7.7 percent, compared with a gain of 66 percent for the General Index.

Hemköp's market capitalization at year-end 1999 was SEK 1,938 m, a decrease of SEK 162 m from year-end 1998.

Trading volume during the year was 17,902,509 shares, or a daily average of 55,155 shares. Total trading volume was SEK 1,234 m.

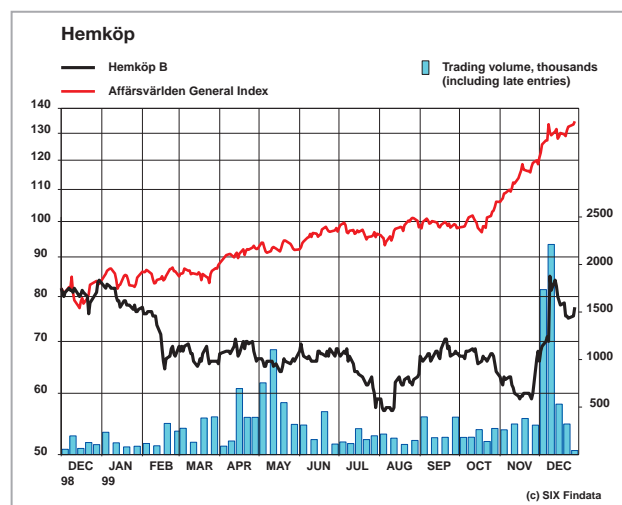
Per-share data

	1999	1998
Earnings after full tax, SEK	4.68	4.66
Earnings after paid tax, SEK	5.26	5.24
Dividend (proposed for 1999), SEK	2.60	2.60
Shareholders' equity, SEK	14.72	12.64
Dividend yield, %	3.4	3.1
P/E multiple	17	18
Dividend proportion, %	56	56
Cash flow after capital expenditures, SEK	1.19	1.87
Market price/shareholders' equity, SEK	5.26	6.65
Closing price for the year, SEK	77.5	84.0
Highest price paid, SEK	86.0	118.0
Lowest price paid, SEK	56.0	72.0

Shareholding structure

Size class	% of shareholders	% of capital
1 – 500	83.5	6.6
501 – 1,000	9.8	3.6
1,001 – 5,000	5.3	5.5
5,001 – 10,000	0.6	2.0
10,001 – 50,000	0.6	5.9
50,001 – 100,000	0.1	3.4
100,001 –	0.1	73.0
Total	100.0	100.0

Source: VPC register as at December 30, 1999.



The fifteen largest shareholders

(Excluding foreign-owned nominee shareholdings)

	No. of shares	Share capital, %	Votes, %
Axel Johnson Group	10,960,000*	43.8	65.8
SPP	2,000,215	8.0	4.9
Svolder	986,000	3.9	2.4
Skandia	919,485	3.7	2.2
KP Pension & Försäkring	629,000	2.5	1.5
Kammarkollegiet fund management	497,542	2.0	1.2
Foundation for Strategic Research	420,000	1.7	1.0
Handelsbanken funds	202,000	0.8	0.5
Banco funds	174,800	0.7	0.4
Baltic Sea Foundation	125,000	0.5	0.3
Dalarnas Försäkringsbolag	110,000	0.4	0.3
LRF Försäkring AB	99,000	0.4	0.2
Handelsbanken	98,100	0.4	0.2
Volvo profit foundation	89,600	0.4	0.2
SPP funds	73,500	0.3	0.2
Others	7,615,758	30.5	18.6
Total	25,000,000*	100.0	100.0

* Of which, 4,000,000 A-shares.

Sources: VPC share register as at December 30, 1999, and DN Ägarservice AB.

Board of directors and auditors

1 Antonia Ax:son Johnson Born 1943
Chairman of the Board since 1988¹.

Chairman or director of a number of companies in the Axel Johnson Group. Chairman of the Axel and Margaret Ax:son Johnson Foundation for Public Service, the World Childhood Foundation, and the City Mission of Stockholm. Director of Nordstjernan AB, NCC AB, Xerox Corporation, Stockholm Environment Institute, the Royal Swedish Academy of Engineering Sciences (IVA), and others. Shares in Hemköp: (through companies) 4,000,000 A-shares and 6,950,000 B-shares

2 Maria Curman Born 1950
Director from 1997 until December 17, 1999.
Curman resigned from the Board in connection with her appointment as president of Sveriges Television. Shares in Hemköp: 1,000 B-shares

3 Göran Ennerfelt Born 1940
Director since 1988¹.
Chairman or director of various companies in the Axel Johnson Group. Chairman of the Board of Trustees of SNS – the Center for Business and Policy Studies), the General Export Association of Sweden and the Stockholm Institute of East European Economics. Vice Chairman of the Board of the Swedish Federation of Trade and the Sweden-America Foundation. Director of Svenska Handelsbanken, Samhall AB, the Swedish Employers' Confederation (SAF), the International Chamber of Commerce, and others. President and CEO of Axel Johnson AB. Shares in Hemköp: 10,000 B-shares

4 Bo Lundquist Born 1942
Director since 1997.
Chairman of the Board of All Card Service Center AB and Djurgårdens Fotboll. Director of City Mail AB, Hennes & Mauritz AB and Svedala AB. Former President and CEO of Esselte AB and Chairman of the Swedish Federation of Trade. Shares in Hemköp: 10,200 B-shares

5 Marcus Storch Born 1942
Director since 1997.
Chairman of ConNova AB. Vice Chairman of the Nobel Foundation. Director of Axel Johnson AB, D&D Dagligvaror AB, Dagens Industri AB, Nordstjernan AB, NCC AB, AB Hanelis Industrier, Skyways Holding AB, OM Stockholm Exchange, the Royal Swedish Academy of Science, the Royal Swedish Academy of Engineering Sciences (IVA), and others. D. Med h.c. Former President and CEO of AGA AB. Shares in Hemköp: 12,000 B-shares

6 Håkan Thylén Born 1944
Director since 1983¹.
Chairman of Stålgruppen Dalarna AB, Herdins Färgverk AB, New Wave AB, Life (health chain), and others. Director of Habitat International, Nilsson-Gruppen i Varberg AB (Din Sko AB, Skopunkten AB and Nilssons), Levande Böcker AB, Ordning & Reda AB, and others. Former President of Clas Ohlson AB and Vice President of IKEA AB. Shares in Hemköp: 1,200 B-shares

7 Håkan Matz Born 1950
President and CEO of Hemköpskedjan AB since July 1999. Director since May 1999. Shares in Hemköp: 2,000 B-shares

EMPLOYEE REPRESENTATIVES

8 Inger Sjöstrand Born 1953
Director since 1998.
Employee of Hedemora Hemköp AB and employee representative for the Commercial Employees' Union. Shares in Hemköp: 0

9 Hans-Gunnar Johansson Born 1945
Director since 1998.
Employee of Skärholmen Hemköp AB and employee representative for the Commercial Employees' Union. Shares in Hemköp: 0

AUDITORS

Per Bergman Born 1946
Authorized Public Accountant, KPMG Bohlins AB, Stockholm. Hemköp auditor since 1994¹.

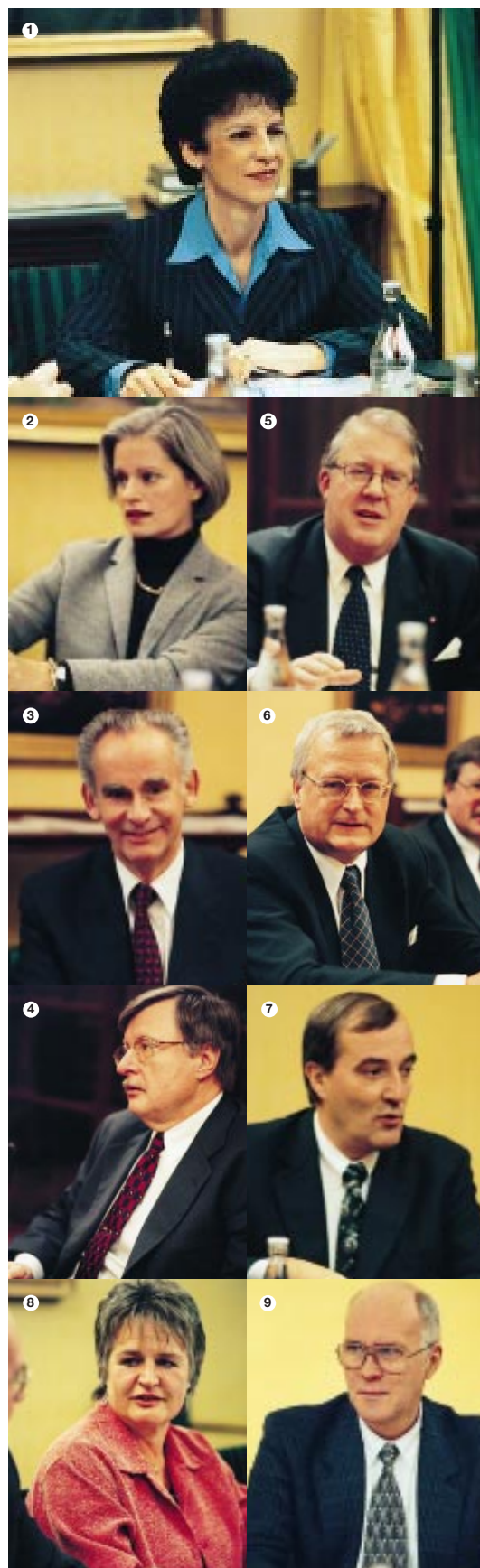
Ola Forsberg Born 1951
Authorized Public Accountant, KPMG Bohlins AB, Falun. Hemköp auditor since 1994¹.

The directors on Hemköp's board own a total of 4,000,000 A-shares and 6,986,400 B-shares in Hemköp.

All data on shareholdings of directors and management pertain to December 30, 1999.

The boards of Hemköp and D&D will be replaced in March 2000 by the board of the New Food Company. These directors are presented on page 7.

¹ Information pertains to Hemköpskedjan Svenska AB and, later, the new parent company, Hemköpskedjan AB (publ.).



Executive management



1 Håkan Matz, VD

Born 1950

President and CEO

Hemköp employee since July 1, 1999.

Shares in Hemköp: 2,000

Stock options: 0

2 Lars Ädel

Born 1944

Director of Human Resources

Hemköp employee since 1975, member of executive management since 1982.

Shares in Hemköp: 1,500

Stock options: 14,926

3 Bengt Andersson

Born 1952

Marketing Director

Hemköp employee since 1977, member of executive management since 1989.

Shares in Hemköp: 375

Stock options: 7,463

4 Peter Börjesson

Born 1958

Purchasing and Sales Director

Hemköp employee since 1977, member of executive management since 1991.

Shares in Hemköp: 875

Stock options: 7,911

5 Lena Iredahl

Born 1961

Assistant to the President and CEO, head of Investor Relations. Hemköp employee since 1982, member of executive management since 1995.

Shares in Hemköp: 675

Stock options: 3,732

6 Dan Lundqvist

Born 1956

Financial Director and CFO

Hemköp employee since 1986, member of executive management since 1988.

Shares in Hemköp: 375

Stock options: 5,971

The following persons were appointed to the executive management, effective January 1, 2000:

Ola Carlson

Born 1966

Regional Director, North

Hemköp employee since 1983.

Shares in Hemköp: 1,500

Stock options: 3,732

Jerry Svennerlind

Born 1963

Regional Director, South

Hemköp employee since 1991.

Shares in Hemköp: 375

Stock options: 1,493

Roland Bergh

Born 1953

IT Director

Recruited to Hemköp as from January 1, 2000.

Shares in Hemköp: 0

Stock options: 0

Hemköp's business concept

- Hemköp's business concept is to conduct food retailing based on the cornerstones of quality, the environment and health, with an emphasis on good ethics.
- Customers are offered a locally adapted assortment with a distinct quality profile.
- Hemköp offers a high standard of service in spacious, well arranged stores, with a distinct degree of personal service.
- A competitive edge and sustained, good profitability will be achieved through a long-term approach, employee commitment and participation, and strong customer confidence.

