



## Axfood (publ.) – Interim Report

**For the period January 1 – September 30, 2000**

- Consolidated sales increased by 4.0 percent, to SEK 22.2 bn (21.3)
- Income after financial items amounted to SEK 20 m (194). Adjusted for items affecting comparability, income after financial items was SEK 146 m (230)
- Operating income amounted to SEK 112 m (260). Income adjusted for items affecting comparability totaled SEK 238 m (296)
- An efficiency-improvement and restructuring program, amounting to SEK 164 m, will generate slightly more than SEK 150 m in annual savings starting in 2001.
- New management and organizational structure implemented. New President and CEO, Mats Jansson, took office on March 15
- Operative focus on:
  - New brand strategy with six well defined, consumer-targeted store concepts
  - Greater integration of retail and wholesale trading
  - Centralization and coordination of purchasing and logistics functions
  - Investment in private label goods

	<b>Jan.-Sept. 2000</b>	Pro forma <sup>1)</sup> Jan.-Sept. 1999
Sales, SEK m	22,166	21,308
Operating income before depreciation, SEK m	448	521
Operating income after depreciation, SEK m	112	260
Operating margin, percent	0.5%	1.2%
Operating income before items affecting comparability, SEK m	238	296
Operating income before items affecting comparability and goodwill, SEK m	332	365
Operating margin before items affecting comparability and goodwill	1.5%	1.7%
Income after financial items, SEK m	20	194
Income after financial items, before items affecting comparability, SEK m	146	230
Income after tax, SEK m <sup>2)</sup>	0	112
Earnings per share, SEK	0.00	2.21
Equity ratio, percent	14.3%	14.0%
Return on capital employed, percent	4.5%	10.6%
Return on shareholders' equity after tax, percent	0.0%	21.9%

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

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

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

## **Market development**

The retail trade in Sweden has shown record growth thus far during the year, and the favorable trend is expected to continue in the years immediately ahead. According to the Swedish Research Institute of Trade (HUI), the entire retail sector in Sweden is expected to grow by 7 percent in 2000.

The retail food market has benefited to a greater extent than usual from the consumption upswing. Although the rise in household income has gone mainly toward purchases of more costly durable goods and luxury items, a shift towards allowing food to account for a greater share of consumption can also be noted. According to preliminary industry statistics, thus far this year (January–September), retail food sales have amounted to SEK 130.4 bn, an increase of 2.7 percent in volume and 3.7 percent in current prices. The Swedish Research Institute of Trade predicts that the volume increase can amount to 3.5 percent for the full-year 2000.

## **Sales and earnings of the Axfood Group**

Consolidated sales of the Axfood Group, including Spar Finland Abp, amounted to SEK 22.2 bn (21.3) during the period. Sales during the third quarter totaled SEK 7,448 m (7,227).

The Axfood Group's sales in Sweden (in own and collaborating stores) amounted to SEK 23.9 bn, including VAT, an increase of 2.9 percent in volume, or 3.8 percent in current prices compared with the preceding year. During the third quarter, store sales amounted to SEK 8 bn, an increase of 0.7 percent in volume and 1.5 percent in current prices compared with the corresponding period a year ago.

Operating income amounted to SEK 112 m (260) during the period under review. The operating margin was 0.5 percent (1.2). The operating margin before items affecting comparability and goodwill was 1.5 percent (1.7). Operating income was charged with SEK 126 m for items affecting comparability, consisting of SEK 164 m for a restructuring reserve, SEK 47 m for other items affecting comparability, and the repayment of SEK 85 m in client-company funds from SPP. In the continuing operations, nonrecurring costs for development and consultants' fees, among other things, have been taken outside of the restructuring program.

Net financial items amounted to SEK –92 m (–66). Income after financial items thus totaled SEK 20 m (194). The margin after financial items was 0.1 percent (0.9).

## **Store operations**

Axfood will have six distinct offerings to consumers. These are Hemköp, Axfood Lågpris (operated today under brands such as Willys, Matex/Exet and HP), e-commerce, and three franchising concepts: Spar, Vivo and Tempo. Axfood's expansion and growth will take place primarily in the first three concepts.

**Hemköp** is the Axfood Group's most well-known brand and is distinguished by high quality and service. Hemköp was the first chain in Sweden to develop a clear consumer standard for quality and environmental matters. Today the Hemköp chain has approximately 100 stores nationwide. During the period a certain amount of restructuring work was conducted in order to refine the quality and service concept. Among other things, the Billhälls quality chain from western Sweden is now included in Hemköp.

During the first nine months of the year, sales of the Hemköp chain totaled SEK 4.7 bn (4.6). Operating income before goodwill (EBITG) amounted to SEK 141 m (153), and the operating margin was 3.0 percent (3.3).

**Axfood Lågpris** currently includes brands such as Willys, Matex/Exet and HP Billigt & Nära. During the period, several discount chains were acquired, with combined sales of approximately SEK 2 bn. An agreement in principle has been reached on the acquisition of the store chain HP Billigt & Nära. The chain, with some thirty units, will be included in the Group starting on January 1, 2001.

Axfood Lågpris aims to be a nationwide discount chain working under a single name. The framework for this will be ready by the start of 2001, after which implementation of the new concept will take place.

Axfood's discount units have the best volume development in the industry, with growth of 11.5 percent. A large part of the increase is due to new establishment, which will be noticed even more during the fourth quarter with the opening of four new Willys units, among others.

During the first nine months of the year, Axfood Lågpris had sales of SEK 4.0 bn (2.0) in wholly owned stores and approximately SEK 6 bn together with collaborating merchants. Axfood Lågpris is thus the market leader in Sweden's discount segment. Operating income before goodwill (EBITG) amounted to SEK 120 m (76), and the operating margin was 3.0 percent (3.8).

**Axfood Direkt** is Axfood's combined e-commerce business targeted at consumers. Work on coordinating inventories, logistics management and the IT platform began during the third quarter. Axfood's e-commerce venture is concentrated in the Mälardalen region and in western Sweden, with distribution warehouses in Västerås and Gothenburg. After the end of the period the decision was made to establish an additional e-commerce warehouse in Stockholm in order to boost delivery capacity for consumers in the Stockholm metropolitan area.

An overview of the brand strategy in Axfood's e-commerce activities is under way, in which the objective is to optimize Axfood's overall brand strategy. Sales for Axfood's e-commerce business amounted to approximately SEK 62 m (1) during the first nine months of the year. Operating income (EBITG) was SEK -18 m (-7).

**Axfood Franchise.** As a complement to the Group's wholly owned store chains, independent merchants are offered collaboration through Axfood's franchise concepts: Vivo, Spar and Tempo. The merchants are established customers of Axfood's wholesaling operation and are now being tied even more closely to the Group in a clearer contract arrangement. The Vivo concept will mainly be offered to independent merchants in the Stockholm metropolitan area, while the Spar concept will encompass merchants in the rest of Sweden. Tempo is a "mini-market" concept with stores located primarily in city and residential areas.

Axfood Franchise, which is a support organization, is reported under joint-Group items. Operating income (EBITB) amounted to SEK 11 m (5).

### **Axfood Partihandel (wholesaling) – Sweden**

Axfood has two wholesaling operations: **Dagab** (sales: SEK 9,567 m), which supplies goods to Axfood's wholly owned stores and franchise stores, and **Axfood Närlivs** (sales: SEK 3,146 m), which supplies convenience stores and gas stations.

Axfood's wholesaling operation had sales of SEK 12.7 bn during the period (12.1). Operating income (EBITG) amounted to SEK 140 m (157), and the operating margin was 1.1 percent (1.3).

### **Nordic strategy**

Axfood aims to expand in the Nordic region and be the leading and most attractive food retail and wholesale company within five years, with a strong market position in each country.

Today the Axfood Group includes the listed subsidiary Spar Finland, in which Axfood owns 40 percent of the shares and 66 percent of the votes. Spar Finland includes a jointly-owned wholesaling operation, five store concepts, a store network comprising 330 stores – of which 85 are wholly owned – and a market share of approximately 10 percent. The operation had sales of SEK 3.8 bn (4.1) during the first nine months of the year, with operating income (EBITG) of SEK –14 m (27). The operating margin was –0.4 percent (0.7). During the period the company received a tax refund of SEK 15.5 m, pertaining to payment made in 1998. This is reported in the Axfood Group as decreased tax.

In an effort to reverse the negative earnings trend, the management is currently conducting a review of the store structure and store concepts, and focusing on growth.

### **Capital expenditures**

Capital expenditures amounted to SEK 661 m (370) during the first nine months of the year. Of capital expenditures, company acquisitions accounted for SEK 239 m (47) – mainly in the discount segment, where some 30 discount units have been added – and other fixed assets for SEK 422 m (323).

### **Financial position**

Cash flow from continuing operations amounted to SEK 291 m. The Group's liquidity totaled SEK 268 m, plus undrawn credit facilities totaling SEK 626 m. Interest-bearing assets amounted to SEK 753 m (710). Interest-bearing net debt amounted to SEK 2,165 m (1,868).

The equity ratio was 14.3 percent (14.0), while the debt-equity ratio, net, was 2.1 (2.1).

### **Employees**

The average number of full-year employees was 8,100 (7,007) during the first nine months of the year. Of these, 5,684 work in the retailing operation, 2,090 in the wholesaling operation, and 326 in administration and other positions. The increase in the number of employees is attributable to units acquired during the year.

### **Important events after the end of the period**

In October an extraordinary general meeting of Axfood approved a convertible and stock option program for employees and executives of the Axfood Group. Subscription of convertible debentures will take place in November. The extraordinary general meeting also authorized the Board to decide on a repurchase of the Company's own shares, to be used as payment for the acquisition of the HP Billigt & Nära retail chain, comprising some 30 stores and approximately 22,000 square meters of retail space.

The Group recruited a number of key employees during the month of October:

- Bodil Eriksson, Senior Vice President of Corporate Communications, formerly serving in the same capacity for Volvo Cars Sweden.
- Pekka Kosonen, Managing Director of Spar Finland Abp (starting 1 November), formerly deputy managing director at Ketjuetu Oy.
- Anders Nyberg, Executive Vice President and Head of Retail Trade Development (starting February 1, 2001), formerly executive vice president at ICA Handlarnas AB.

Axfood has acquired an additional 41 percent of the subsidiary Eurotaste, which develops and produces private label products. On October 25 the Swedish Competition Authority gave its approval to the deal, giving Axfood 91 percent of the shares and enabling the consolidation of Eurotaste from November 2000 onwards.

### **CEO's comments**

Axfood was formed through the merger of Hemköp, D&D Dagligvaror, Spar Sverige, Spar Inn Snabbgross, and Spar Finland. The third quarter was characterized by the continued, intensive work on implementing Axfood's new corporate strategy and restructuring program. The strategy is built on increasing the operating margin to 3 percent over the long term and focusing on growth in the Nordic region.

Other main points are:

- A new brand strategy, with six well defined, customer-targeted store concepts
- Increased integration of the retail and wholesale trades
- Centralization and coordination of purchasing and logistics in the aim of improving profitability and quality
- Investment in private label goods
- Profitable e-commerce
- Organizational structure with shorter reporting channels and more distinct customer focus

The brand strategy, centralized purchasing and logistics, and private label goods are areas of the corporate strategy in which we will achieve effects in the near term. Axfood's new purchasing function bases its negotiations on the Group's total purchasing volume, which will enhance control of the product range and quality, and generate significant earnings effects starting in 2001.

An efficiency-improvement and restructuring program covering administration, wholesaling and the store network has been charged against the result in the amount of SEK 164 m. The restructuring program includes a reduction in the work force, which is estimated to amount to approximately 300 full-time positions on a yearly basis.

In addition to the restructuring program is an ongoing efficiency-improvement program within the Group's wholly owned store chains and retailing operations.

Stockholm, Sweden, November 7, 2000

Axfood AB (publ.)

Mats Jansson  
President and CEO

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

<b>Sales per business unit and market</b>		
<b>SEK m</b>		
	<b>Jan.-Sept. 2000</b>	<b>Pro forma Jan.-Sept. 1999</b>
Hemköp	<b>4,742</b>	4,625
Axfood Lågpris	<b>3,964</b>	2,006
Axfood Direkt	<b>62</b>	1
Spar Finland	<b>3,813</b>	4,077
Axfood wholesaling	<b>12,713</b>	12,121
Other <sup>1</sup>	<b>1,238</b>	1,790
Internal sales	<b>-4,366</b>	-3,312
<b>Total</b>	<b>22,166</b>	21,308

Net sales, pro forma, for the full year 1999 amounted to SEK 29,077 m.

<b>Operating income for the period before goodwill amortization (EBITG), broken down as follows:</b>		
<b>Mkr</b>		
	<b>Jan.-Sept. 2000</b>	<b>Pro forma Jan.-Sept. 1999</b>
Hemköp	<b>141</b>	153
Axfood Lågpris	<b>120</b>	76
Axfood Direkt	<b>-18</b>	-7
Spar Finland	<b>-14</b>	27
Axfood wholesale	<b>140</b>	157
Other <sup>1</sup>	<b>-37</b>	-41
<b>Total</b>	<b>332</b>	365
Items affecting comparability	<b>-126</b>	-36
Operating income for the period before goodwill amortization	<b>206</b>	329
Goodwill amortization	<b>-94</b>	-69
<b>Operating income for the period after goodwill amortization</b>	<b>112</b>	260

Operating income for the full year 1999 before goodwill amortization, pro forma, amounted to SEK 441 m.

1) Includes joint-Group functions and the support companies: IT, Fastigheter, Handelskredit, Egna märkesvaror and Franchise.

Complete quarterly reporting will be conducted starting in the first quarter of 2001. Due to the major restructuring that has taken place within the Group, this cannot be done in the current year.

<b>Condensed income statement</b>		
<b>SEK m</b>		
	<b>Jan.-Sept. 2000</b>	<b>Pro forma Jan.-Sept. 1999</b>
Net sales	<b>22,166</b>	21,308
Cost of goods sold	<b>-19,725</b>	-18,995
Gross income	<b>2,441</b>	2,313
Selling/administrative expenses	<b>-1,993</b>	-1,792
Operating income before depreciation	<b>448</b>	521
Depreciation	<b>-242</b>	-192
Operating income before goodwill amortization	<b>206</b>	329
Amortization of goodwill	<b>-94</b>	-69
Operating income	<b>112</b>	260
Net financial items	<b>-92</b>	-66
Income after financial items	<b>20</b>	194
Taxes <sup>1)</sup>	<b>-19</b>	-69
Minority share	<b>-1</b>	-13
Income for the period	<b>0</b>	112
Income for the full year 1999, pro forma, amounted to SEK 141 m.		

1) Tax for the Swedish operations is calculated using a standard tax rate of 28 percent. Nondeductible goodwill amortization by the Group has been taken into account, which explains the higher tax charge.

<b>Condensed balance sheet</b>		
<b>SEK m</b>		
	<b>9/30/2000</b>	<b>Pro forma 9/30/2000</b>
<b>Assets</b>		
Goodwill	<b>1,136</b>	964
Financial fixed assets	<b>714</b>	897
Other fixed assets	<b>2,016</b>	1,655
Inventories, etc.	<b>1,352</b>	1,329
Other current assets	<b>1,762</b>	1,505
Cash and bank balances	<b>268</b>	93
<b>Total assets</b>	<b>7,248</b>	6,443
<b>Shareholders' equity and liabilities</b>		
Shareholders' equity	<b>855</b>	706
Minority interests	<b>178</b>	197
Interest-bearing liabilities	<b>2,918</b>	2,578
Noninterest-bearing liabilities	<b>3,297</b>	2,962
<b>Total shareholders' equity and liabilities</b>	<b>7,248</b>	6,443
Total assets, pro forma, at 12/31/1999 amounted to SEK 6,713 m.		

<b>Cash flow statement</b>		
<b>SEK m</b>		
	<b>Jan.-Sept. 2000</b>	<b>Pro forma full year 1999</b>
Cash flow from operating activities	<b>291</b>	<b>365</b>
Investing activities:		
- Company acquisitions	-239	-63
- Acquisition of fixed assets, net	-422	-500
- Reduction of financial fixed assets	143	237
Cash flow from financing activities	<b>-486</b>	<b>-326</b>
Financing activities:		
- New issue	180	-
- Increase in interest-bearing liabilities	166	109
- Dividend	-43	-73
Cash flow from financing activities	<b>271</b>	<b>36</b>
<b>Cash flow for the period</b>	<b>76</b>	<b>75</b>

<b>Key ratios and other information</b>			
	<b>Jan.-Sept. 2000</b>	<b>Pro forma Jan.-Sept. 1999</b>	<b>Pro forma full year 1999</b>
Operating margin (%)	0.5%	1.2%	1.2%
Margin after financial items (%)	0.1%	0.9%	0.9%
Equity ratio (%)	14.3%	14.0%	13.8%
Debt-equity ratio, net (factor)	2.1	2.1	2.0
Debt-equity ratio (factor)	2.8	2.9	2.9
Interest coverage (factor)	1.2	3.4	3.5
Capital employed (SEK m)	3,951	3,481	3,620
Return on capital employed (%)	4.5%	10.6%	10.3%
Return on shareholders' equity (%)	0.0%	21.9%	20.0
Capital expenditures (SEK m)	661	370	563
Earnings per share (SEK)	0.00	2.21	2.77
Number of shares outstanding	53,229,028	50,729,028	50,729,028
Number of full-year employees	8,100	7,007	7,364

### **Date of next financial report from Axfood**

February 15, 2001

### ***For further information, please contact:***

*Mats Jansson, President and CEO, +46-8-700 66 31, mobile +46-70-569 48 11*

*Lars Nilsson, Executive Vice President and CFO, +46-8-700 66 33, mobile +46-70-569 66 33*

*Bodil Eriksson, Senior Vice President, Corporate Communications, +46-8-700 66 34,  
mobile +46-70-629 66 34*