

Axfood Annual Report 2003





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Annual General Meeting

The Annual General Meeting of the shareholders of Axfood AB (publ.) will be held at 5 p.m. on Thursday, 4 March 2004, at Norra Latin, Norra Bantorget, Stockholm.

Notification

Shareholders who wish to attend the Annual General Meeting must notify the Company of their intention not later than 4 p.m. on Thursday, 26 February 2004, in writing, at the following address: Axfood AB, Box 7314, SE-103 90 Stockholm. Notification can also be made by phone to Eva Göransson, +46-8-553 998 13, by fax +46-8-553 998 05, or by e-mail: eva.goransson@axfood.se. Notification should include the shareholder's name, address, social security number/company registration number, phone number, the number of shares held and the number of assistants attending.

If participating by proxy, a power of attorney must be sent to the Company and be in Axfood's possession before the Annual General Meeting.

Participation

To be able to participate in the Meeting, shareholders must be recorded in the register of shareholders maintained by VPC AB not later than Monday, 23 February 2004, and notify the company of their intention to participate in the Meeting not later than 4 p.m. on Thursday, 26 February 2004. Shareholders whose shares are registered in the name of a nominee must temporarily re-register their shares in their own names with VPC AB to be entitled to participate in the Meeting. Shareholders must notify their nominees in ample time prior to Monday, 23 February 2004.

Proposed dividend

The Board of Directors proposes a dividend of SEK 5.50 (5.00) per share, totalling SEK 294 m (266), based on 53,497,028 shares. If all outstanding, subscribable options are exercised, the dividend will amount to SEK 295 m (266), based on 53,577,828 shares.

The record date is Wednesday, 10 March 2004, and dividends are expected to be paid via VPC on Monday, 15 March 2004.

Notice of Annual General Meeting

A notice of the Annual General Meeting was published in Svenska Dagbladet and the Official Swedish Gazette. The agenda of the Meeting and items of business to be conducted were included in this notice.

Financial calendar 2004

First-quarter interim report 22 April

Half-year interim report 22 July

Third-quarter interim report 20 October

Cover: Caring about customers and products – that is the heart of Axfood's business. Pictured here is Cecilia at a Hemköp store in Stockholm.

Axfood in brief

Our mission

is to create, develop and operate successful grocery store chains – wholly owned or in franchise form. Axfood seeks to challenge the Nordic retail food market through distinct and unique customer offerings.

Axfood creates, develops and operates grocery store chains. Axfood's retail operations in Sweden include the wholly owned Hemköp, Willys and Willys hemma chains, and in cooperation with independent merchants, the Spar and Vivo chains. Of Axfood's total sales, approximately 60% are derived from wholly owned stores. The stores' products are supplied by Dagab, Axfood's wholly owned wholesaling operation. An open wholesaling operation (Axfood Närlivs) covers the convenience-store/mini-market segment, comprising small, privately owned shops, newsstands, restaurants and service stations. In Sweden Axfood has an approximate 17% share of the retail food market.

Axfood owns 75.2% of the votes and 69.3% of the shares in Spar Finland, which is listed on the Helsinki Stock Exchange. The Spar Group, which has an approximate 8% market share, consists of the Spar and Eurospar chains, where approximately 35% of the stores are wholly owned. Spar Finland has a 35% interest in the wholesaling company Tuku Logistics.

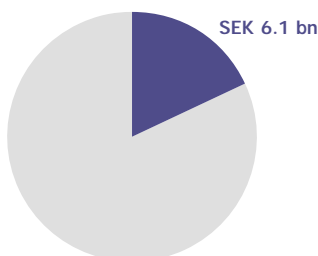
Axfood's business model calls for both the wholesale and retail operations to generate earnings. The Group pursues economies of scale through clear centralization of such key aspects as purchasing, product range, private label products and administration. This has resulted in significant earnings improvements from 2000

Spar Sweden, whose store sales are not consolidated in Axfood, is presented on page 17.



Business concept: Hemköp aims to be the obvious choice of store for food enthusiasts. Hemköp's stores feature product breadth and depth, with approximately 12,000 items. Hemköp's stores have knowledgeable staff and a high standard of service. Hemköp offers generous business hours, 8 a.m.–10 p.m. The chain has 88 stores ranging from 1,000–3,000 sq.m. in retail space.

Hemköp's share of Group sales

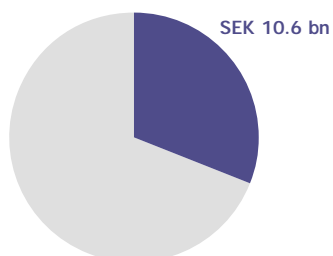


- Operating profit: SEK 13 m (106)
- Operating margin: 0.2% (1.7%)
- Same-store sales: +1.4%
- Private label products, share of total sales: 10.9% (8.7%)
- Average no. employees: 2,630
- Targets 2005
Sales: SEK 7 billion
Operating margin: 4%

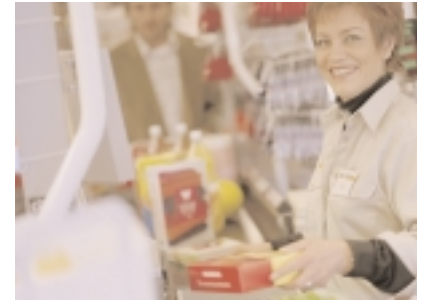


Business concept: To offer Sweden's lowest grocery prices. The customer offering is based on everyday low prices and a broad range comprising 7,500 items, including name-brand products as well as private labels. Willys stores are bright and modern. Willys has 81 stores ranging from 1,500–4,000 sq.m. in retail space.

Willys' share of Group sales

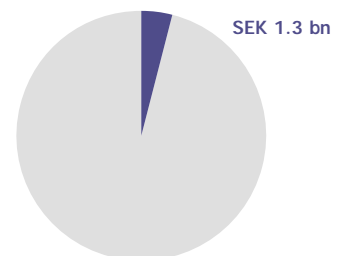


- Operating profit: SEK 395 m (368)
- Operating margin: 3.7% (4.4%)
- Same-store sales: +4.0%
- Private label products, share of total sales: 18.3% (12.7%)
- Average no. employees: 2,374
- Targets 2005
Sales: SEK 12 billion
Operating margin: 5%



Business concept: Willys hemma offers a basic range of products to small households in residential areas, with special focus on ready-made meals and fresh products. Willys hemma stores offer roughly 2,500 items. The chain has 45 stores ranging from 500–1,100 sq.m. in retail space.

Willys hemma's share of Group sales



- Operating loss: SEK -27 m (-27)
- Operating margin: negative (negative)
- Same-store sales: +0,1%
- Private label products, share of total sales: 21.5% (12.7%)
- Average no. employees: 403
- Targets 2005
Sales: SEK 3 billion
Operating margin: 2%

to 2003. We are currently making further efficiency improvements in the organization by developing joint support functions in areas like administration, product range and purchasing.

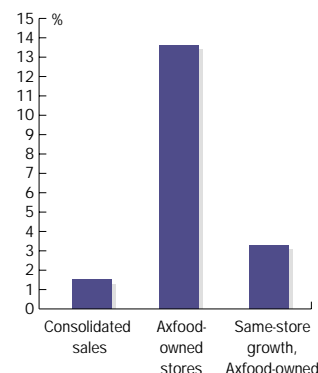
Axfood's brand strategy caters to varying customer needs. This explains Axfood's broad market presence, which extends from discount markets and quality grocery chains to service stations and convenience stores. The customer offerings are very different from each other, and the chains operate under different names and designs.

Axfood was formed in spring 2000 through the combination of the listed company Hemköpskedjan and D&D-gruppen, which included Dagab, among

other companies. In connection with this, the Group acquired the Spar Inn chain and Spar Snabbgross, and a 40% ownership interest in Spar Finland.

- Consolidated sales: SEK 33,616 m (33,115)
- Operating profit: SEK 1,034 m (1,023)
- Operating margin (excl. items affecting comparability): 2.7% (3.0%)
- Interest-bearing net debt: SEK 363 m (1,080)
- Average no. employees 8,640
- Operating margin target 2005: 3.5%

Sales growth, Sweden

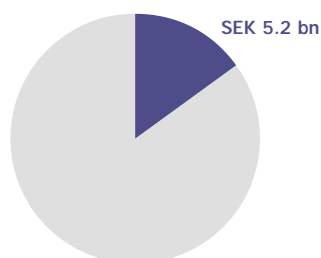


Spar Finland



Spar Finland owns 84 stores, which are operated under the Spar (73 stores) and Eurospar (11 stores) formats. Eurospar stores are large, ranging from 1,500–3,000 sq.m. in retail space, and have a discount profile. Spar stores are traditional, small grocery stores ranging from 300–1,500 sq.m. in retail space. The Spar chain includes roughly 210 independent merchants.

Spar Finland's share of Group sales



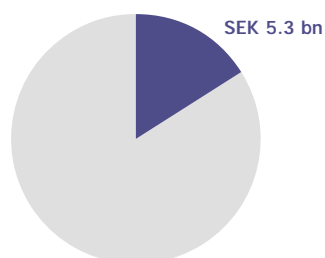
- Operating profit: SEK 40 m (55)
- Operating margin: 0.8% (1.0%)
- Same-store sales: -7.0%
- Average no. employees: 775
- Targets 2005
Sales: SEK 5.5 billion
Operating margin: 1%

Dagab



Business concept: Dagab conveys goods and information between retailers and suppliers on commercial terms. Within the Axfood Group, Dagab is being increasingly integrated with the wholly owned store chains in the aim of enhancing efficiency and the degree of service. Dagab has three distribution centres and three cold storage warehouses.

Dagab's share of Group external sales



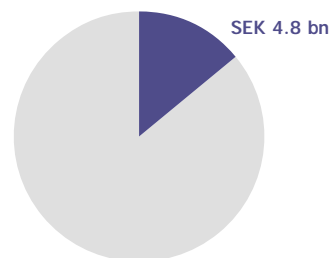
- Total sales (internal and external) SEK 18.6 billion
- Operating profit: SEK 300 m (282)
- Operating margin: 1.6% (1.6%)
- Average no. employees: 1,314
- Targets 2005
Operating margin: 1.6%–1.7%

Axfood Närlivs



Business concept: Axfood Närlivs offers a complete system of products, marketing and profile support to the diverse range of retailers in the convenience store segment. The company caters to three main customer groups: contract customers in the service-station segment, local mini-market chains such as Handlarn and Tempo, and small businesses and restaurants. Axfood Närlivs has 24 cash & carry outlets.

Närlivs' share of Group sales



- Operating profit: SEK 106 m (92)
- Operating margin: 2.2% (1.9%)
- Average no. employees: 751
- Target 2005
Operating margin: 2.1%–2.2%

2003 at a glance

- Consolidated sales rose 1.5%, to SEK 33,616 m. Sales by Axfood-owned stores in Sweden rose 13.6%, with same-store sales rising 3.3%.
- Operating profit was SEK 1,034 m (1,023). Profit includes a capital gain of SEK 110 m on sales of real estate and SEK 22 m on the sale of an associated company.
- Earnings per share increased to SEK 12.85 (11.75).
- Axfood's interest-bearing net debt decreased during the year, from SEK 1,080 m to SEK 363 m.
- Willys' sales rose 25.8% in 2003. Same-store sales were up 4.0%.
- The renewal programme at Hemköp entailed the refurbishment of 35 of the chain's 88 stores in 2003. Sales for newly remodelled stores increased from 5%–15%. Same-store sales were up 1.4% for the year.
- A weak trend and fierce competition in the Finnish retail food market resulted in a drop in volume and earnings for Spar Finland.
- Axfood sold its Swedish real estate holdings to Crown NorthCorp Ltd. The properties had a book value of approximately SEK 500 m, and the capital gain was SEK 110 m. The transaction was completed on 30 April.
- Sales of private label products reached 14.8% of total sales for the Group in December 2003. Private label products have thereby improved Axfood's earnings by more than SEK 90 m since January 2002.
- A joint-Group accounting and payroll administration centre was established, and a new system for these areas has been implemented.
- The number of wholly owned stores in the Axfood Group increased by ten. At year-end 2003, wholly owned stores accounted for approximately 60% of Axfood's sales in Sweden.
- Axfood's share of the Swedish retail food market was approximately 17% in 2003.

The year in figures, SEK m	2003	2002	2001	2000	1999P	Sales area as per December, sq.m.	2003	2002
Net sales	33,616	33,115	32,428	30,230	29,077	Hemköp	133,166	144,258
Operating profit	1,034	1,023	653	112	344	Willys	177,037	149,314
Operating margin, % ¹⁾	2.7	3.0	2.3	0.9	1.2	Willys hemma	34,086	30,431
Profit after financial items	971	919	527	0	261	Spar Finland	61,752	60,005
Earnings after tax	684	625	328	-34	141	Total, Axfood-owned retail operations	406,041	384,008
Earnings per share, SEK	12.85	11.75	6.16	-0.65	2.77			
Earnings per share after dilution, SEK	12.62	11.51	6.07	-0.65	–			
Average no. employees	8,640	8,312	8,514	8,146	7,364			

¹⁾ Excluding items affecting comparability.

CEO's message



2003 was full of variety: it was profitable and exciting, but it also offered a few tough turns. The most important accomplishment is our growing financial strength – during the year we drastically reduced our net debt to only SEK 363 m, and now we have over two billion kronor in shareholders' equity! This makes us well poised for the next steps in our development – to invest further in Willys and Hemköp and to grow in the Nordic region.

We have succeeded on the whole in maintaining our good level of profitability from last year. Our success in doing this in the face of intensifying competition shows the robustness of Axfood's ability to make money. Our equity ratio is already above the 25% target we set for 2005. In 2003 it was 32.2%. Our return on working capital is 31.2%. At the same time, our wholly owned stores have captured market shares from the competition. We have great freedom to act as we work to fulfil the five-year plan we set during the merger year 2000.

According to that plan, our operating margin should be up at 3.5% by 2005. The Board raised our original target of 3.0% in February last year, after our potential proved to be greater than we had previously predicted.

Our main profit engine is the Willys chain, which has grown in terms of sales as well as earnings. Sales in 2003 rose 25.8% compared with 2002 and are now an impressive SEK 10.6 billion, with strong profitability. At the same time, the Swedish discount segment is still small in an international comparison, accounting for slightly more than 10% of the total retail food market. We believe that the segment has the conditions to grow to roughly 20% of the total market within a five-year period.

Willys' potential is thus apparent. During the first half of 2004 we will therefore be evaluating new growth targets for the company.

The wholesaling companies Dagab and Axfood Närlivs continue to show favourable earnings. Our Group projects –

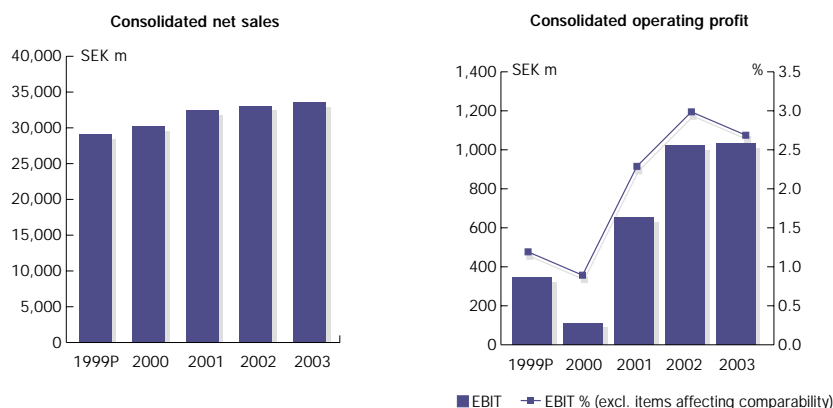
Private Labels and Central Purchasing – have also made significant earnings contributions.

Axfood's private label products are a success and now account for 14.8% of the Group's total sales. During the year, both Willys and Hemköp added over a hundred new house-brand products to their respective offerings. An additional 220 new items were launched across the Group by our low-price brand, Eldorado. Following these additions we now have over 1,000 private label food products. During the autumn we also introduced some 250 consumer products (primarily kitchen utensils and household products, such as light bulbs and batteries). The profit margin for private label products is comparatively high, since we avoid costs for sales and marketing.

Axfood also improved the efficiency of its supply chain in 2003. In Gothenburg, Dagab remodelled its distribution centre and installed a system that enables products to be packed on pallets in a manner that reflects the stores' layout. This is now making it easier and faster for store staff to unpack deliveries in the stores.

Hemköp is our company that has had the toughest time for the past few years. Hemköp needed to pick up the pace in its change process and therefore acquired new management during the summer. Under its new leadership the company is now tackling decisive operating matters, boosting customer confidence and cutting costs further. In 2002 we lowered prices of strategic products by 20% at the same time that we extended Hemköp's business hours. In 2003 we refurbished 35 stores, and these are now among the finest in the market. We were therefore pleased to see a return to profit during the fourth quarter, SEK 23 m. The starting point for 2004 is thus better than in the past.

With the strong focus on prices that now prevails in the market, quality chains are having a difficult time attracting



customers. Hemköp's balancing act requires enticing customers with attractive prices while continuing to offer good service, without distinguishing itself as a luxury store or discount market – the midfielder's dilemma!

The small Willys hemma stores have also been wrestling with profitability problems. It is they that are encountering direct competition from newly established hard discount retailers. We have therefore taken a pause in the expansion of the Willys hemma chain until it becomes profitable. Axfood is and will continue to be profitability-steered, not growth-steered.

Spar Finland reported satisfactory earnings, albeit lower than in 2002. This can be partly explained by the turbulence in the Finnish market following store openings by the German discount chain Lidl. But above all, the Spar stores in Finland are at unfavourable locations: they are in towns that are too small and with too few customers.

It is here that Axfood's growth ambitions come into play – not as an end in themselves – but as a means of enhancing profitability. In a volume-driven industry with small margins, where synergy gains are decisive for competitiveness, size is imperative. This is why we intend to grow both in Finland and the other Nordic countries.

Our most important tasks in 2004 will be to continue nurturing and strengthening our strongholds at Axfood and establish enduring high profitability at Hemköp. Our strategic goal of creating a Nordic platform has just as high priority as ever before. We are committing ourselves strongly to this.

Axfood is loyal to its strategies. Aside from Nordic expansion, we are working further to increase the number of wholly owned stores, grow the share of private label products, refine the chains' brands, and uphold our flat organization and short decision-making paths. With respect to central purchasing, we have now also incorporated the Finnish businesses into the Group's processes.

We also have a sound and entrepreneurial company culture. Given the inherent tensions that always exist between the wholesale and retail sectors, we don't take anything for granted. Our combination of centralization and decentralization is my main explanation for the positive spirit and good profitability within the Group. Everyone has an opportunity to concentrate on their task. And our mission is clear.

The diversity of food stores in Sweden and the rest of the Nordic region is getting better and better. Shoppers have a lot to choose from, both in terms of product range and price. Since preparing food is my own major leisure time interest, I am particularly delighted by today's trends, with more variation and more food appreciation. Many of the industry's challenges still remain – to inject more life and enthusiasm into stores. But doing that and building upon the manifold potential in the industry also requires consumers who are looking for more than the lowest price.

Stay tuned to our continued growth in 2004!

Mats Jansson
President and CEO
Axfood AB

Axfood share data

Axfood shares

Axfood's shares are listed on the Stockholm Stock Exchange O-List, Attract 40. The shares have a par value of SEK 5.00 each, and a trading block comprises 50 shares. As stipulated in the Articles of Association, there are no voting rights restrictions.

Price trend and trading volume

The highest price quoted for Axfood's shares during the year was SEK 174.50 on 9 December. The lowest price paid during the year, SEK 120, was on 23 July.

A total of 30.2 million shares were traded in 2003, for a value of SEK 4,587.4 m, corresponding to average daily trading volume of 121,432 shares and a value of SEK 18.4 m.

The closing price on 30 December 2003 was SEK 166.50, corresponding to a market capitalization of SEK 8,907 m (8,623). Shareholders' equity per share was SEK 39.76 (31.81).

Ownership structure

Axfood had 9,890 (9,613) shareholders at year-end. Twelve per cent of shareholders in 2003 were institutional investors. At year-end 2003 the 15 largest owners held 65.2% of the shares. Foreign ownership in the company increased during the year by 1.2%, to 13.2%. The principal owner is Axel Johnson AB, with 45.2% of the shares and votes.

Convertible and stock option programme

In October 2000 an extraordinary general meeting approved the establishment of a convertible and stock option programme for employees and executives of the Axfood Group.

Convertibles

Subscription of convertibles took place in November 2000. The payment date was 22 January 2001, and a total of 1,093 employees subscribed. The debenture amounted to SEK 73 m. The conversion price is SEK 73, and the conversion period is 21 January 2005–20 March 2006. The convertible loan carries interest corresponding to the Stibor 12 month rate less one percentage point – currently 2.94%.

Upon full conversion, the number of shares outstanding will increase by 1,006,100, corresponding to a dilution of approximately 1.8% of the total number of shares outstanding.

Stock options

In December 2000 Axfood AB issued a promissory note with 427,500 detachable warrants (options). As per 31 December 2002, 17 senior executives had subscribed for 358,800 options. In 2003, 10,000 options were repurchased, and 268,000 options were redeemed for Axfood shares. As per 31 December 2003, 80,800 options remain which can be redeemed for Axfood shares, plus 78,700 options held by Axfood. The exercise price is SEK 77, and subscription can take place until 21 August 2004.

The dilutive effect of the options that have already been exercised is approximately 0.5%. Upon full exercise, the number of shares outstanding will increase by 427,500, corresponding to a dilution of approximately 0.8% of the total number of shares.

Dividend policy and dividend

Axfood's dividend policy is to pay an average dividend of 40% of profit after tax.

The Board of Directors proposes a dividend of SEK 5.50 per share for the 2003 financial year (5.00), for a total dividend pay-out of SEK 294 m. (266), based on 53,497,028 shares, which was the number of shares outstanding on 31 December 2003. This number includes stock options exercised up until that date. If all outstanding options are exercised (prior to 15 February 2004), the dividend will amount to SEK 295 m (266), based on 53,577,828 shares.

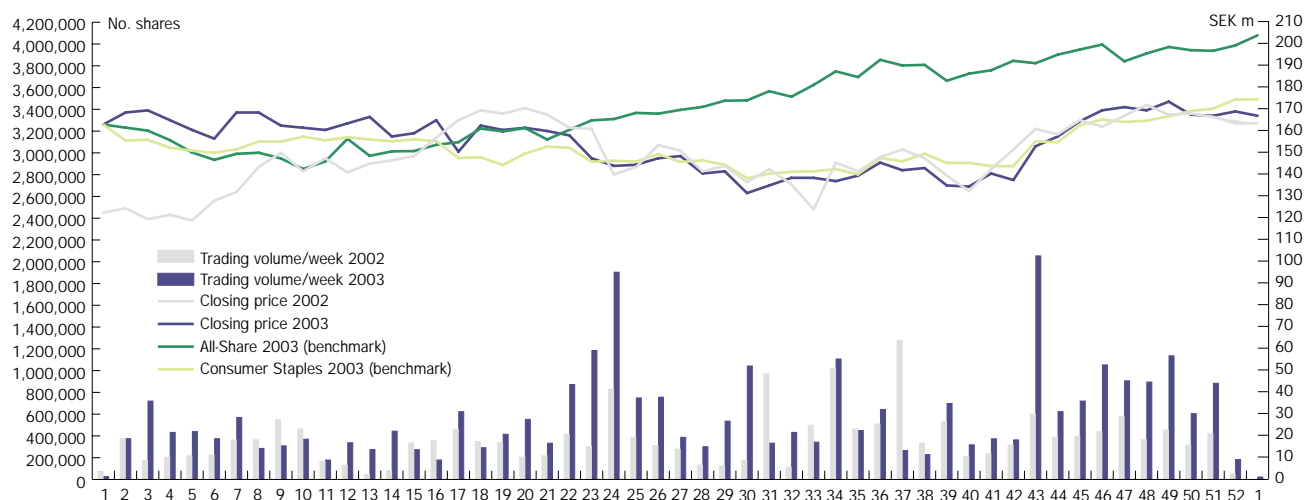
Dividends are expected to be paid out via VPC on Monday, 15 March 2004.

Analyst monitoring

The following analysts monitor Axfood:

Alfred Berg
Carnegie
Cai Cheuvreux
Deutsche Bank
Enskilda Securities
Handelsbanken Securities
Nordea Securities
Swedbank
Öhman Fondkommission

Price trend, Axfood shares



Axfood's 15 largest shareholders at 30 December 2003

Name	Number of shares	Capital and votes, %
Axel Johnson AB	24,203,166	45.2
SEB mutual funds	1,819,550	3.4
SHB/SPP mutual funds	1,601,237	3.0
First National Swedish Pension Fund	1,081,900	2.0
AFA Insurance	865,895	1.6
Hall, Lennart	781,000	1.5
DnB/Carlson mutual funds	571,000	1.1
Kohler, Torsten	565,490	1.1
Firstnordic mutual funds	553,700	1.0
Skandia	537,635	1.0
SEB-Trygg Insurance	511,000	1.0
Söderberg, Tommy	498,300	0.9
Sax, Göran with family and companies	473,006	0.9
Kammarkollegiet fund management	443,000	0.8
Robur mutual funds	386,650	0.7
Total, 15 owners	34,892,529	65.2
Others	18,604,499	34.8
Total	53,497,028	100.0

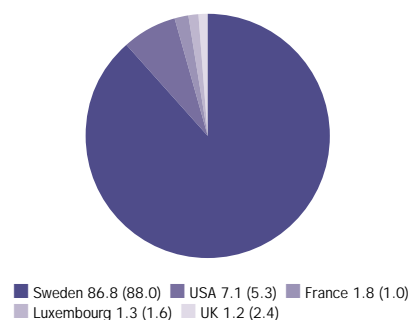
Source: SIS Ägarservice/VPC.

Shareholder statistics

Size class	No. shareholders	Total no. shares, %
1-500	8,267	2.4
501-1,000	719	1.1
1,001-2,000	283	0.9
2,001-5,000	245	1.6
5,001-10,000	123	1.7
10,001-20,000	84	2.3
20,001-50,000	79	4.9
50,001-100,000	34	4.5
100,001-	56	80.6
Total	9,890	100.0

Source: SIS Ägarservice/VPC.

Breakdown of shareholders by the five largest countries as per 30 December 2003, %



Source: SIS Ägarservice/VPC.

Key ratios and per-share data

SEK	2003	2002	2001	2000
Dividend	5.50 ¹⁾	5.00	2.50	0
Dividend as % of earnings ²⁾	43.0	42.6	40.6	0
Number of shares outstanding	53,497,028	53,229,028	53,229,028	53,229,028
Share price at year-end	166.50	162	117.50	53.50
Dividend yield, % ³⁾	3.3	3.1	2.1	0
P/E multiple before dilution ⁴⁾	13.0	13.8	19.1	neg
P/E multiple after dilution ⁴⁾	13.2	14.1	19.4	neg
Highest/lowest price paid	174.50/120	180/115	125.50/48	84/51
Average daily trading volume, thousands	121	75	59	46
Number of shareholders	9,890	9,613	9,565	10,292

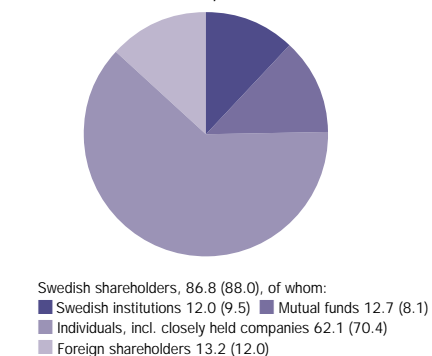
¹⁾Proposed by the Board of Directors.

²⁾Dividend as % of net profit.

³⁾Dividend per share divided by the share price at year-end.

⁴⁾Share price in relation to net earnings per share before and after dilution.

Shareholder categories as per 30 December 2003, %



Source: SIS Ägarservice/VPC.

Axfood's strategies

Distinct brand strategy

We are pruning our chain brands. In Sweden we have gone from 34 store names in 2000 down to four brands today: Hemköp, Willys/ Willys hemma, Spar and Vivo.

Hemköp and Willys are our wholly owned store brands. The plan is to gradually enfold acquired stores into one of these profiles.

Spar and Vivo are grocery chains that are run by independent merchants. In Finland, our store brands have been pared down from five to two: Spar and Eurospar.

Nordic expansion

Axfood currently has an approximate 17% share of the market in Sweden and roughly 8% in Finland. Our long-term goal is to have a 20% market share in all the Nordic countries. Our experience from the Swedish merger that led to the creation of Axfood shows that substantial economies of scale and synergies can be achieved in such a development with respect to brands, purchasing and administration.

Greater private label share

We have increased the private label share from 4% of total sales in 2000 to 14.8% in 2003.

Private labels are an international trend in the retail food trade. It benefits all links in the chain – customers, grocers and Axfood's shareholders. Store prices for our private label alternatives (Hemköp, Willys, Spar) are roughly 15% less than the leading brands. The gross margin improvement is 5%.

Flat organization

We have reduced the number of decision-making levels from eight to four since 2000. And in 2003 we reduced the number of administrative positions by 75. An equally large number will disappear in 2004, leading to annual savings of SEK 70 m. Many of these positions were in Dagab.

Greater number of wholly owned stores

We continued to grow the number of wholly owned stores in 2003, both through acquisitions and by establishing new stores. About 60% of our sales are now derived from our own stores. When Axfood was formed this share was 42%. Our goal is to reach 75% by 2005.

The chief reason for this objective is higher profitability. Moreover, changes can be carried out faster in wholly owned stores. It is easier to develop distinct and attractive brands as a sole owner.

In about half of the merchant-owned stores affiliated with the Axfood Group, we own one share with a right of first refusal. This means that we have preferential rights to acquire such stores in the event they are put up for sale.

Central purchasing

The greatest economies of scale in the trade can be found in centralized purchasing. We can negotiate prices with our suppliers based on the Group's combined purchasing value of SEK 20 billion, corresponding to roughly 85% of the stores' volume. Naturally this gives us lower prices than if each individual store were to negotiate purchasing terms itself.

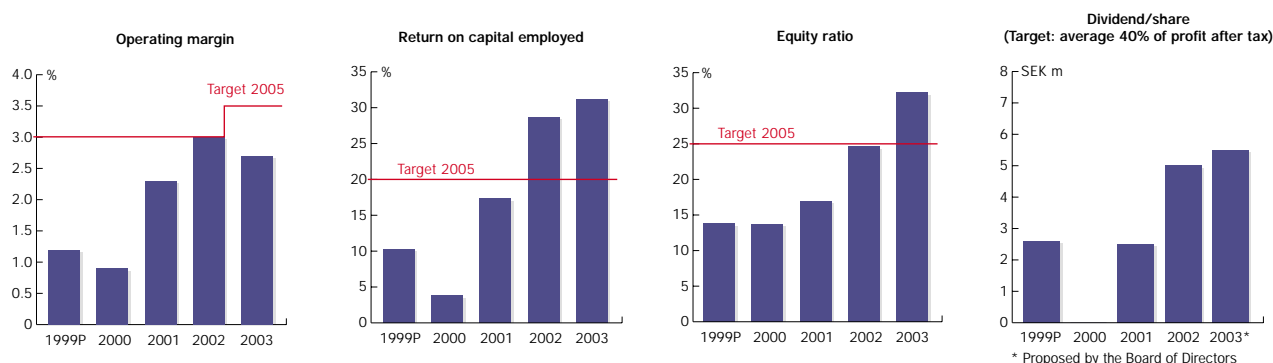
In our purchasing agreements, 70% of the profit gained on better prices is passed on to the stores and 30% is retained by Axfood.

Financial targets

Axfood is financially a very strong company – stronger than ever before. Despite intensifying competition, our operating margin is 2.7%, which is roughly the same as a year ago. The favourable profitability that we achieved then has thus proved to be stable. We have SEK 2,127 m in shareholders' equity, and the company's interest-bearing net debt decreased during the year from SEK 1,080 m to SEK 363 m. By comparison, in 2000 (the year of the merger) Axfood's debt was three times higher than its shareholders' equity. Axfood's equity ratio is now 32.2% – our target is 25%. Our return on capital employed is 31.2%, which is among the best in the business.

One contributing factor to these strong key ratios is that, in addition to the favourable return on our business activities, we have successively sold off our non-core assets – mainly real estate. The divestment of the lending business in the company Handelskredit also contributed to the improvement. The sale of our Swedish real estate holdings generated a capital gain of SEK 110 m. In 2003 we also sold our stake in the associated company Bohus Detaljhandel AB, generating a capital gain of SEK 22 m.

Our solid financial position is enabling us to continue to invest in our current structure and grow in the Nordic region.





Trends in the market

Discount, discount, discount! The trend from previous years continues. First came Willys – Axfood's own locomotive. Then came Willys hemma, followed by Denmark's Netto in collaboration with ICA, and now it's German retailer Lidl that's in the news.

Focus on price and the rise of private label products were the most pronounced trends in the industry in 2003.

Customer loyalty divided

At the same time, customer loyalty is becoming increasingly split by the various types of stores. What's decisive is a person's mood and aim for shopping on a given day. A customer might do her weekly shopping at a discount supermarket, pick up some groceries for the weekend at a traditional grocery store, and complement this with an expensive lemon at a service station.

The trend in Sweden and Finland is the same. Both countries have also acquired competition from hard-discount retailers from abroad. Lidl opened its first stores in Finland in autumn 2002 and in Sweden in autumn 2003.

But the similarities stop there. In Finland, Lidl had a negative impact on volumes mainly during the first half of the year. Discount chains are a relatively new phenomenon in Finland. In Sweden, Lidl's prices are basically the same as Willys', and the chain has not yet had any noticeable effect for Axfood's part.

Different customer offerings

It is important to underscore the difference between Willys' and Lidl's customer offerings. Willys offers a selection of 7,500 items. Lidl doesn't have 80% of these and instead concentrates its offering on products like soft drinks, beer, sweets, biscuits, and so on, with a complementary assortment of food products.

Lidl's entry to the Swedish market has thus far only affected the public debate – in particular through the Competition Authority's decree to work for lower Swedish food prices. This has most likely facilitated Lidl's establishment.

Prices differences narrowing

Surveys performed in 2002 by Sweden's Competition Authority and Eurostat, the EU's statistical office, showed that the price difference between a representative grocery basket in the EU and Sweden was 13%. Taking into account VAT and various payroll taxes, the difference is down to 4%. According to HUI (the Swedish Research Institute of Trade), higher VAT on food and higher payroll and income taxes in Sweden account for a price difference of 9% compared with the EU average.

In an international comparison, discount stores in Sweden and Finland still have a small share of total food sales. The statistics in this respect are still somewhat uncertain, however. It depends on what is classified as "discount." In Sweden, ICA's decision to discontinue its Rimi discount chain affected the segment's size in 2003. As an estimate, discount stores account for slightly more than 10% of total sales in Sweden and Finland, although the definition of discount in Finland is slightly different. This is a much smaller share of the market than in other European countries, where discount stores account for 20%–40% of total sales.

Major spread between regions

There are also major regional differences within the countries. A clear example can be seen between Gothenburg and Stockholm, where Gothenburg has long had established discount alternatives. Discount retailing in Stockholm, on the other hand, is still under-established. This is mainly due to the difficulties in obtaining

Swedish retail food market, main concepts

	 Hard discount <ul style="list-style-type: none"> • Netto • Lidl 	 Discount <ul style="list-style-type: none"> • Willys • Willys hemma (2,300 items) • Prix • City Gross 	 Hypermarkets <ul style="list-style-type: none"> • Ica Maxi • Coop Forum 	 Traditional grocers <ul style="list-style-type: none"> • Hemköp • VIVO • Spar • Coop Konsum • Coop Extra • Ica Supermarket • Ica Kvantum • AG:s 	 Service stations/ mini-markets <ul style="list-style-type: none"> • Tempo • Handlar'n • Ica Nara • 7-Eleven • Petrol companies • ICA Express
Share	< 1% 	10% 	13% 	57% 	19% 
Level of service	2-3	3-5	7-8	6-10	3-5
Location	Residential + external	Residential + external	External	City centres + residential	Traffic- or residential-oriented
No. items	1,100-1,800	7,500 -	12,000 -	7,000-15,000	1,000-3,000
Price index	83-85	85-93	94-99	97-110	109-130

Source/Interpretation: Axfood. Some data are estimates. In the event statistics are not yet available for 2003.

- **Share** based on a total market in 2003 of SEK 201 billion.
- **Level of service 1-10** This concept includes indirect service such as parking availability, customer information initiatives, business hours and direct customer service, including high staff-to-customer ratio, staffed counters, advice and food knowledge.
- **Price index** Based on results from Axfood's four annual price surveys of Sweden's main store concepts. The price surveys cover some 1,400 items.

permits to establish operations, but also to significantly higher rents and property prices.

As a result of this one-sided focus on prices, the traditional middle segment is having a hard time attracting customers. To satisfy the pursuit for lower consumer prices, retail food chains are introducing more and more private label products in their stores.

Private labels are the future

Private labels are the big long-term international trend in the retail food trade. At least 85% of hard discount retailers' total product offerings consist of such products. In France and the UK, private labels account for up to 40%-50% of total sales.

In Sweden, private labels have existed for over 20 years, albeit on a limited scale. Now, with most of the food chains in Sweden and Finland jumping on the private label bandwagon, the traditional market leaders are experiencing an onslaught of price pressure. Weak brands are being crowded off store shelves. Some of these independent, smaller producers are changing sides and supplying house brands to retailers.

Outside Sweden the focus on private labels has entered a new phase. Retail food chains are starting to refine and improve

products – even develop new product lines. The trend in Sweden, which is a relative newcomer in this area, is thus far limited to price alternatives: comparable quality with the market-leading brand, but at a 10%-15% lower price, or purely budget products with simpler quality and a further 15%-20% lower price.

Discounters capturing market shares

The competitive situation in Sweden and Finland is unmistakable. Discount stores and hypermarkets are taking market shares from traditional grocers. However, Finnish law gives stores under 400 sq.m. an advantage: they have the sole right to conduct business on Sundays throughout most of the year. What both countries also share in common is that business is often bad for small stores and that many are closing their doors. There is an exception, however – service station convenience stores, which are doing very well and are becoming increasingly profitable. Shopping there is expensive, but so far customers do not seem to be particularly price-sensitive.

The strongest new trend in stores is the continued rise of ready-made meals, with a steady annual growth rate of 7% for such products. Store-baked bread also continues to be popular.

Finnish retail food market, main concepts

	 Hard discount • Lidl	 Discount • Siwa • Ruokavarasto • Eurospar • Sale/Alepa • Rimi	 Hypermarkets/ Dept. stores • K-Citymarket • Prisma • Euro-/Maximarket • Etujätti • Stockman • Anttila • SOKOS	 Traditional grocers • Spar • K-supermarket • K-market • S-market • Valintatalo • Sesto	 Service stations/ mini-markets • K-extra • K-lahikauppa • K-Pikkolo • Tarmo ja Kympti • S-ABC • Esso Snack & Shop • Neste Quick Shop
Share	2% 	10% 	31% 	47% 	10% 
Level of service	2-3	3-5	7-10	6-10	3-5
Location	Residential + external	Residential + external	Residential + external	Residential + city centres	Traffic- or residential-oriented
No. items	1,000-1,200	3,000-7,000	8,000-13,000	7,000-13,000	1,000-3,000
Price index	83-95*	95-103	94-05	97-110	109-130

Source/interpretation: Spar Finland. Some data are estimates, in the event statistics are not yet available for

- **Share** based on a total market in 2003 of EUR 11,200 m.
- **Level of service 1-10** This concept includes indirect service such as parking availability, customer information initiatives, business hours and direct customer service, including high staff-to-customer ratio, staffed counters, advice and food knowledge.
- **Price index** Source: AC Nielsen Finland. Hard discount * Price span depending on category.

Rising competition for prepared food

The offering of food products is rising dramatically in all urban areas. Everywhere we turn we are offered food in all shapes and forms. No longer do grocery stores have a monopoly on the food market. As a result of this rising competition and changed consumption patterns, retailers must be swift in changing the product range as well as the layout of their stores.

With respect to refrigerated, ready-made meals, both Hemköp and Willys are now making room for new dishes: traditional home-style meals, “healthy choice”-labelled meals, bake-off pizza and Asian dishes. Flavour as well as vitamins are preserved through the French *sous vide* method of preparing such meals.

New shopping behaviours

Many grocery chains are now remodelling their stores to suit any of a number of alternative customer flows – such as the complementary shopping flow, the weekly shopping flow, or the “what should we have for supper tonight?” flow.

Recipes and menus are readily used to steer these flows: for example, pesto and olives are placed in proximity to the pasta

shelves. Eventually, perhaps, hair dryers will be placed next to the shampoo shelves. Consumer products and appliances, namely, are being allocated a growing amount of space on food stores' shelves. These specialty items are adding considerable customer benefit by also offering lower costs for such household products as batteries, napkins and candles.

Consumers the winners

In summary you could say that the consumer is the big winner in recent developments in the retail food industry. In response to mounting competition, business hours, prices, location and product range are all being adapted to the customer's demands – or rather, the customers': families, singles, immigrants, women, men and children, the health-conscious and food enthusiasts. More and more custom-tailored solutions are being offered by stores to meet the widely varying preferences of diverse customer groups.



1. Deli counter at a Hemköp store in Malmö – an example of the chain's new, modern store format.
2. Discount à la Finland. Pictured here: a produce scale at one of Spar's large fresh-produce departments.
3. Generous exposure and a broad offering also at the fresh-produce section at a Willys store in Varberg.
4. Axfood supplies convenience stores with groceries and quick solutions, such as here at a service station store in Barkaby, north of Stockholm.
5. The Willys brand has been a success and is an important component behind the chain's profitability improvement.
6. Best in Sweden when it comes to fruits and vegetables – that's Hemköp's ambition. An ambition we aim to live up to every day.
7. Euros change hands at cash registers at Spar stores in Finland.
8. At Hemköp's stores – for people who love food – customers are enticed with attractive price offerings and food inspiration.



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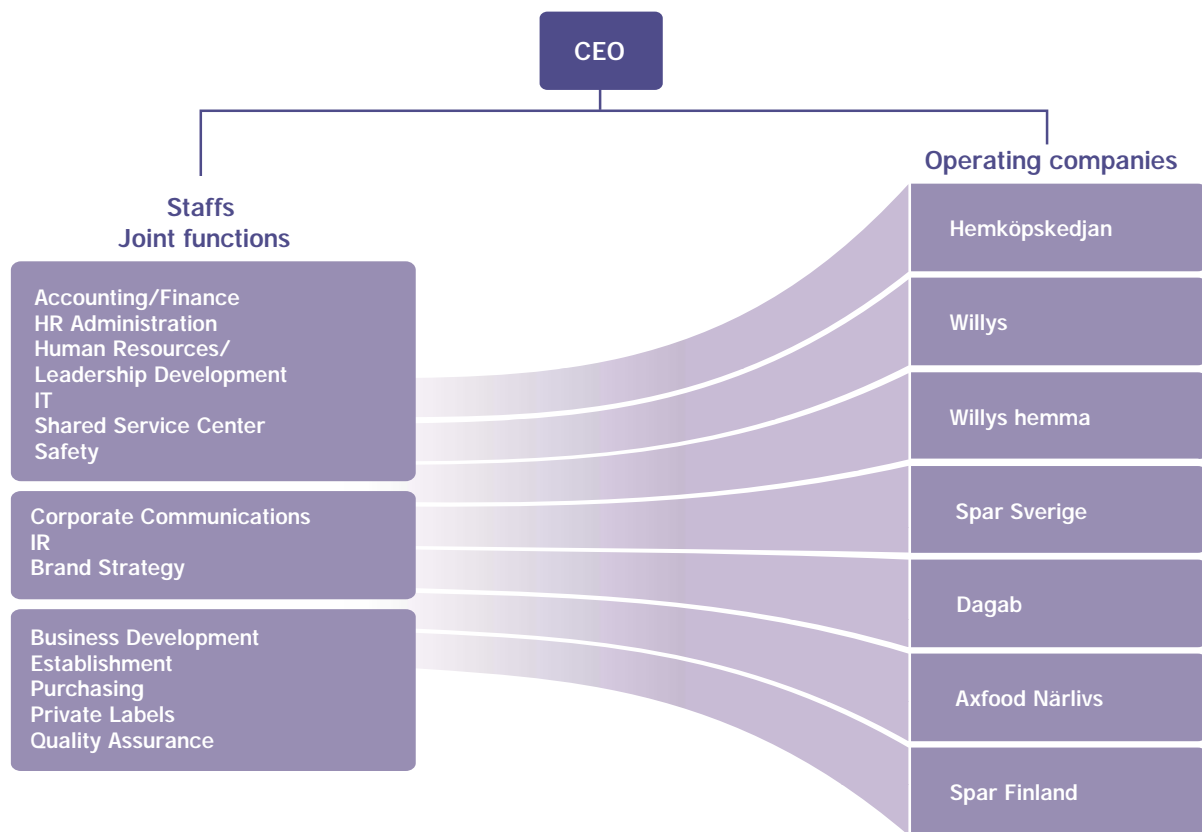
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Effective interplay of centralization and decentralization

Centralization where centralization pays off best. Decentralization where decentralization pays off best. That's Axfood's business model in a nutshell. The way the companies and joint functions hold together as shown in the diagram makes it possible to achieve economies of scale as well as draw benefits from small-scale operations.

Purchasing, for example, is handled centrally, as is the production of Axfood's private label products. The chains' management teams decide on brand profiling and category strategies. The meeting with customers out in the stores, on the other hand, can naturally only be handled there, through maximum responsiveness and adaptation.

The individual store managers are entrepreneurs with a personal responsibility. They make sure that their stores are attractive, that their shelves are well-stocked, and that the customer is greeted with a friendly tone, professionally, and in line with the chain's profile.

Additional examples of central matters are IT, supply chain efficiency and leadership development.

Joint IT systems

Axfood continued to implement its new, joint IT platform in 2003. The systems cover the entire Group, from hand-held computers in the stores to offices, warehouses, company management and staffs. The changes entail a better link between the purchasing department and wholesaling operations on the one hand and the stores on the other. The new systems simplify and integrate ordering, inventories, deliveries and follow-up. Investments in these systems in 2003 amounted to SEK 70 m. From 2002–2004 a total of SEK 200 m will have been invested in Axfood's new IT platform.

Joint administration – Shared Service Center

In 2003 Axfood introduced a Group-wide payroll and accounting system. A support centre now handles a large part of the Axfood companies' day-to-day accounting and payroll routines. About 50 people work at the Shared Service Center, which will result in a reduction of administrative costs by SEK 20 m by the start of 2005. The new, joint payroll system gives Axfood the opportunity to centrally and more effectively monitor matters related to salary development, absenteeism, and so on.

Central purchasing, Business development

The improvements in purchasing for the Swedish operations – Hemköp, Willys, Willys hemma and Spar – continued in 2003. During the year, Axfood also strengthened its cooperation with Spar Finland in purchases of branded goods.

Axfood's private label initiative continues to do well. At year-end 2003, private label products accounted for 14.8% of the Group's total sales. During the year the Willys brand was expanded by 100 items and now comprises a total of 240 products. Hemköp's private label product offering was also expanded by 100 items during the year and now includes a total 300 products. In the Spar chain, 70 items were launched during the year, bringing the chain's total private label product line up to 90 items. These products are also offered to the Finnish Spar stores. Eldorado is Axfood's low-price brand and is sold in all of the Axfood Group's stores to varying degrees, with Willys offering the most products in this brand. The Eldorado line includes 400 items, of which 220 were launched during the year.

During the autumn Axfood launched the new Func and Fixa consumer product brands. Fixa is a comprehensive line of kitchen products, while the Func brand includes household products like



batteries and light bulbs. The Fixa series includes a standard selection plus Fixa Premium, for people with extra high demands on material and design. A total of 245 items were launched during the year under these brands, which are sold in Willys, Hemköp and Spar stores in Sweden. In 2003, non-food items accounted for approximately 4% of total sales. Within a few years this category could amount to 7%–9%.

In 2003 Axfood made the decision, starting in the first quarter of 2004, to take over shelf stocking in stores. By tradition, many stores in the Swedish retail food industry have cooperated with their suppliers on stocking routines. An internal study shows, however, that Axfood's stores can handle shelf stocking themselves at a considerably lower cost than what they have previously paid to their suppliers. In addition to the cost advantages, this change will also lead to quality improvements. No one knows better than the stores themselves when a shelf is empty. In this way we can create better customer benefit and avoid the loss in sales that occurs as a result of poorly stocked shelves.

In 2003 Axfood evaluated a pilot test of centrally packaged meat at 15 stores. This has been a strong trend for many years in Europe. Centrally packaged meat entails the delegation of meat-cutting and packaging to a third party, which performs this service at large production facilities that conform with the stringent HACCP hygiene and food safety standards. Starting in 2006 all stores will be subject to these standards. The various meats are packaged in trays with oxygen-rich air – approximately 80% compared with the normal 25%. This results in a considerable lengthening of shelf-life. For consumers the benefits include more than just safe handling and long shelf-life – it allows the stores to offer more varieties of meat products and more consistent availability. For the stores this entails lower costs in terms of personnel as well as shrinkage.

In 2004 approximately 30% of the meat sold in Axfood-owned stores will be supplied in this manner.

Supply chain

In 2003 Axfood took a major step in improving its operational efficiency through the launch of the Supply Chain project. In Gothenburg, Dagab has re-engineered its distribution centre so that packing of pallets reflects the stores' layout. This enables store staff to unpack newly delivered products more quickly and easily.

Sixteen pilot stores worked on the project together with Dagab, with very good results. Combined with greater computerization, the project resulted in fewer errors, more correct orders, more timely deliveries and smoother replenishing of store shelves.

In 2004 the new system will be established across the Axfood Group and generate cost-savings and quality improvement in the Group's stores.

Leadership development and the Axfood Academy

All of Hemköp's and Willys' store managers attended a basic leadership training programme in 2003. This provides the Group with a solid platform as it starts the Axfood Academy in early 2004 in the aim of securing future growth in leadership, values and management tools. The training programme is organized in three main blocks: leadership development, basic training and specialist training. In 2004 Axfood's management team of 430 employees will be attending the Axfood Academy's first training course: "Communicative Leadership." The emphasis will be on how to guide and motivate employees to ensure that the stores live up to their customer pledge and achieve their financial targets.

Axfood sees the store managers' daily leadership as a key factor in achieving the objectives of the Group's strategy.



SEK m	2003	2002	2001
Net sales	6,117	6,341	6,536
Same-store sales, %	+1.4	-1.6	*
Operating profit	13	106	126
Operating margin, %	0.2	1.7	1.9
Number of stores	88	96	106
Average number of employees	2,630	2,820	3,070

* Data not available.



Better equipped for a gastronomic future

Hemköp's goal is to be the obvious choice for food enthusiasts. Hemköp's stores feature product breadth and depth, with approximately 12,000 items, knowledgeable staff, and a high standard of service. Hemköp offers generous business hours, 8 a.m.–10 p.m. The chain comprises 88 wholly owned stores.

The Hemköp chain has undergone a sweeping transformation during the past two years. In 2002 prices were cut by roughly 20% on some 1,000 ordinary products, and business hours were extended in all stores to 8 a.m.–10 p.m., seven days a week. In 2003, 35 of the chain's stores acquired a new, modern design that stands up to the best of the competitors. The Hemköp chain has thereby remedied most of the factors behind the drop in volume in recent years.

Cost control has been sharpened throughout the chain. New management was installed in May with a mandate to carry out the changes more quickly and decisively. In August the head offices were relocated from Falun to Stockholm. This change has led to better coordination between Hemköp and Axfood. The move also resulted in a reduction in head office staff from 72 to 42 people.

Important events during the year

- Two stores were acquired, three were converted to other concepts and seven were closed or sold.
- Same-store sales increased during the year by 1.4%.
- Thirty-five stores were fully or partly refurbished. Sales for newly remodelled stores improved by 5%–15%.
- Sales of private label products increased during the year from 8.7% to 10.9% of total. A new line of refrigerated, ready-made meals was launched during the autumn under the Hemköp brand. Several of these carry "healthy choice" labels and all meet the highest standards of raw material quality.

- New management installed.
- The head offices were relocated from Falun to Stockholm, enabling Hemköp and Axfood to better integrate joint support functions such as purchasing, product assortment and category development.

Sales and earnings

Hemköp's sales amounted to SEK 6,117 m (6,341) in 2003. Same-store sales were up 1.4% for the full year. Operating profit for the year was SEK 13 m (106). Profit for the year was charged with SEK 30 m in higher operating expenses in connection with refurbishment work and store closures, and SEK 14 m in one-time costs, including SEK 7 m for the move of the head offices and SEK 7 m in connection with the change in company president. Profit recovered during the fourth quarter and was SEK 23 m. The operating margin in 2003 was 0.2% (1.7%).

Future outlook

Hemköp is better equipped following the many changes in 2002 and 2003. Clearer business control, consumer prices in line with comparable competitors, a cleaner, more modern store structure and a stronger presence of private label products together form the foundation for stronger earnings performance. Expectations for 2004 are that Hemköp will resume a sound earnings trend at previous years' levels, gradually approaching its long-term targets of a 4% operating margin and roughly SEK 7 billion in sales. A key aspect of this undertaking involves reductions in store staff, which will result in net cost savings of approximately SEK 100 m in 2004 and 2005.

SEK m	2003	2002	2001
Net sales	10,567	8,398	6,943
Same-store sales, %	+4.0	+6.6	*
Operating profit	395	368	242
Operating margin, %	3.7	4.4	3.5
Number of stores	81	70	62
Average number of employees	2,374	1,944	1,719

*Data not available.



WILLYS

Sweden's lowest grocery prices keeps growing and growing

Willys' business concept is to offer Sweden's lowest grocery prices. Its offering covers several dimensions. Shoppers can rest assured that Willys offers everyday low prices. Customers also have the option to choose between well-known, market-leading brands, Willys' own private label products with comparable quality, and simpler and substantially cheaper products. Willys wants to be the food store for price-conscious shoppers – for all occasions, 365 days a year. Willys has 81 stores.

Willys offers a broad product range with some 7,500 items. The degree of service at Willys stores is relatively low – there are fewer employees and no staffed counters. Willys' prices, however, are the lowest in Sweden. Half of the offering consists of fresh products, and the chain is working on developing this further. In 2003 a new range of ethnic foods was launched, consisting of over a hundred products primarily from the Middle East and the Balkans. The aim is to enhance the chain's offering to the many Willys customers who come from other countries than Sweden and who can't find many of their favourite products in traditional Swedish stores.

In 2003 Willys converted eleven of the stores that were remaining from the former Exet/Matex chain. Three Willys stores are run in franchise form.

Competition from new hard-discount retailers, such as Netto and Lidl, has had only a temporary and local effect on Willys' sales. The pattern is that Willys' sales are back to previous levels a few weeks after a new competitor has opened for business. The discontinuation of ICA's discount chain, Rimi, in 2003 created new opportunities for Willys during the year.

Important events during the year

- Three new stores were established, ten were acquired, one was converted from another concept in the Group and three were closed or sold.
- Same-store sales rose 4.0% during the year.
- Eleven Exet/Matex stores were converted.
- Sales of private label products increased from 12.7% to 18.3% of total.

Sales and earnings

Willys' sales increased by 25.8% in 2003, to SEK 10,567 m (8,398). Same-store sales rose 4.0%, which is a strong testimony to the chain's robustness and customer confidence. Same-store sales in December were up a full 8% over 2002 levels. Conversions from Exet/Matex stores during the year cost approximately SEK 40 m. Operating profit totalled SEK 395 m (368). The operating margin was 3.7% (4.4%).

Future outlook

During the first quarter of 2004, the four remaining Exet/Matex stores are being converted to Willys. Discount retailing in Sweden still accounts for a modest 10% of the total market. Consequently, we believe in continued strong expansion for Willys. An analysis is currently being performed of this potential. Our current goal is for Willys to have 100 stores by 2005 and annual sales of SEK 12 billion, with a 5% operating margin.



SEK m	2003	2002	2001
Net sales	1,317	1,108	981
Same-store sales, %	+0.1	-8.4	*
Operating profit	-27	-27	20
Operating margin, %	neg.	neg.	2.0
Number of stores	45	42	29
Average number of employees	403	362	311

* Data not available.

WILLYS hemma

New discount concept under evaluation

The 45 stores in the Willys hemma chain are located in residential areas and city centres. The target group consists of small households located in close proximity to the stores. For customers such as these, Willys hemma is the main source of groceries. Another key target group is large households, for whom Willys hemma serves in a complementary role. The chain works under the motto "Cheap and Nearby."

The product range offered by Willys hemma stores is relatively limited, approximately 2,500 items. It consists of a well thought out basic range that caters to the stores' target groups. To prevent the product offering from being perceived as too limited, Willys hemma emphasizes certain categories over others, such as ready-made meals and fresh products. Small packages are more prevalent to suit the target group. This orientation will be strengthened in 2004.

Willys hemma has a low-price profile, although not quite as low as Willys. However, the private label products – marketed under the Willys and Eldorado brands – have the same prices as at Willys.

After two years in business, Willys hemma has still not reached profitability. At two pilot stores, a different concept was tested for eight months in which the number of items was reduced to 1,800 and prices were reduced by roughly 6%. The stores experienced no significant volume increase, and the test was consequently discontinued during the autumn.

Important events during the year

- One store was acquired, three were converted from other concepts in the Group, and one was closed.
- A different concept tested at pilot stores did not lead to growth in volume and was therefore discontinued.
- The decision was made to halt the expansion of Willys hemma until the chain achieves profitability.
- A new president was appointed in September with the mission to achieve break-even in 2004.
- Sales of private-label products increased from 12.7% to 21.5% of total, making Willys hemma the store concept in the Axfood Group with the highest proportionate sales of private label products.

Sales and earnings

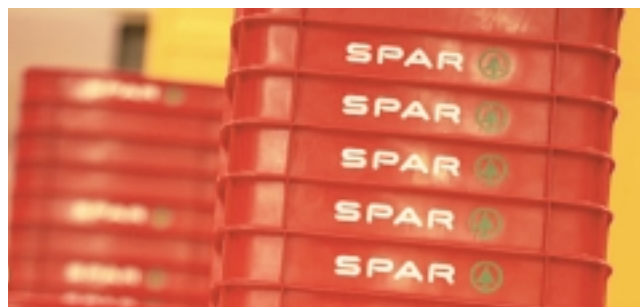
Willys hemma's sales increased by 18.9% in 2003, to SEK 1,317 m (1,108). The rate of volume growth was unsatisfactory, however. Same-store sales increased by 0.1%. The chain reported a loss of SEK -27 m (-27). The operating margin was negative.

Future outlook

The previous goal for Willys hemma was to reach sales of approximately SEK 3 billion and a 2% operating margin by 2005. Such expansion cannot be considered until the chain reports a profit. The short-term goal is for Willys hemma to break even in 2004.

SEK m	2003	2002	2001
Net sales	47	32	26
Same-store sales, %	+0.9	+2.7	*
Number of stores	130	130	106
Average number of employees	37	73	130

* Data not available.



Good prospects for Swedish franchise-based food retailing

The Spar franchise chain was established in 2001 and consists of approximately 130 stores across Sweden. All of the stores are operated by independent merchants. Axfood is the licensor in Sweden for the Spar brand, and the franchise fee is 1.3% of a store's net sales. The agreements with Axfood and Spar cover purchasing, concept- and product range-development, and marketing. Dagab is the principal supplier for all the stores. Axfood has minority stakes or shares with a right of first refusal in about half of the Spar stores. In 2003 Axfood acquired five Spar stores, which were converted to Hemköp or Willys.

The Spar concept features two store formats – Spar, made up of traditional grocery stores with between 400 and 2,000 sq.m. of retail space, and Eurospar, consisting of larger units with 1,000–3,000 sq.m. of retail space and a more pronounced fresh-products profile. The average product range comprises about 7,000 items. Spar and Eurospar stores are typically the main grocery store in small towns. As such, they are exposed to fierce competition from regional discount stores and hypermarkets. Personal service and local ties are therefore the most important competitive tools, as is the focus on fresh products. All stores in the Spar chain offer food sampling displays in an effort to inspire customers with new recipes and meal suggestions.

In 2003 the Spar chain introduced an additional 70 new Spar products. Sales of private label products amounted to 7.9% of total at year-end.

Sales and earnings

The Spar chain's stores had sales of roughly SEK 4,300 m in 2003. Same-store sales rose 0.9% compared with a year earlier, despite mounting competition. Spar Sverige posted an operating profit of SEK 47 m (32) in 2003.

Future outlook

The overall market trend in 2003, characterized by higher market shares for discount stores and hypermarkets, is expected to continue into 2004. This could have major local consequences. Continued development of the stores' customer offering is expected to provide conditions for stable sales development. The focus on private labels will continue in 2004.

Vivo

Vivo consists of some 90 traditional grocery stores in the Greater Stockholm area and on Gotland. The stores are operated by independent merchants who in certain cases cooperate with Axfood in operations and store establishment. The Vivo group has annual sales of approximately SEK 5,500 m and is Dagab's largest single external customer. Axfood owns the Vivo brand.



SEK m	2003	2002	2001
Net sales	18,561	17,906	15,054
Operating profit	300	282	258
Operating margin, %	1.6	1.6	1.7
Average number of employees	1,314	1,342	1,318

Dagab Integration work continues for improved efficiency

Dagab's business concept is to streamline the flow of goods and information between retailers and suppliers on commercial terms. Within the Axfood Group, Dagab is being increasingly integrated with the wholly owned store chains and serves as the Group's product supply system. In three years' time, Dagab's volume has changed to where today slightly more than 70% of sales are derived from wholly owned stores, compared with 40% previously. External customers consist primarily of the Spar chain, with some 130 stores, and the Vivo group, with over 90 stores in the Greater Stockholm area and on Gotland.

Dagab has three distribution centres – located in Borlänge, Jordbro (outside Stockholm), and Backa (outside Gothenburg) – and three cold storage warehouses. This structure is the result of several years of efficiency-improvement work involving the closure of about ten distribution centres. Dagab has a process-steered work flow designed to measure and develop productivity, quality and employee objectives. Dagab also achieved significant improvements in its warehouse operations during the year. A rationalization programme carried out in 2003 resulted in a reduction in administration by 60 positions.

During the year, Axfood's meat and processed meat operations were integrated in Dagab. All products delivered to Axfood-owned stores are to go via Dagab, compared with 50% previously.

In 2003 a pilot test of 15 stores evaluated centrally packaged meat, with a favourable outcome. In 2004 approximately 30% of meat deliveries to Axfood-owned stores will be centrally packaged. This new technique entails a substantial improvement in hygiene and longer shelf-life, but also a better offering in the stores. The concept puts demands on shorter lead times and higher frequency of deliveries. The gradual changeover to this type of handling will also considerably reduce the costs for handling meat and processed meats in stores.

The distribution centre in Gothenburg has adopted a category management system, entailing a structuring of inventories to minimize work upon delivery and unpacking at stores. The stores that

receive their deliveries from Gothenburg have experienced considerable improvements. All of Dagab's distribution centres will therefore be adapted to this model in 2004. Work got under way during the year with the Supply Chain project, which is evaluating and changing product supply across the Axfood Group. A 6,000 sq.m. extension was made to the central warehouse in Jordbro. This will enable slow-moving products to be moved from regional to central warehouses, leading to improvements in overall productivity.

Important events during the year

- Dagab took over responsibility for the distribution of all meat and processed meats to Axfood-owned stores.
- A 6,000 sq.m. extension was made to Dagab's central warehouse in Jordbro, which now covers 37,500 sq.m. in total inventory space.
- The number of salaried employees was reduced by 60 positions.

Sales and earnings

Strong growth at Willys and greater loyalty in Group-owned stores contributed to a rise in sales in 2003, which totalled SEK 18,561 m (17,906). Operating profit totalled SEK 300 m (282), the best ever for Dagab. The operating margin was 1.6% (1.6%).

Future outlook

Work in 2004 will be focused on further improving efficiency and quality. Several projects will increase integration between Dagab and the retail segment. The rising share of private label products entails a partly new way of working, and close monitoring and control must be exercised to prevent the lower price profile from negatively affecting Dagab. Accordingly, improvements in administration and import systems will be made during 2004. Dagab's goal is to maintain its operating margin in the range of 1.6%–1.7% in 2005.

SEK m	2003	2002	2001
Net sales	4,779	4,713	4,618
Operating profit	106	92	69
Operating margin, %	2.2	1.9	1.5
Number of Tempo/Handlarn stores	319	211	255
Cash & carry outlets	24	24	25
Average number of employees	751	699	841



Axfood Närlivs Focus on customer in competitive convenience store segment

Axfood Närlivs is an open wholesaling operation serving three customer categories: contract customers in the service-station segment, mini-market chains such as Tempo and Handlarn, and small-business and restaurant operations. The business concept is to offer a complete system of products as well as market and concept support for the diverse range of customers in the convenience store/mini-market segment.

Axfood Närlivs' operations are organized into two components: Närlivs, which works with distribution, and Snabbgross, which operates 24 cash & carry outlets in Sweden.

The convenience store segment in Sweden is fiercely competitive. Loyalty to a single supplier is relatively limited. This applies in particular to the cash & carry business. Volumes in this part of Axfood Närlivs' business declined slightly during the year. A more active marketing programme aimed at attracting customers primarily in the restaurant and food-service sector was introduced during the autumn.

Axfood Närlivs took over the Tyringe distribution centre in southern Sweden in early 2003. A central cold storage warehouse was established in Örebro in March, which resulted in a significant improvement in delivery reliability and service. Örebro now serves as Axfood Närlivs' logistical hub by providing the entire country with fresh products and a limited range of centrally stored products.

The Tempo and Handlarn mini-market chains, together comprising slightly more than 300 stores, are an important customer category. The cooperation agreements between these proprietor-operated stores and Axfood Närlivs covers product range strategy, marketing and distribution. The stores have combined sales of approximately SEK 2 billion. The Tempo concept was rejuvenated during the autumn and adopted a distinct profile as a complementary store chain with focus on fresh products. Market communication, the product range and price structure were all modified and well-received by the more than 100 store owners.

Axfood Närlivs today has cooperation agreements with Shell Select, OK/Q8, Preem and EMAB (covering Shell's dealer-run stations in Sweden and the Bilisten, Uno-X, and Norsk Hydro

service stations). The cooperation agreements are for three years, with yearly volume of approximately SEK 2 billion. During the year, Axfood Närlivs expanded its beverage distribution activities for Carlsberg and Coca-Cola.

Important events during the year

- New three-year agreements with OK/Q8 and EMAB. Annual volume of approximately SEK 1,050 m.
- Expansion of beverage distribution activities for Carlsberg and Coca-Cola.
- Establishment of Tyringe distribution centre and new cold storage warehouse in Örebro.
- Launch of "Godegården," Axfood Närlivs' private label, in September 2003.
- Rejuvenation of the Tempo customer concept and cooperation agreements.
- Introduction of the "Smått&Gott" bulk sweets concept at all of Axfood's wholly owned stores.

Sales and earnings

Competition was tough during the year from existing as well as new wholesalers, who resorted to very aggressive pricing toward Axfood Närlivs' customer categories. Despite this, sales in 2003 totalled SEK 4,779 m (4,713). Operating profit was SEK 106 m (92), and the operating margin was 2.2% (1.9%).

Future outlook

Convenience stores and mini-markets need to enhance their customer offering in order to maintain volume and profitability, which has top priority for 2004. Axfood Närlivs will be strengthening its penetration of new customers, particularly in the food-service and restaurant sector. Axfood Närlivs' goal for 2005 is to maintain an operating margin of 2.1%–2.2%.



SEK m	2003	2002	2001
Net sales	5,178	5,537	5,683
Same-store sales	-7.0	-1.6	*
Operating profit	40	55	25
Operating margin, %	0.8	1.0	0.4
Number of wholly owned stores	84	79	77
Average number of employees	775	864	876

* Data not available.



Favourable outcome in difficult Finnish market

Spar Finland has 84 wholly owned stores that are operated in two formats: Spar and Eurospar. Spar stores are traditional supermarkets with 300–1,500 sq.m. of retail space. The stores highlight fresh products and a high standard of service and staffed counters. Their respective product ranges are adapted to customer preferences. Eurospar's eleven stores have a discount focus and range in size from 1,500–3,000 sq.m. These stores have a uniform product range and limited degree of service to keep prices down.

Spar Finland collaborates with some 210 independent merchants in the Spar chain. Spar Finland offers these stores a range of support related to logistics, purchasing, category management, marketing and leasing. Product supply is handled by the logistics company Tuko Logistics Oy, in which Spar Finland has a 35% stake.

Spar Finland is listed on the Helsinki Stock Exchange. Axfood is the largest owner, with 75.2% of the votes and 69.3% of the capital.

The Finnish retail food market was characterized by weak growth and fierce competition in 2003. The establishment of Lidl in the market adversely affected volume and profitability development, especially during the first half of the year. During the second half the Finnish market stabilized, and the volume drop levelled off.

Spar Finland reduced its internal costs during the year in response to the market trend. Cooperation with Axfood has increased. Joint purchasing from suppliers of branded products and private label products are two cooperation areas.

Important events during the year

- One new store was established, eleven were acquired and seven were closed or sold.
- Two Eurospar stores underwent major refurbishment and extension during the year. The stores were reopened in August 2003.
- Expanded cooperation with Axfood in the areas of joint purchasing and private labels. In 2003, 70 private label products were launched.

Sales and earnings

Fierce competition and weak growth in Finland, as well as a smaller number of stores in the Spar system compared with 2002, hurt Spar Finland's volume and earnings development. However, the negative sales trend was broken during the autumn, and a slight recovery took place. Spar Finland reported sales of SEK 5,178 m (5,537) in 2003. Same-store sales fell by 7.0%. Operating profit totalled SEK 40 m (55). The operating margin was 0.8% (1.0%).

Future outlook

Spar Finland has good cost control, and the organization is swiftly adapting to the prevailing market conditions. However, Spar Finland is too small to be able to draw full benefit from economies of scale, and most stores in the chain are located outside of the Greater Helsinki area, which is the most important local market in Finland. Achieving better profitability will require a structural change in cooperation with a business partner.

In its current structure, Spar Finland aims to have sales of approximately SEK 5.5 billion and an operating margin of 1% by 2005.

Axfood had an average of 8,640 employees (8,312) in 2003, of whom approximately 75% work in stores. The increase in the number of employees during the year is mainly attributable to Willys' expansion.

New goals were set up in 2002 for Axfood's equal opportunity work. According to these, each company and staff management team should have at least one woman by 2005. The share of woman store managers should also rise to 25%.

In 2003, seven out of ten company/staff management teams had met this target. Axfood's corporate management has eleven members, of whom two are women. Today women account for 15% of store managers. In Axfood's management group of 450 persons, the share of women increased from 15% to 20% in 2003.

The policy and content of the Axfood Academy were established in 2003. Starting in March 2004, 430 of Axfood's senior managers will be attending a training course in communicative leadership. The Axfood Academy will also be offering special training courses for store managers.

All employees are to have a performance review once a year with their respective managers. This is standard practice at Axfood and a precondition for employee participation and competence development. Performance reviews from 2003 will be followed up in Axfood's employee survey, which will be conducted in spring 2004.

In 2003 a new payroll system was adopted at Axfood which provides conditions for better follow-up and evaluation of salaries within the Group. We have analysed salary levels and differences in various parts of Axfood's companies. The analysis shows that there is no salary discrimination within the Group.

The retail food industry traditionally has a high degree of absenteeism. Absenteeism at Axfood's store chains is 7.6% on average. At the start of 2003, absenteeism at Dagab was 9.48%. A health project was therefore started at Dagab in the aim of lowering absenteeism. The project involved personal follow-up of illness, training, better communication and improved work environments. As a result of this initiative, short-term absenteeism fell sharply during the year, and was 7.0% by year-end.

Working with quality toward new goals

New, more stringent food-handling rules are set to take effect in 2006. The new standards apply for all food handling, regardless of scale. The corner market will be required to meet the same standards as a major industrial operation. In preparation for these new rules, in 2003 Axfood continued its work on performing internal store controls. Instructions for all areas in which Axfood performs controls itself (such as meat and processed meat preparation, incoming product control, cheese and dairy product handling, storage routines for refrigerated and frozen products, employee hygiene, etc.) are included in a joint manual for the entire Group. Several projects lay behind the production of the manual, which covers the new, more stringent requirements. Training and continuing education initiatives have been carried out in parts of the store chains and will continue in 2004. Axfood's quality assurance staff will be responsible for follow-up of internal controls.

Axfood's private label products are quality-assured with respect to product safety and consumer preferences. Product safety standards apply for all products. All suppliers must be certified according to one of the internationally recognized food standards, HACCP or BRC. As of the end of December, 26% of Axfood's private label suppliers were certified according to these norms. According to plans, the rest of the Group's suppliers will be certified before 1 June 2004. Until then, suppliers that are not certified according to HACCP or BRC will be required to submit a written account and describe the aspects of their operations that are subject to the standards.

Axfood performs inspections and spot tests itself or with the help of independent certification companies.

Consumer tests of the Willys, Hemköp and Spar private label products are conducted by independent companies to ensure that these are comparable with the market-leading products. For other private labels such as Eldorado, taste tests are performed in Axfood's own test kitchen.

Axfood supports the UN Convention on Rights of the Child and ILO conventions 138 and 182. In all supplier agreements that are signed on the central level for Axfood's chains, the suppliers undertake to ensure compliance with these conventions in the producing countries. Axfood's supplier agreements also cover the suppliers' obligation to allow union organization at the workplace. During the first half of 2004 Axfood will be working on and adopting a new Code of Conduct that addresses a wide range of points, including safety, work environments, the environment, and GMO labelling.

Electricity consumption by Axfood in 2003 (Group-owned stores and other facilities in Sweden) amounted to 274,000 MWh, of which 210,000 MWh belonged to a centrally negotiated contract. Of this total, 73,000 MWh, or 27%, was ecolabelled electricity and was used exclusively by Hemköp's facilities. Axfood is working actively to reduce electricity consumption and will be starting an extensive electricity savings programme in 2004. Spar Finland's electricity consumption amounted to 40,000 MWh.



1



2



3



4



5



6



1. Willys hemma stores pledge to be "Cheap and Nearby."
2. Discount doesn't have to mean a thin offering. The Willys store in Varberg is proof of the opposite.
3. Delightfully smelling, newly baked bread on its way to shelves at a Spar store in Helsinki.
4. Willys' dairy section is always sparkling and fully stocked.
5. Quality, attractively priced food for all tastes. Willys' ethnic staples are targeted at often-neglected customer categories in the Swedish retail food market.
6. Quick and easy food at customers' convenience. Axfood Närliivs supplies groceries to the OK/Q8, Shell, Preem and Hydro petrol chains.
7. Dagab has organized its warehouse in Gothenburg to reflect the layout of stores.

Administration Report

Reg. no. 556542-0824

The Board of Directors and President of Axfood AB (publ), domicile in Stockholm, Sweden, herewith submit their annual report and consolidated accounts for the 2003 financial year.

Operations

Axfood conducts food retail and wholesale trading operations in Sweden and Finland. The retail operations in Sweden are conducted in the Willys, Hemköp and Willys hemma chains, with 214 wholly owned stores. Retail trading is conducted in Finland by Spar Finland, which operates 84 stores. The net increase in 2003 in the number of stores was five in Sweden and five in Finland. Wholesaling is conducted by Dagab, for which slightly more than 70% of sales are made to Axfood-owned stores in Sweden, and Närlivs, whose customers consist primarily of small grocery stores, service stations and other convenience stores. Närlivs also runs a wholesaling operation with 24 outlets.

Operating profit for 2003 was essentially unchanged compared with 2002, at SEK 1,034 m (1,023), and the operating margin was 2.7% (3.0%) excluding items affecting comparability. Work continues on further coordinating purchasing and administration with the Group as a key step in achieving maximal profitability. In 2003 a joint business system was purchased and installed at all Swedish companies within the Group. In addition, a shared services centre has been built up to handle a large part of the day-to-day reporting and salaries within the Group in Sweden.

Net sales and earnings

Consolidated net sales of the Axfood Group rose 1.5%, to SEK 33,316 m (33,115). Sales in Sweden in own and collaborating stores amounted to SEK 35,260 m (34,859), including VAT – an increase of 1.1% compared with the preceding year.

The subsidiary Axfood Fastigheter AB was sold as per 30 April, generating a capital gain of SEK 110 m (2002: capital gain of SEK 37 m on sales of real estate). The real estate had a book value of approximately SEK 500 m. In December, Axfood's stake in the associated company Bohus Detaljhandel AB was sold, generating a capital gain of SEK 22 m.

Operating profit was SEK 1,034 m (1,023) and included combined capital gains of SEK 132 m from the sale of Axfood Fastigheter AB and Bohus Detaljhandel AB (the previous year's figure included a capital gain of SEK 37 m on sales of real estate). The operating margin, excluding capital gains, was 2.7% (3.0%). After net financial items, totalling SEK -63 m (-104), profit was SEK 971 m (919). A net profit of SEK 684 m (625) was reported for the year after taxes of SEK -275 m (-280) and minority shares of SEK -12 m (-14).

Capital expenditures

Capital expenditures for the year totalled SEK 802 m (513). Of these, SEK 142 m (58) pertained to stores in Sweden, SEK 579 m (404) to investments in fixed assets in the wholesaling operations and in the store network in Sweden, and SEK 81 m (51) to investments in fixed assets in Finland.

Financial position

Cash and cash equivalents held by the Group, including short-term investments, amounted to SEK 548 m (444) as per 31 December 2003. Cash flow from operating activities amounted to SEK 1,026 m (1,104). After net expenditures of SEK -315 m (-192) and amortization of debt and payment of the dividend, together totalling SEK -606 m (-873), cash flow for the period was SEK 105 m (39).

Interest-bearing assets, including cash and cash equivalents, decreased by SEK 9 m to SEK 609 m (618), and interest-bearing liabilities and provisions decreased by SEK 726 m to SEK 972 m (1,698). Interest-bearing liabilities include SEK 373 m (378) in provisions for pensions. Interest-bearing net debt decreased by SEK 717 m to SEK 363 m (1,080).

The equity ratio was 32.2% (24.6%), and the debt-equity ratio, net, was 0.2 (0.6).

Parent Company

Other operating revenue for the Parent Company amounted to SEK 80 m (35) during the period. After administrative expenses of SEK 150 m (101), a capital gain of SEK 198 m from the sale of Axfood Fastigheter AB and net financial items of SEK 3 m (-23), profit after financial items was SEK 131 m (-89). Capital expenditures totalled SEK 4 m (12). Cash and cash equivalents held by the Parent Company totalled SEK 91 m (0). Interest-bearing external assets amounted to SEK 91 m (6) at the end of the period. Interest-bearing net debt decreased by SEK 380 m and amounted to SEK 169 m (549) at the end of the period.

Share repurchases

During the year the Company did not purchase or transfer any of its own shares. The Company had no holdings of its own shares as per 31 December 2003.

IFRS/IAS

Starting on 1 January 2005, Axfood will be applying the International Financial Reporting Standards (IFRS – previously called IAS) in its consolidated accounts. These rules apply for all listed companies in the EU, in accordance with an EU directive.

According to the transitional rules, a comparison year is required, which entails that the accounts for 2004 must also be reported in accordance with IFRS in the financial reporting for 2005.

To prepare for the transition to accounting in accordance with IFRS, in 2003 Axfood – together with external accounting experts – identified the differences that currently exist between Swedish rules and IFRS and what effects the transition will have on the Axfood Group's profit and loss account, balance sheet and note information. In its comparison, consideration has also been given to proposed changes in current IFRS rules that are expected to take effect by the first quarter of 2004 at the latest. As a part of Axfood's IFRS work, all companies in the Axfood Group are being prepared for reporting in accordance with the new rules. Complementary training will be conducted within the Group during the first quarter of 2004. Consolidated reporting in 2004 in accordance with IFRS will take place in parallel with reporting in accordance with the current accounting rules.

According to the proposed change of IFRS in ED 3, Business Combinations, in the future companies shall not amortize goodwill on a straight-line basis, but should instead test the reported impairment at least once a year in connection with the year-end book-closing, or more frequently if events occur which indicate a need to write-down goodwill in accordance with IAS 36, Impairment of Assets (RR 17 Write-Downs). A testing of the goodwill values in the Axfood Group in accordance with IAS 36 has been done in connection with the year-end book-closing work for 2003. This test has not identified any need to show impairment of goodwill or of other intangible fixed assets.

In other respects, the transition to IFRS does not entail any material changes for Axfood's financial reporting.

Stock options

In December 2000 Axfood AB issued a promissory note with 427,500 detachable warrants (options). Each option entitles its holder to subscribe for one share during the period 22 November 2003 – 21 August 2004. As per 31 December 2003, 268,000 options had been redeemed for Axfood shares, corresponding to a dilution of approximately 0.5%. A total of 80,800 options remain which can be redeemed for Axfood shares, plus 78,700 options held by Axfood.

Composition and work of the Board of Directors

Axfood's board consists of nine directors elected by the Annual General Meeting (no alternates) and three employee representatives with alternates. The members of the Board are presented on page 54. The Group CEO is a director on the Board.

According to its work plan, the Board shall have at least five meetings a year. In 2003 the Board met seven times, of which one was the statutory meeting. At each meeting the CEO presents, in connection with the quarterly report, an economic and financial report of operations. In addition, he furnishes the Board with monthly reports on significant events and summary financial information. Each year the Board discusses the audit report, which describes to what extent the Company's organization is structured so as to ensure satisfactory control of bookkeeping, cash management and the Company's financial position.

The Board has no audit committee. At least once a year the Board meets with the Company's auditors in the absence of the CEO or any other representative from the Company.

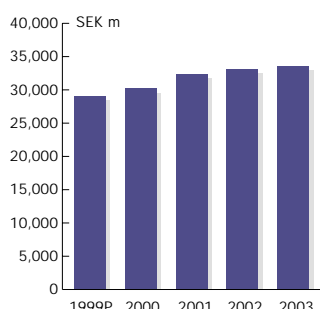
The Board of Directors has a compensation committee, which handles and makes decisions on matters concerning salaries and other terms of employment for Axfood's CEO and other members of the corporate management. The Committee reports to the Board. This committee shall consist of a minimum of three and a maximum of five persons, with the Chairman of the Board serving as chairman of the Committee. The current members of the Compensation Committee are Göran Ennerfelt, Antonia Ax:son Johnson and Marcus Storch.

Axfood's main owners have appointed a nominating committee for the period up until the next Annual General Meeting. The Nominating Committee is responsible for presenting recommendations on the number of directors serving on the Company's board and the composition of the Board of Directors to the Annual General Meeting on 4 March 2004. The members of the Nominating Committee are Hans Dalborg (chairman), Antonia Ax:son Johnson, Inge Bäckström and Lars Otterbeck. Axfood's chairman, Göran Ennerfelt is a coopted member of the Nominating Committee.

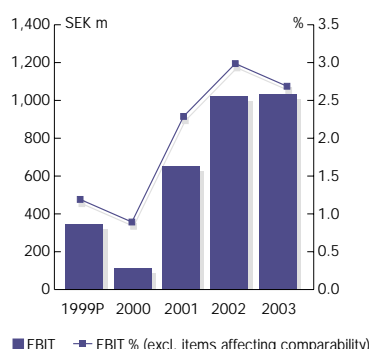
Environmental impact

No operations requiring a permit or notification in accordance with the environmental code are conducted by Axfood AB or the Axfood Group.

Consolidated net sales



Operating profit



Profit and Loss Account

Amounts in SEK m	Note	Group		Parent Company	
		2003	2002	2003	2002
Net sales	1, 3	33,616	33,115	–	–
Cost of goods sold		-28,949	-28,612	–	–
Gross profit		4,667	4,503	–	–
Selling expenses		-2,605	-2,472	–	–
Administrative expenses		-1,335	-1,215	-150	-101
Items affecting comparability	2	132	37	198	–
Share of profits in associated companies	19	10	32	–	–
Other operating income		170	138	80	35
Other operating expenses		-5	–	–	–
Operating profit	1, 3, 4, 5, 6, 7, 8, 16, 32	1,034	1,023	128	-66
<i>Financial items</i>					
Result from participations in Group companies	9	–	–	11	3
Interest income and similar items	10	16	20	29	32
Interest expenses and similar items	11	-79	-124	-37	-58
Profit after financial items	32	971	919	131	-89
Appropriations	12	–	–	-184	-175
Profit/loss before tax		971	919	-53	-264
Current tax	13	-215	-242	72	74
Deferred tax	13	-60	-38	-12	1
Minority interests		-12	-14	–	–
Net profit/loss for the year		684	625	7	-189
Earnings per share (SEK)		12.85	11.75	–	–
Earnings per share after dilution (SEK)	36	12.62	11.51	–	–
Operating profit includes depreciation of	6	591	533	2	1

In the consolidated profit and loss account for 2002, a reclassification has been made of capital gains from sales of real estate, totalling SEK 37 m. This item is now reported under items affecting comparability, instead of under other operating income as previously.

Comments: Profit and Loss Account and Balance Sheet

Profit and loss account

Consolidated net sales amounted to SEK 33,616 m (33,115), an increase of 1.5% compared with 2002. For stores owned by Axfood, sales rose 13.6%, while the increase for comparable units was 3.3%. Sales for the first four months of the year include SEK 31 m for Axfood Fastigheter AB, which was sold as per 30 April. Sales for Axfood Fastigheter AB for the full year 2002 totalled SEK 482 m.

Operating profit amounted to SEK 1,034 m (1,023) and included a capital gain of SEK 110 m on the sale of the subsidiary Axfood Fastigheter AB (2002: gain of SEK 37 m on sales of real estate) and a capital gain of SEK 22 m on the sale of the stake in the associated company Bohus Detaljhandel AB. Operating profit excluding items affecting comparability was SEK 902 m (986), and the operating margin was 2.7% (3.0%).

Operating profit includes SEK 137 m (122) in goodwill amortization and SEK 454 m (411) in other depreciation. Operating profit was only marginally affected by exchange rate movements. Net financial items decreased by 39%, to SEK -63 m (-104), mainly due to a decrease in net debt, with the sale of Axfood Fastigheter AB making a strong contribution. The tax charge was SEK 275 m (280), corresponding to a tax rate of 28.3% (30.5%). Excluding non-deductible amortization of consolidated goodwill, the tax rate was 24.8% (26.9%). Profit for the year was SEK 684 m (625).

Balance sheet

The Group's fixed assets decreased during the year by SEK 532 m, from SEK 3,682 m to SEK 3,150 m. The decrease is mainly attributable to the sale of Axfood Fastigheter AB, which accounted for SEK 506 m in 2002. Fixed assets consist primarily of goodwill, totalling SEK 979 m (1,027), of which consolidated acquisition goodwill accounted for SEK 944 m (998), and of equipment, totalling SEK 1,591 m (1,450). Investments in

tangible and intangible fixed assets amounted to SEK 660 m (455). Of this total, SEK 579 m (404) pertained to investments in Sweden and SEK 81 m (51) to investments in Finland. In addition, stores were acquired in Sweden for SEK 142 m (58).

Of current assets, inventories make up the largest single item, at SEK 1,599 m (1,631). Inventories consist of finished retail goods – slightly more than 50% – and wholesale goods – slightly less than 50%. Inventories along with trade accounts receivable make up slightly more than 60% of current assets.

Shareholders' equity increased by SEK 20 m through the exercise of stock options (see also page 32).

Provisions for pensions and similar commitments pertain primarily to PRI liabilities.

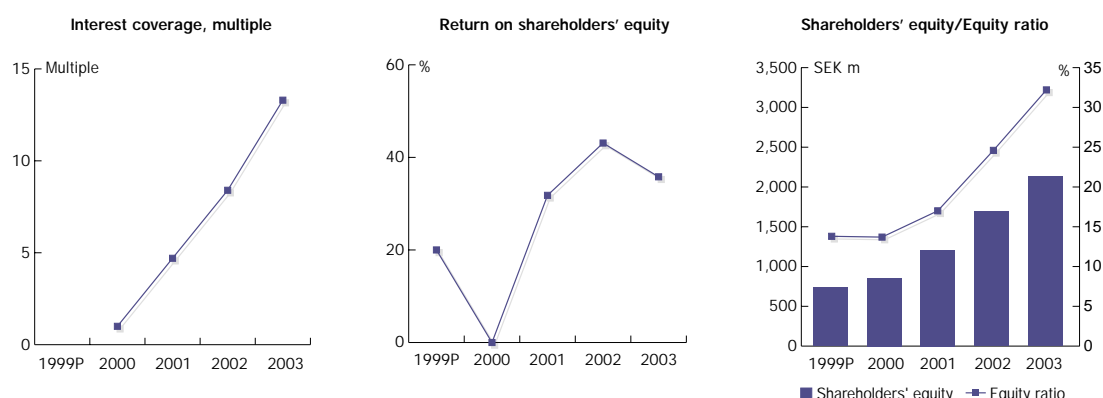
Net debt as per 31 December 2003 amounted to SEK 363 m (1,080), a decrease of SEK 717 m. The decrease is mainly a result of the sale of Axfood Fastigheter AB.

In the Parent Company balance sheet, a change has been made in the reporting of intra-Group receivables and liabilities. Starting in 2003, receivables and liabilities pertaining to the subsidiaries' balances in the Group account are reported gross. Comparison figures for 2002 have been changed.

Key ratios

	2003	2002
Operating margin, % ¹⁾	2.7	3.0
Earnings per share, SEK	12.85	11.75
Earnings per share after dilution, SEK	12.62	11.51
Return on capital employed, %	31.2	28.7
Return on shareholders' equity, %	35.8	43.1
Interest coverage, multiple	13.3	8.4
Debt-equity ratio, net, multiple	0.2	0.6
Equity ratio, %	32.2	24.6

¹⁾ Excluding capital gains on the sale of real estate and associated companies.



Balance Sheet

Amounts in SEK m	Note	Group		Parent Company	
		31/12/2003	31/12/2002	31/12/2003	31/12/2002
ASSETS					
Fixed assets					
Intangible assets	14				
Goodwill		979	1,027	-	-
Other intangible assets		97	71	-	-
		1,076	1,098	-	-
Tangible assets					
Land and buildings	15	219	701	7	7
Equipment, tools and fixtures	15	1,591	1,450	5	3
Construction in progress	15	11	21	-	-
	17	1,821	2,172	12	10
Financial assets					
Participations in Group companies	18, 22	-	-	2,485	2,468
Participations in associated companies	19, 22	112	165	-	-
Other long-term securities holdings	20, 22, 28	41	23	3	-
Deferred tax assets	13	23	33	3	15
Other long-term receivables	21, 22	77	191	-	-
		253	412	2,491	2,483
Total fixed assets		3,150	3,682	2,503	2,493
Current assets					
Inventories					
Finished products and goods for resale		1,599	1,631	-	-
		1,599	1,631	-	-
Current receivables					
Accounts receivable – trade		744	826	-	-
Receivables from Group companies		-	-	2,287	1,890
Receivables from associated companies		-	7	-	-
Current tax assets	13	62	47	-	-
Other current receivables	23	134	84	9	6
Prepaid expenses and accrued income	24	740	634	2	2
		1,680	1,598	2,298	1,898
Cash and cash equivalents					
Short-term investments	29	202	91	91	-
Cash and bank balances		346	353	0	0
		548	444	91	0
Total current assets		3,827	3,673	2,389	1,898
TOTAL ASSETS					
		6,977	7,355	4,892	4,391

Balance Sheet

	Note	Group		Parent Company	
Amounts in SEK m		31/12/2003	31/12/2002	31/12/2003	31/12/2002
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity					
Restricted shareholders' equity					
Share capital		267	266	267	266
Restricted reserves		924	718	1,628	1,609
		1,191	984	1,895	1,875
Unrestricted shareholders' equity					
Unrestricted reserves		252	84	747	607
Profit/loss for the year		684	625	7	-189
		936	709	754	418
Total shareholders' equity	25, 32	2,127	1,693	2,649	2,293
Minority interests		122	119	-	-
Untaxed reserves	12	-	-	473	275
Provisions					
Provisions for pensions and similar commitments	26	373	378	14	8
Provisions for deferred tax	13	356	307	-	-
Other provisions	27	14	16	-	-
		743	701	14	8
Long-term liabilities					
Other liabilities to credit institutions		175	600	120	305
Other interest-bearing liabilities		156	164	68	66
Other long-term liabilities		13	16	-	-
	17, 28, 29	344	780	188	371
Current liabilities					
Bank overdraft facilities	28, 29	58	107	58	93
Liabilities to credit institutions	28, 29	101	252	90	192
Other interest-bearing liabilities	17, 28	109	197	-	-
Accounts payable – trade	28	1,636	1,822	3	10
Liabilities to Group companies		-	-	1,321	984
Liabilities to associated companies		383	374	-	-
Current tax liability	13	117	189	67	146
Other current liabilities		154	126	1	1
Accrued expenses and deferred income	16, 30	1,083	995	28	18
		3,641	4,062	1,568	1,444
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		6,977	7,355	4,892	4,391
MEMORANDUM ITEMS					
Contingent assets	31	1	1	-	-
Pledged assets		1,620	1,888	2,177	2,149
Contingent liabilities		78	83	471	335

Cash Flow Statement

	Note	Group	Parent Company		
Amounts in SEK m		2003	2002	2003	2002
Operating activities					
Profit after financial items		971	919	131	-89
Depreciation charged against profit		552	496	2	1
Adjustments for non-cash items	33	-125	-38	-193	2
Paid tax		-293	-121	-232	-84
Cash flow from operating activities before changes in working capital		1,105	1,256	-292	-170
Cash flow from changes in working capital					
Change in inventories		60	-82	-	-
Change in current receivables		-17	215	-361	-141
Change in current liabilities		-122	-285	413	147
Cash flow from operating activities		1,026	1,104	-240	-164
Investing activities					
Acquisitions of intangible fixed assets		-52	-61	-	-
Acquisitions of tangible fixed assets		-581	-368	-4	-8
Acquisitions of subsidiaries	34	-72	-19	-138	-7
Acquisitions of associated companies		24	10	-	-
Sales of subsidiaries	35	237	-	284	30
Sales of tangible fixed assets		18	111	-	-
Change in other financial assets		111	134	-3	-
Change in short-term financial investments		-	1	-	-
Cash flow from investing activities		-315	-192	139	15
Financing activities					
New share issue		20	-	20	-
Amortization of debt		-360	-740	-319	-595
Dividend paid		-266	-133	-266	-133
Group contributions received/rendered, shareholder contribution		-	-	775	433
Cash flow from financing activities		-606	-873	210	-295
CASH FLOW FOR THE YEAR					
		105	39	109	-444
Cash and cash equivalents at start of year					
		444	406	16	460
Translation difference, cash and cash equivalents		-1	-1	-	-
Cash and cash equivalents at year-end		548	444	125	16

Cash flow from operating activities

Cash flow from operating activities before changes in working capital decreased by SEK -151 m, to SEK 1,105 m (1,256), and consisted mainly of the net amount of purchases and sales of retail food products. Cash flow has been adjusted for SEK -132 m (-37) in items affecting comparability. Reversed depreciation has been adjusted for the portion pertaining to leased assets, totalling SEK 39 m (37). Interest received during the year totalled SEK 14 m (15) and interest paid amounted to SEK 60 m (102).

Investments and divestments

The Group's total investments amounted to SEK 802 m (513) and pertained primarily to investments of SEK 556 m (390) in machinery and equipment. Of total investments, SEK 705 m (448) has affected the Group's cash flow. In cash flow, investments have been adjusted in the amount of SEK -27 m (-46) for finance leasing.

Acquisitions of subsidiaries affected cash flow by SEK -72 m (-19). Among other things, three stores were acquired through the purchase of Sellmore AB.

During the year, Axfood Fastigheter AB was sold, affecting cash flow by SEK 231 m. In connection with the sale, the buyer redeemed – on behalf of Axfood Fastigheter AB – SEK 278 m in long-term interest-bearing liabilities and a SEK 68 m bank overdraft facility. This redemption did not affect the Axfood Group's cash flow. However, the sale did contribute to a decrease in net debt. The Group's 49% stake in Bohus Detaljhandel AB was divested in December 2003, which increased the Group's cash flow by SEK 12 m.

Financing activities

The Group's change in interest-bearing liabilities affected cash flow in the amount of SEK -360 m (-740). No new loans were raised during the year. Ongoing financing took place during the year through cash from operating activities.

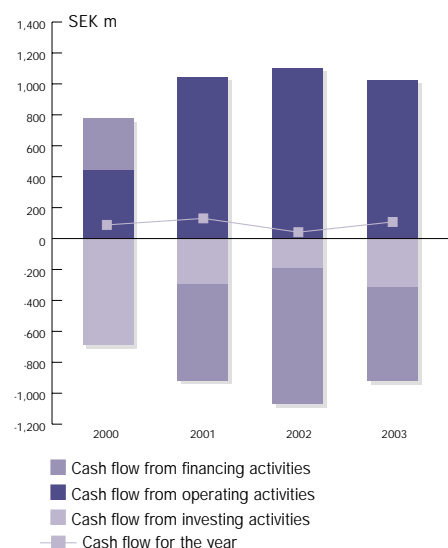
Shareholders' equity increased by SEK 20 m through the exercise of options.

The dividend amounted to SEK 266 m (133), corresponding to SEK 5.00 (2.50) per share.

Cash and cash equivalents

The Group's cash and cash equivalents include the Group's holdings in the Group account and other bank accounts, including currency accounts, pending payments and short-term investments.

The Parent Company's cash and cash equivalents include the Parent Company's share of the Group account and own bank accounts.



Change in interest-bearing net debt

Amounts in SEK m	31/12/2002	Cash flow	Change in loans	Other changes	31/12/2003
Cash and cash equivalents	444	105	-	-1	548
Long-term interest-bearing receivables	156	-	-97	-	59
Current interest-bearing receivables	18	-	-	-16	2
Long-term interest-bearing liabilities	-764	-	140	293	-331
Current interest-bearing liabilities	-556	-	220	68	-268
Interest-bearing pensions	-378	-	-	5	-373
Interest-bearing net debt	-1,080	105	263	349	-363

Shareholders' equity

GROUP	Share capital	Other restricted reserves	Exchange rate differences, restricted reserves	Unrestricted share-holders' equity	Exchange rate differences, unrestricted reserves	Total
Amounts in SEK m						
Opening balance 2002	266	583	6	340	13	1,208
Exchange rate difference	-	-	-2	-	-5	-7
Shareholder dividend	-	-	-	-133	-	-133
Transfers between restricted and unrestricted equity	-	131	-	-131	-	-
Profit of the year	-	-	-	625	-	625
Closing balance 2002	266	714	4	701	8	1,693
Exchange rate difference	-	-	-1	-	-3	-4
Shareholder dividend	-	-	-	-266	-	-266
New issue	1	19	-	-	-	20
Transfers between restricted and unrestricted equity	-	188	-	-188	-	-
Profit for the year	-	-	-	684	-	684
Closing balance 2003	267	921	3	931	5	2,127

PARENT COMPANY	Share capital	Share premium reserve	Statutory reserve	Unrestricted shareholders' equity	Total
Amounts in SEK m					
Opening balance 2002	266	1,584	25	173	2,048
Shareholder dividend	-	-	-	-133	-133
Group contribution	-	-	-	788	788
Tax effect of Group contribution	-	-	-	-221	-221
Profit/loss for the year	-	-	-	-189	-189
Closing balance 2002	266	1,584	25	418	2,293
Shareholder dividend	-	-	-	-266	-266
New issue	1	19	-	-	20
Group contribution	-	-	-	810	810
Tax effect of Group contribution	-	-	-	-227	-227
Mergers	-	-	-	12	12
Profit loss for the year	-	-	-	7	7
Closing balance 2003	267	1,603	25	754	2,649

The share capital as per 31/12 2003 consisted of 53,497,028 shares with a par value of SEK 5.00 per share.

During the period 22 November 2003 – 21 August 2004, new subscription can take place in Axfood's stock option programme. As per 31 December 2003, 268,000 options had been redeemed for Axfood shares. This increased the Group's cash flow by SEK 20 m, of which Axfood AB's share capital increased by SEK 1 m and the share premium reserve increased by SEK 19 m.

The Board of Directors proposes a dividend of SEK 5.50 (5.00) per share for 2003. Based on the total number of shares outstanding on 31 December 2003 (53,497,028 shares), the dividend will amount to SEK 294,234,000. If all outstanding subscribable options are exercised, which would increase the number of shares outstanding to 53,577,828, the dividend will amount to SEK 294,678,000.

The annual report and the consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act. The recommendations and pronouncements of the Swedish Financial Accounting Standards Council have been followed. Starting in 2003, adaptation has been made to the new recommendations issued by the Swedish Financial Accounting Standards Council, RR 2:02, 22, 24, 25, 26, 27 and 28. These adaptations have not entailed any material impact on the Group's or Parent Company's result or position. In other respects, the accounting principles are unchanged compared with the preceding year.

Future accounting principles

Starting in 2004, Axfood will be applying recommendation RR 29, Employee Benefits. Pensions and other post-employment benefits were previously reported in accordance with FAR 4, Reporting of Pension Liabilities and Pension Costs. The transition to RR 29 entails a reduction in the Group's pension liability by approximately SEK 16 m. The Group's shareholders' equity is positively affected by approximately SEK 13 m, net after deduction for deferred tax. The change is reported as per 1 January 2004 and does not affect the profit and loss accounts or cash flow statements.

Finland has a statutory retirement and invalidity pension scheme that is governed by the Occupational Pensions Act (APL) and applies for all companies in Finland. An investigation is currently being conducted to determine to what extent the APL pension rules constitute defined-benefit pension plans in accordance with IAS 19, Employee Benefits. Pending the conclusions from the investigation, Spar Finland is reporting pension-related assets and liabilities pertaining to the APL off the balance sheet.

Principles of consolidation

General. The consolidated financial statements cover, in addition to the Parent Company, all companies in which the Parent Company directly or indirectly has a controlling influence.

In the preparation of the consolidated financial statements, the purchase method has been used, with the exception of the 2000 merger of Hemköp and Axfood Sverige (formerly D&D Dagligvaror AB), which is accounted for using the pooling-of-interests method, whereby no surplus values are reported. According to the purchase method, shareholders' equity in acquired subsidiaries is based on a market valuation of assets and liabilities at the time of acquisition. In the event the acquisition value of shares in subsidiaries exceeds the acquired shareholders' equity as above, the difference is reported as a goodwill item in the balance sheet. Goodwill amortization is based on estimated useful life.

Translation of foreign subsidiaries. The Group's foreign subsidiaries are independent entities. The financial statements of foreign subsidiaries are translated to Swedish kronor using the current method, which entails that the balance sheet is translated at the year-end exchange rate, while the profit and loss account is translated at the average rate for the year. Translation differences that arise are transferred directly to shareholders' equity.

Untaxed reserves. The consolidated financial statements contain no appropriations or untaxed reserves. Deferred taxes on these items are included in deferred tax and deferred tax liability, respectively. Equity share is reported in restricted shareholders' equity.

Associated companies. Companies in which Group companies have a significant influence are reported in accordance with the equity method. The holding amounts to 20%–50% of the number of votes. The increase or decrease of associated companies' book values that arises in accordance with the equity method has increased/decreased the Group's restricted reserves.

Mergers. During the year, 42 mergers took place within the Group. Of these, three mergers were made with Axfood AB (see note 38). Mergers are reported in accordance with Swedish Accounting Standards Board general recommendation (BFNAR) 1999:1 – Mergers of Wholly Owned Stock Companies. The so-called consolidated value method has been applied, which means that the assets and liabilities of the merged subsidiaries have been reported in the respective companies' parent company at the values these had in the consolidated accounts.

Segment reporting

The Axfood Group's business segments are the primary format of reporting and its geographic areas secondary. The reporting format that has been chosen does not entail any difference compared with previously reported data per segment.

The following business segments are reported:

- Willys: sale of food/groceries at discount prices.
- Willys hemma: sale of food/groceries at discount prices in residential areas; ready-made meals and fresh products suited for small households.
- Hemköp: sale of food/groceries with a broad product offering.
- Dagab: wholesaling business with slightly more than 70% of sales going to Axfood-owned stores in Sweden.
- Närlivs: wholesaling and cash & carry business; sales primarily to small stores, service stations, newspaper stands and other convenience stores.
- Spar Finland: sale of food/groceries through the Spar and Eurospar store chains.

The Group's geographic areas consist of Sweden and Finland.

Accounting principles and risks, cont.

(Amounts in SEK m unless otherwise stated)

Principles for internal pricing. For the internal sale of goods between companies in the Axfood Group, prices are set on commercial terms. This means that internal customers are not treated in another manner than external customers. In certain cases the general profit margin of the supplier is lower for internal sales. The main explanations for this are that the general risk level in these cases is lower, and that volumes are large and guaranteed.

The price models used for pricing towards external and internal customers are not different.

Decisions about which prices shall apply, internally as well as externally, are made by Axfood's corporate management.

Assets and liabilities

In the Axfood Group's accounting, assets and liabilities are broken down into current and long-term. Current assets and liabilities are defined as those that fall due for payment within one year. Starting in 2003, bank overdraft facilities are classified as current. Comparison figures have been changed.

Assets, provisions and liabilities have been stated at acquisition value, unless indicated otherwise. Receivables have been stated at the amount at which they are expected to be received, after individual assessment.

Receivables and liabilities in foreign currency have been valued at the year-end rate of exchange. For hedges through forward exchange contracts, the forward rate has been used to value the underlying receivable or liability. For forward exchange contracts with a term exceeding three months, the difference between the forward rate and the current rate has been distributed over the term of the contract. Accrued forward contract premiums are reported as interest income or expense, respectively. Foreign exchange gains and losses pertaining to operating receivables and operating liabilities are included in operating profit. Foreign exchange gains and losses pertaining to financial loans are reported as financial items. For hedges of future currency flows, the exchange rate differences on hedge transactions are reported in the same period as the underlying flow. Currency exposure in shareholders' equity in foreign subsidiaries is not hedged.

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

Intangible assets

Starting on 1 January 2002, the Axfood Group applies Swedish Financial Accounting Standards Council recommendation RR 15 – Intangible Assets. For the Group this means that a number of IT projects are capitalized. Direct external and internal costs for development of software for internal use are capitalized. Costs for pre-studies, training and continuing maintenance are expensed

as incurred. Assessment of the value of assets is performed at least once a year. In cases where an asset's reported value exceeds its estimated recovery value, the asset is written down to its recovery value. In all cases, the utility period is a maximum of 5 years. The interest rate used in assessing the value of goodwill is 10%–15%, before tax.

Revenues

Net sales are reported net after VAT and discounts. Net sales pertain primarily to store sales. A total of 0.30% of net sales consists of franchise fees from collaborating chain stores. Intra-Group sales are eliminated in the consolidated financial statements.

Depreciation/amortization

Amortization of intangible assets and depreciation of fixed assets is based on the estimated useful life of the assets. The following percentages have been applied:

Machinery and equipment	10–33
Buildings	2.5
Fixtures and fittings	15
Land improvements	5
Goodwill ¹⁾	7–20
IT projects	20
Other intangible assets	20–33

¹⁾ Acquisitions of a material, structural importance are amortized for periods of more than 5 years.

Items affecting comparability

Items affecting comparability refers to revenues and expenses derived from events that do not pertain to the ordinary business activities, insofar as these are significant in their amount.

Leases

The Axfood Group applies recommendation RR 6:99 – Leases, for classification of leasing contracts as finance leases or operating leases. Finance leases are reported as a fixed asset in the consolidated balance sheet. The corresponding commitment to pay future leasing fees is reported as a current or long-term liability.

Income taxes

The Axfood Group reports income taxes in accordance with RR 9 – Income Taxes.

Taxes are reported in the profit and loss account except for when the underlying transaction is reported directly against

Accounting principles and risks, cont.

(Amounts in SEK m unless otherwise stated)

shareholders' equity, whereby the associated tax effect is reported in shareholders' equity. Current tax (previously called paid tax) is tax that is to be paid or received in the current year. This also includes adjustments of current tax pertaining to earlier periods. Deferred tax is calculated in accordance with the balance sheet method and is based on the temporary difference between the reported and taxable value of assets and liabilities. These amounts are calculated based on how the temporary differences are expected to be smoothened and using the tax rates and tax rules that have been decided on or notified as per the balance sheet date.

Temporary differences are not taken into account in consolidated goodwill. In legal entities, untaxed reserves are reported inclusive of deferred tax liability. In the consolidated financial statements, however, untaxed reserves are broken down into deferred tax liability and shareholders' equity. Deferred tax assets in deductible temporary differences and tax-loss carry-forwards are reported only to the extent it is likely that they will entail lower tax payments in the future.

Borrowing costs

Borrowing costs are charged against earnings for the period in which they are incurred, regardless of how the borrowed funds are used. Transaction costs for granted bank overdraft facilities and short-term credit facilities are capitalized over the year.

Shareholder's equity instruments/warrants and convertible debenture loan

The liability pertaining to the convertible debenture loan has been calculated on the basis of the market interest rate upon issue. The difference between the loan amount calculated in this manner and the amount received is applied toward the share premium reserve as a premium on the shares that could be issued later. The reported loan amount is indexed gradually during the term of the loan using an interest rate that will bring the reported liability to the same level as the nominal amount. Payment for the issued warrants is reported in the share premium reserve. For the options that have been exercised to subscribe for shares, payment for the subscribed shares has been applied to share capital and the share premium reserve.

Finance policy

The Axfood Group has a Group-wide finance policy that governs the delegation of responsibility on financial matters between the Board, the CEO/CFO, the central finance department and other Group companies. The Group's external financial management is centralized in the central finance department of the Parent Company, Axfood AB.

Financial risks

The Axfood Group is exposed to financial risks, which are described below. Cash flow risks coincide with the various types of risk.

Financing/liquidity risk

Responsibility for the Group's negotiations in central financing matters is the responsibility of the finance department. The Swedish subsidiaries are required to finance their operations via the central Group account system. Spar Finland is entitled to seek local financing. Confirmed credit lines must have an average remaining contract term of at least 12 months. As per 31 December 2003 the average remaining contract period was 578 days.

To limit the risk of the Axfood Group not being able to finance the Group's operations at any given time, a refinancing risk reserve has been established, which is broken down into a liquidity, a financing, and an operating reserve. The refinancing risk reserve shall always amount to at least SEK 300 m. As per 31 December 2003, the refinancing risk reserve amounted to SEK 883 m. The finance department is responsible for monitoring and overseeing the refinancing risk reserve.

Interest rate risk

The goal of the Axfood Group's financial management is to limit the short-term effect on the Group's earnings and cash flow caused by fluctuations in the financial markets.

Interest rate risk in the Group's debt portfolio shall be limited. The norm is to have terms of fixed interest that entail a risk-neutral position. This is achieved by maintaining short terms of fixed interest, which is defined as a remaining average term of fixed interest of 12 months. However, for commercial and administrative reasons, the finance department is given the opportunity to act within the framework of a limited deviation mandate. In terms of amount, this deviation mandate is set at a one percentage point parallel shift in the yield curve. As per 31 December 2003 the average term of fixed interest was 483 days, and the deviation from the fixed interest norm was within the established deviation mandate.

The interest renegotiation dates coincide for the most part with the maturity dates of the loans. The maturity dates and effective rates of interest for the loans are shown in Note 29.

Counterparty policy

The Axfood Group shall only cooperate with counterparties that are judged to be able to fulfil their commitments to the Axfood Group. The banks and financial institutes that the Group cooperates with shall have a high credit rating in order to be able to support the Group over the long term. Limits per counterparty and instrument are established on a yearly basis.

Accounting principles and risks, cont.

(Amounts in SEK m unless otherwise stated)

Credit risks

Financial assets are reported in the balance sheet after deducting provisions for possible loan losses, i.e., they represent the amount that is exposed to credit risks. Added to this amount is guarantee commitments for bank financing primarily for stores in the retail food business. This amount totals SEK 58 m and is reported under contingent liabilities, see Note 31. There is no concentration of credit risks, neither through exposure to individual borrowers nor groups of borrowers whose financial situation is such that it can be expected to be affected in a similar manner by changes in the operating environment.

Offsetting of financial assets and liabilities

No offsetting of financial assets and financial liabilities has taken place.

Currency risks

Transaction exposure in foreign currency arises in connection with the import of goods paid for in foreign currency. The Axfood Group's finance policy prescribes that contracted transaction exposures in which the delivery date is set and where the currency flows are judged to be of a permanent and continuous character, shall be hedged to:

- 75% of the exposure within 3 months
- 50% of the exposure within 6 months
- 25% of the exposure within 12 months

Flows that have not previously been hedged or which are judged to be of permanent or continuous character shall be hedged at the time an order is placed. As per 31 December 2003, all orders placed are hedged; there are no contracted flows that are judged to be of a permanent and continuous character. Approved hedge instruments are spot contracts, forward exchange contracts and currency swap contracts. In 2003, hedging has only taken place through spot contracts and forward exchange contracts. Exposure of shareholders' equity arises in the consolidated balance sheet as a result of investment of shareholders' equity in Spar Finland. The Axfood Group's policy is that exposures of shareholders' equity should not be hedged.

Business-related risks in the retail food industry

Competitive situation

The retail food industry – in the Nordic region as well as in Europe – is dominated by a few players in each country and market. The main reasons for this are that the industry is strongly dependent on volume and has low margins. Large volumes and coordination are needed to obtain low purchasing prices and to create efficiency. This dominance will most likely increase from a European perspective in that the players that are already big will continue their international expansion and become even bigger. Major investments are required initially by a player that wants to establish itself in a new market. In the Swedish market, the major players all have their own wholesale operations, which means that new chains have to establish own logistics systems at a high cost.

Economic cycles

By definition, the retail food industry is not sensitive to economic fluctuations, since people all have to eat. However, during the last 10 years consumption patterns have changed dramatically, and traditional food stores today compete to an equally high degree with fast-food restaurants or petrol stations, for example.

Axfood's brand strategy can be seen as a form of risk-spreading by offering discount concepts as well as a quality chain.

The retail food industry is growing by the odd percentage per year. It is therefore important to have a sustainable concept which, moreover, is considerably more attractive than the competitors'. At the same time, it is important to quickly be able to adapt to changes in customers' behaviours and purchasing patterns.

Price competition/price wars

Margins in the industry are very low. To be able to keep prices low, retailers must hold their administrative costs down and coordinate their purchasing. Price is a dominant sales factor for groceries. There is also a relatively large degree of "copy-cat" practices between food stores, which means that a prolonged price war theoretically could have a major impact on profitability. In reality, however, this type of price war is uncommon.

Accounting principles and risks, cont.

(Amounts in SEK m unless otherwise stated)

Environmental risks

Axfood does not conduct any operations requiring a permit or notification in accordance with the environmental code. Most of Axfood's wholly owned stores are modern and use new refrigeration systems, for example.

Establishment/leasing contracts

Compared with many European countries and also the other Nordic countries, Sweden has a relatively liberal establishment policy. Moreover, Sweden has considerably more liberal rules governing business hours. One problem, however, is that the authorities who grant permits do not sufficiently take into account the competitive situation in local markets. One latent threat in the Swedish market is of a decision by the authorities to put a stop to the establishment of large stores, which has happened in several of the other Nordic countries.

Axfood does not own any store properties in Sweden. The Swedish stores all have pure leasing contracts. For newly established stores, the contracts are commonly for 10 years, while for established stores the leases are from 3–5 years.

All establishment is associated with risk. The smallest risk that the Axfood Group faces is when it purchases an existing store or refurbishes or makes an extension to an existing store. All new establishment is conducted on the basis of very thorough studies of socio-demographic data and market conditions.

In Finland, leasing contracts are considerably longer than in Sweden, which limits Axfood's opportunities to implement structural change in the Finnish market.

Inventory risks

The increasing integration of the retail and wholesale operations is accelerating the process in which Dagab is becoming an integrated part of the supply chain. "Just-in-time" processes are becoming increasingly widespread and stores no longer need to accumulate stocks in the same way as in the past. Dagab also applies just-in-time processes towards its suppliers. Dagab's average stock holding time is 12 days. The increase in private label products is resulting in a certain build-up of inventories but has had only a marginal effect on the stock holding time.

Notes

(Amounts in SEK m unless otherwise stated)

NOTE 1. SEGMENT REPORTING

Per business segment	Hemköp		Willys		Willys hemma		Axfood Närlivs		Spar Finland	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Result										
External net sales	6,117	6,341	10,567	8,398	1,317	1,108	4,779	4,698	5,178	5,537
Internal net sales	-	-	-	-	-	-	-	15	-	-
Net sales	6,117	6,341	10,567	8,398	1,317	1,108	4,779	4,713	5,178	5,537
Operating profit/loss in associated companies				3					-1	-2
Operating profit/loss (EBIT) per segment	13	106	395	368	-27	-27	106	92	40	55
Undistributed costs										
Operating profit (EBIT)										
Undistributed net financial items										
Minority share in profit for the year									-12	-14
Tax cost for the year										
Net profit for the year										
Other data										
Assets	1,096	1,224	1,665	1,353	307	576	709	646	1,065	1,079
Equity shares			1	5					-34	-32
Undistributed assets										
Total assets										
Liabilities ²⁾	697	787	1,399	1,186	170	454	599	547	490	501
Undistributed liabilities ²⁾										
Total liabilities ²⁾										
Investments in fixed assets ¹⁾	202	97	192	116	16	51	30	20	81	51
Depreciation, incl. goodwill amortization	111	103	185	136	32	27	27	24	90	96

Per segment	Dagab		Other units		Eliminations		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
Result								
External net sales	5,296	6,404	362	629			33,616	33,115
Internal net sales	13,265	11,502	1,026	1,489	-14,291	-13,006		
Net sales	18,561	17,906	1,388	2,118	-14,291	-13,006	33,616	33,115
Operating profit/loss in associated companies			11	31			10	32
Operating profit/loss (EBIT) per segment	300	282	209	162			1,036	1,038
Undistributed costs							-2	-15
Operating profit (EBIT)							1,034	1,023
Undistributed net financial items							-63	-104
Minority share in profit for the year							-12	-14
Tax costs for the year							-275	-280
Net profit for the year							684	625
Other data								
Assets	3,091	2,910	6,959	6,087	-8,168	-6,932	6,724	6,943
Equity shares			12	13			-21	-14
Undistributed assets							274	426
Total assets							6,977	7,355
Liabilities ²⁾	1,904	1,734	2,586	1,853	-4,472	-3,356	3,373	3,506
Undistributed liabilities ²⁾							1,355	2,037
Total liabilities ²⁾							4,728	5,543
Investments in fixed assets ¹⁾	47	47	92	73			660	455
Depreciation, incl. goodwill amortization	101	99	45	48			591	533

¹⁾ Tangible and intangible fixed assets.

²⁾ Including provisions.

Per geographic market	Net sales		Operating profit (EBIT)		Assets		Investments in fixed assets ¹⁾	
	2003	2002	2003	2002	2003	2002	2003	2002
Sweden	28,438	27,578	994	968	5,672	5,882	579	404
Finland	5,178	5,537	40	55	1,031	1,047	81	51
Total	33,616	33,115	1,034	1,023	6,703	6,929	660	455

¹⁾ Tangible and intangible fixed assets.

Notes

(Amounts in SEK m unless otherwise stated)

NOTE 2. ITEMS AFFECTING COMPARABILITY

	Group		Parent Company	
	2003	2002	2003	2002
Capital gains on sales of:				
- real estate	-	37	-	-
- subsidiary, Axfood Fastigheter AB	110	-	198	-
- associated company, Bohus Detaljhandel AB	22	-	-	-
Total	132	37	198	-

NOTE 4. INFORMATION ON EMPLOYEES; COMPENSATION OF DIRECTORS AND CEO

	Of whom,		Of whom,	
Average number of employees	2003	men	2002	men
Parent Company				
Sweden	110	32	36	18
Subsidiaries				
Sweden	7,755	3,560	7,412	3,295
Finland	775	162	864	187
Total, subsidiaries	8,530	3,722	8,276	3,482
TOTAL, GROUP	8,640	3,754	8,312	3,500

A full-time employee is calculated on the basis of 1,600 hours.

Gender breakdown

	Group				Parent Company			
	Board of Directors		Company management		Board of Directors		Company management	
	2003	2002	2003	2002	2003	2002	2003	2002
Men	51	53	66	70	5	6	9	9
Women	13	11	11	7	4	3	2	2
Total	64	64	77	77	9	9	11	11

Absenteeism

Parent Company	Men	Women	Total
Age	Absenteeism as % of total working time	Absenteeism as % of total working time	Absenteeism as % of total working time
< 29 yrs.	0.41	0.71	0.64
30-49 yrs.	0.38	0.75	0.68
> 50 yrs.	0.12	6.79	4.11

The share of absenteeism that pertains to absence during an uninterrupted period of 60 days or more amounts to 45%. Pertains to the period 1 July 2003 – 31 December 2003.

NOTE 3. INFORMATION ON INTRA-GROUP REVENUES AND EXPENSES

The Parent Company's revenues from subsidiaries amounted to SEK 80 m (35).
The Parent Company's expenses from subsidiaries amounted to SEK 0 m (0).

Wages, salaries and other remuneration and social security charges

	2003		2002	
	Wages, salaries and other remuneration	Social security charges	Wages, salaries and other remuneration	Social security charges
Parent Company				
Sweden	50	33	32	23
Of which, pension costs	-	16	-	12
Subsidiaries				
Sweden	1,916	798	1,761	728
Of which, pension costs	-	127	-	110
Finland	176	44	189	50
Of which, pension costs	-	28	-	37
Total, subsidiaries	2,092	842	1,950	778
Of which, pension costs	-	155	-	147
TOTAL, GROUP	2,142	875	1,982	801
Of which, pension costs ¹⁾	-	171	-	159

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

	2003		2002	
	Boards, presidents and vice presidents	Other employees	Boards, presidents and vice presidents	Other employees
Parent Company				
Sweden	15 ¹⁾	35	18 ¹⁾	14
Subsidiaries				
Sweden	22 ²⁾	1,894	26 ²⁾	1,735
Finland	3 ³⁾	173	4 ³⁾	185
Total, subsidiaries	25	2,067	30	1,920
TOTAL, GROUP	40	2,102	48	1,934

¹⁾ Of the year's costs, SEK 2 m (2) pertains to the Board, SEK 6 m (8) to the CEO, and SEK 7 m (8) to vice presidents, of which SEK – m (2) in bonuses to the CEO and SEK 0 m (2) in bonuses to vice presidents.

²⁾ Of which, bonuses SEK 1 m (5).

³⁾ Of which, bonuses SEK 0 m (1).

Notes

(Amounts in SEK m unless otherwise stated)

NOTE 4. INFORMATION ON EMPLOYEES; COMPENSATION OF DIRECTORS AND CEO, cont.

Compensation and other benefits, senior executives, Parent Company

2003 SEK 000	Base salary/ directors' fees	Variable compensation	Other benefits	Pension cost	Financial instruments	Other compensation	Total
Chairman of the Board	275	–	–	–	–	–	275
Other directors	1,210	–	–	–	–	–	1,210
CEO	6,075	1,985	118	5,554	–	15	13,747
Other senior executives*	6,139	2,008	191	3,711	–	–	12,049
Total	13,699	3,993	309	9,265	–	15	27,281

2002 SEK 000	Base salary/ directors' fees	Variable compensation	Other benefits	Pension cost	Financial instruments	Other compensation	Total
Chairman of the Board	250	–	–	–	–	–	250
Other directors	1,100	–	–	–	–	–	1,100
CEO	6,054	2,066	120	3,372	–	–	11,612
Other senior executives	5,982	1,924	197	3,083	–	–	11,186
Total	13,386	3,990	317	6,455	–	–	24,148

* Axfood AB's three executive vice presidents.

A fee is payable to the Chairman of the Board and the directors in accordance with a decision made by the Annual General Meeting. No special fee is paid for committee work. The Group CEO and employee representatives do not receive any director's fees. The annual fee payable to directors was set by the 2003 Annual General Meeting at SEK 1,700,000 (1,500,000), of which SEK 370,000 (275,000) is payable to the Chairman. Directors' fees are paid out in full after year-end. One former director received severance pay, etc. amounting to SEK 0.8 m during the year, stemming from his previous employment within the Group.

Axfood's CEO, Mats Jansson, received salary and other benefits totalling SEK 8.2 m (8.2) in 2003, including SEK 2.0 m (2.1) in bonus. The CEO's bonus system is based on the performance and development of the business. The bonus can amount to a maximum of a half year's salary. The compensation process is reported in the Administration Report, page 25. In addition, the CEO has a car benefit and is covered by defined-benefit disability and pension plans. The CEO is entitled to retirement pension from 60 years of age. Retirement pension between 60 and 65 years of age amounts to 75% of his final monthly salary, and thereafter 60%. Provision for this has been made in the year's accounts. The CEO also has a defined-benefit family pension plan. This is reported under contingent liabilities, and the value of this commitment as per 31 December 2003 was SEK 2.3 m (2.2). The present value of survivorship benefits that would be paid out for a claim made today is SEK 38.6 m (38.6). In the event Axfood serves notice, the CEO is entitled to a 12-month term of notice plus 24 months' severance pay, on account.

Other senior executives – Axfood's three executive vice presidents – received salary and other benefits amounting to a total of SEK 8.3 m (8.1), including total bonuses of SEK 2.0 m (1.9). Bonuses are based for the most part on the performance and development of the business, and in part on personal targets. Bonuses can amount to a maximum of 40% of annual salary. These executives have customary terms of employment and are entitled to salary during the period of notice and severance pay for a combined total of not more than 18 months. The retirement age has been set at 60 years at the earliest. The ITP plan serves as the primary cost framework. Pensions are defined-benefit in accordance with the ITP plan. Certain employees have chosen defined-contribution pension solutions within the ITP cost ceiling. Salary amounts in excess of 30 times the Base Amount are entitled to defined-contribution pension, and contributions to a pension plan are made in the amount of 25% of such salary amounts.

2000 Stock option programme

In December 2000, Axfood AB issued a promissory note with 427,500 detachable warrants (options). All sales of options have taken place at the market price that applies at any given time. As per 31 December 2002, 17 senior executives had subscribed for 358,800 options. In 2003, 10,000 options were repurchased and 268,000 options were redeemed for Axfood shares. As per 31 December 2003, 80,800 options remained that can be redeemed for Axfood shares, plus 78,700 options held by Axfood. The exercise price is SEK 77, and subscription can take place until 21 August 2004.

NOTE 5. AUDITORS' FEES

	Group		Parent Company	
	2003	2002	2003	2002
KPMG				
Auditing fees	6	6	1	1
Fees for other consulting	2	2	1	1
Total	8	8	2	2

Notes

(Amounts in SEK m unless otherwise stated)

NOTE 6. DEPRECIATION AND AMORTIZATION

Depreciation according to plan broken down by function.

Group	Goodwill		Other intangible assets		Land and buildings		Equipment, tools and fixtures		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Cost of goods sold	137	122	7	7	18	30	241	207	403	366
Selling expenses	-	-	1	1	1	1	135	125	137	127
Administrative expenses	-	-	3	-	-	-	48	40	51	40
Total	137	122	11	8	19	31	424	372	591	533

The Parent Company's depreciation of SEK 2 m (1) for equipment, tools and fixtures is reported under administrative expenses.

NOTE 7. OPERATING LEASES

	Group		Parent Company	
	2003	2002	2003	2002
Leasing costs during the financial year	1,158	1,091	5	4
Of which, rent for premises	1,103	1,027	4	4
Contracted minimum future leasing fees:				
Maturity year 1	1,103	1,047	5	5
Maturity year 2	929	964	5	1
Maturity year 3	719	783	5	1
Maturity year 4	449	565	1	-
Maturity year 5	320	329	-	-
Maturity year 6-	558	510	-	-
Total future leasing fees	4,078	4,198	16	7

Of contracted and future minimum leasing fees, approximately one-third pertain to premises that have been sub-let to others.

NOTE 8. TRANSACTIONS WITH RELATED PARTIES

The Axfood Group's transactions with related parties, aside from those covered by the consolidated accounting, consist mainly of transactions with associated companies. During the year purchases from associated companies amounted to SEK 5,077 m (5,501), including SEK 5,072 m (5,400) in purchases from Tuko Logistics Oy, and SEK 5 m (5) from others. Sales to associated companies totalled SEK 568 m (631) and consisted primarily of sales of goods. All prices are set at going rates in the market.

Axfood AB is 45.2%-owned by Axel Johnson AB. Axfood AB and Axel Johnson AB have signed joint purchasing agreements in the areas of travel and transport. No transactions between the companies took place during the year.

Axfast AB, a company in the Axel Johnson Group, leases property to companies in the Axfood Group. During the year Axfood's earnings were charged with SEK 172 m (180) in rents to Axfast AB. All rents have been set according to current rates in the market.

As per 31 December 2003, the Axfood Group's current liabilities to Axfast AB amounted to SEK 10 m (21).

Associated companies' holdings of shares in Axfood AB amounted to a total of 29,237 shares as per 31 December 2003, corresponding to a par value of SEK 146,184.

NOTE 9. RESULT FROM PARTICIPATIONS IN GROUP COMPANIES

Parent Company	2003	2002
Dividends received	11	8
Write downs	-	-5
Total	11	3

NOTE 10. INTEREST INCOME AND SIMILAR ITEMS

	Group		Parent Company	
	2003	2002	2003	2002
Interest income	15	19	29	32
Other financial income	1	1	-	-
Total	16	20	29	32

Interest income from Group companies in the Parent Company amounted to SEK 26 m (31).

NOTE 11. INTEREST EXPENSES AND SIMILAR ITEMS

	Group		Parent Company	
	2003	2002	2003	2002
Interest expenses	61	103	35	56
Other financial expenses	18	21	2	2
Total	79	124	37	58

Interest expenses from Group companies in the Parent Company amounted to SEK 0 (0).

NOTE 12. APPROPRIATIONS AND UNTAXED RESERVES

Parent Company	2003	2002
Appropriations		
Change in tax allocation reserve	-184	-175
Total	-184	-175
Untaxed reserves		
Accumulated excess depreciation	1	1
Tax allocation reserve 1998	3	-
Tax allocation reserve 1999	4	-
Tax allocation reserve 2000	4	-
Tax allocation reserve 2001	102	99
Tax allocation reserve 2002	175	175
Tax allocation reserve 2003	184	-
Total	473	275

Notes

(Amounts in SEK m unless otherwise stated)

NOTE 13. TAXES

	Group		Parent Company	
	2003	2002	2003	2002
Current tax				
Current tax on profit/loss for the year	-223	-246	71	74
Adjustment of current tax from previous years	8	4	1	-
	-215	-242	72	74
Deferred tax				
Deferred tax pertaining to temporary differences	-60	-37	-12	1
Deferred tax pertaining to tax value of capitalized tax-loss carryforward	0	-1	-	-
	-60	-38	-12	1
Total reported tax charge	-275	-280	60	75

Reconciliation of current tax rate and effective tax rate	2003	%	2002	%	2003	%	2002	%
Reported profit before tax	971		919		-53		-264	
Tax based on current tax rate for Parent Company	-272	-28	-257	-28	15	28	74	28
Effect of other tax rates for foreign subsidiaries	0	0	-1	0	-	-	-	-
Tax effect of:								
Amortization of Group goodwill	-35	-4	-32	-3	-	-	-	-
Other non-deductible expenses	-6	-1	-8	-1	-2	-3	-2	-1
Tax-exempt capital gains	37	4	-	-	58	109	-	-
Other non-taxable revenues	8	1	7	1	-	-	2	1
Adjustments of current tax attributable to previous years	8	1	4	0	1	2	-	-
Adjustments of deferred taxes in previous years	-	-	9	1	-	-	-	-
Tax-loss carryforward utilized during the year	0	0	3	0	-	-	-	-
Other temporary differences	-15	-1	-5	0	12	-23	1	0
Reported tax charge/effective tax rate	-275	-28	-280	-30	60	113	75	28
Current income tax rate (%)	28		28		28		28	
Effective tax rate (%)	28		30		113		28	
Deferred tax items are recorded directly in shareholders' equity	-		0		-		-	

	Group		Parent Company	
	2003	2002	2003	2002
Reported deferred tax assets and deferred tax liabilities				
Intangible fixed assets	1	2	-	-
Land and buildings	-1	-1	-	-
Equipment, tools and fixtures	3	1	-	-
Financial fixed assets	-	13	-	13
Other receivables	14	14	-	-
Tax-loss carryforward	1	1	-	-
Untaxed reserves	-355	-306	-	-
Provisions	4	3	3	2
Long-term liabilities	0	-	-	-
Total deferred tax assets (+)/deferred tax liabilities (-), net	-333	-273	3	15
Deferred tax assets	23	33	3	15
Deferred tax liabilities	-356	307	-	-

The Group has no unreported deferred tax assets or tax liabilities pertaining to temporary differences.

Change in deferred tax in temporary differences during the year, Group	Amount at start of year	Reported in profit and loss account	Acquired/sold via subsidiaries, net	Amount at end of year
Intangible fixed assets	2	-1	-	1
Land and buildings	-1	0	-	-1
Equipment, tools and fixtures	1	1	1	3
Financial fixed assets	13	-13	-	-
Other receivables	14	0	-	14
Tax-loss carryforward	1	0	-	1
Untaxed reserves	-306	-48	-1	-355
Provisions	3	1	-	4
Current liabilities	0	0	-	0
Total	-273	-60	0	-333

NOTE 14. INTANGIBLE ASSETS

Group	Goodwill ¹⁾		Intangible assets in progress		Other intangible assets	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002	31/12/2003	21/12/2002
Opening acquisition value	1,584	1,557	25	-	108	103
Investments	88	32	49	25	2	10
(of which, developed internally)	-	-	(12)	(10)	-	-
Increases through acquisitions	4	-	-	-	-	-
Sales and disposals	-	-	-	-	-1	-3
Translation differences	-1	-5	-	-	-	-2
Reclassifications ²⁾	-	-	-22	-	7	-
Closing accumulated acquisition value	1,675	1,584	52	25	116	108
Opening amortization	-531	-412	-	-	-62	-57
Increases through acquisitions	-1	-	-	-	-	-
Sales and disposals	-	-	-	-	2	3
Translation differences	-1	3	-	-	-	-
Amortization for the year	-137	-122	-	-	-11	-8
Closing accumulated amortization	-670	-531	-	-	-71	-62
Opening write-downs	-26	-26	-	-	-	-
Closing accumulated write-downs	-26	-26	-	-	-	-
CLOSING PLANNED RESIDUAL VALUE	979	1,027	52	25	45	46

¹⁾ Goodwill pertains primarily to acquisition goodwill acquired from 1999 to 2001. The three largest entries pertain to Dagab, SEK 518 m (546), Willys SEK 203 m (190), and Spar Finland SEK 114 m (128). Total acquisition goodwill amounts to SEK 944 m (998). Of total acquisition goodwill, slightly more than 60% has a remaining amortization period of 10 years or more. According to the current amortization schedule, all acquisition goodwill will be fully amortized by 2015.

²⁾ Of the year's reclassification of SEK 22 m from intangible assets in progress to other intangible assets, SEK 5 m pertains to internally developed investments.

NOTE 15. TANGIBLE ASSETS

Group	Land and buildings ^{1) 2)}		Equipment, tools and fixtures		Construction in progress	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002	31/12/2003	31/12/2002
Opening acquisition value	921	1,012	3,040	3,000	21	34
Investments	32	7	556	390	21	23
Increases through acquisitions	-	-	83	-	-	-
Sales and disposals	-639	-93	-210	-371	-	-
Translation differences	-3	-7	-5	-14	-13	-
Reclassifications	-	2	18	35	-18	-36
Closing accumulated acquisition value	311	921	3,482	3,040	11	21
Opening depreciation	-220	-224	-1,577	-1,545	-	-
Increases through acquisitions	-	-	-44	-	-	-
Sales and disposals	147	33	160	332	-	-
Translation differences	-	2	3	8	-	-
Depreciation for the year	-19	-31	-424	-372	-	-
Closing accumulated depreciation	-92	-220	1,882	-1,577	-	-
Opening write-downs	-	-	-13	-13	-	-
Sales and disposals	-	-	4	-	-	-
Closing accumulated write-downs	-	-	-9	-13	-	-
CLOSING PLANNED RESIDUAL VALUE	219	701	1,591	1,450	11	21

¹⁾ The tax assessment value of Swedish buildings was SEK 17 m (410) and of land SEK 3 m (60).

²⁾ The acquisition value of land was SEK 60 m (112).

Notes

(Amounts in SEK m unless otherwise stated)

NOTE 15. TANGIBLE ASSETS, cont.

Parent Company	Land and buildings		Equipment, tools and fixtures	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
Opening acquisition value	7	–	8	4
Investments	–	–	4	–
Investments from other Group Companies	–	7	–	4
Sales and disposals	–	–	-1	–
Closing accumulated acquisition value	7	7	11	8
Opening depreciation	–	–	-5	-1
Investments from other Group Companies	–	–	–	-3
Sales and disposals	–	–	1	–
Depreciation during the year	0	–	-2	-1
Closing accumulated depreciation	0	–	-6	-5
CLOSING PLANNED RESIDUAL VALUE	7	7	5	3

NOTE 16. GOVERNMENT SUBSIDIES

Government subsidies in the form of labour market policy subsidies amounted to SEK 1 m in the consolidated balance sheet (reported under accrued expenses) and SEK 18 m in the consolidated profit and loss account, which have reduced payroll costs. No other unfulfilled conditions or contingent liabilities exist.

NOTE 17. FINANCE LEASES

Group	Equipment, tools and fixtures	
	31/12/2003	31/12/2002
Opening acquisition value	159	147
Increases through acquisitions	0	2
Investments	27	46
Sales and disposals	-43	-36
Closing accumulated acquisition value	143	159
Opening depreciation	-50	-35
Increases through acquisitions	0	-1
Sales and disposals	35	23
Depreciation for the year	-39	-37
Closing accumulated depreciation	-54	-50
Current liability (1 year)	27	27
Remaining long-term liability		
Maturity year 2	21	28
Maturity year 3	25	21
Maturity year 4	10	22
Maturity year 5	6	11
Maturity year 6–	0	–
Total long-term liability	62	82

NOTE 18. PARTICIPATIONS IN GROUP COMPANIES

Parent Company	Reg. no.	Reg'd office	No. shares	Equity share, %	Book value
Sweden					
Hemköpskedjan AB	556113-8826	Stockholm	100,000	100	155
Axfood Sverige AB	556004-7903	Solna	3,434,656	100	1,548
Spar Sverige AB	556025-1992	Göteborg	14,100	100	19
AB Handelskredit	556039-0188	Solna	142,027	100	86
HP Billigt & Nära Holding AB	556554-5786	Göteborg	1,000	100	92
Willys AB	556083-6354	Göteborg	10,000	100	140
Willys hemma AB	556359-3671	Göteborg	10,000	100	109
Axfood IT AB	556035-6163	Solna	1,000	100	2
Axfood Närlivs AB	556488-5654	Örebro	1,000	100	27
Total, Swedish Group companies					2,178
Finland					
Spar Finland Abp:s ¹⁾	73897	Finland	357,715 A/429,657 K	69	307
Total, Group companies					2,485

¹⁾ The market value at 31 December 2003 was EUR 32 m (SEK 290 m). The voting share is 75%.

NOTE 19. PARTICIPATIONS IN ASSOCIATED COMPANIES

	Group	
Accumulated acquisition values	2003	2002
Opening acquisition value	178	172
Translation difference	-1	-3
Purchases	-	17
Sales	-44	-8
Closing acquisition values	133	178
Adjustments of shareholders' equity in investments in associated companies		
Opening reported value	-13	-8
Share in profit before tax	10	32
Translation difference	-	1
Dividend received	-10	-12
Taxes	-3	-8
Divestments and other changes	-5	-18
Closing reported value	-21	-13
Total	112	165

Group	Reg. no.	Reg'd office	No shares	Equity share, % ¹⁾	Book value	Equity share
Tuko Logistics Oy	0858675-5	Finland	2,100	35	129	-34
Eurospar Oy		Finland	2	50	0	0
Best Garvaren AB	556456-0752	Ljungby	250	25	0	0
Bra Matmarknad i Kinna AB	556514-8896	Göteborg	250	25	0	0
Bra Matmarknad i Källered AB	556571-1479	Göteborg	250	25	0	0
Bra Matmarknad Skene AB	556533-0262	Göteborg	250	25	0	2
Bra Matmarknad Stenungsund AB	556083-5992	Göteborg	490	25	1	6
Kaj Bergqvist Livs AB	556028-5792	Helsingborg	250	25	0	0
Kvarnkullens Livs i Mellerud AB	556188-2985	Mellerud	250	25	0	0
Matproffset i Linköping AB	556533-0478	Linköping	500	25	0	2
Nya Vårgårda Matmarknad AB	556085-9653	Vårgårda	250	25	0	1
Signalen Allköp AB	556527-2746	Gotland	250	25	0	0
United Nordic Inc AB	556043-4606	Solna	250	25	0	0
Linder Livsmedel AB	556538-6645	Skövde	750	25	0	0
Snöfleboda Livs AB	556097-6937	Olofström	1,000	25	0	1
Lågpris i Ronneby AB	556911-9202	Ronneby	625	25	0	0
Hässleholms Lågpris AB	556456-0844	Hässleholm	1,000	25	0	0
Stenberggruppen Invest AB	556540-0404	Örnsköldsvik	500	25	1	-2
Fälhagens Livs i Uppsala AB	556451-8370	Uppsala	375	25	2	2
Mathuset MM AB	556271-6083	Borlänge	2,000	25	0	1
Total					133	-21

¹⁾Share of voting power and equity share are equal.

NOTE 20. OTHER LONG-TERM SECURITIES

Other holdings of long-term securities consist mainly of participations in real estate companies in Finland and tenant-owner cooperatives in Sweden. The Parent Company's holding consists of one tenant-owner cooperative in Stockholm, SEK 3 m (-).

NOTE 21. OTHER LONG-TERM RECEIVABLES

Group	31/12/2003	31/12/2002
Long-term noninterest-bearing receivables	15	21
Alecta (formerly SPP)	3	14
Long-term interest-bearing receivables	59	156
Total	77	191

Notes

(Amounts in SEK m unless otherwise stated)

NOTE 22. FINANCIAL FIXED ASSETS

	Participations in Group companies	Participations in associated companies	Other holdings of long-term securities		Other long-term receivables
	Parent Company	Group	Parent Company	Group	Group
Opening acquisition values, 1 January 2003	2,496	165	-	23	225
Acquisitions	136	-	3	3	6
Disposals/amortization	-98	-49	-	-	-112
Merged subsidiaries	-49	-	-	-	-
Utilization	-	7	-	-	-
Share in associated company profits after tax	-	-	-	-	-10
Dividends received	-	-10	-	-	-
Translation differences	-	-1	-	0	-
Reclassifications	-	-	-	15	-
Closing accumulated acquisition value	2,485	112	3	41	109
Opening write-downs	-28	-	-	-	-34
Write-downs for the year	-	-	-	-	-12
Disposals	20	-	-	-	-
Merged subsidiaries	8	-	-	-	-
Reversed write-downs	-	-	-	-	14
Closing accumulated write-downs	-	-	-	-	-32
Closing residual value	2,485	112	3	41	77

NOTE 23. OTHER CURRENT RECEIVABLES

	Group		Parent Company	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
Other noninterest-bearing receivables	126	50	9	-
Alecta (formerly SPP)	6	16	-	-
Other interest-bearing receivables	2	18	-	6
Total	134	84	9	6

NOTE 24. PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
Prepaid rents	237	201	1	-
Prepaid leasing fees	3	3	-	-
Accrued bonuses and similar	183	311	-	-
Accrued interest income	1	2	-	-
Delivered, uninvoiced	27	70	-	-
Other prepaid expenses	262	42	1	2
Other accrued income	27	5	-	-
Total	740	634	2	2

NOTE 25. SHARE REPURCHASES

During the year the Company did not purchase or transfer any of its own shares. The Company had no holdings of its own shares as per 31 December 2003.

NOTE 26. PROVISION FOR PENSIONS

	Group 31/12/2003	Parent Company 31/12/2003
	FPG/PRI	Other pension liabilities
Amount at start of year	348	30
Provision for the year	5	6
Reversal for the year	-7	-2
Utilization	-	-1
Acquired/sold companies	-5	-1
Translation differences	-	0
Amount at end of year	341	32

NOTE 27. OTHER PROVISIONS

Group	31/12/2003
Amount at start of year	16
Provision for the year	4
Utilization	-6
Translation difference	0
Amount at end of year	14

Pertains entirely to rental provisions in Spar Finland.

NOTE 28. FAIR VALUE OF INTEREST-BEARING FINANCIAL INSTRUMENTS

The compilation below states interest-bearing financial assets, liabilities and trade accounts payable at their fair value. The fair value of interest-bearing liabilities has been calculated through a present value discounting based on the market value at 31 December 2003. The value arrived at in this manner is mathematically computed, which does not mean that it needs to be realized. The fair value of foreign trade accounts payable and forward contracts has been calculated using the year-end rate of exchange. All invoicing is done in local currency, which is why trade accounts receivable have not been subject to revaluation.

Other noninterest-bearing financial assets and liabilities that are not specified in the table below are stated at fair value.

	Group, 31/12/2003		Parent Company, 31/12/2003	
	Reported value	Fair value	Reported value	Fair value
<i>Financial fixed assets</i>				
Share in real estate company in Finland ¹⁾	22	16	–	–
Tenant-owner cooperatives ²⁾	19	20	3	3
Other	0	0	–	–
Total other holdings in long-term securities	41	36	3	3
<i>Long-term liabilities</i>				
Long-term liabilities to credit institutions	175	178	120	123
Convertible debentures ¹⁾	68	68	68	68
Other long-term interest-bearing liabilities	88	88	–	–
Total other long-term liabilities	156	156	68	68
<i>Current liabilities</i>				
Bank overdraft facility	58	58	58	58
Current liabilities to credit institutions	101	102	90	91
Other interest-bearing current liabilities	109	109	–	–
<i>Trade accounts payable</i>				
Trade accounts payable	1,636	1,636	3	3
Of which, trade accounts payable in foreign currency	47	48	–	–
Less: amounts hedged by forward exchange contracts ²⁾	-22	-23	–	–
Less: amounts hedged by spot purchases	-25	-25	–	–
Trade accounts payable, net	1,636	1,636	3	3
Hedging on orders placed	0	61	–	–

¹⁾ The liability of the convertible debenture has been calculated on the basis of the market rate of interest at the time of issuance. The reported debt is gradually indexed over the term of the loan using this interest rate, so that the reported liability upon maturity corresponds with the nominal amount, which is SEK 73 m. The loan carries interest equivalent to the 12-month Stibor rate less one percentage point, currently 2.94%, and interest is due on 20 January each year. The loan runs until 20 April 2006, with the right to convert to shares during the period 21 January 2005 - 20 March 2006.

²⁾ The interest component in forward exchange contracts exceeding 3 months is reported as interest income or expense. As per 31 December 2003, there were no forward exchange contracts with terms of more than 3 months.

NOTE 29. LONG-TERM AND CURRENT LIABILITIES

	Group		Parent Company	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
Long-term committed credit lines	200	250	200	250
Short-term committed credit lines	200	650	200	650
Bank overdraft facility	465	495	450	450
Total committed credit lines	865	1,395	850	1,350
Utilized long-term credit lines	–	–	–	–
Utilized short-term credit lines	–	–	–	–
Utilized bank overdraft facility	-58	-107	-58	-93
Short-term investments	202	–	91	–
Total guaranteed, utilized credit facilities/refinancing risk reserve	1,009	1,288	883	1,257

Notes

(Amounts in SEK m unless otherwise stated)

NOTE 29. LONG-TERM AND CURRENT LIABILITIES, cont.

	Group		Parent Company	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
Loans from credit institutions	175	600	120	305
Convertible debenture loan	68	66	68	66
Finance leases	62	82	-	-
Other interest-bearing	26	16	-	-
Other noninterest-bearing	13	16	-	-
Total	344	780	188	371

	Group		Parent Company	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
Current portion of long-term debt	137	273	90	192
Maturity year 1	180	446	128	256
Maturity year 2	109	183	60	75
Maturity year 3	21	71	-	40
Maturity year 4	17	53	-	-
Maturity year 5	10	10	-	-
Maturity year 6–	7	17	-	-
Total long-term liabilities	344	780	188	371

In January 2001 a convertible debenture of SEK 73 m was issued to the employees, of which SEK 68 m (66) is reported as a convertible debenture. Conversion to shares can take place from 21 January 2005 – 20 March 2006, at the conversion price of SEK 73.

Interest-rate exposure, liabilities

	Group		Parent Company	
	31/12/2003	Effective interest	31/12/2003	Effective interest
Maturity less than 1 year ¹⁾	268	3.80%	149	4.55%
Maturity in excess of 1 year but less than 5 years	314	4.29%	188	4.70%
Maturity in excess of 5 years	17	3.32%	-	-
Total interest-bearing liabilities	599	3.95%	337	4.64%

¹⁾ This includes the convertible debenture of SEK 68 m carrying interest equivalent to the Stibor rate less one percentage point, currently 2.94%. Interest on the loan is payable on 20 January each year. The booked interest expense that is reported consists of the interest expense above, including the capitalized indexation of the loan liability, based on the valuation conducted at the time of issue.

NOTE 30. ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
Payroll-related items	637	579	14	13
Restructuring measures	-	12	-	-
Accrued bonuses and similar	61	71	-	-
Accrued auditing costs	2	2	0	-
Accrued real estate costs	16	85	-	-
Accrued interest	3	5	2	3
Delivered, uninvoiced	177	150	-	-
Prepaid leases	41	13	-	-
Other accrued expenses	71	62	12	2
Other deferred income	75	16	-	-
Total	1,083	995	28	18

NOTE 31. CONTINGENT ASSETS, PLEDGED ASSETS AND CONTINGENT LIABILITIES

Contingent assets	Group		Parent Company	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
Legal claim with uncertain outcome	1	1	-	-
Total	1	1	-	-

Pledged assets	Group		Parent Company	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
Property mortgages	130	424	-	-
Chattel mortgages	100	432	-	-
Shares in subsidiaries	1,249	888	2,177	2,149
Other pledged assets	141	144	-	-
Total	1,620	1,888	2,177	2,149

Contingent liabilities	Group		Parent Company	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
Guarantees for subsidiaries	-	-	463	330
Guarantees for others	58	63	6	-
FPG/PRI	7	7	-	-
Other contingent liabilities	13	13	2	5
Total	78	83	471	335

Guarantees for others consist for the most part of guarantee commitments pertaining to bank financing and product deliveries for franchisees in Sweden and Finland. In cases where there is a risk of loss, a provision has been made among possible loan losses. Other contingent liabilities consist primarily of bank guarantees that have been made for the Axfood Group to the tax authorities and to Swedish Customs.

PLEDGED ASSETS BROKEN DOWN INTO OWN PROVISIONS AND LIABILITIES

	Group		Parent Company	
	31/12/2003	31/12/2002	31/12/2003	31/12/2002
Provisions for pensions, PRI				
Chattel mortgages	-	300	-	-
Total	-	300	-	-
Liabilities to credit institutions				
Chattel mortgages	100	132	-	-
Property mortgages	130	424	-	-
Shares in subsidiaries	1,249	888	2,177	2,149
Other pledged assets	141	144	-	-
Total	1,620	1,588	2,177	2,149
Total pledged assets for own provisions and liabilities	1,620	1,888	2,177	2,149

NOTE 32. EXCHANGE RATE DIFFERENCES AND CURRENCY EXPOSURE

Group	31/12/2003	31/12/2002
Exchange rate differences reported in profit and loss account		
Exchange rate differences reported in operating profit	0	0
Exchange rate differences reported in financial items	0	0
Total	0	0
Exchange rate differences reported directly against shareholders' equity		
Exchange rate differences at start of year	12	19
Change for the year	-4	-7
Exchanges rate differences at year-end	8	12

Notes

(Amounts in SEK m unless otherwise stated)

NOTE 32. EXCHANGE RATE DIFFERENCES AND CURRENCY EXPOSURE, cont.

Currency exposure	Calculated future net flow	Of which, contracted net flow	Amount hedged through forward exchange contracts	Estimated average forward rate	Outstanding currency risk
EUR	67	67	67	9.03	-
USD	8	8	8	7.54	-
DKK	6	6	6	1.22	-
NOK	3	3	3	1.09	-
GBP	0	0	0	12.97	-
Total outstanding currency risk	84	84	84		-

Deferred gains/losses for outstanding currency hedges

EUR	0
USD	0
Other	0
Total	0

Flow hedges, transaction exposure in foreign currency arises due to the import of goods which are paid for in foreign currency. The Axfood Group's finance policy prescribes that transaction exposures shall be 100% hedged at the time the order is placed at the latest. Hedges have been taken out through forward exchange contracts. Of the SEK 84 m in outstanding forward contracts as per 31 December 2003, no contracts had a term in excess of 3 months.

NOTE 33. ADJUSTMENT FOR NON-CASH ITEMS

	Group		Parent Company	
	2003	2002	2003	2002
Change in pension liabilities	-14	-8	6	3
Non-cash changes in other provisions	-8	-	-	-
Non-cash items affecting comparability	-132	-37	-198	-
Capital gains/losses pertaining to fixed assets	17	11	-	-
Non-cash PRI interest	19	22	-	-
Restructuring programme 2000	-	-34	-	-
Other	-7	8	-1	-1
Total	-125	-38	-193	2

NOTE 34. ACQUISITIONS OF SUBSIDIARIES

	Group		Parent Company	
	2003	2002	2003	2002
Intangible fixed assets	89	9		
Tangible fixed assets	44	7		
Financial fixed assets	-30	-		
Inventories	31	7		
Other current assets	26	7		
Cash and cash equivalents	70	10		
Minority interests	2	-		
Provisions	-2	-		
Long-term liabilities	-5	-9		
Current liabilities	-83	-11		
Total purchase price paid	142	20		
Cash and cash equivalents in acquired companies	-70	-10		
Impact on the Group's cash and cash equivalents of acquisitions for the year	72	10	138	-
Unpaid portion of purchase price pertaining to the year's acquisitions	-	-	-	-
Purchase price pertaining to acquisitions in previous years	-	9	-	7
Total cash flow pertaining to investments in subsidiaries	72	19	138	7

NOTE 35. SALES OF SUBSIDIARIES

Group	2003	2002
Divested net assets		
Current assets	7	–
Cash and cash equivalents	6	–
Current liabilities	-367	–
Tangible fixed assets	509	–
Provisions	-18	–
Capital gains	112	–
Net cash flow from divestments	249	–
Purchase price not yet received	-6	–
Less: cash and cash equivalents in sold companies	-6	–
Cash flow from divestments, net	237	–

The Parent Company divested subsidiaries in the amount of SEK 284 m (30). Purchase price not yet received: SEK 6 m (–).

NOTE 36. EARNINGS PER SHARE AFTER DILUTION

	2003	2002
Net profit for the year	684	625
Reversal of interest expense after tax pertaining to convertible	2	2
Adjusted net profit	686	627
Weighted average number of shares before dilution	53,248,074	53,229,028
Additional shares upon full conversion	1,006,100	1,006,100
Dilutive effect pertaining to warrants	81,926	224,865
Total weighted average number of shares after dilutive effect	54,336,100	54,459,993
EARNINGS PER SHARE AFTER DILUTION	12.62	11.51

NOTE 37. TRANSITION IN 2004 TO RR 29, EMPLOYEE BENEFITS

Starting in 2004, Axfood is applying recommendation RR 29, Employee Benefits. The rules are based on IAS 19. Pensions and other post-employment benefits in Sweden were previously reported in accordance with FAR 4.

The net value of pension commitments on 1 January 2004 in accordance with RR 29 is shown below.

	FPG/PRI	Other pension plans	Total
Current value of commitments	317	50	367
Less: current value of investment assets	–	-10	-10
Provision for pensions, 1 January 2004, according to RR 29	317	40	357
Reported pension liability as per 31 December 2003, according to local rules	341	32	373
Change in pension liability in transition to RR 29	-24	8	-16

In calculating the commitments, the following actuarial assumptions have been made as per the balance sheet date of 1 January 2004.

	%
Discount rate	4.9
Future annual pay increases	3.0
Future annual pensions increases	3.0
Attrition rate	4.0

NOTE 38. MERGERS

During the year, the following companies were merged with Axfood AB. None of the merged companies were acquired during the year.

Company	Date of merger	Assets taken over	Liabilities taken over	Untaxed reserves taken over	Net sales	Operating profit
MP Mellansverige AB, 556400-8620	4 Sept. 2003	15	0	1	–	0
Axfood Direkt AB, 556367-4166	10 Sept. 2003	12	0	–	–	0
Eurotaste i Tyringe AB, 556263-0896	4 Sept. 2003	46	–	13	–	–
Total		73	0	14	–	0

Proposed disposition of earnings

Reg. no. 556542-0824

According to the consolidated balance sheet, unrestricted shareholders' equity amounted to SEK 936 m at 31 December 2003, of which SEK 684 m consists of the year's profit. No appropriation to restricted reserves in the Group is proposed.

The following profits are available for distribution by the Annual General Meeting:

Profit brought forward	746,932
Net profit for the year	6,742
Total, SEK 000	753,674

The Board of Directors and President propose that the available profits be disposed of as follows:

Shareholder dividend of SEK 5.50 per share	Outcome 1	Outcome 2
Totalling	294,234	294,678
To be carried forward	459,440	458,996
Total, SEK 000	753,674	753,674

Outcome 1 is based on the total number of shares outstanding as per 31 December 2003, 53,497,028, and outcome 2 is based on outcome 1 plus the number of shares that can be added if all outstanding stock options are exercised, totalling SEK 53,577,828.

Stockholm, Sweden, 13 February 2004

Göran Ennerfelt
Chairman

Marcus Storch
Vice Chairman

Antonia Ax:son Johnson

Peggy Bruzelius

Maria Curman

Assar Johansson

Hans-Gunnar Johansson

Anders Ryd

Gunnar Söderling

Gösta Törnroth

Annika Åhnberg

Mats Jansson
President and CEO

Our audit report was submitted on 13 February 2004

Per Bergman
Authorized Public Accountant

Caj Nackstad
Authorized Public Accountant

Auditors' Report

to the Annual General Meeting of Axfood 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 Axfood AB (publ.) for the 2003 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.

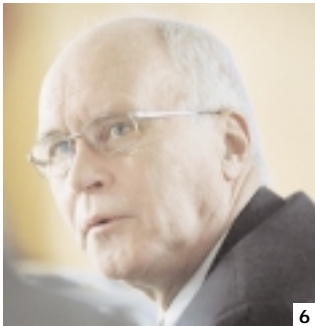
The parent company and consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act and give a true and fair view of the result and the financial position of the Group in accordance with Generally Accepted Auditing Standards in Sweden.

We recommend that the Annual General Meeting adopt the profit and loss accounts 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.

Stockholm, Sweden, 13 February 2004

Per Bergman
Authorized
Public Accountant

Caj Nackstad
Authorized
Public Accountant



1. Göran Ennerfelt, b. 1940

Chairman.

Director since 2000.

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), Chairman of Svensk Handel and the Stockholm Institute of East European Economics. Director of Spirent plc, Svenska Handelsbanken, the Confederation of Swedish Enterprise, the International Chamber of Commerce, and others. Number of shares: 10,000.

2. Peggy Bruzelius, b. 1949

Director since 2000.

Chairman of Grand Hôtel Holding AB and Lancelot Asset Management AB.

Director of AB Electrolux, Scania AB, Ratos AB, Drott AB, Syngenta AG, Axel Johnson AB, the Stockholm School of Economics Association, the Industry and Commerce Stock Exchange Committee, and others. Vice President of the Royal Swedish Academy of Engineering Sciences (IVA). Former President of ABB Financial Services and former Vice President of Skandinaviska Enskilda Banken.

Number of shares: 1,500.

3. Maria Curman, b. 1950

Director since 2003.

CEO of Bonnier Books and President of Bonnierförlagen AB. Chairman of Cappelen's Forlag AS (Norway), Autumn Publishing Group (UK), OY Tamm (Finland), Bonnierforlagene A/S (Denmark) and Månadens Bok.

Number of shares: 1,000.

4. Mats Jansson, b. 1951

President and CEO of Axfood AB.

Director since 2000.

Chairman of various companies in the Axfood Group. Director of Hufvudstaden AB. Former President and CEO of Oy Karl Fazer AB.

Number of shares: 4,300.

Holding of convertibles: SEK 36,500.

5. Assar Johansson, b. 1939

Employee representative.

Director since 2002.

Assar Johansson joined Ce-Jis Kolonial in 1962, which merged with Dagab AB in 1989, and represents the Salaried Employees Union (HTF).

Number of shares: 0.

6. Hans G. Johansson, b. 1945

Employee representative.

Director since 2000.

Hans G. Johansson is an employee of Hemköp and an employee representative for the Commercial Employees' Union. Number of shares: 0.

7. Antonia Ax:son Johnson, b. 1943

Director since 2000.

Chairman or director of various companies in the Axel Johnson Group. Director of Nordstjernan AB, the Axel and Margaret Ax:son Johnson Foundation for Public Service, NCC AB, the World Childhood Foundation, Xerox Corporation, the Royal Swedish Academy of Engineering Sciences (IVA), and others. Chairman of the City Mission of Stockholm.

Number of shares: 24,252,566 via companies.

8. Anders Ryd, b. 1965

Employee representative.

Director since 2003.

Anders Ryd is an employee of Willys AB and an employee representative for the Commercial Employees Union. Director of Willys AB and member of the District Court and Service Board in Borås.

Number of shares: 0.

9. Marcus Storch, b. 1942

Vice Chairman.

Director since 2000.

Vice Chairman of Axel Johnson AB and the Nobel Foundation. Director of Dagens Industri AB, AB Hanells Industrier, NCC AB, Nordstjernan AB, the Royal Swedish Academy of Science and the Royal Swedish Academy of Engineering Sciences (IVA). D. Med. h.c. Former President and CEO of AGA AB.

Number of shares: 12,000.

10. Gunnar Söderling, b. 1943

Director since 2003.

Director of Frigoscandia Distribution AB. Former Executive Vice President of Svenska Nestlé AB and Vice President of Nestec Ltd., part of the Nestlé Group. Number of shares: 0.

11. Gösta Törnroth, b. 1943

Director since 2000.

Chairman of AB Gostin, Färgsam AB and FärgSpektrum AB. Director of Willys hemma AB and Axlon International AB. Senior Adviser for Nyföretagarcentrum, Solna. Former Chairman and President of D-gruppen AB from the start in 1983 until 1998, and director of Dagab AB from 1991–1994.

Number of shares: 2,500.

12. Annika Åhnberg, b. 1949

Director since 2000.

Chairman of the programme board of the ELSA (Ethical, Legal and Social Aspects of Genome Research and Gene Technology) research programme and Save the Children, Sweden. Director of HANDU AB, the Royal Swedish Academy of Agriculture and Forestry (KSLA) and the Royal Swedish Academy of Engineering Sciences (IVA). Member of the Monsanto Biotech Advisory Council.

Number of shares: 0.

Alternate directors for the employee representatives:

Jenny Lundholm, b. 1973

Alternate director since 2003.

Employee of Willys AB.

Number of shares: 0.

Erik Runfelt, b. 1958

Alternate director since 2003.

Joined Dagab (Dagab Data) in 1981.

Chairman of the Axfood Chapter of the Salaried Employees Union (HTF).

Number of shares: 0.

Inger Sjöstrand, b. 1953

Alternate director since 2000.

Director of Hemköp. Chairman of the Hemköp Union Reference Group.

Number of shares: 0.

Auditors

Per Bergman

Authorized Public Accountant, KPMG

Caj Nackstad

Authorized Public Accountant, KPMG

Corporate governance

Axfood's rules and policies are based on Swedish legislation and Stockholmsbörsen's (the Stockholm Stock Exchange) rules for financial information.

Composition of the Board of Directors

In 2003 Axfood's board was composed of nine directors elected by the General Meeting (without alternates) and three employee representatives with alternates. The CEO is a director on the Board.

Nominating Committee

The principal owners of Axfood have appointed a nominating committee for the purpose of presenting a proposal to the Annual General Meeting on 4 March on the number of directors and the composition of the Board of Directors. The Nominating Committee ahead of the 2004 Annual General Meeting consisted of: Hans Dalborg, chairman, Antonia Ax:son Johnson, Inge Bäckström and Lars Otterbeck. Axfood's chairman, Göran Ennerfelt, is a co-opted member of the Nominating Committee. The proposal for nomination of directors was presented in the notice of the Annual General Meeting.

The work of the Board

According to the Company's articles of association, the Board shall have at least five working meetings per year, of which one is to be the statutory meeting. In 2003 the Board had seven

meetings, including the statutory meeting. Four meetings were focused on quarterly reports and business matters in connection with these, and one was a strategy-oriented meeting. An additional meeting was dedicated to the Company's 2004 financial plan. In addition to the board meetings, the CEO presents a monthly report that covers significant events in the Company and summary financial information.

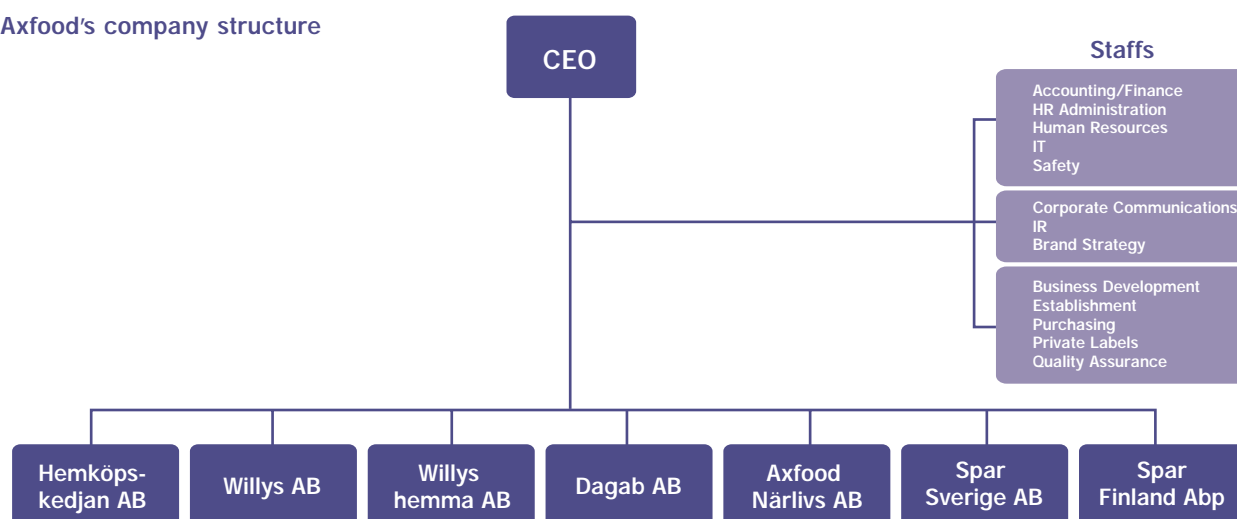
Audit Committee

The Board has no audit committee. The Company's auditors are elected by the General Meeting for a period of four years. At least once a year a review is performed together with the Company's auditors. The auditors report on the extent to which the Company's organization is designed to ensure that the bookkeeping, administration of the Company's funds, and the Company's financial condition, are controlled in a satisfactory manner. Following the submission of a formal report, the CEO and CFO leave the board meeting so that the other directors can have a dialogue with the auditors without the presence of the Company's senior executives.

Compensation Committee

The Board has a compensation committee that concerns itself with the CEO's and executive management's salaries, other terms of employment and incentive programmes. This

Axfood's company structure



Central operations such as purchasing, private label products, administration, business development and IT are conducted in the companies Axfood Sverige AB and Axfood IT AB.

committee consists of not less than three and not more than five persons. The Chairman of the Board is the committee chairman. An external, independent consultant also participates in discussions on incentive programmes.

Directors' compensation

Directors' compensation is set by the Annual General Meeting in accordance with a proposal from the Nominating Committee. Combined directors' fees amounted to SEK 1,700,000, in accordance with a decision by the 2003 Annual General Meeting. The Chairman's fee is SEK 370,000.

Convertible and stock option programme

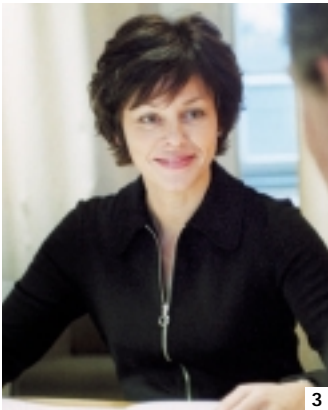
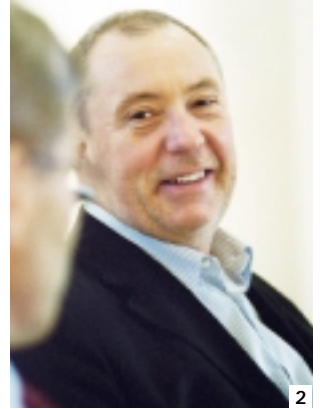
In October 2000 an extraordinary general meeting approved the establishment of a convertible and stock option programme for employees and executives of the Axfood Group.

Convertibles

Subscription of convertibles took place in November 2000. The payment date was 22 January 2001, and a total of 1,093 employees subscribed for a total of 10,061 blocks, which can be converted to 1,006,100 shares. The conversion price is SEK 73, and the conversion period is 21 January 2005–20 March 2006.

Stock options

In December 2000 Axfood AB issued a promissory note with 427,500 detachable warrants (options). The sale of options has been made to senior executives at the market price in effect at the time of the respective sales. As per 31 December 2003, 17 senior executives had subscribed for 358,800 options. In 2003, 10,000 options were repurchased, and 268,000 options were redeemed for Axfood shares. As per 31 December 2003, 80,800 options remain which can be redeemed for Axfood shares. The remaining options on issue are being held by Axfood. The exercise price is SEK 77, and subscription can take place until 21 August 2004.



Executive Committee

1. Mats Jansson, b. 1951

President and Chief Executive Officer.
Number of shares: 4,300.
Number of options: 0.
Holdings of convertibles: SEK 36,500.

2. Urban Dahl, b. 1953

President of Axfood Närlivs AB.
Number of shares: 0.
Number of options: 0.
Holdings of convertibles: SEK 109,500.

3. Bodil Eriksson, b. 1963

Executive Vice President, Corporate Communications and Investor Relations.
Number of shares: 0.
Number of options: 0.
Holdings of convertibles: SEK 43,800.

4. Stefan Karlsson, b. 1961

President of Dagab AB.
Number of shares: 4,500.
Number of options: 17,500.
Holdings of convertibles: SEK 109,500.

5. Pekka Kosonen, b. 1954

President of Spar Finland Abp.
Number of shares: 0.
Number of options: 0.
Holdings of convertibles: 0.

6. Helena Molinero, b. 1964

Director of Group Human Resources, Head of Competence and Leader Development.
Number of shares: 0.
Number of options: 0.
Holdings of convertibles: 0.

7. Carl-Erik Möller, b. 1947

President of Hemköpskedjan AB.
Number of shares: 5,750.
Number of options: 0.
Holdings of convertibles: SEK 109,500.

8. Lars Nilsson, b. 1956

Executive Vice President, Deputy CEO, Chief Financial Officer.
Number of shares: 13,200.
Number of options: 0.
Holdings of convertibles: SEK 109,500.

9. Anders Nyberg, b. 1956

Executive Vice President, Business Development.
Number of shares: 4,000.
Number of options: 10,000.
Holdings of convertibles: SEK 109,500.

10. Anders Strålman, b. 1953

President of Willys AB.
Number of shares: 0.
Number of options: 17,500.
Holdings of convertibles: SEK 109,500.

11. Thomas Strömer, b. 1950

President of Willys hemma AB.
Number of shares: 0.
Number of options: 0.
Holdings of convertibles: SEK 109,500.

All shareholdings as per 30 December 2003.

The following appointments have been made, with effect from 1 March 2004: Urban Dahl, Head of Product Range & Purchasing, Axfood AB, Benny Hast, President, Axfood Närlivs AB.

Several-year overview

Amounts in SEK m	2003	2002	2001	2000	1999P
Profit and loss account					
Net sales	33,616	33,115	32,428	30,230	29,077
Items affecting comparability	132	37	-79	-162	-76
Operating profit	1,034	1,023	653	112	344
Profit after financial items	971	919	527	0	261
Minority interests	-12	-14	-11	-10	-15
Taxes	-275	-280	-188	-24	-105
Net profit for the year	684	625	328	-34	141
Balance sheet					
Intangible fixed assets	1,076	1,098	1,165	1,233	1,021
Tangible fixed assets	1,821	2,172	2,264	2,168	1,650
Financial fixed assets	253	412	541	716	796
Inventories	1,599	1,631	1,559	1,518	1,425
Other current assets	1,680	1,598	1,832	1,707	1,629
Cash and cash equivalents	548	444	406	278	192
Assets	6,977	7,355	7,767	7,620	6,713
Shareholders' equity	2,127	1,693	1,208	855	741
Minority interests	122	119	109	181	185
Provisions	743	701	637	595	542
Interest-bearing liabilities	599	1,320	2,070	2,610	2,157
Noninterest-bearing liabilities	3,386	3,522	3,743	3,379	3,088
Shareholders' equity and liabilities	6,977	7,355	7,767	7,620	6,713
Cash flow					
Cash flow from operating activities	1,026	1,104	1,046	445 ^{p)}	365
Cash flow from investing activities	-315	-192	-293	-690 ^{p)}	-326
Cash flow from financing activities	-606	-873	-625	331 ^{p)}	36
Cash flow for the period	105	39	128	86 ^{p)}	75
Key ratios					
Operating margin, excluding items affecting comparability, %	2.7	3.0	2.3	0.9	1.2
Margin after financial items, %	2.9	2.8	1.6	0.0	0.9
Equity ratio, %	32.2	24.6	17.0	13.7	13.8
Debt-equity ratio, net, multiple	0.2	0.6	1.3	2.1	2.0
Debt-equity ratio, multiple	0.43	0.94	1.85	2.86	2.9
Capital employed	3,221	3,510	3,752	4,003	3,620
Return on capital employed, %	31.2	28.7	17.3	3.8	10.3
Return on shareholders' equity, %	35.8	43.1	31.8	neg.	20.0
Interest coverage, multiple	13.3	8.4	4.7	1.0	-
Capital expenditures in intangible and tangible fixed assets	660	455	404	579	563
Earnings per share, SEK	12.85	11.75	6.16	-0.65	2.77
Earnings per share after dilution, SEK	12.62	11.51	6.07	-0.65	-
Net asset value per share, SEK	39.76	31.81	22.70	16.06	14.61
Net asset value per share after dilution, SEK	38.97	31.09	22.24	16.05	-
Cash flow per share, SEK	1.97	0.73	2.40	1.65	1.48
Cash flow per share after dilution, SEK	1.93	0.72	2.36	1.65	-
Number of shares outstanding	53,497,028	53,229,028	53,229,028	53,229,028	50,729,028
Weighted average a number of shares	53,248,074	53,229,028	53,229,028	52,064,644	50,729,028
Number of shares outstanding after dilution	54,585,054	54,459,993	54,327,524	53,274,545	-
Weighted average number of shares outstanding after dilution	54,336,100	54,459,993	54,327,524	52,110,162	-
Average number of full-time employees	8,640	8,312	8,514	8,146	7,364
Dividend per share, SEK	5.50 ¹⁾	5.00	2.50	0	2.60

^{p)} Pro forma for 1999.

¹⁾ Proposed by the Board of Directors.

Definitions

- **Average number of full-time employees:** Total number of hours worked divided by the year's work time (1,600 hours).
- **Capital employed:** Total assets less noninterest-bearing liabilities and noninterest-bearing provisions. 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.
- **Cash flow per share:** Cash flow for the year divided by the number of shares outstanding. For cash flow per share after the dilutive effect see "Earnings per share after dilution" below.
- **Debt-equity ratio:** Interest-bearing liabilities and provisions divided by shareholders' equity including minority interests.
- **Debt-equity ratio, net:** Interest-bearing liabilities and provisions less cash and cash equivalents and interest-bearing receivables, divided by shareholders' equity including minority interests.
- **Earnings per share:** Net profit for the year divided by the number of shares outstanding.
- **Earnings per share after dilution:** Profit for the year after tax, adjusted for interest expenses after taxes pertaining to outstanding convertibles, divided by the average number of common shares adjusted for the dilutive effect of convertibles and stock options. The dilutive effect of convertibles consists of the number of shares that would be issued upon full conversion. The dilutive effect of stock options arises when the present value of the exercise price is lower than the current value of the common shares. The current value of the common shares consists of the average market price during the accounting period. The dilutive effect arises as the difference between the number of shares that holders of the stock options have the right to subscribe for and the number of shares valued at current value that this subscription payment corresponds to.
- **EBIT:** Operating profit.
- **Equity ratio:** Shareholders' equity including minority interests, as a percentage of total assets.
- **Interest cover ratio:** Profit after financial items plus financial expenses, divided by financial expenses.
- **Just-In-Time:** The aim of just-in-time systems is to coordinate the supply of materials so they arrive just as they are needed.
- **Margin after financial items:** Profit after financial items as a percentage of net sales for the year.
- **Net asset value per share:** Shareholders' equity divided by the number of shares outstanding. For net asset value per share after the dilutive effect, see "Earnings per share after dilution" above.
- **Net debt/net interest-bearing assets:** Cash and cash equivalents plus interest-bearing receivables less interest-bearing liabilities and provisions.
- **Operating margin:** Operating profit as a percentage of net sales for the year.
- **Return on capital employed:** Profit after financial items, plus financial expenses, as a percentage of average capital employed.
- **Return on shareholders' equity:** Net profit as per the profit and loss account 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.

Explanations

Attract 40

Stockholmsbörsen's (the Stockholm Stock Exchange) rules for inclusion on the Attract 40 list:

Selection to the list is conducted biannually and is based on statistics for a period of six months ending with the month before each half and full year.

1. The company's turnover rate (for the most actively traded class of stock) during the last six-month period, adjusted for free float, must be among the top 40 on Stockholmsbörsen's O-list.
2. Companies that do not meet the turnover requirement can be given the opportunity to be included on the Attract 40 list if trading in the company's shares is so extensive that the company, if it had been quoted on the A-list, would have met the requirement for trading volume in excess of SEK 3 billion during the half-year period (corresponding to approx. SEK 24 m/day), plus the company must have a market capitalization in excess of SEK 8 billion.
3. The company must have a free float of at least SEK 500 m at the end of the measurement period.
4. The company must issue market information in English.
5. Companies on the observation list are not eligible for inclusion on the Attract 40. If a company is the subject of a hostile takeover bid, this can prevent it from inclusion on the Attract 40.
6. In certain specific cases, newly introduced companies can be given the opportunity to be included on the Attract 40. In order for Stockholmsbörsen to be able to approve a company for inclusion on the Attract 40 from the onset, it must be considered to be very likely that the basic conditions outlined above will be met.

BRC

British Retail Consortium. A consortium of British retailers, such as Tesco, Sainsbury's and Safeway. The BRC standard is a food-adapted ISO 9000 complemented with an HACCP plan.

HACCP

Hazard Analysis and Critical Control Points. An analysis of an entire production line that identifies hazards and lays out control points for follow-up.

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