

Axfood Annual Report 2004



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Axfood is a Swedish company that is governed by Swedish law. All monetary amounts stated herein are in Swedish kronor. Millions of kronor are abbreviated as SEK m and billions as SEK bn. Figures in parentheses pertain to 2003, unless stated otherwise. Market and competitive data are Axfood's own estimates, unless reference is made to a specific source. These estimations are based on the best and most recent data available from published sources in the public sector, the consumer goods sector and competitors.

Presenting Axfood

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

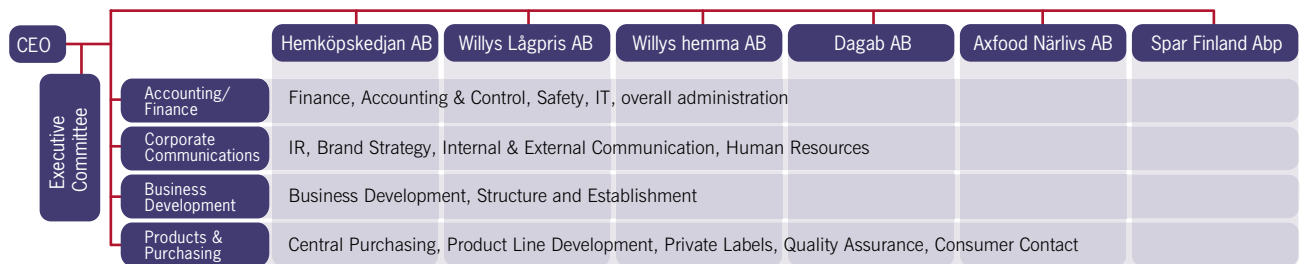
Market shares in Sweden 2004, %



Source: Preliminary data from Fri Köpenskap, Dec. 2004

Axfood AB conducts retail trade in Sweden through the wholly owned store chains Hemköp, Willys and Willys hemma, totalling 223 stores, and wholesale trade through Dagab and Axfood Närlivs. In addition, Axfood collaborates with over a hundred independent grocers who are tied to Axfood through franchise or other agreements. In Finland Axfood operates through Spar Finland Abp, which is listed on the Helsinki Stock Exchange. Spar Finland has 287 stores, of which 94 are wholly owned and the others are run by independent grocers. Axfood is the principal owner with 75.2% of the votes and 69.3% of the capital. Axfood AB is listed on the Stockholm Stock Exchange O-List, attract40. Axel Johnson AB is the principal owner with approximately 45% of the shares.

Axfood has an approximate 17% market share in Sweden. Together with Spar Finland, which has an approximate 8% share of the Finnish market, Axfood is one of the largest listed retail food groups in the Nordic region.



Organizational structure

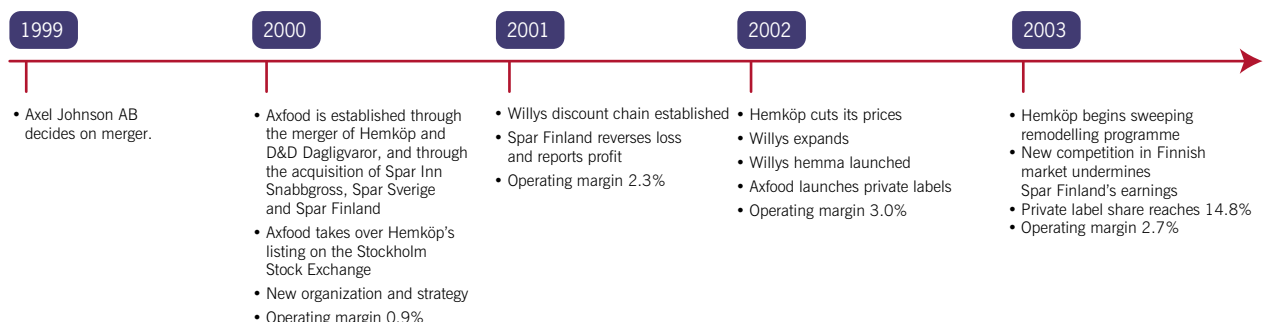
Axfood's organization is characterized by few decision-making levels and a strong focus on low administrative costs. Operations are built upon a combination of centralization and decentralization, enabling the optimal development and use of the individual levels.




















At the central level the Group achieves economies of scale by combining such functions as purchasing, private label products, delivery chain efficiency, IT, human resources and leadership development.

The management teams of the individual chains have primary responsibility for making decisions on marketing, product-line and price strategies.

Axfood's store managers/proprietors work in direct daily contact with their customers. They are responsible for making sure their stores are attractive, well-stocked, and for treating customers in a professional manner that is in line with their respective stores' profile. Store managers have personal responsibility for the store's employees.

History



Company	Sales, SEK m Share of Group total	Operating profit, SEK m Share of Group total	Average no. employees Share of Group total	Key data
Hemköp Business concept: Hemköp aspires to be the preferred store chain of food enthusiasts. We aim to have the market's best product offering, and always at low prices. With a focus on fresh products, food trends and new products, Hemköp brings food fashion to Sweden.	 SEK 6,167 m 18%	 SEK 95 m 9%	 2,174 28%	Number of stores: 90 Number of items: 10–15,000 Retail space: 133,082 sq.m.
Willys Business concept: Willys aims to offer Sweden's cheapest bag of groceries.	 SEK 11,789 m 35%	 SEK 479 m 48%	 2,411 31%	Number of stores: 88 Number of items: 7,500 Retail space: 196,359 sq.m.
Willys hemma Business concept: Willys hemma offers a basic range of products to small households in residential areas, ready-made meals and fresh products as priority categories.	 SEK 1,284 m 4%	 SEK -11 m 0%	 329 4%	Number of stores: 45 Number of items: 3,000 Retail space: 34,086
Dagab Business concept: Dagab refines the flow of products and information between suppliers and retailers. Within the Axfood Group, Dagab will be integrated increasingly with Axfood's wholly owned stores in the aim of enhancing efficiency and delivery reliability.	 External sales SEK 4,616 m 14%	 SEK 277 m 27%	 1,061 14%	Distribution centres: 3 Cold-storage warehouses: 3
Axfood Närlivs Business concept: Axfood Närlivs offers a complete range of products and services to a diverse range of retailers in the convenience store segment.	 SEK 4,589 m 14%	 SEK 92 m 9%	 655 8%	Distribution centres: 4 Cash & carry outlets: 23
 Business concept: Spar Finland aims to be the most customer-focused player in all its local markets.	 SEK 5,168 m 15%	 SEK 8 m 1%	 823 11%	Stores: 94 Retail space: 71,671 sq.m.
Other	SEK 213 m	SEK 68 m	311	Total number of stores: 317 Total number of distribution centres: 7 Total number of cash & carry outlets: 23 Total retail area 435,198 sq.m. (Axfood-owned stores)
Group total	SEK 33,826 m	SEK 1,008 m	7,764	

Highlights 2004

- Consolidated sales totalled SEK 33,826 m (33,616).
- Sales for Axfood's wholly owned stores in Sweden rose 6.4%, with a 2.8% rise in same-store sales. Sales for wholly owned stores in Finland rose by 6.1% in local currency, with a 4.1% drop in same-store sales.
- Operating profit for 2004 was SEK 1,008 m (1,034). Adjusted for capital gains from sales of real estate and an associated company in 2003, profit rose 11.8%.
- Earnings per share were SEK 12.40 (12.85).
- The Hemköp and Spar chains were combined under the Hemköp name. The new Hemköp comprises 90 wholly owned stores and 80 proprietor-run stores. Conversions of Spar stores began in 2004 and are expected to be fully completed during the first half of 2005. Synergy gains are estimated at SEK 60–80 m by year-end 2007.
- Willys launched Super-Willys, a store concept featuring – in addition to groceries – a diverse range of kitchen utensils, home textiles, media, toys and seasonal products. Two Super-Willys stores were opened during the year.

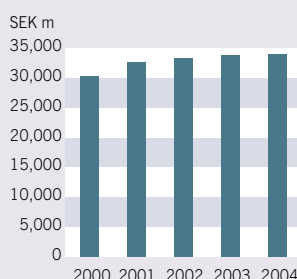
The year in figures

Amounts in SEK m unless indicated otherwise	2004	2003	Change
Net sales	33,826	33,616	0.6%
Operating profit	1,008	1,034 ¹⁾	11.8% ²⁾
Operating margin, %	3.0	2.7 ²⁾	0.3
Profit after financial items	980	971	0.9%
Profit after tax	664	684	-2.9%
Earnings per share, SEK	12.40	12.85	-0.45
Earnings per share after dilution, SEK	12.19	12.62	-0.43
Average number of employees during the year	7,764	7,773	-9

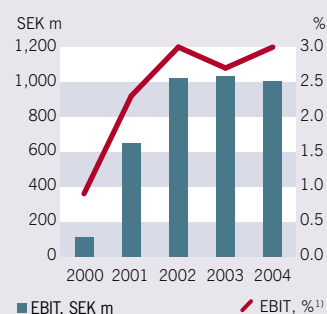
¹⁾ Including capital gain of SEK 110 m from sale of real estate and SEK 22 m from the sale of an associated company.

²⁾ Excluding capital gains from the sale of Axfood Fastigheter and an associated company.

Consolidated net sales, SEK m



Consolidated operating profit (SEK m) and operating margin (%)



¹⁾ Excl. capital gains and structural costs.

Profitable growth is our chosen path

Things are going very well for Axfood. The best proof is our operating profit of SEK 1,008 m, which we achieved in a tougher competitive climate than ever before. Denmark's Netto is in place, so is Germany's Lidl. And our domestic competitors, Coop and ICA, are more aggressive than in a long time. Our strong earnings can be credited to more than the continued success of the discount chain Willys. Our central purchasing and private labels have made a strong contribution, as have our wholesale operations – Dagab and Axfood Närlivs. Hemköp hasn't posted a turnaround yet, but it has shown that it is headed in the right direction. During the year it carried out a battery of important changes, including a sweeping store remodelling and the revamping of its price image. Hemköp was also merged with the Spar chain, which will entail a near doubling in the number of Hemköp stores in 2005, once all 80 large Spar stores have been converted. Our Finnish operation, Spar Finland, had a tough time in 2004. Due to a turbulent market with constant price initiatives from all retailers, plus troubling cross-border shopping, Spar Finland's earnings were poorer than anticipated. Our ambition to see Spar Finland in a wider context continues to have top priority.

New strategic plan for 2004–2008

On a personal level, the past year involved extensive strategic planning together with the rest of our executive committee and board. When Axfood was established in 2000, I basically sat alone during the spring months and drew up the Company's first five-year plan. We have already achieved most of the goals we set back then. The new strategic plan for 2004–2008 is clearly not a one-man production, but the result of teamwork between me and the other ten members of Axfood's management and the board. The difference feels substantial – in terms of security, inspiration and support. The big change is that we are leaving behind us the drastic measures required of our structural work to focus more on operational fine-tuning. And we are doing this under the dry – but oh so critical – headings: Growth, Operational Focus, and Cost Efficiency.

The starting point for this work is our strong financial position and our market-leading position in the discount segment. We also have a tightly knit management team that is loyal to our strategy, backed by a long-term and competent principal owner. Our weakness is that we have not been sufficiently innovative at developing our value proposition, particularly at Hemköp. In the coming four years, organic growth will be our main focus. We see major opportunities for this in our wholly owned stores in Sweden.

Profitable growth

As for expansion in the Nordic region, we would still prefer to achieve this through acquisitions or a merger. Another option is to find suitable cooperation partners for shared business concepts, joint purchasing and joint development of our private labels. Thus we have not fully achieved our Nordic strategy from our first five-year plan. But I want to point out that last spring we turned down an offer to purchase a large Finnish company. The price was quite simply too high.

It is also worth noting that the stock market saw it as a strength that we said no. As it turns out, we now find ourselves in a new business climate in which a premium is attached to profitability over one-sided growth, and where growth must be profitable. Profitable growth will continue to be our chosen path. Axfood is such a strong company that we can wait to find the right partner. We will not fret over the passing of time, since we are becoming better and better, and therefore more and more attractive. The price of our stock and our market capitalization have grown steadily since our start in 2000. Our earnings are stable at around a bn kronor for the third year in a row. Our estimate is that we can improve operating profit by a further SEK 500 m by 2008.

But there is also reason for some self-criticism looking back on the year. Of course, seeing the Vivo stores leave us for our competitor Bergendahls was no merit. Losing a customer is never good. However, we view the Vivo retailers' defection as a breach of contract. Therefore, as an obvious duty to our shareholders, we will be taking legal action. We have also begun acquiring some Vivo stores, which is in line with our goal of growing in the Stockholm area.

Continued growth for private labels

Our private label products are and will continue to be a central pillar in our strategy. By 2007 they will account for 25% of our total sales, compared with 18% today and 4% when we started.

Axfood's – and the other retail food chains' – investment in private label products received some criticism during the year. The established brands feel squeezed and claim that "diversity is being threatened".

This isn't the case at all. What is happening is that brands that previously weren't exposed to any competition – or at least not to price pressure – now are. And they aren't used to it. I know myself, from my days in the food industry, about the high profit margins that we took for granted. At Axfood our house brands now dominate in several product categories. It means that the customers have had their say. They like to buy products



'We are headed for an exciting future in an industry that has been stagnant for many decades. We want to be a driver of change'

that are comparable in quality with the market leading brands, but at a lower price. At the same time, the individual stores and the Axfood Group earn a higher profit, since we bypass costs for sales and marketing, among other things. In the rest of Europe, competition in the food industry has long been tougher than in Sweden. As a result, private labels today account for 30%–50% of sales for European chains.

Discount trend continues

Another pillar supporting Axfood's profitability is the economies of scale we have achieved as a result of the 2000 merger between our five constituent companies. The coordination gains amount to 2%–3% of sales each year. It is these synergies that have given us the means to roll out our successful Willys discount chain from Gothenburg across the rest of the country. Willys is now being developed further – also in content. The

new Super-Willys stores offer a growing selection of non-food products, such as kitchen utensils. Discount has long been the dominant trend in the retail food industry. And not only there, but in all industries – air travel, electronics, furniture, and so on. But we are also beginning to see a counter-trend. More and more customers are demanding a larger and more varied selection of products, ranging in everything from ingredients for foreign cuisine, to organic produce, to wholesome foods with less fat and sugar.

New food trends

We are also witnessing the start of a new fashion in food – sort of like clothing, but with longer seasons. Take houmous for example, the popular chickpea paste from the Middle East. In this counter-trend Axfood is positioned right with its large selection of fresh products and knowledgeable staff. We are working intensively to address the health-conscious popular movement that is now emerging. The right time is nearing. A wide range of organic products can now be found at reasonable prices, which can satisfy the demand that has existed for quite some time.

In other words, we are headed for an exciting future in an industry that has been quite stagnant for many decades. We want to take an active part and be a driver of change.

In view of the new competitive situation, market investments will be increased for the respective store concepts. Earnings for 2005 are therefore expected to be level with the outcome for 2004, excluding goodwill amortization.

Stay tuned to our development in 2005!


Mats Jansson
President and CEO, Axfood AB

Positive trend for Axfood's shares in 2004

Axfood's shares have been listed on the Stockholm Stock Exchange since 1997, currently on the O-List, attract40. At year-end 2004 Axfood's share capital was SEK 267.9 m, divided among 53,577,828 shares with a par value of SEK 5.00 each. All shares have equal voting power and equal entitlement to the company's profit and equity.

Price trend and trading volume

Axfood's share price developed favourably in 2004 and rose 35% in value, from SEK 166.50 to SEK 225.00. The stock market as a whole (SAX All Share Index) rose 18% during the same period. The highest price quoted during the year was SEK 229, in December. The lowest price paid during the year, SEK 160.50, was in January. At year-end Axfood's market capitalization was SEK 12,055 m (8,907).

During the last five years Axfood's stock has performed very well compared with the market average. An investment of SEK 1,000 in Axfood stock at the start of 2000 would have been worth SEK 3,275 at year-end 2004 if dividends were reinvested. If that same investment had performed in parity with the SIX Return Index, which gauges the trend for the market average including reinvested dividends, the investor's SEK 1,000 would have fallen in value to SEK 784 during the period.

A total of 24.9 million Axfood shares were traded in 2004 (30.2), for a combined value of SEK 4,728 m (4,587). This corresponds to a turnover rate of 47%, compared with average turnover of 82% for the O-List. Average daily trading volume was 98,487 shares (121,432), for a value of SEK 18.7 m (18.4). An average of 102 transactions were made per trading day.

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.

In November 2000, 1,093 employees subscribed for convertibles. 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 minus one percentage point. This entails an interest rate of 1.89% at year-end 2004. Upon full conversion, the number of shares outstanding will increase by 1,006,100, corresponding to a dilution of approximately 1.9% of the total number of shares outstanding.

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. 78,700 options remained in Axfood's possession. The exercise price is SEK 77, and subscription could take place until 21 August 2004. In 2003, 10,000 options were repurchased, and 268,000 options were redeemed for Axfood shares. In 2004 an additional 80,800 options were redeemed for Axfood shares.

The stock option programme was concluded in 2004, and the total dilutive effect in 2003 and 2004 was just under 0.7%, based on the total number of shares outstanding at year-end 2000.

Dividend

Axfood's dividend policy is to pay out a minimum of 50% of profit after tax.

For the 2004 financial year the Board proposes a dividend of SEK 11.00 per share (5.50), of which SEK 6.50 in ordinary dividend and SEK 4.50 as an extra dividend, corresponding to SEK 589 m (295) based on the total number of shares outstanding on 31 December 2004, which was 53,577,828 shares. The proposed dividend corresponds to 88.8% of profit after tax for 2004. Since 2000 Axfood has paid out an average of 56.6%¹⁾ of profit after tax in yearly dividends.

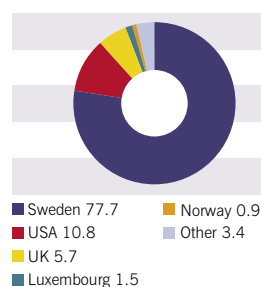
Dividends are expected to be paid out via VPC on 18 March 2005.

Ownership structure

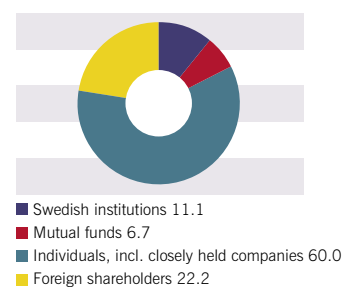
Axfood had 9,519 (9,890) shareholders at year-end. At year-end 2004 the 10 largest owners held 58.4% of the shares (60.9%). Swedish individuals owned 60% of the shares at year-end 2004, while Swedish mutual funds and institutions owned slightly less than 18%. Foreign ownership in the company was slightly more than 22%.

1) Provided that the Board's dividend proposal for the 2004 financial year is approved by the Annual General Meeting.

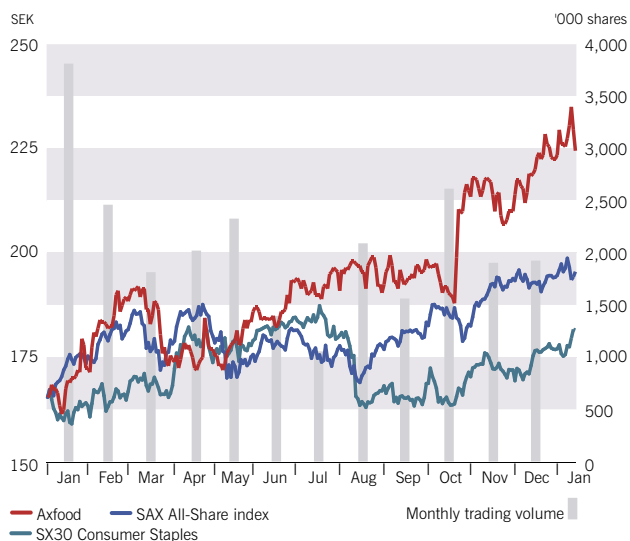
Geographic distribution of shareholders, as per 31 December 2004, %



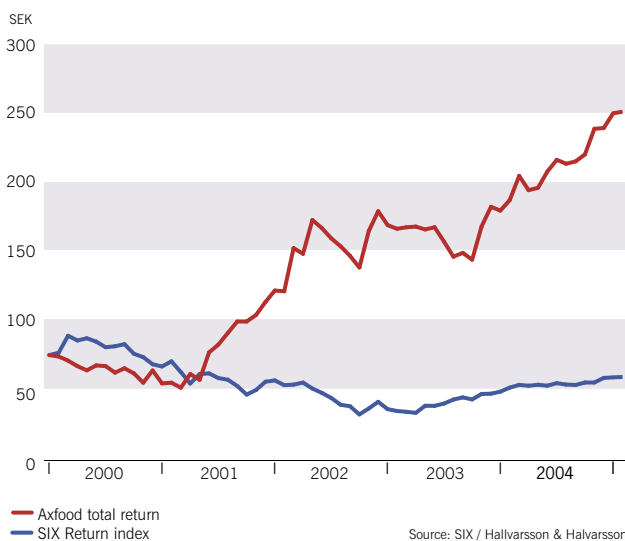
Shareholder categories as per 31 December 2004, %



Axfood shares, price trend and trading volume 2004



Axfood shares, total return * 2000–2004



* Total return includes reinvested dividends during the period.

The 10 largest shareholders at 31 December 2004

Name	Number of shares	Share of capital and votes, %
Axel Johnson AB	24,267,566	45.3
SHB/SPP mutual funds	1,055,656	1.9
SEB mutual funds	940,200	1.8
Schroder mutual funds	900,190	1.7
Second Swedish National Pension Fund	867,340	1.6
AFA Insurance	867,030	1.6
Hall, Lennart and companies	802,000	1.5
SEB	600,463	1.1
SEB-Trygg Insurance	511,000	1.0
Söderberg, Tommy	470,300	0.9
Total, 10 largest owners	31,281,745	58.4
Other owners	22,296,083	41.6
Total	53,577,828	100.0

Breakdown of shareholders by size of holding

Size class	No. shareholders	Share of capital and votes, %
1 – 500	8,042	2.31
501 – 1,000	644	1.00
1,001 – 2,000	259	0.77
2,001 – 5,000	217	1.40
5,001 – 10,000	106	1.49
10,001 – 20,000	88	2.42
20,001 – 50,000	67	4.07
50,001 – 100,000	35	4.45
100,001 –	61	82.09
	9,519	100.00

Key data for Axfood shares

	2004	2003	2002	2001	2000
Dividend, SEK	11.00 ¹⁾	5.50	5.00	2.50	0
Dividend as % of net profit	88.8	43.0	42.6	40.6	0
Number of shares outstanding at year-end	53,577,828	53,497,028	53,229,028	53,229,028	53,229,028
Weighted average number of shares outstanding	53,567,009	53,248,074	53,229,028	53,229,028	52,064,644
Share price at year-end, SEK	225	166.5	162	117.5	53.5
Highest/lowest price paid, SEK	229/160.5	174.5/120	180/115	125.5/48	84/51
Dividend yield, % ²⁾	4.9	3.3	3.1	2.1	0.0
Earnings per share before dilution, SEK	12.40	12.85	11.75	6.16	-0.65
Earnings per share after dilution, SEK	12.19	12.62	11.51	6.07	-0.65
P/E multiple before dilution ³⁾	18.2	13.0	13.8	19.1	neg
P/E multiple after dilution ³⁾	18.5	13.2	14.1	19.4	neg
Turnover rate, %	47	57	36	27	22
Number of shareholders	9,519	9,890	9,613	9,565	10,292

¹⁾ Proposed by the Board of Directors.

²⁾ Dividend per share divided by the share price at year-end.

³⁾ Share price in relation to net profit per share before and after dilution.

Successful strategies since the start...

When Axfood was established and took over Hemköp's listing on the Stockholm Stock Exchange in 2000, the new management's assignment was to establish Axfood as one of the most successful companies in the Nordic region. The goal was to create sustained growth in value for the shareholders.

The Board laid down six main strategies for a five-year process of change coupled with financial targets for the operating margin, return on capital employed, the equity ratio and dividend per share.

An evaluation shows that Axfood has delivered stellar results on its strategic promises:

1. Distinct brand strategy. From 34 store concepts at the onset, the Group is now down to three wholly owned store chains in Sweden: Hemköp (full service), Willys (full-range discounter), Willys hemma (neighbourhood discount), and two wholesale operations – Dagab and Axfood Närlivs. In Finland the store brands have been pared from five to two: Spar and Eurospar.

2. Market expansion. Sales for Axfood's wholly owned stores in Sweden have increased in the face of steadily mounting competitive pressure, from annual sales of SEK 11.9 bn in 2000 to approximately SEK 19.2 bn at year-end 2004. The strategy called for major expansion in the Nordic region in order to achieve economies of scale and synergies. This Nordic strategy has not yet been fully achieved.

3. Greater private label share. Axfood's private label share in Swedish stores has increased from 4% of total sales to 18% in 2004. Private label products are sold at prices that are 15%–30% lower than the market-leading brands and contribute to higher gross margins for the stores.

4. More wholly owned stores in Sweden. Roughly 62% of sales in 2004 were derived from wholly owned stores, compared with 42% in 2000. This percentage has increased both through acquisitions and new store establishment. Axfood is seeking profitability gains in both the wholesale and retail segments, which is the main rationale for increasing the share of wholly owned stores. Wholly owned stores offer better economies of scale and synergies, faster response to change and opportunities for better branding work.

5. Central purchasing. From fragmented purchasing practices at the onset, Axfood's purchasing today is entirely centralized, accounting for approximately 85% of store volumes. Price negotiations leveraged by the Group's collective purchasing strength of roughly SEK 20 bn in 2004 provide for lower prices than if each store were to negotiate purchasing on its own.

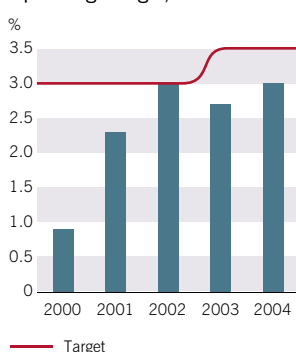
6. Flat organization. The number of decision-making levels has been reduced from eight to four since 2000, and the number of administrative positions has been cut by about 500. This has led to a reduction in administrative expenses during the period.

Financial targets

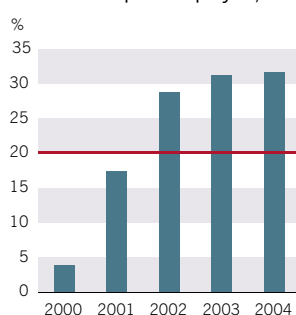
Thanks to the successful implementation of the process of change, the original financial targets have all been reached or exceeded (see charts below). In response to the rapid earnings improvements, in February 2003 the Board raised the operat-

ing margin target to 3.5%. The operating margin in 2004 was 3.0%. In January 2005 Axfood's board raised the dividend target from a minimum of 40% of operating profit after tax to a minimum of 50% of operating profit after tax.

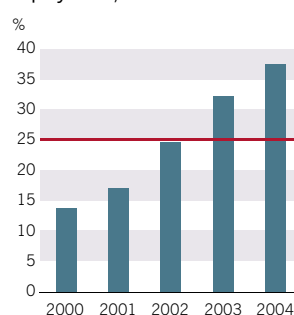
Operating margin, %



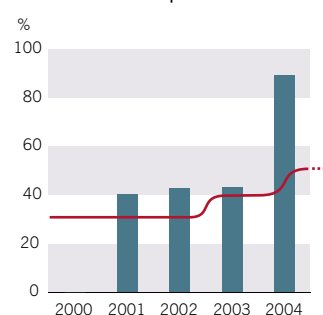
Return on capital employed, %



Equity ratio, %



Dividend as % of profit



... provide springboard to expanded strategy programme for 2008

Against the backdrop of these successfully implemented strategies, Axfood's board has decided on a four-year programme of continued value-enhancing measures. The programme is based on the strategies pursued from 2000 to 2004. The primary financial target for 2008 is a 3.5% operating margin.

Axfood's platform is built upon the following strengths:

- financial strength
- strong discount concept and market position through Willys
- sound base in the transformed Hemköp
- cost-efficient wholesaling operation
- strong private label position
- large base of wholly owned stores

In the opinion of the management and Board, the Group has good prospects for continued, significant earnings and sales growth in the existing structure. The foremost opportunities to exploit are:

- continued strong growth, whereby the discount segment in Sweden is judged to be able to grow to approximately 20% of the market compared with roughly 14% today
- revitalization of the traditional grocery segment with Hemköp
- greater integration for continued economies of scale and coordination benefits
- growth in private label share to 25%

These value-enhancing measures are gathered under three main strategic areas: continued growth, optimal operation and enhanced cost-efficiency.

Growth

The share of sales from wholly owned stores continues to rise. The goal calls for organic growth of 3.5% per year, including inflation and consumption increases.

Acquisitions and new store establishment will continue, with the goal of adding 70–85 more stores to the Willys, Willys hemma and Hemköp chains.

The pace of change in the retail food sector remains high, with new product segments and categories emerging continuously, including specialty (non-food) products. Axfood's Super-Willys initiative is an example of this development of new product segments.

Satisfied customers are a prerequisite for growth. Each year in all our chains we measure the customers' views about our stores. The results are compiled in a customer satisfaction index and subsequently used for more in-depth studies and surveys in prioritized areas, such as how our customers perceive our private

label initiative. The results of the customer satisfaction index are also used in Axfood's annual business planning.

In 2005 we will be dedicating more time to ensuring that our customers experience our stores at the best they have visited. A new management tool called "Compass" plays a key role in this work. We will also be conducting "Mystery Shopper" studies, whereby we recruit people to share their views on how a particular store is perceived from the customer's perspective.

Axfood is sticking to its Nordic growth strategy with the aim of acquisitions or mergers in Sweden or other Nordic markets. Axfood is also receptive to partly owned company ventures surrounding various store concepts.

Optimal operation

Integration of Axfood's wholesale and retail operations will be increased. The main projects involve automatic replenishment, installation of a new store computer system and the continued changeover to centrally packaged meat in the aim of meeting more stringent demands on handling, labelling and shelf-life.

Concept development will be intensified in the areas of fruits & vegetables, non-food products, health and private label products – areas that are of great importance for customers.

Store operations will be further refined with the implementation of a number of management and control tools for store managers. With the establishment of the Axfood Academy, Axfood's store managers and other employees will have better opportunities for training to ensure a more professional store operation.

Cost efficiency

Staff costs are the largest expense items in the retail food business. The targets for store staff costs as a percentage of total overheads are 11.5% for Hemköp, 6.5% for Willys and 7.5% for Willys hemma.

Axfood is continuing its work on developing its flat organizational structure with low payroll costs for staff and administration. The Group's target is to maintain the current level of less than 1% of sales.

Forecast

In view of the new competitive situation, market investments will be increased for the respective store concepts. Earnings for 2005 are therefore expected to be level with the outcome for 2004, excluding goodwill amortization.

Transformation in retailing to meet new consumer needs

Shop frequently, nearby and after-hours, stock up at hypermarkets, browse at the deli counter, look for bargains – today Swedish consumers have a range of choices like never before when it comes to satisfying their individual consumption patterns. Sweden's retail food market is in the midst of an unprecedented transformation in order to meet this new reality and satisfy new demands on breadth, availability and specialized product offerings for varying customer needs.

Swedish consumption patterns are becoming increasingly difficult to extrapolate. Society is becoming differentiated, and the average Swedish consumer is no longer so easy to define. A key reason is the demographic changes that are taking place, which in turn are giving rise to a changed consumption structure. Sweden's population as a whole is ageing, and with rising ages comes changed needs, eating habits and demands on availability.

We are also seeing continued growth in single and small households – something that creates its own special consumption patterns. The major metropolitan areas are growing, and in a multicultural society like Sweden, a kaleidoscope of food traditions is being brought together and is requiring a wider offering in food stores. We are becoming more highly educated and travelling more, and consequently more demanding as consumers with respect to price, selection and quality.

New consumer behaviours

For working people, time is a key factor that steers daily shopping habits, if nothing else. Small households and a lack of time are increasing demand for ready-made meals.

Among these consumer categories, eating out is also competing with food stores, and in recent decades this has resulted in an explosive development in the restaurant industry. In the US, for example, sales of restaurant and fast food have passed food sold in stores.

Another important trend is food awareness – that is, health consciousness and source aspects are steering consumers' choice of foods. Experiential consumption, such as travel and other leisure activities – is also accounting for a growing portion of household budgets, at the expense of standard outlays and groceries. This means that Swedish consumers today have their eye on prices like never before. At the same time,

modern people make a greater distinction between weekdays and weekends. On weekdays, time – and now also price – are decisive competitive factors. But on weekends and for parties, other criteria come into play. Consumers have adopted an “either-or” shopping pattern, which means that they shop both at Willys and at gourmet markets.

Continued pressure on prices

The focus on prices in recent years continued into 2004. Media coverage of price comparisons and the growth of discount stores also remained high. The reason, of course, is that Sweden has historically had relatively high food prices and also a poorly suited retail structure compared with similar countries. Still, the discount segment is underrepresented in the Swedish retail food market. In other European countries, the discount segment accounts



Swedish food prices – high or low?

Swedish food prices have been stable during the last 5–6 years compared with the overall trend of the consumer price index.

Still, in its 2003 measurement of Swedish food prices, Eurostat (the EU statistics agency) found that Swedish grocery prices are the sixth highest in the entire EU. This has been interpreted by many to be a sign of poor competition and excessive margins in the Swedish retail food market. However, conclusions like these are not compatible with the industry's own experience, which points to price differences of 5%–6%, adjusted for taxes and other charges.

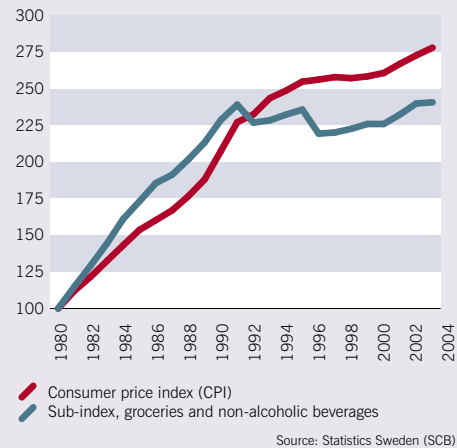
Moreover, closer analysis of Eurostat's data shows a number of discrepancies which make it hardly possible for this data to be used as a basis for a useable comparison.

For example, Eurostat's comparison does not give any consideration to the fact that the EU now has ten new member states which, from other EU perspectives, can be considered to be strictly low-price countries.

The survey itself also has other flaws:

- There are big differences between the products compared and package sizes. The store sampling is not comparable between all countries.
- Different consumption patterns, which result in different price pictures, are not reflected.
- Differences in pricing strategies between countries put Sweden at a disadvantage, which has a greater share of campaign prices.
- Sweden is also put at a disadvantage by high taxes, long business hours and long distances.
- The stronger Swedish krona has an impact when translating prices to euros.

Price trend, groceries and CPI



Food prices have been declining since 1990 as a result of lower VAT on food, EU membership and stronger competition, which together have helped keep inflation down to the target rate of 2%.

for 20%–40% of the total market, compared with 14% for Sweden.

Nevertheless, during the last ten years Swedish prices have come under steady pressure, as evidenced by Axfood's own price index as well as data provided by the Swedish Research Institute of Trade (HUI). During Axfood's five years in existence, the price gap between the cheapest and the most expensive food stores has narrowed by roughly 6%. During the last 5–6 years, the Swedish food price index has been considerably more stable than the consumer price

index, which shows the general price trend. Overall this trend points to healthy competition in the Swedish retail food market.

Toward greater concentration

One factor that has without a doubt affected the price picture in Sweden historically is that the Swedish retail food market has been late in concentrating and consolidating – something that has been under way for a long time in other countries. This consolidation can be expected to continue in Europe, driven by the difficulties that the major players are having in growing in their own markets and the need for scale economies. A trend toward greater consolidation also exists among merchandisers.

The concentration that is now expected in the Nordic market is therefore nothing unique; similar patterns can be seen everywhere. It is taking place to meet demands on greater avail-

ability, longer business hours and lower prices. For this reason, only 6–7 major players remain in the UK today – in Germany only a handful. In the Nordic region, Denmark continues to have a highly fragmented structure, while concentration and the degree of consolidation

'Health awareness is steering people's food choices today. Other important factors are time and price, at the same time that culinary delight and high quality take priority on weekends or parties'

Clearer segmentation new for Sweden

	Hard Discount ● Netto ● Lidl	Discount ● Willys ● Willys hemma ⁵⁾ ● Prix ● City Gross	Hypermarkets ● Ica Maxi ● Coop Forum	Traditional grocers ● Hemköp ● Vivo ● Spar ● Coop Konsum ● Coop Extra ● Ica Supermarket ● Ica Kvantum ● AG:s	Service stations/ mini-markets ● Tempo ● Handlar'n ● Ica Nära ● 7-Eleven ● Service stations ● Ica Express ● Coop Nära
Market share/trend ¹⁾	>2%	12%	13%	57%	16 %
Price index ²⁾	– ⁴⁾	85 – 93	94 – 99	95 – 116	109 – 130
Level of service ³⁾	2 – 3	3 – 5	7 – 8	6 – 10	3 – 5
No. of items	1,100 – 1,800	7,500 –	12,000 –	10,000 – 15,000	1,000 – 3,000
Location	Residential + external	Residential + external	External	City centres, residential	Traffic- or residential-oriented

Source/interpretation: Axfood. Some data are estimates in cases where statistics were not available for 2004.

Previously the Swedish retail food market was relatively homogenous, with comparable offerings and comparable prices in stores. The entrance of discount and hard-discount chains has changed this picture, and today the market's players have more clearly profiled their positions and strategies in various segments. Traditional grocery stores still account for over half of sales in the industry, however, growth is taking place in the hypermarket and discount segments.

¹⁾ **Market share/trend** Based on a total market in 2004 of approx. SEK 175.5 bn, incl. VAT. Trend pertains to total development for profiles in segment.

²⁾ **Price index** Based on results from Axfood's four annual price surveys of Sweden's main store concepts.

³⁾ **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/product knowledge.

⁴⁾ Accurate price comparison not possible due to too little comparability in product range.

⁵⁾ 3,000 items.

in Norway, Finland and Sweden are somewhat higher. In view of the sparse population and high distribution costs, the Nordic market needs to be consolidated further.

Another trend that comes in the wake of the new market conditions for the retail trade is that the industry is becoming segmented. For Sweden, this is something entirely new. Previously the stores all had a more or less comparative selection and more or less comparative prices. With the establishment of discount chains in the Swedish market – spearheaded by Willys – a new concept is emerging. The idea of discount chains is – as in industry – to boost profitability through a high degree of specialization. In other words, a condition for being able to offer low prices is that they specialize on a limited product offering, a high percentage of private label products, and low operating overhead. The entrance of hard-discount chains in Sweden, offering a very limited range of about 1,100–1,800 items, has further accentuated this trend.

In the same way, all players in the market are now taking a look at which segments they intend to pursue which strate-

gies. For example, Axfood now has a distinct discount position through Willys and Willys hemma. Axfood is also positioned in the traditional grocery store segment through Hemköp's initiative to focus on a broader selection, more fresh products and a higher standard of service.

The transformation has only just begun

Traditional grocery stores, with 10–15,000 items on their shelves and neighbourhood locations in city centres, still account for over half of sales in the Swedish retail food market. At the same time, growth is taking place primarily in the hypermarket and discount segments. This is putting a squeeze on traditional stores and will make it tougher for the smaller ones to survive in the future.

The distinction between the various segments is also becoming blurred, where low price and the accessibility of hypermarkets actually are competitive factors that are having an impact on all segments and customer categories. For Axfood's part this entails, for example, that even though we have refrained from

entering the hypermarket segment, we are nevertheless moving towards a broader and better customer offering through new store formats, such as Super-Willys, a new concept that we launched in 2004. We are an alternative to hypermarkets.

The ability to gain establishment permits for food stores is also having an effect on the blurring of the various market segments. The attitudes of various municipalities are steering the market's development, which is reflected in a comparison between Stockholm and Gothenburg. Gothenburg has long had established discount alternatives, while this segment is still under-represented in Stockholm. This is mainly due to the difficulty in obtaining establishment permits. Axfood's understanding of this matter is that future establishment should be based to a higher degree on what kind of balance there is between the various segments and that the various segments, such as discount stores and convenience stores, satisfy different needs of consumers.

A major transformation is also taking place in the relationship between retailers and merchandisers. Historically, merchandisers have had major influence over the retail food market in Sweden; however, since the mid-1990s retailers have advanced their positions, and a rapid shift is now taking place toward entirely new purchasing structures. This trend is being enhanced by new IT and technology, as retailers have taken over the information advantage from merchandisers. The consequence is that it is the retailers themselves who are increasingly in control of what products fill their shelves. This involves a considerably higher degree of dynamic category management: categories are changing, products are removed and new ones are added, at the same time that the private label share is increasing. With the close contact that we have with our customers in the retail food trade, we have the opportunity to understand their needs and preferences to a greater degree than the food producers can. And customers' choices are manifested in store sales statistics.

Store trends

The fierce price competition and pursuit of volume are also affecting individual stores and their relationship with their wholesalers. It is becoming increasingly apparent that the efficiency of

the entire chain is crucial to stores' ability to maintain or even improve their margins. Centrally packaged meat, centralized purchasing and streamlining of the value chain are a few examples of how Axfood is working on cutting costs and improving margins. Other examples include taking over the merchandisers' job of stocking store shelves, and using new technology to take inventory. Changes in customer behaviours are also leading to different roles for different store segments in the market at the same time that there is a general trend toward more ready-made meals and a larger selection of specialty items. The major challenge for those that want to be the winners in the battle for the retail market is to find ways of offering more for less.

Dream situation for consumers

In recent years Swedish consumers have benefited from an unprecedented development in the retail food market. Food prices are under strong pressure. Price-conscious shoppers today can almost always find a discount alternative for every need. At the same time, development of new meal concepts, health food, ready-made solutions, private label alternatives and other customer-adapted offerings is progressing at a pace like never before. Shoppers can choose to shop often and close to home, stock up at a hypermarket, or both. Or, they can browse among the rich selection of products in stores like Hemköp. For Axfood it is both satisfying and a source of pride to be a prime mover behind this trend.

'New store formats, like Super-Willys, offer a wider range of products and are a viable alternative to hypermarkets'



Lower prices and better profitability

Private labels are the major long-term international trend in the retail food industry. Private labels have enabled store chains to get a firmer grip on their overall product selection. Private labels create value-added by allowing stores to offer lower prices to customers while providing better profitability for the stores.

Sweden joined the private label bandwagon late in the game. Granted, they have existed in stores for nearly 20 years, but only to a limited extent. Today private label products account for between 14% and 18% of total sales for the three largest players – Axfood, Coop and ICA. This can be compared with French and British chains, whose private label share is around 40%–50%, and hard-discount retailers, with upwards of 90% in private label sales.

Today, however, this trend has gained momentum, and Axfood is at the forefront in Sweden with more than 1,300 private label items and a private label share of approximately 18%. Axfood's goal is to further increase this share, to 25% of total sales by 2007. To reach this target the Axfood Group is launching 350–450 new items a year.

Two positions at Axfood

To date, Axfood's private label strategy has been built upon two positions. First are the products bearing the chain's own name. These are to be comparable in quality with the market leading brand in each category, at a price that is roughly 15% lower. Added to this Eldorado, which is a "fighting brand" sold in all Axfood chains at prices that are 30%–40% lower than the market leader. The greatest impact to date of Axfood's private labels has been in the discount segment, headed by Willys hemma, where Axfood's private label products account for 24% of sales, followed by Willys, with just over 23%, and Hemköp, with 12%.

In countries that are ahead of Sweden in this respect, the investment in private labels has also entailed that retailers have begun refining and improving products, and even developing entire new product lines. At Axfood a shift was made in this direction in 2004, toward house brands in the medium-price segment. This trend is expected to intensify in the years ahead. Another new feature in 2004 was the breakthrough for private labels in the specialty products segment, Fixa (kitchen utensils and textiles) and Func (batteries, lightbulbs, etc.).

Customer benefit and profitability

Private labels are not a goal in themselves for food retailers. The driving force behind this trend is that by taking a firmer grip on their own product selection, retailers can influence customer

benefit as well as their own profitability in a decisive manner. Shoppers who choose the Willys or Hemköp brand know that they are always paying a lower price for a product with comparable quality to a name-brand product. And Axfood has witnessed in its sales statistics how shoppers are increasingly taking advantage of this opportunity. Own attitude surveys among customers as well as customer surveys in Europe also indicate a consistently positive attitude to private labels.

For retailers, private labels offer economies of scale that are highly significant for profitability. Moreover, they help retailers build up their own expertise in areas like price, production and quality in their purchasing routines. Quite simply, retailers become better at procuring products in other parts of their selection, which also benefits consumers, since retailers thereby strengthen their knowledge and can draw benefit from this in purchasing negotiations.

Private labels also add potential to producers who might have high-quality niche products, but small volumes. By producing private label products for food chains, they can achieve much higher volumes in their production. In essence this also translates to new potential for the Swedish food industry.



Stringent demands to be an approved supplier

Axfood's private label products undergo extensive quality assurance and safety analysis. Quality assurance is performed on several levels before a supplier is approved. External and internal consumer tests are performed to ensure consumers' ratings of a product's quality on several dimensions.

Product safety is paramount for Axfood's private label products. Toward this end, Axfood is one of some 270 retail companies around the world participating in the Global Food Safety Initiative. As of 2004 this organization had agreed on six global standards for food safety. We also exercise oversight through own on-site inspections, spot tests and analyses.

Axfood's work on food safety is conducted in five steps:

1. Supplier evaluation. Upon procurement of a new product, we begin by sending out questionnaires to potential suppliers. Only suppliers that can show a valid certificate from any of the six standards (the BRC Technical Standard, the Dutch HACCP Code, the EFSIS Standard, the International Food Standard, the SQF 2000 Code, or ISA 22000) are considered. We also make recurrent visits to our suppliers to discuss product knowledge and product development.


2. Product control. We always request a specification for each individual product. This specification must include an exact list of all ingredients and their origin. In addition, we work to make sure products do not exceed permissible limits for bacteria, for example, and we want to know if they include any allergens and what their nutritional value is.

3. Laboratory analyses. Aside from demanding information from suppliers, Axfood orders microbiological and chemical analyses of its products. For example, we check to make sure that products actually keep until their best-before date. Analyses are also conducted to discover any toxic mould in nuts and dried fruit, and any residual insecticides in fruits and vegetables.

4. Package labelling. Axfood always checks to make sure that everything that must be labelled on a package is actually included. We make sure that all substances that could cause allergic reactions are included in a product's list of ingredients. Packages must also include instructions for sorting/disposal and consumer contact information.

5. Consumer tests. The goal is that Axfood's private label products labelled with the Willys or Hemköp brands should – as a minimum – be comparable or better than the market leading brand in terms of quality and still have a lower price. Therefore it is important to also evaluate subjective criteria such as appearance, taste and consistency, as well as nutritional value, safety and environmental aspects.

Axfood's products that aspire to be of comparable quality with the market leading brand are tested by LUI, an independent firm that arranges for "ordinary" consumers to judge the products. In order for a product to be approved as an Axfood house brand, it must receive equivalent ratings with the market leading brand from consumers.



‘The goal is that the Willys or Hemköp brands should be comparable or better than the market leading brand in terms of quality and still have a lower price’

Creating value for our shareholders

Retailing is an art that used to be as simple as buying low and selling high. But in today's competitive marketplace, with extremely demanding and knowledgeable consumers, the trend has entirely different overtones: Axfood must create the market's highest value and the best shopping experience for its customers in order to generate sufficient revenue to cover its operating costs, and we must be highly effective in using our capital, to ensure that we generate a surplus for investments and a return on the shareholders' invested capital.

The model that we use to create value for Axfood's shareholders is fundamentally simple and is based on our core strategies, today with three areas in focus: growth, optimal operation and cost-efficiency. One overall target is to reach an operating margin of 3.5% by 2008, with a potential SEK 500 m in higher operating profit. The description that follows is an example from the supply chain in Axfood's wholly owned retail operations in Sweden.

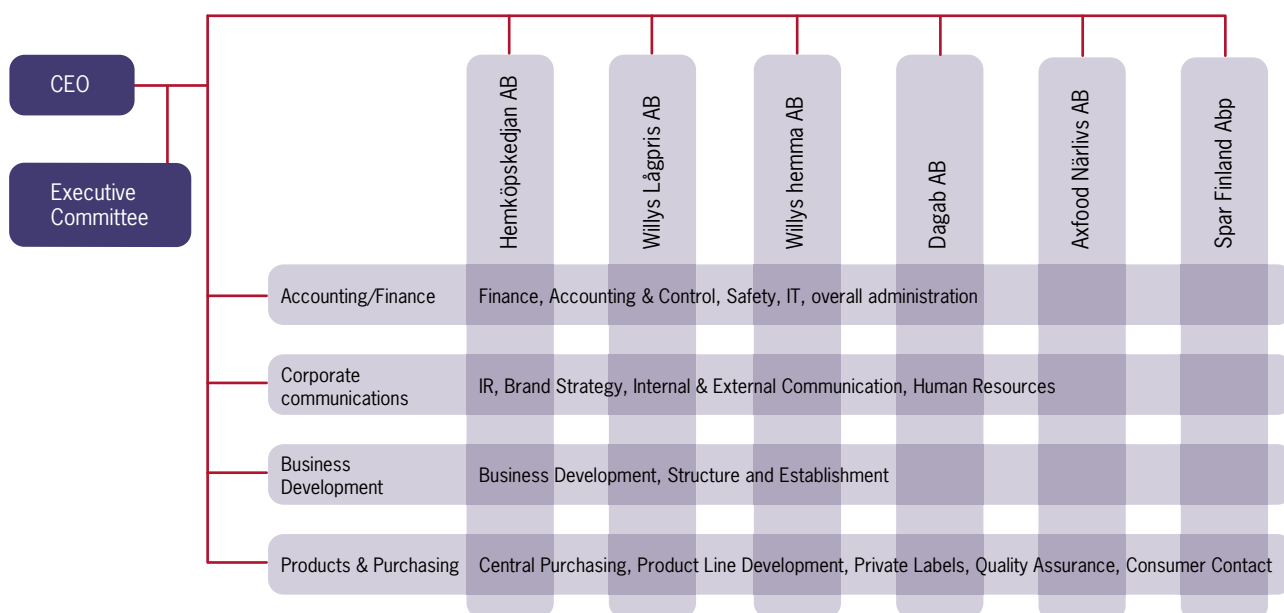
Revenues

Axfood's value creation begins with the requirement that revenue growth should be faster than growth of the market. Profitable growth is a top priority for creating dynamism and profits, which in turn creates development opportunities. Since Axfood's establishment in 2000, its wholly owned stores in Sweden have succeeded in growing by an average of 15% a year. It

is estimated that the total market will continue growing slowly at about the same pace as earlier, that is, by roughly 1%–2% per year, but with a high pace of change and a fierce battle for market shares. Axfood's goal on average is to achieve organic growth of 3.5% per year (including inflation and consumption increases), which translates to growth in our market share.

To continue growing faster than the total market, Axfood has strategies for both organic and acquired growth. Axfood plans to add 70–85 stores by 2008, with further growth in its share of wholly owned operations in Sweden from today's just over 60%. The discount segment in Sweden is expected to grow considerably faster than the total market, from 14% today to approximately 20% in the years immediately ahead. Axfood is the largest in this segment, with Willys and Willys hemma. This means that Axfood today has just over 50% of this segment. The goal is to maintain this position in a growing segment.

The more traditional store segment in which Hemköp exists is expected over time to decrease from 57% of the total market to 40%. Hemköp has embarked on an ambitious programme of modernization and revitalization in the aim of taking market shares and raising profitability through operating- and cost-efficiency. On top of this, Axfood has detailed and flexible programmes in place for new concepts, new product segments and new categories in a tough competitive environment with demands on rapid change.



An additional growth opportunity lies in acquisitions and mergers in the Nordic region, or in part-owned companies in various store concepts.

The introduction of private label products is an important component in the strategy of creating a new source of revenue for Axfood. The potential is enormous. Since 2002, when we launched our new house brands, we have grown their share of sales from 4% to 18% today. The improvement from 4% to 15% has generated SEK 90 m in improved operating profit each year. The increase from 15% to our target of 25% is expected to improve operating profit by an additional SEK 60 m annually. Added to this comes a gross profit improvement at the store level.

Costs

Axfood's major expenses consist of purchases of goods, staff costs and premises, which together account for approximately 94% of total costs. Coordinated purchasing and category management is by far the largest single measure for keeping purchasing costs down. This coordination has made a strong contribution to our total operating profit improvement. We believe it will continue to be a key profit generator until 2008.

Staff costs are determined to a large degree by agreements in the labour market. Axfood has programmes in place to steadily raise its labour productivity in close cooperation with the Group's employees. The targets for the share of store staff costs in our wholly owned stores are: Hemköp 11.5%, Willys 6.5%, and Willys hemma 7.5%.

Administrative expenses are another major outlay. Axfood has carried out a successful pruning of its organization during the last five years. Axfood's goal for administrative staff costs is less than 1% of total sales.

Distribution is a substantial cost item in the value chain. Sweden is a country with a small population spread out over a large area. Effective logistics are paramount for food retailers. At Axfood we see major opportunities to integrate Dagab's operations with our retail operations. We have been working intensively for the past two years on lowering costs in the value chain. Studies show that roughly 70% of all costs in the value chain are derived from stores. By having full ownership of both systems, we can adapt Dagab's logistics and solutions to the stores' needs. The potential here for cost reductions is in the tens of millions of kronor.

As part of this work, the layout of Dagab's warehouses has been reengineered to match that of the stores. This makes it easier for store employees to receive and unpack product deliveries and cuts the number of man-hours needed in the stores.

Automatic replenishment is another initiative for lowering costs in the value chain and requires substantial IT support. This work has begun through the new store data system that is being implemented throughout the Group and is expected to be completed in 2007. Centrally packaged meat also results in lower costs.

Cash flow/debt

From the outset, a central pillar in Axfood's strategy has been to have efficient capital utilization, i.e., to have as little capital as possible tied up in operations. The aim is for cash flow generated from store sales to be converted to liquid assets as quickly as possible.

At year-end 2000 the Group's interest-bearing net debt was SEK 2,206 m, compared with the close of 2004, when the Group had net receivables of SEK 356 m, i.e., an improvement of SEK 2,562 m. At the same time, during this period the company paid SEK 694 m in dividends to its shareholders. The equity ratio is now up at 37.4%, compared with a starting ratio of 13.7%.

During the 2004 financial year the company's interest-bearing net debt decreased by SEK 719 m and was converted to a net interest-bearing receivable, while SEK 295 m was paid out to the shareholders. Axfood's board has proposed to the Annual General Meeting, to be held on 10 March 2005, a dividend of SEK 11.00 per share, or SEK 589 m. The new dividend policy entails that a minimum of 50% of the company's profit shall be paid out to the shareholders.

Axfood's cash flow improvement was achieved in part through a number of structural changes, such as the sale of the real estate operations and the wind-up of the finance business, but above all through profitable business. Average capital employed has decreased from SEK 4,003 m in 2000 to SEK 3,264 m today. The major capital rationalization measures have now been taken, and the ambition is to keep capital employed intact through various efficiency-improvement programmes while expanding it in the wholly owned retail operations. Through the combination of strong earnings and efficient use of capital, the return on shareholders' equity is now around 30%.

Future cash flow will finance Axfood's investment in operations. Axfood has sustained a high pace of investment from the start, and in the years ahead, capital expenditures are expected to be in the range of SEK 750 m per year, which can be put in relation to depreciation, which is expected to be somewhat lower. This pace of investment will therefore entail a slight burden on cash flow.



The preferred choice of food enthusiasts

Hemköp aspires to be the preferred store chain of food enthusiasts. We aim to have the market's best product offering, and always at low prices. With a focus on fresh products, food trends and new products, Hemköp brings food fashion to Sweden. Hemköp's value proposition is based on a broad product offering, a wide range of options, a strong focus on fresh products and access to all price alternatives, including budget brands. Generous business hours, locations close to where people live and service-minded staff are other competitive advantages. Hemköp caters to people who love food.

Many Hemköp stores are located in city centres and residential areas. The chain also has a number of supermarkets at peripheral locations. In all, over a million customers visit Hemköp every week.

Year in review

The major event in 2004 was the decision to combine the Hemköp, Spar and Billhalls names under the uniform Hemköp brand. The new chain will comprise 170 stores with combined sales of approximately SEK 9 bn. The synergies are substantial both with respect to costs and revenues, and are estimated to be SEK 60–80 m by year-end 2007. The "new" Hemköp will consist of a mix of wholly owned and proprietor-run stores. The conversion of Spar stores began in autumn 2004 and is expected to be fully completed by mid-year 2005.

This decision also entailed the consolidation and move of management teams and head offices to Stockholm.

In 2004 priority was given to work on restoring volume growth, and as a result Hemköp outpaced the market as a whole during the first half of the year. The competition heated up considerably during the second half, and Hemköp maintained or sustained slight declines in volume along with the other players in the traditional grocery segment. Net sales for wholly owned stores decreased marginally, to SEK 6,167 m (6,213). Same-store growth was 0.9%. The operating margin improved to 1.5% (1.0%). Reported earnings figures pertain to the merged operations of Spar and Hemköp.

A two-year cost-cutting programme was launched in January 2004 to lower staff costs at stores by SEK 100 m, evenly distributed between the years. The programme is continuing according to plan, with a slightly better outcome than anticipated for 2004.

During the autumn, the flagship "Hemköp City" store at the Åhléns department store in Stockholm was reinaugurated following an extensive renovation, at which time Hemköp's new logo was also unveiled. Toward the end of the year two Vivo

stores were acquired in the Stockholm area, of which the largest at Maria-torget. An additional Vivo store in Rissne, Stockholm, chose to join the Hemköp chain as a proprietor-run store.

Challenges and opportunities

Most Hemköp stores belong in the traditional grocery store segment. It is this segment of the retail food market that is currently feeling the squeeze from the discount and hypermarket segments. Therefore, an extensive structural transformation – particularly in small and medium-sized towns – is expected in the years ahead. This is a transformation that Hemköp has already implemented to a high degree.

In recent years Hemköp has carried out a fundamental streamlining of its operations and invested heavily in its stores – and thereby gained a head start on its competitors. Axfood's strong focus on improving the efficiency of the value chain, centralized purchasing, investments in centrally packaged meat and on private labels enhances Hemköp's competitive strength ahead of the consolidation that is now anticipated in the industry.

Goals and strategies

Hemköp's wholly owned stores have set a sales target of SEK 8 bn by 2008. This will be achieved through organic growth in existing stores and through the establishment or acquisition of an additional 15–20 new stores.

The operating margin target is 4% by 2008. This requires, among other things, continued work on improving cost-efficiency. This will involve continued



cuts in store staff costs to 11.5% of total sales. Store operations will also be further improved.

Hemköp will continue to be very active in its pricing in an effort to address the strong focus on price by consumers everywhere. Organic growth will require further development of the value proposition, such as toward a broader health concept and focus on a diabetes and anti-allergy product selection and ready-made meal solutions.

2005 will also entail continued work on developing store operation, using the most well managed stores as models. To facilitate this work, an organizational change will take effect in 2005 entailing an increase in the number of regions from three to five in the aim of forging closer contact between regional management and the individual stores.



Hemköp at a glance

Business concept

Hemköp aspires to be the preferred store chain of food enthusiasts. We aim to have the market's best product offering, and always at low prices. With a focus on fresh products, food trends and new products, Hemköp brings food fashion to Sweden.

Customer structure

Most Hemköp stores are located in city centres or close to where people live, which means that Hemköp's customers shop more frequently and for lower amounts. Hemköp's customers are looking for culinary experiences as well as competitive prices. The product offering ranges from 10–15,000 items, with an accent on fresh products.

Financial targets

Net sales for wholly owned stores will increase to SEK 8 bn by 2008. The target operating margin is 4% for the same year, which will require continued improvements in cost-efficiency.

The future

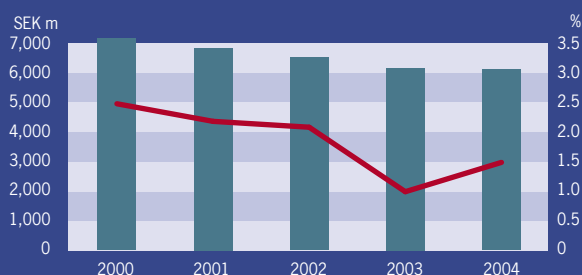
Hemköp's growth targets will be achieved through organic growth and through the establishment or acquisition of 15–20 new stores. Aside from cost-efficiency, the focus in the years ahead will be on developing store operations and enhancing the value proposition with a broader selection of non-food items and ready-made meal solutions, among other things.

Key ratios

Amounts in SEK m unless otherwise indicated	2004	2003
Net sales	6,167	6,213
Same-store sales growth, %	0.9	1.4
Operating profit	95	60
Operating margin, %	1.5	1.0
Number of stores	90	88
Average number of employees	2,174	2,371

█ Sales (SEK m)

▬ Operating margin (%)



WILLYS

Sweden's cheapest bag of groceries

Willys' business concept is to offer Sweden's cheapest bag of groceries – "Food you like – prices you love". Customers can feel rest assured that Willys always has low prices, at the same time that they can always choose between market-leading brands, the Willys private label, and a diverse range of simpler and substantially cheaper products. Willys is the food store for price-conscious shoppers.

Willys offers a rich selection of products – approximately 7,500 items – which is 6–7 times more than what hard-discount competitors offer, and in contrast to these, Willys' goal is to meet 95% of its customers' grocery needs. Willys has fewer store employees than traditional grocery stores and no staffed service counters. Essentially all stores are wholly owned.

1.1 million customers visit Willys stores every week.

Important events during the year

Despite mounting competition, during the year Willys posted strong growth with a 4.1% rise in same-store sales. Total sales

rose 11.6%, to SEK 11,789 m (10,567). Earnings were also robust. Operating profit was SEK 479 m (395), with an operating margin of 4.1% (3.7%).

Starting in March 2004 the Willys chain took on a uniform concept with the conversion of the last Matex/Exet stores. Two Super-Willys stores were established during the year – one in Rissne just outside Stockholm, and one in Västerås.

Super-Willys stores have approximately 1,000 sq.m. more in retail space and add a diverse range of attractive non-food products that have higher margins than food products. The Willys chain was expanded with the



addition of seven stores and amounted to 88 stores in all by year-end 2004.

During the year, a number of measures were carried out to strengthen store operations. Among other things, six new regions were formed, including one for Stockholm. The aim is to bring the regional management closer to the stores and thereby be able to work more actively in supporting the store managers. A new team-based organizational structure was also put in place at all Willys stores, while stocking of stores shelves was taken over from merchandisers during the year. The advantage of this is that it reduces the stores' risk of running out of a given product while facilitating opportunities to meet demands for job rotation in the stores.

During the year, Willys launched its first aggressive profile-building campaign since its start. To profile Willys in the intensifying competition in the marketplace, nationwide marketing campaigns were carried out with high exposure on billboards, at bus stops, in weekly newspapers and on the radio.

Challenges and opportunities

The rise of Willys has stepped up the competition for all medium-tier players in the retail food market. The challenge for Willys is to continuously be the price leader and be better at growing in a climate of fierce price competition and downward pressure on margins. Volume is paramount for retailers in the discount segment.

Continued growth will be created by increasing customer benefit, by improving cost-efficiency and purchasing margins, and by introducing new products such as media, household products and home textiles, underwear, toys, storage and cleaning products.

Willys has a favourable starting position to meet these challenges. Various customer surveys have given high marks to Willys and show that a large share of the population already identify Willys with the lowest price. This is a large base of confidence capital on which to build further.

Goals and strategies

The sales target for wholly owned stores has been set at SEK 17 bn by 2008. Growth will take place organically in existing stores, but also through the establishment or acquisition of 25–30 new stores – including more than 15 Super-Willys – to meet the growing demand.

The operating margin target is 4% for 2008, which is in line with the outcome for 2004. The purpose of staying at this level is that the efficiency-improvement gains beyond the 4% target that are achieved during the period will be returned directly to customers in the form of lower prices.

Willys at a glance

Business concept

Willys' concept is to offer Sweden's cheapest bag of groceries. The value proposition is based on everyday low prices and a rich selection of brand-name products as well as private label alternatives.

Customer structure

Willys is the food store for price-conscious shoppers. With a broad range of products – roughly 7,500 items in all – Willys satisfies 95% of customers' grocery needs.

Financial targets

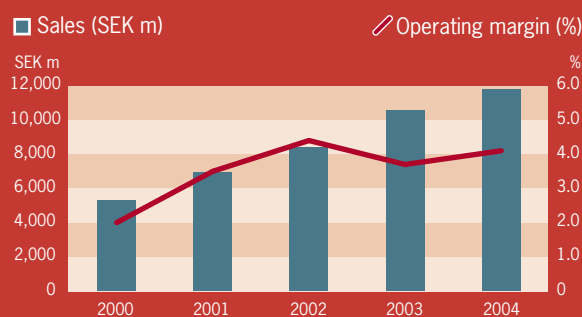
Net sales for wholly owned stores will increase to SEK 17 bn by 2008, while the target operating margin is 4%. Efficiency-improvement gains beyond the 4% target that are achieved during the period will be returned directly to customers in the form of lower prices.

The future

Willys is well positioned to generate continued growth, despite fierce competition. The goals for 2008 will be achieved through organic growth in existing stores as well as through the establishment or acquisition of 25–30 new stores, including 15 Super-Willys.

Key ratios

Amounts in SEK m unless otherwise indicated	2004	2003
Net sales	11,789	10,567
Same-store sales growth, %	4.1	4.0
Operating profit	479	395
Operating margin, %	4.1	3.7
Number of stores	88	81
Average number of employees	2,411	2,111





Low prices for small households

Willys hemma is a store specifically targeted for residential areas and central city locations. Priority customers are neighbourhood residents, small households, near-lying workplaces and customers who do their main shopping at other stores. Willys hemma profiles itself as a well-stocked neighbourhood store with consistently low prices and an attractive selection of fresh products.

The value proposition is based on low prices in all product categories, with a selection of roughly 3,000 items, of which half are fresh products. Since small households are one of the most important target groups, Willys hemma offers an array of small consumer packages, an extensive selection of “heat and eat” meal solutions, and products that fit into the growing health trend profile. Private labels account for 24% of the items offered, which is the highest share among all the chains in the Axfood Group.

Willys hemma’s 45 stores are visited by some 260,000 customers every week.

Important events during the year

Willys hemma’s sales fell slightly in 2004, to SEK 1,284 m (1,317). Same-store sales fell 2.4%. At the same time, earnings recovered to SEK -11 m (-27). The operating margin was negative (neg.).

During the summer the decision was made to remodel all stores according to a new concept. This entailed, among other things, a new store layout with fresh products located near the entrance. Some 15 stores were remodelled in 2004, and in summer of 2005 the remainder of the chain’s stores will be redesigned according to the new concept. This remodelling programme generated immediate results in 2004 at participating stores, with sales gains of about 5%. The remodelling was followed up with customer surveys which indicated a positive reception. Three stores were acquired in Stockholm in late 2004 for conversion to Willys hemma.

Operations were strengthened to lower overheads and store waste, and to further streamline product and organizational flows in the aim of improving gross profit.

The work on improving safety and creating a safe work environment for store employees was intensified during the year.

Challenges and opportunities

Willys hemma operates primarily in the market segment in which the traditional, small grocery stores work. These are a class of store that are being forced out at an accelerated pace. Even though Willys hemma is also under pressure from intensifying competition, the company nevertheless has clear strengths

which open opportunities for continued expansion. Its staff costs are among the lowest in the industry. Integration with Axfood is enabling the chain to keep its prices low. Through central purchasing, centrally packaged meat and private labels, Willys hemma can offer a combination of an exciting and specialized product offering at attractive prices.

Goals and strategies

Willys hemma’s growth target is for sales to reach SEK 3 bn by 2008. This will require Willys hemma to expand by 30–35



stores during the period. Volume is crucial for the discount segment, and achieving this target will require an aggressive strategy. The target operating margin for 2008 is 1%–2% and should be seen against the backdrop of the competitive conditions that exist in the discount segment today.

The primary tasks are to continue fine-tuning operations and the organization in the coming year, to work actively with the assortment strategy, and to review and possibly extend business hours – all in the aim of achieving profitability.



Willys hemma at a glance

Business concept

Willys hemma offers a carefully selected basic range of products to small households in residential areas, with ready-made meals and fresh products as priority categories.

Customer structure

Willys hemma's customers are neighbourhood residents, small households, near-lying workplaces and customers who do their main shopping at other stores. Its customers are looking for a well-stocked neighbourhood store with consistently low prices.

Financial targets

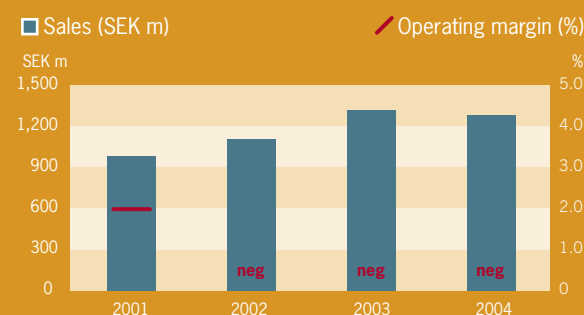
Willys hemma will achieve net sales of SEK 3 bn by 2008. The target operating margin for 2008 is 1%–2% and should be seen against the backdrop of the competitive conditions that exist in the discount segment today.

The future

Willys hemma's growth target will require expanding the chain by 30–35 stores by 2008. For 2005 the primary tasks are to continue fine-tuning operations and the organization, to work actively with the assortment strategy, and to review and possibly extend business hours—all in the aim of achieving profitability.

Key ratios

Amounts in SEK m unless otherwise indicated	2004	2003
Net sales	1,284	1,317
Same-store sales growth, %	-2.4	0.1
Operating profit	-11	-27
Operating margin, %	neg	neg
Number of stores	45	45
Average number of employees	329	358



Dagab

Sweden's most efficient wholesaling operation

Dagab's business concept is to streamline the flow of goods and information between retailers and suppliers. Operations are increasingly being integrated with the Axfood Group's wholly owned retail chains.

Dagab has three distribution centres and three cold-storage warehouses and distributes 100 million parcels a year to some 600 stores. Customers consist of Axfood's own stores, which account for most of sales, franchise stores and independent retailers working in collaboration with Dagab. Dagab also delivers to Axfood Närlivs and Tempo stores.



Important events during the year

Sales rose during the year to SEK 19,320 m (18,561). Operating profit was SEK 277 m (300), and the operating margin was 1.4% (1.6%).

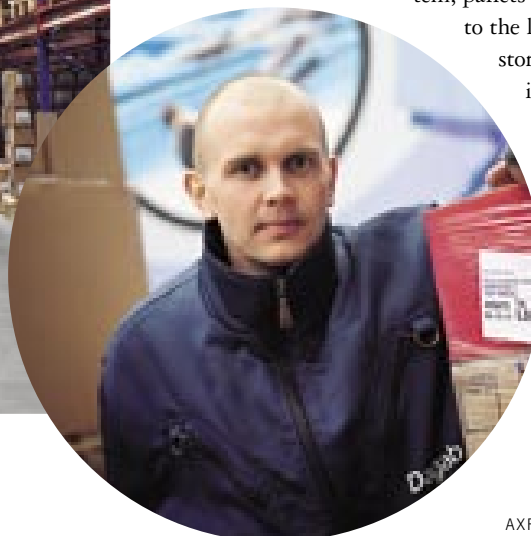
Integration of meat and processed meat distribution, which was previously handled by a subsidiary, continued during the year. Parallel with this, part of the operation was shut down or sold, including the sausage production in Solna and Ingmar Johansson AB in Gothenburg. Some work remains to be done in 2005 before this integration is fully completed.

A crucial component in the meat and processed meat operations is the centrally packaged meat which, through integration with Dagab's logistics, can be delivered to order and where Dagab serves as a hub between the supplier Scan and Axfood's stores. Centrally packaged meat raises customer benefit since it is always delivered the morning after packaging and has a longer shelf life. At the same time, this puts demands on Dagab's distribution, since the products are essentially delivered directly from Scan to the stores. In connection with this change, a comprehensive review was made of cold-storage handling routines within the framework of an internal inspection programme.

In the ongoing work on optimizing the value chain, during the year the focus was on evening out store orders in an effort to create smoother product flows. The work on introducing "auto-order", i.e., ordering direct from checkout systems, continued during the year. A web-based supplier portal is currently under construction and was tested in 2004 in a pilot project at Scan. The portal enables better planning by suppliers, since it allows them to see the order situation for their products at Dagab's distribution centres.

Introduction of categorical replenishment routines began generating results during the year. Under this system, pallets are loaded and adapted to the layout of the receiving store, which can streamline its replenishment routines by as much as a half full-year position.

Focus was also strong on improving delivery reliability, which led to significant improvements in 2004.



In September, Vivo Stockholm, a group of 80 proprietor-run stores, announced its intention to switch wholesalers in 2005. As a result of this, Dagab was forced to reduce its workforce by 90 persons. Delivery planning for the Stockholm region also had to be revised, which will affect Willys and Hemköp. Following Vivo's announcement, three Vivo proprietors returned to Dagab. Axfood also acquired six Vivo stores, corresponding to 20% of the lost volume, which totalled SEK 1.3 bn. Due to the long-term anticipated volume growth from wholly owned stores, the investment plans for the distribution centres in Jordbro and Backa remain intact.

Challenges and opportunities

The wholesale industry is characterized by strong cost pressure, which has been intensified by the current discount trend in the marketplace. Competitors consist of niche wholesalers and direct distribution by name-brand merchandisers to stores. The main challenge for Dagab is thus to maintain and improve its competitiveness by focusing on costs, such as through continued investment in IT and minimization of administrative expenses.

Dagab's opportunities lie in growing in pace with Axfood's store chains and by widening its product offering. Today dairy products, fresh produce, bread and beverages are all delivered directly by the suppliers. This corresponds to more than a third of total delivery volume to stores.

Goals and strategies

Dagab's sales target for 2008 is SEK 25 bn, which is in line with the growth for Axfood's wholly owned retail chains. The target operating margin is 1.5% for 2008.

Dagab will continue its work on more fully integrating the wholesale and retail operations, such as through systems for automatic inventory replenishment and further development of store data systems. Cost-efficiency also has continued high priority, as does constant productivity improvement.

Dagab's goal is to uphold its position as Sweden's most efficient wholesale operation, and to do this the company is comparing itself not primarily with its Swedish peers, but with the best international players. An important tool in the continued improvement work is "Compass", a business control tool originally used in the automotive industry. Through a transparent and uniform set of key ratios for all levels of operation, combined with clear communication, a common platform has been created for all of Dagab. "Compass" has opened great opportunities for the employees' participation in the ongoing improvement work by enabling everyone to clearly see their contribution to improved operating efficiency and productivity.

Dagab at a glance

Business concept

Dagab streamlines the flow of goods and information between suppliers and retailers. Dagab is being increasingly integrated with Axfood's wholly owned retail chains in an effort to increase efficiency and delivery reliability.

Customer structure

Dagab's customer structure consists of retail chains in the Axfood Group, franchise stores and independent retailers working in collaboration with Dagab. Dagab also delivers to Axfood Närlivs and Tempo stores. Axfood's own stores account for most of Dagab's sales.

Financial targets

Dagab's sales target for 2008 is SEK 25 bn, which is in line with the growth for Axfood's wholly owned retail chains. The target operating margin is 1.5% for 2008.

The future

Dagab's goal is to uphold its position as Sweden's most efficient wholesale operation. Toward this end, Dagab will continue its work on integrating the wholesale and retail operations. Cost-efficiency also has continued high priority, as does constant productivity improvement

Key ratios

Amounts in SEK m unless otherwise indicated	2004	2003
Net sales	19,320	18,561
Operating profit	277	300
Operating margin, %	1.4	1.6
Average number of employees	1,061	1,168



Axfood Närlivs

Catering to convenience store needs

Axfood Närlivs is the market-leading wholesaler to the Swedish convenience store segment, offering a nationwide system for delivery of retail food products to convenience store operators. The company caters to three main customer categories: contract customers in the service-station segment, local mini-market chains, and small businesses and restaurants. Axfood Närlivs conducts distribution activities under the Närlivs business unit and cash & carry activities through the subsidiary Axfood Snabbgross AB.

Axfood Närlivs also offers concept and profile development services as well as category management support, such as to the independent store profiles Tempo, Handlar'n and Direkten. Axfood Närlivs' goal is to lead development in the Swedish convenience store segment. Together Närlivs and Snabbgross have approximately 30,000 active customers.

Important events during the year

Axfood Närlivs showed continued stable development in 2004, despite signs of a market weakness in the convenience store seg-

ment. Sales totalled SEK 4,589 m (4,779). Operating profit was SEK 92 m (106), and the operating margin was 2.0% (2.2%).

Axfood Närlivs strengthened its dominance over the convenience store segment in 2004 through an agreement on the conversion of 40 small Spar stores to Tempo (the other Spar stores have been integrated with the Hemköp chain). Conversion will take place in 2005. The agreement gives small Spar stores a good alternative and freer concept, enabling the individual proprietors to remain independent but with support from Axfood Närlivs in areas such as concept development, category management and marketing. In addition, a nationwide delivery agreement worth SEK 100 m was signed during the year with Direkten, a new store profile.

Two important delivery agreements were secured during the year. The first, with Preem, was worth SEK 330 m and entailed the renewal of an existing agreement. An entirely new agreement, worth approximately SEK 290 m, was signed with Reitan Servicehandel Sverige AB, for deliveries in 2005 to



the Pressbyrån and 7-Eleven convenience stores. A cooperation agreement was also signed with Servera on the purchase of restaurant and food-service items.

A new central warehouse for groceries was put in operation in Örebro. The sales office in Borlänge and the Snabbgross unit in Gävle were closed. The decision was also made to move the warehouse operation in Östersund to Skellefteå in 2005. Costs for this were charged against 2004 earnings in the amount of SEK 10 m.

During the year, Axfood's internal inspection programme was introduced at all Axfood Närlivs units. The project aims to improve the entire refrigeration and cold storage chain within the Group and entails uniform inspections of all deliveries, warehouses and transports. This is being followed up on a regular basis with inspections and internal audit measures. Work was also begun in 2004 on streamlining and pruning the product range. The goal is a reduction from 12,000 to 6,500 items.

A new president was installed and a new management organization was set up during the year.

Challenges and opportunities

Axfood Närlivs encounters intermittent, tough competition from the other blocs in the Swedish food industry, but also from small, local wholesalers. The company also has several competitors in the restaurant & food service and cash & carry segments.

Axfood Närlivs' opportunities to defend its position in an ever-tougher climate are nevertheless good due to its size as a nationwide market leader and through the financial strength provided by its inclusion in the Axfood Group. The company also has a broad competence base, is strong in purchasing, and has a number of chain customers.

Goals and strategies

Axfood Närlivs' growth and profitability targets for 2008 are sales of SEK 5.2 bn and an operating margin of 2%. These will be achieved through continued streamlining of the distribution structure and management and support organization in the aim of lower costs. The market position in the convenience store segment will be strengthened and developed through the addition of new product categories, cooperation agreements and new distribution and sales concepts. Special efforts will also be dedicated to developing the cash & carry business and restaurant & food service activities.

Axfood Närlivs at a glance

Business concept

Axfood Närlivs is a nationwide open wholesaling system serving the entire spectrum of retailers in the convenience store segment. The company aspires to offer the most profitable system to customers, suppliers and owners in the convenience store segment.

Customer structure

Axfood Närlivs has three dominant customer categories: contract customers, convenience store/mini-market chains, and small businesses and restaurants. The company offers distribution services to these customers via its Närlivs business unit and cash & carry activities through the subsidiary Axfood Snabbgross.

Financial targets

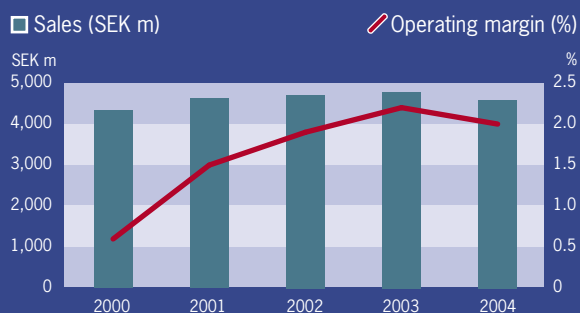
Axfood Närlivs' growth and profitability targets for 2008 are to reach net sales of SEK 5.2 bn and an operating margin of 2%.

The future

These targets will be achieved through continued streamlining designed at lowering costs. The market position in the convenience store segment will be strengthened and developed through the addition of new product categories, cooperation agreements and new distribution and sales concepts. Special efforts will also be dedicated to developing the cash & carry business and restaurant & food service activities.

Key ratios

Amounts in SEK m unless otherwise indicated	2004	2003
Net sales	4,589	4,779
Operating profit	92	106
Operating margin, %	2.0	2.2
Average number of employees	655	669





Profit despite mounting competition

Spar Finland has 94 wholly owned stores and cooperates with 193 independent grocers affiliated with the Spar chain. Business is conducted in two formats: Spar and Eurospar. Spar stores are traditional grocery stores that specialize in fresh products and staffed counters, while Eurospar stores are larger with a discount focus.

Spar Finland is the fourth largest player in the Finnish retail food market and is listed on the Helsinki Stock Exchange. Axfood is the largest owner, with 75.2% of the votes and 69.3% of the capital.

Eurospar stores are visited by approximately 120,000 customers a week. The Spar chain is frequented by 1–1.1 million customers a week.

Important events during the year

Sales in 2004 amounted to SEK 5,168 m (5,178). Despite a tough market situation and Spar Finland's store structure, which is not optimal, the business showed a profit of SEK 8 m (40) and a positive operating margin of 0.2% (0.8%).

Earnings were hurt by one-time costs totalling SEK 11 m. Of these, SEK 9 m pertained to the takeover of underperforming stores and SEK 2 m to credit losses.

The extremely fierce competitive climate put the greatest burden on earnings. The main contributor to this rise in competition is the Baltic countries' accession into the EU. Because of their close proximity to Finland, this has had a tangible impact

on the entire retail food industry, where all players have lowered their prices and thereby contributed to significant deflation in the industry during the year. Sales also fell for the market as a whole.

In 2003 work was begun on developing the Spar stores' concept. This work was followed up in 2004 and included a training programme for the chain's



grocers. The new concept will be implemented in stores in 2005 and mainly entails adapting each individual store to the actual situation in its local market. Adaptations are made to such factors as geographic location, customer structure, store size and competitive situation. Based on an analysis of these factors, the stores can better define the value proposition for their respective customers regarding such aspects as product selection, price level, personal service, availability, and so on – all in the aim of being the best in their local markets.

Efforts were also made during the year to strengthen Eurospar's position. Among other things, two new stores were established, bringing the total up to 13. An additional two new stores are planned for establishment in 2005.

Challenges and opportunities

The fierce competition in the Finnish retail food market is expected to continue. Above all this affects traditional grocery stores outside of the major metropolitan areas – the segment in which the Spar chain primarily works. The hypermarket segment is the winner in the marketplace, and all retailers are investing heavily in establishing new stores in this segment, despite that fact that Finland already has the highest per capita concentration of hypermarkets in Europe. Spar Finland is also at a competitive disadvantage due to its relatively low share of wholly owned stores, which makes it hard to achieve economies of scale. The consistently low profitability in the Finnish retail food market enhances that disadvantage.

Spar Finland nevertheless has opportunities to boost growth and profitability by continuing to develop its distribution and sales systems, increasing the private label share, and by building upon its international purchasing cooperation. Another major strength of Spar Finland's is its cost-efficiency in a flat organization distinguished by entrepreneurial spirit, strong customer focus, and rapid reaction ability.

Goals and strategies

The sales target for Spar Finland's wholly owned stores in 2008 is SEK 6 bn, with a low operating margin of 1%. These targets should be viewed in the light of Spar Finland's need to be a part of a larger group. To maintain current volume and profitability, Spar Finland will be improving its operating routines and building upon Eurospar's discount profile. Cost-efficiency gains will also be sought, such as by developing joint purchasing routines between Sweden and Finland and expanding the offering of private label products. The strategy also includes investing in the continued expansion of Eurospar and in wholly owned stores.

Spar Finland at a glance

Business concept

Spar Finland aspires to be the retail food industry's most customer-focused player in both store formats in which it works: Spar stores, which are traditional grocery stores that focus on fresh products and a high standard of service, and Eurospar, which has a discount profile with a uniform product line and limited personal service.

Customer structure

Eurospar stores are visited by approximately 120,000 customers a week. For the Spar chain, the number of shoppers is 1–1.1 million a week.

Financial targets

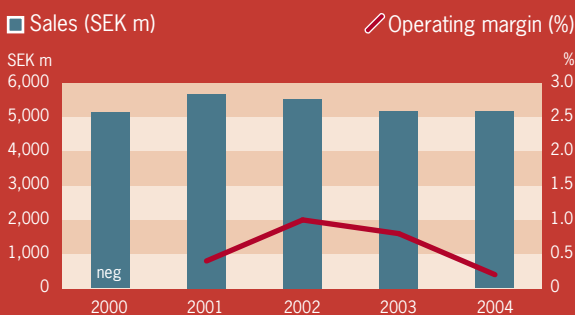
The net sales target for Spar Finland's wholly owned stores in 2008 is SEK 6 bn, with an operating margin of roughly 1%. This target largely reflects the current situation and should be seen in the light of Spar Finland's need to be a part of a larger group.

The future

To maintain current volume and profitability, Spar Finland will be improving its operating routines and building upon Eurospar's discount profile. Cost-efficiency will also be improved. The strategy also includes investing in continued expansion of Eurospar and investing in wholly owned stores.

Key ratios

Amounts in SEK m, unless otherwise indicated	2004	2003
Net sales	5,168	5,178
Same-store sales growth, %	-4.1	-7.0
Operating profit	8	40
Operating margin, %	0.2	0.8
Number of wholly owned stores	94	84
Average number of employees	823	775



Our responsibility from producers to customers

Few products mean as much for people as food. Food means survival, but it is also an expression of lifestyle and trends. Food also affects our health. Therefore the responsibility for companies that work with food is wide-reaching.

Axfood seeks to clarify which links in the value chain it bears responsibility for and which issues it can and wants to embrace. These can be summarized in the following points:

- Sound business ethics in procurement, business contacts and pricing
- Good food hygiene throughout the supply chain (between suppliers and stores)
- Full product responsibility for Axfood's private label products
- Constructive human resource policies with respect to salaries, union influence, and safe and healthy work environments
- Compliance with the UN and ILO conventions on child labour

Business ethics

Axfood is a significant player in the Swedish retail food market. Correct behaviour in dealings with business partners and competitors is decisive for the company's credibility. To ensure uniform behaviour, each year approximately 450 Axfood employees in senior positions are required to sign a document that declares Axfood's position on such matters as bribery, corruption, and relations within the industry. Store campaigns are not decided by store managers. Nor is store employees' compensation coupled to the outcome of various campaigns.

Ethical exclusions

At its wholly owned stores, Axfood has chosen to exclude "hard lemonade" and low-price tobacco products. Nor do Axfood's wholly owned stores sell magazines of a pornographic nature.

Agents

Some of Axfood's purchasing is handled by agents. Agents are generally used when Axfood's volumes are too small to enable direct contact with a producer.

Axfood's purchase agreements stipulate that Axfood supports the UN's and ILO's human rights conventions. Axfood works together with its agents and subcontractors to ensure compliance with these conventions.

In 2004 Axfood initiated an audit of ten randomly selected suppliers in China. The audit was performed with the help of local experts and charted the company's actions in a number of respects, primarily coupled to the UN and ILO conventions. This audit marked the start of a new way of working with

agents. In 2005 Axfood will be inviting key agents to a discussion on work methods and demand specifications.

Human rights

Axfood's human rights position is based on the UN Convention for the Rights of the Child and ILO conventions 138 and 33, and on the UN's and ILO's positions with respect to workers' rights. These issues are brought to light especially in contacts with suppliers in developing countries or countries with new economies, and Axfood's requirements are clarified in all agreements with suppliers and agents. Axfood does not tolerate child labour. If a supplier does not accept our view of child labour, then we discontinue our cooperation. Some forms of child labour exist in certain countries; our aim is to work with factories and organizations to improve the situation for children.

The environment

In its environmental work Axfood focuses on the three areas that the company can affect: transports, waste management and electricity consumption.

Transports of goods from wholesalers to retailers/stores are handled primarily by the subsidiary Dagab. The goal is to reduce energy consumption and vehicle emissions. As part of this work, Dagab works constantly on maximizing load capacities in parallel with planning of the distribution network. In addition, half of Dagab's drivers have been trained in so-called eco-driving, which results in lower fuel consumption and vehicle emissions.

Electricity consumption for Group-owned stores and wholesale facilities in Sweden was 296,000 MWh in 2004, which was an increase compared with 2003. The increase is mainly due to a rise in the number of stores, by 9 to 223. A pilot study was conducted during the year to identify possible areas of electric waste. The results of the study will form the basis of a large-scale project in 2005.

Axfood's stores are the focal point of waste management activities. Development and use of reusable devices for transports play an important role in reducing packaging waste. In line with this, the use of reusable boxes was adopted in 2004. The boxes are made of plastic and are handled within the SRS recycling system. Sorting of packaging material for recycling is another important measure. Axfood's private label products, including the Willys and Hemköp brands, among others, provide sorting and disposal instructions. At most of Axfood's wholly owned stores, external packaging is sorted by category: combustible waste, biodegradable/compost-friendly waste, corrugated board and cartons, soft plastic and household waste.

Through the breakdown into these five categories, nearly all waste is handled in an environmentally proper manner.

Quality

The Group's quality assurance work is conducted in two areas: product-related function issues and customer-related function issues.

In product-related function issues, Axfood has a strong focus on its private label products. To ensure high and consistent product safety, all producers that Axfood uses must be certified in accordance with any of the recognized internationally sanctioned food safety standards (see also page 13).

The Swedish Food Act prescribes in detail which information must be provided on food products sold in Swedish stores. In addition to these statutory requirements, Axfood's private label products are to be labelled by source country and include additional nutritional information and a quality guarantee, as far as practically possible.

At Dagab and Axfood Närlivs a programme is in place for following up the refrigeration chain, i.e., to ensure that refrigerated products are transported and stored at a temperature that does not exceed the permissible limits. The refrigeration chain and hygiene are then followed up at stores.

In customer-related function issues, in 2003 and 2004 Axfood improved its consumer information service, primarily for private label products. Customers must always be able to conveniently come in contact with the company for questions and complaints, and they must be able to receive answers to their questions and compensation in accordance with Axfood's quality guarantees. In 2005 Axfood's customer service/consumer contact function will be evaluated through follow-up of some 800 customer cases.

Employees

Work environment

Work environments at Axfood must meet all existing legal requirements and additionally offer employees a stimulating work environment that is conducive to personal development. Work environment initiatives are included as a natural part of our operations and are conducted in cooperation between employers, employees and the unions.

Axfood work environment initiatives entail, among other things

- that we repudiate all forms of offensive, special treatment and discrimination,
- that Axfood's companies have an organization, goals and routines for work adaptation and rehabilitation measures, as well as routines for crisis management, and
- that the companies have well-working company health services.

Safety

Work in stores is associated with special risks, such as for robbery. In 2004 14 robberies were carried out at Axfood stores, an increase of six compared with 2003. Axfood works actively on preventive techniques and routines, as well as crisis management for store employees. All store employees participate in safety training on a regular basis.

Fire safety is another important issue. In response to new legislation in Sweden, a programme for systematic fire protection work has been drawn up and implemented at all stores.

Equal opportunity

In 2003 goals were established for Axfood's equal opportunity work. According to these, Axfood must actively strive for a more even gender distribution in all types of workplaces and levels, above all in management and decision-making bodies. According to the goals, every company and staff management team is required to have at least one female member by 2005. In 2004 seven of nine company and staff management teams met this target. The share of female store managers is to increase to 25% by 2008. In 2004 15% of store managers were women.

Competence development

Axfood seeks to continuously improve its ability to be a learning organization. All training is to be based on the individual's needs and clearly tied to the company's goals. Competence development should contribute to the company's profitability and be a tool for change. Competence development should also be viewed as a strategic matter and a long-term investment. In 2004 the Axfood Academy became a focal point for training and development of leaders and employees within the Group.

Axfood started a 15-month trainee programme in 2004 in which young college graduates learn the fundamentals of Axfood's wholesale and retail operations.

The employees' views of Axfood as an employer are followed up every other year in an employee survey, most recently in spring 2004.

Sickness-related absence

The retail food industry has a generally high degree of sickness-related absence. Absenteeism at Axfood's store chains is 7.3% (7.6%). Sickness-related absence at Dagab was unchanged at 7%, but is still well below the industry average.

Data provided here pertains to Axfood's Swedish operations.

More detailed information and key ratios can be found at www.axfood.se, where we also present our policies, action plans and results.

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Administration report

Axfood AB (publ.), reg. no. 556542-0824

The Board of Directors and President of Axfood AB (publ.), with domicile in Stockholm, Sweden, herewith submit their annual report and consolidated accounts for the 2004 financial year.

Operations

Axfood conducts food retail and wholesale trading operations in Sweden and in Finland and through the subsidiary Spar Finland. The retail operations in Sweden are conducted in the Willys, Hemköp and Willys hemma chains, with 223 wholly owned stores. Business is conducted in Finland by Spar Finland, which owns 94 stores. During the year a number of stores were acquired, sold and closed. The net increase in the number of wholly owned stores was nine in Sweden and ten in Finland. Wholesaling is conducted by Dagab, for which approximately 75% 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.

Important events

During the year the Board decided to merge the Hemköp and Spar chains in Sweden under the Hemköp brand. Annual synergy gains are estimated at SEK 60–80 m by year-end 2007. Conversion of Spar stores commenced during the fourth quarter of 2004 and will be fully completed during the first half of 2005.

Vivo Stockholm announced that it is switching wholesalers with effect in the first quarter of 2005. Of the Vivo group's volume of SEK 1.3 bn, Axfood has taken back roughly 20% through the acquisition of six Vivo stores. The acquisitions will be completed during the first quarter of 2005. An additional three Vivo stores chose to cooperate with Axfood under own management. To compensate for the remaining loss in volume, Dagab issued redundancy notices to 90 employees, among other measures.

Axfood has divested the remaining production operations within the Group, entailing the closure of a sausage plant and the sale of another, among other things.

Axfood wound up its remaining finance operations in the subsidiary Axfood Finans (formerly Handelskredit).

Net sales

Consolidated net sales of the Axfood Group rose 0.6%, to SEK 33,826 m (33,616). Sales in Sweden in own and collaborating stores amounted to SEK 36,129 m (35,372), including VAT – an increase of 2.1% (1.1%) compared with the preceding year.

Earnings

Operating profit was SEK 1,008 m (1,034) (the previous year's figure included combined capital gains of SEK 132 m from the sale of Axfood Fastigheter and an associated company). The operating margin, excluding capital gains, was 3.0% (2.7%). After net financial items, totalling SEK -28 m (-63), profit was SEK 980 m (971). A net profit of SEK 664 m (684) was reported for the year after taxes of SEK -312 m (-275) and minority shares of SEK -4 m (-12).

Condensed profit and loss account

	2004	2003
Net sales, SEK m	33,826	33,616
Operating profit, SEK m	1,008	1,034
Operating margin, % ¹⁾	3.0	2.7
Profit after financial items, SEK m	980	971
Net profit for the year, SEK m	664	684
Earnings per share, SEK	12.40	12.85
Earnings per share after dilution, SEK	12.19	12.62

¹⁾ Excluding capital gains on the sale of Axfood Fastigheter and an associated company, totalling SEK 132 m for the full year 2003.

Future outlook

In view of the new competitive situation, market investments will be increased for the respective store concepts. Earnings for 2005 are therefore expected to be level with the outcome for 2004, excluding goodwill amortization.

Capital expenditures

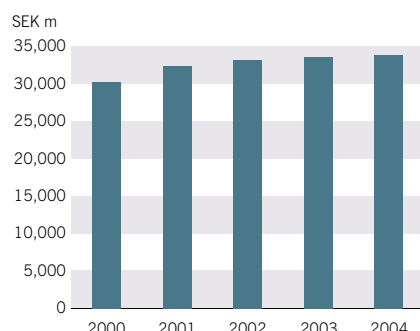
Capital expenditures for the year totalled SEK 537 m (802). Of these, SEK 18 m (142) pertained to acquisitions of stores in Sweden, SEK 454 m (579) to investments in fixed assets in the wholesaling operations and in the store network in Sweden, and SEK 65 m (81) in investments in fixed assets in Finland.

Financial position

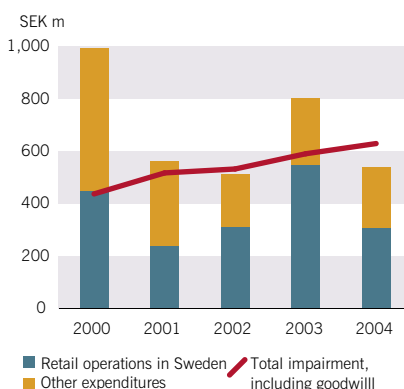
Cash and cash equivalents held by the Group, including short-term investments, amounted to SEK 977 m (548) as per 31 December 2004. Cash flow from operating activities amounted to SEK 1,462 m (1,026). After net expenditures of SEK -422 m (-315) and amortization of debt and payment of the dividend, together totalling SEK -610 m (-606), cash flow for the period was SEK 430 m (105).

Interest-bearing assets, including cash and cash equivalents, increased by SEK 379 m to SEK 988 m (609), and interest-bearing liabilities and provisions decreased by SEK 340 m to

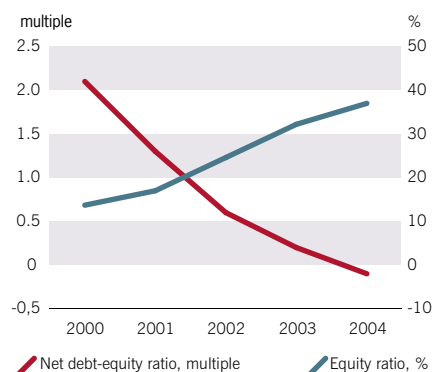
Consolidated net sales (SEK m)



Capital expenditures, incl. goodwill (SEK m)



Net debt-equity ratio (multiple) and equity ratio (%)



SEK 632 m (972). Interest-bearing liabilities include SEK 358 m (373) in provisions for pensions. Interest-bearing net debt decreased by SEK 719 m and became a net receivable of SEK 356 m (net debt of SEK 363 m).

The equity ratio was 37.4% (32.2%), and the debt-equity ratio, net, was -0.1 (multiple) (+0.2).

Parent Company

Other operating revenue for the Parent Company amounted to SEK 96 m (80) during the period. After administrative expenses of SEK 181 m (150) (the previous year's figure included a gain of SEK 198 m from the sale of Axfood Fastigheter AB) and net financial items of SEK 0 m (3), profit after financial items was SEK -85 m (131). Capital expenditures totalled SEK 3 m (4). Cash and cash equivalents held by the Parent Company totalled SEK 581 m (91).

Interest-bearing external assets amounted to SEK 581 m (91) at the end of the period. Interest-bearing net debt increased by SEK 465 m and amounted to SEK 634 m (169) at the end of the period.

Share repurchases

At the Annual General Meeting in March 2004 the Board was authorized, on one or more occasions during the period up until the next Annual General Meeting, to purchase up to 2,000,000 shares of the Company's own stock via the Stockholm Stock Exchange. The AGM also authorized the Board in connection with the financing of company acquisitions, to transfer the Company's own stock on the stock market or other manner.

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 2004.

Financial instruments

The Axfood Group's dealings in financial instruments are limited. See further the Risks section, page 41.

IFRS/IAS

Starting on 1 January 2005, in its consolidated accounts Axfood will be applying International Financial Reporting Standards (IFRS – previously called IAS) in its consolidated accounts. The effects of the transition to IFRS/IAS are reported on page 46.

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, 80,800 options remained that could be exchanged for Axfood shares, plus 78,700 options held by Axfood. In 2004 the remaining 80,800 options were redeemed for Axfood shares, corresponding to dilution of 0.2%. There were no outstanding options as per 31 December 2004.

Convertibles

In January 2001 a convertible debenture of SEK 73 m was issued to the employees. The conversion price is

SEK 73, and conversion can take place from 21 January 2005 – 20 March 2006. Upon full conversion, the number of shares would increase by 1,006,100, corresponding to dilution of approximately 1.9% of the total number of shares.

Composition and work of the Board of Directors

Axfood's board consists of nine directors and no alternates elected by the Annual General Meeting and three employee representatives with one alternate. The members of the Board are presented on page 70. 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 2004 the Board met eight 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. However, 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 matters concerning salaries and other terms of employment for Axfood's CEO and other members of the executive management. This committee reports to the Board. The committee shall consist of a minimum of three and a maximum of five persons, with the Chairman of the Board serving as the chairman of the committee. The current members of the compensation committee are Göran Ennerfelt, Antonia Ax:son Johnson and Marcus Storch. Mats Jansson is a co-opted member of the committee.

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 10 March 2005. The members of the nominating committee are Hans Dalborg (chairman), Antonia Ax:son Johnson, Inge Bäckström and Joachim Spetz. Axfood's chairman, Göran Ennerfelt, is a co-opted 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.

'Together with Spar Finland, Axfood is one of the largest listed food retailers in the Nordic region'

Profit and Loss Account

Amounts in SEK m	Note	Group		Parent Company	
		2004	2003	2004	2003
Net sales	1, 3	33,826	33,616	–	–
Cost of goods sold		-29,748	-29,721	–	–
Gross profit		4,078	3,895	–	–
Selling expenses		-2,056	-2,015	-2	–
Administrative expenses		-1,187	-1,144	-179	-150
Share of profit in associated companies	19	3	10	–	–
Other operating income	2	195	302	96	278
Other operating expense		-25	-14	–	–
Operating profit	1, 2, 3, 4, 5, 6, 7, 8, 16, 32	1,008	1,034	-85	128
Result from participations in Group companies	9	–	–	9	11
Interest income and similar profit/loss items	10	18	16	8	29
Interest expense and similar profit/loss items	11	-46	-79	-17	-37
Profit after financial items	32	980	971	-85	131
Appropriations	12	–	–	-201	-184
Profit before tax		980	971	-286	-53
Current tax	13	-254	-215	79	72
Deferred tax	13	-58	-60	3	-12
Minority interests in profit for the year		-4	-12	–	–
Net profit/loss for the year		664	684	-204	7
Earnings per share, SEK		12.40	12.85	–	–
Earnings per share after dilution, SEK	36	12.19	12.62	–	–
Operating profit includes impairment charges of	6	630	591	2	2

In the consolidated profit and loss account for 2003, a reclassification has been made of items affecting comparability, totalling SEK 132 m for the Group and SEK 198 m for the Parent Company. These items are now reported under "Other operating income".

Comparison figures for 2003 have been adjusted due to a review of the cost distribution in the Swedish subsidiaries' profit and loss accounts presented according to function. This adjustment does not affect sales or operating profit, but is only a shift between the lines "Cost of goods sold" and "Selling and administrative expenses, etc." The adjustment entails an increase in cost of goods sold by SEK 772 m in 2003.

Comments on the Profit and Loss Account and Balance Sheet

Profit and Loss Account

Consolidated net sales amounted to SEK 33,826 m (33,616), an increase of 0.6% compared with 2003. For Axfood's wholly owned retail stores in Sweden, sales rose 6.4%, with a 2.8% rise in same-store sales. Sales for the Group's wholly owned retail operations in Spar Finland rose 6.1% in local currency, with a 4.1% drop in same-store sales.

Operating profit was SEK 1,008 m (1,034). The preceding year's profit included capital gains totalling SEK 132 m on the sale of a subsidiary and associated company. Earnings for the year were charged with SEK 15 m in structural costs stemming from organizational changes and preparations ahead of conversions from Spar to Hemköp. Starting in 2004, items affecting comparability are not reported separately in the profit and loss account, and thus the figures for 2003 have been adjusted. Operating profit included SEK 138 m in goodwill amortization (137) and SEK 492 m in other depreciation (454). Operating profit was only marginally affected by exchange rate movements.

Net financial items improved during the year from SEK -63 m to SEK -28 m, mainly due to a decrease in net debt. The tax charge was SEK 312 m (275), corresponding to a tax rate of 31.9% (28.3%). Excluding non-deductible amortization of consolidated goodwill, the tax rate was 28.2% (24.8%). The lower effective tax rate in the preceding year is attributable to tax-exempt sales of a subsidiary and associated company. Profit for the year was SEK 664 m (684).

	2004	2003	2002	2001	2000
Earnings per share after dilution, SEK	12.19	12.62	11.51	6.07	-0.65

Balance Sheet

The Group's fixed assets decreased during the year by SEK 197 m, from SEK 3,150 m to SEK 2,953 m. Fixed assets consist primarily of goodwill, totalling SEK 857 m (979), of which consolidated acquisition goodwill accounted for SEK 825 m (944) and equipment for SEK 1,544 m (1,591). Capital expenditures amounted to SEK 519 m (660). Of these, SEK 454 m (579) pertained to investments in Sweden and SEK 65 m (81) investments in Finland. In addition, stores were acquired in Sweden for SEK 18 m (142).

	2004	2003	2002	2001	2000
Capital expenditures/ depreciation*	1.05	1.45	1.11	1.00	1.00

(*excluding goodwill amortization)

Of current assets, inventories make up the single largest item, at SEK 1,634 m (1,599). Inventories consist of finished retail goods – slightly more than 50% (50%) – and wholesale goods – slightly less than 50% (50%). Inventories along with trade accounts receivable make up slightly more than 60% of current assets (60%).

Shareholders' equity amounted to SEK 2,513 m (2,127), a net increase of SEK 386 m.

Provisions for pensions and similar obligations pertain primarily to the FPG/PRI system. Starting in 2004, pension provisions are reported in accordance with RR 29 – Employee Benefits, which entailed a decrease in the year's opening provision for pensions by SEK 18 m (see note 26).

Net debt as per 31 December 2003 was SEK 363 m. In 2004 the Group's net debt position became a net receivable of SEK 356 m as per 31 December 2004, or an improvement of SEK 719 m. The improvement can be credited primarily to a positive cash flow and repayment of interest-bearing debt.

Balance Sheet

Amounts in SEK m	Note	Group		Parent Company	
		31/12/2004	31/12/2003	31/12/2004	31/12/2003
ASSETS					
Fixed assets					
Intangible assets	14				
Goodwill		857	979	–	–
Other intangible fixed assets		124	97	–	–
		981	1,076	–	–
Tangible assets	17				
Land and buildings	15	202	219	7	7
Equipment, tools and fixtures	15	1,544	1,591	4	5
Construction in progress	15	19	11	–	–
		1,765	1,821	11	12
Financial assets					
Participations in Group companies	18, 22	–	–	3,244	2,485
Participations in associated companies	19, 22	108	112	–	–
Other long-term securities holdings	20, 22, 28	41	41	3	3
Deferred tax assets	13	34	23	7	3
Other long-term receivables	21, 22	24	77	–	–
		207	253	3,254	2,491
Total fixed assets		2,953	3,150	3,265	2,503
Current assets					
Inventories					
Finished products and goods for resale		1,634	1,599	–	–
		1,634	1,599	–	–
Current receivables					
Accounts receivable – trade		754	744	0	–
Receivables from Group companies		–	–	1,496	2,287
Receivables from associated companies		0	0	–	–
Current tax assets	13	87	62	4	–
Other current receivables	23	72	134	4	9
Prepaid expenses and accrued income	24	565	740	4	2
		1,478	1,680	1,508	2,298
Cash and cash equivalents					
Short-term investments	29	676	202	581	91
Cash and bank balances		301	346	0	0
		977	548	581	91
Total current assets		4,089	3,827	2,089	2,389
TOTAL ASSETS		7,042	6,977	5,354	4,892

Amounts in SEK m	Note	Group		Parent Company	
		31/12/2004	31/12/2003	31/12/2004	31/12/2003
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	25, 32				
Restricted shareholders' equity					
Share capital		268	267	268	267
Restricted reserves		1,096	924	1,633	1,628
		1,364	1,191	1,901	1,895
Unrestricted shareholders' equity					
Unrestricted reserves		485	252	1,101	747
Profit/loss for the year		664	684	-204	7
		1,149	936	897	754
Total shareholders' equity		2,513	2,127	2,798	2,649
Minority interests		119	122	-	-
Untaxed reserves	12	-	-	674	473
Provisions					
Provisions for pensions and similar commitments	26	358	373	20	14
Provisions for deferred tax	13	430	356	-	-
Other provisions	27	9	14	5	-
		797	743	25	14
Long-term liabilities					
	17, 28, 29				
Other liabilities to credit institutions		44	175	-	120
Other interest-bearing liabilities		130	156	71	68
Other long-term liabilities		12	13	-	-
		186	344	71	188
Current liabilities					
Bank overdraft facilities	28, 29	-	58	-	58
Liabilities to credit institutions	28, 29	10	101	-	90
Other interest-bearing liabilities	17, 28	90	109	-	-
Accounts payable – trade	28	1,767	1,636	5	3
Liabilities to Group companies		-	-	1,729	1,321
Liabilities to associated companies		390	383	-	-
Current tax liability	13	103	117	21	67
Other current liabilities		73	154	3	1
Accrued expenses and deferred income	16, 30	994	1,083	28	28
		3,427	3,641	1,786	1,568
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		7,042	6,977	5,354	4,892
MEMORANDUM ITEMS					
	31				
Contingent assets		-	1	-	-
Pledged assets		365	1,620	-	2,177
Contingent liabilities		85	78	384	471

Cash Flow Statement

Amounts in SEK m	Note	Group		Parent Company	
		2004	2003	2004	2003
Operating activities					
Profit after financial items		980	971	-85	131
Impairment charges		599	552	2	2
Adjustments for non-cash items	33	69	-125	2	-193
Paid tax		-289	-293	-224	-232
Cash flow from operating activities before changes in working capital		1,359	1,105	-305	-292
Cash flow from changes in working capital					
Change in inventories		-35	60	–	–
Change in current receivables		196	-17	1,264	-395
Change in current liabilities		-58	-122	117	413
Cash flow from operating activities		1,462	1,026	1,076	-274
Investing activities					
Acquisitions of intangible fixed assets		-52	-52	–	–
Acquisitions of tangible fixed assets		-449	-581	-1	-4
Acquisitions of subsidiaries	34	-17	-72	-916	-138
Earnings from associated companies		30	24	–	–
Sales of subsidiaries	35	5	237	5	284
Sales of tangible fixed assets		12	18	0	–
Sales of other financial fixed assets		49	111	–	-3
Cash flow from investing activities		-422	-315	-912	139
Financing activities					
New issue		6	20	6	20
Amortization of debt		-321	-360	-268	-319
Dividend		-295	-266	-222	-266
Group contributions received/rendered, shareholder contribution		–	–	810	775
Cash flow from financing activities		-610	-606	326	210
CASH FLOW FOR THE YEAR		430	105	490	75
Cash and cash equivalents at start of year		548	444	91	16
Translation difference, cash and cash equivalents		-1	-1	–	–
Cash and cash equivalents at year-end		977	548	581	91

Comments on Cash Flow and Shareholders' Equity

Cash flow from operating activities

Cash flow from operating activities before changes in operating capital increased by SEK 254 m to SEK 1,359 m (1,105) and consisted mainly of the net amount of purchases and sales of retail food products. Reversed depreciation has been adjusted for the remaining portion of leased assets, totalling SEK 31 m (39). Adjustment for non-cash items amounted to SEK 69 m (-125) and pertained mainly to capital gains, impairment charges, disposals and structural costs. In the preceding year this adjustment pertained primarily to capital gains from the sale of a subsidiary and associated company.

Interest received during the year amounted to SEK 18 m (14), and interest paid amounted to SEK 25 m (60).

Investments and divestments

The Group's total investments amounted to SEK 537 m (802) and pertained primarily to investments of SEK 460 m (556) in machinery and equipment. Of total investments, SEK 518 m (705) affected the Group's cash flow. In cash flow, investments have been adjusted in the amount of SEK -16 m (-27) for finance leases.

Acquisitions of subsidiaries affected cash flow by SEK -17 m (-72). Sales of subsidiaries affected cash flow positively by SEK 27 m (13). The wind-up of the remaining operations of Axfood Finans AB (formerly AB Handelskredit) had a positive effect on cash flow.

Financing activities

The Group's change in interest-bearing liabilities affected cash flow in the amount of SEK -321 m (-360). No new loans were raised during the year. Ongoing financing was handled during the year with cash flow from operating activities.

Shareholders' equity increased by SEK 6 m (20) through the exercise of options.

The dividend paid in 2004 amounted to SEK 295 m (266), corresponding to SEK 5.50 (5.00) per share. For the Parent

Company, the dividend includes SEK 73 m in dividends received from subsidiaries.

Cash and cash equivalents

The Group's cash and cash equivalents include the Group's balances 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 Group's balances in the Group account and own bank accounts and short-term investments.

Comments on shareholders' equity

The Group's shareholders' equity amounted to SEK 2,513 m (2,127) at year-end, corresponding to SEK 46.90 (39.76) per share. The return on shareholders' equity was 28.6% (35.8%).

Starting on 1 January 2004, Axfood applies Swedish Financial Accounting Standards Council recommendation RR 29 – Employee Benefits. The transition to RR 29 was reported as a change of accounting principle through shareholders' equity and entailed a net increase in the Group's shareholders' equity, after deducting deferred tax, of SEK 14 m.

During the period 22 November 2003–21 August 2004, options in Axfood's stock option programme could be redeemed for Axfood shares. As per 31 December 2003, 80,800 options remained, and these were exercised in their entirety in 2004 in exchange for Axfood shares. This increased the Group's and Parent Company's cash flows and shareholders' equity by SEK 6 m, of which Axfood AB's share capital increased by SEK 1 m and the share premium reserve by SEK 5 m.

In 2004, shareholders' equity was charged with SEK -3 m in translation differences pertaining to Axfood's holding in Spar Finland Abp. Accumulated translation differences amounted to SEK 5 m as per 31 December 2004.

The Board of Directors has proposed a dividend of SEK 11.00 (5.50) for 2004. Based on the number of shares outstanding as per 31 December 2004, totalling 53,577,828, the dividend will amount to SEK 589,356,108.

Change in interest-bearing net debt for the Group

Amounts in SEK m	31/12/2003	Cash flow	Change in loans	Other changes	31/12/2004
Cash and cash equivalents	548	430		-1	977
Long-term interest-bearing receivables	59			-53	6
Current interest-bearing receivables	2			3	5
Long-term interest-bearing liabilities	-331		157		-174
Current interest-bearing liabilities	-268		164	4	-100
Interest-bearing pensions	-373			15	-358
Interest-bearing net debt/net receivable	-363	430	321	-32	356

Shareholders' equity

Group

Amounts in SEK m	Share capital	Other restricted reserves	Exchange rate differences, restricted reserves	Unrestricted shareholders' equity	Exchange rate differences, unrestricted reserves	Total
Opening balance 2003	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
Exchange rate difference	–	0	–	–	-3	-3
Shareholder dividend	–	–	–	-295	–	-295
New issue	1	5	–	–	–	6
Transfers between restricted and unrestricted equity	–	167	–	-167	–	–
Change of accounting principle	–	–	–	14	–	14
Profit for the year	–	–	–	664	–	664
Closing balance 2004	268	1,093	3	1,147	2	2,513

Parent Company

Amounts in SEK m	Share capital	Share premium reserve	Statutory reserve	Unrestricted shareholders' equity	Total
Opening balance 2003	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 for the year	–	–	–	7	7
Closing balance 2003	267	1,603	25	754	2,649
Shareholder dividend	–	–	–	-295	-295
New issue	1	5	–	–	6
Group contribution	–	–	–	894	894
Tax effect of Group contribution	–	–	–	-250	-250
Mergers	–	–	–	0	0
Change of accounting principle	–	–	–	-2	-2
Profit/loss for the year	–	–	–	-204	-204
Closing balance 2004	268	1,608	25	897	2,798

The share capital as per 31 December 2004 consisted of 53,577,828 shares with a par value of SEK 5.00 per share.

Risks

Financial risks and policies

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, the 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 arrange local financing. Confirmed credit lines must have an average remaining contract term of at least 12 months. As per 31 December 2004 the average remaining contract period was 498 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 must always amount to at least SEK 500 m. As per 31 December 2004, the refinancing risk reserve amounted to SEK 1,231 m. The finance department is responsible for monitoring and overseeing the refinancing risk reserve.

The Axfood Group's investment policy is to reduce the Group's external borrowing as much as possible by coordinating the management of surplus liquidity within the Group. Investments may only be made in instruments with low credit risk and high liquidity, i.e., investments that can be converted to liquid assets at any given point in time. Approved instruments are account balances and deposits with approved counterparties.

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. This interest risk norm applies only when the Group has long-term borrowing. 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 2004 the average term of fixed interest was 264 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.

Credit risks

Financial assets are reported in the balance sheet after deducting provisions for possible loan losses. Added to this deduction are guarantee commitments for bank financing primarily for retail food stores. This amount totals SEK 69 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 financial 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 are to be hedged. Currency flows that 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 2004 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 2004 hedging took place only 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.

Operating risks

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-scale operation is needed to obtain low purchasing prices and to create efficiency. This dominance will most likely increase from a European perspective in that these players are continuing their international expansion and growing even larger. 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.

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, leases

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 with the Swedish market, however, is that the authorities who grant permits do not always 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 risks. 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.

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.

Accounting principles

The annual report and the consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act, the recommendations of the Swedish Financial Accounting Standards Council (SFASC) and the Emerging Issues Task Force of the SFASC.

Changed accounting principles 2004

Starting in 2004, Axfood applies recommendation RR 29 Employee Benefits. RR 29 is compatible in all essential respects with IAS 19 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 provision by approximately SEK -18 m. The Group's shareholders' equity is positively affected by approximately SEK 14 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. The Parent Company, Axfood AB, continues to report pension obligations in accordance with FAR 4.

Axfood has both defined contribution and defined benefit pension plans. The service cost of defined contribution plans is charged against profit in pace with employees' performance of their services. Obligations are calculated without discounting, since payment for all of these plans fall due within 12 months.

The service cost for defined benefit pension plans is calculated using the Projected Unit Credit (PUC) method, which in short sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is discounted to present value on the balance sheet date. Further, the calculations are affected by actuarial assumptions, such as mortality, future rates of employee turnover and future salary levels. Actuarial gains and losses arise either when an assumption changes or when the actual outcome deviates from underlying assumptions. The net value of actuarial gains and losses affects earnings to the extent these fall outside a corridor of 10%. The limit of the corridor is determined by the larger of the present value of the defined benefit obligation and the fair value of the plan assets. The net amount of the actuarial gains and losses that exceeds the corridor limit is apportioned over the employees' average remaining working lives, beginning with the year after the current financial year. Calculations of defined benefit pension plans are performed by an independent external actuary.

Most of Axfood's defined benefit pension plans are unfunded and are included in the FPG/PRI system. In addition to these

are two partly funded pension plans. In the event a surplus in one plan cannot be used to cover a deficit in another plan, the surplus is reported as an "other long-term receivable".

Termination benefits

A provision is reported in connection with employee terminations only if the company is demonstrably committed to a termination before the normal retirement date or when termination benefits are provided as an offer to encourage voluntary redundancy. In the event a company terminates employees, a detailed plan must be drawn up that includes, as a minimum, information on the location, function and approximate number of employees whose services are to be terminated, as well as the termination benefits for each job classification or function and the time at which the plan will be implemented.

Alecta

Retirement pension and family pension obligations for employees in Sweden are secured partly through insurance with Alecta. According to pronouncement URA 42 issued by the SFASC Emerging Issues Task Force, this is a multi-employer defined benefit plan. For the 2004 financial year the company did not have access to such information that makes it possible to report this plan as a defined benefit plan. The ITP pension plan that is secured through insurance with Alecta is therefore reported as a defined contribution plan. Pension insurance contributions made during the year to Alecta amounted to SEK 18 m. Alecta's surplus can be apportioned to the policyholders and/or the insureds. At year-end 2004 Alecta's surplus in the form of its collective funding ratio was 128.0% (119.9%). The collective funding ratio consists of the fair value of Alecta's assets measured as a percentage of the insurance obligations calculated using Alecta's actuarial assumptions, which is not compatible with RR 29.

Spar Finland

Finland has a statutory retirement and invalidity pension scheme that is governed by the Employees' Pensions Act (APL) and applies for all companies in Finland. According to new rules that were issued in 2004, it has been clarified that pension obligations under the APL are to be reported in accordance with the rules for defined contribution pension plans. Thus according to APL these obligations are to be reported off the balance sheet.

In other respects the accounting principles are unchanged compared with the preceding year.

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), 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 fair valuation of assets and liabilities at the time of acquisition. In the event the cost of shares in subsidiaries exceeds the acquired shareholders' equity as above, the difference is carried as goodwill 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, 14 mergers were carried out within the Group. Of these, one merger was made with Axfood AB (see note 37). 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 following business segments are reported:

Willys. Sale of retail food products/groceries at discount prices.

Willys hemma. Sale of retail food products/groceries at discount prices in residential areas; ready-made meals and fresh products suited for small households.

Hemköp. Sale of retail food products/groceries with a broad product offering.

Dagab. Wholesaling business with slightly more than 75% 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 retail food products/groceries through the Spar and Eurospar store chains.

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

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 explanation for this is that the general risk level in these cases is lower.

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 executive committee.

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 consist of franchise fees from collaborating chain stores. Group sales are eliminated in the consolidated financial statements.

Franchise fees

Axfood has agreements with a number of independent grocers on cooperation under the Hemköp brand. The grocers pay annual sales-based fees to Axfood for participation in marketing programmes, purchasing coordination and support, such as technical support, administration and store operations. Franchise revenues are recognized in the profit and loss account as they are earned. During each current financial year, preliminary franchise fees are invoiced on a continuing basis, and a definitive reconciliation is made during the following financial year.

Government support

Government support is reported when the company meets the conditions associated with subsidies and when it can be ascertained with certainty that the subsidies will be received. Paid-in subsidies are reported in the balance sheet as deferred income and are recognized in the period in which the costs that

the subsidies are intended to cover are reported. In the profit and loss account, government support is reported as a decrease of corresponding costs. Axfood receives government support mainly in the form of labour market policy measures.

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 a current liability.

Assets, provisions and liabilities have been carried at cost, unless indicated otherwise. Receivables have been carried in 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 allocated over the term of the contract. Allocated 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, which entails the lower of cost and the net sales value.

Cash and cash equivalents held by the Parent Company and Group include the Group's balances in Group accounts and other bank accounts, including currency accounts, pending payments and short-term investments.

Provisions are reported in the balance sheet when Axfood has a legal or informal obligation as a result of an event that has occurred and it is likely that an outflow of resources will be required to settle the obligation. In addition, it must be possible to make a reliable estimate of the amount. The provision is reported in the amount that corresponds to the best estimate of the payment required to settle the obligation.

Intangible fixed assets

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.

Amortization of intangible fixed assets

Amortization of intangible fixed assets is based on the estimated useful life of the assets. Amortization is done on a straight-line basis over the estimated useful life of the assets. The following percentages have been applied:

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.

Tangible fixed assets

Tangible fixed assets are reported at cost after deducting scheduled depreciation and any impairment.

Depreciation of tangible fixed assets

Scheduled depreciation of tangible fixed assets is based on the estimated useful life of the assets. Depreciation is done on a straight-line basis over the estimated useful life of the assets. The following percentages have been applied:

Machinery and equipment	10–33
Buildings	2.5–5
Fixtures and fittings	15
Land improvements	5

Axfood applies component depreciation for some store machinery. Component depreciation entails that, where necessary, large machinery is broken down into sub-components with different useful lives and thus different depreciation schedules. In the event of disposals and exchanges, any residual value is taken to profit and replaced by the new sub-component's cost.

Impairment

The carrying amount of fixed assets is tested annually for impairment. The carrying amount is also tested when an indication of a decline in value has been identified. To determine any need to recognize impairment, SFAFC recommendation RR 17 Impairment is used. According to RR 17, an impairment loss is to be recognized for an asset if its carrying amount exceeds its recoverable amount, where the recoverable amount is defined as the higher of the asset's net sales value and its value in use. In calculating value in use, future cash flows that the assets are expected to generate are discounted using an interest rate that corresponds to Axfood's weighted cost of capital. The discount rates in 2003 and 2004 were between 10% and 15%. A separate asset is attributed to the smallest cash-generating unit in which

independent cash flows can be determined. In 2003 and 2004 no impairment of intangible fixed assets was recognized.

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 obligation 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 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, nor in differences attributable to participations in subsidiaries or associated companies that are not expected to be taxed in the foreseeable future. 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 carryforwards 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.

Changed accounting principles, 2005

Starting on 1 January 2005, in its consolidated accounting Axfood is required to report in accordance with International Financial Reporting Standards (IFRS, previously called IAS). These standards 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 means that 2004 is also to be reported in accordance with IFRS in the reporting for 2005. However, IAS 39 Financial Instruments: Recognition and Measurement is excluded from the requirement for recalculation of the comparison year. In calculations of the transitional effects, the IFRSs approved by the EU Commission as per 31 December 2004 have been applied.

The IFRSs that are applicable for Axfood are relatively compatible with the previously applied recommendations from the Swedish Financial Accounting Standards Council. With the exception of the elimination of goodwill amortization, the effect of the transition to IFRS is limited for Axfood. The following changes as per 1/1/2004 have been identified in the transition to IFRS.

IAS 17 Leases. In connection with the transition to IFRS, Spar Finland Abp has identified a lease that was previously reported as an operating lease, i.e., off the balance sheet. According to IAS 17 this is to be classified as a finance lease, which means that the property is reported as an asset carried at the present value of the minimum lease payments determined at the inception of the lease, less accumulated impairment losses. On the liabilities side of the balance sheet, the present value of remaining future lease payments is recognized as an interest-bearing liability. This change entails an increase in the Axfood Group's total assets as per 1/1/2004 by SEK 46 m.

IAS 27 Consolidated and Separate Financial Statements. According to IAS 27, minority interest is to be presented in the balance sheet within equity, which for Axfood's part entails an increase in shareholders' equity as per 1/1/2004 of SEK 122 m. In the profit and loss account, deduction is no longer made for minority interests in profit. Instead, a breakdown of profit by majority and minority owners is made below the profit and loss account. The effect on 2004 profit after tax is SEK 4 m.

IAS 31 Interests in Joint Ventures. Spar Finland owns stakes in four mutual real estate stock corporations and in one residential stock corporation; these are company forms that have no

equivalent in Sweden. To date these stakes have been reported as "Other long-term securities holdings". According to IAS 31 these stakes are to be reported in accordance with proportionate consolidation, i.e., Spar Finland's share of the respective companies' assets and liabilities is reported in Spar Finland's balance sheet, whereby the reported value of the stakes is eliminated. This changed accounting principle affects shareholders' equity as per 1/1/2004 in the amount of SEK -4 m. The effect on 2004 profit is SEK 0 m.

IFRS 3 Business Combinations does not allow for the amortization of goodwill. Instead, the value of goodwill is to be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the value of goodwill is below the carried value (see also "Impairment" above). According to the transitional rules in IFRS 1 First Time Adoption of IFRS, Axfood has opted to not apply IFRS 3 for older acquisitions. Therefore, comparison figures pertaining to acquisitions made in 2003 and earlier have not been recomputed. Acquisitions carried out in 2004 have been reported in accordance with IFRS 3. Since goodwill shall no longer be amortized, the Axfood Group's operating profit for 2004 improves by SEK 138 m, and net profit improves by SEK 135 m.

IAS 39 Financial Instruments: Recognition and Measurement. Axfood's transaction exposure in foreign currency arises because of the import of goods that are paid for in foreign currency. All of these exposures are hedged through spot contracts and forward exchange contracts. Axfood applies hedge accounting of contracted purchases up until the time of payment. According to IAS 39, forward exchange contracts are to be stated in the balance sheet at fair value. Since all forward exchange contracts are used for hedging purposes, changes in the fair value of the forward exchange contracts are reported in a hedging reserve under unrestricted shareholders' equity until the hedged item is reported in the consolidated balance sheet and profit and loss account, whereby the corresponding hedging reserve is dissolved in the profit and loss account. The interest component in the forward contract (interest premium for the forward contract) is reported at fair value in profit or loss from the transaction date until maturity. Previously, hedged liabilities in foreign currency were reported net together with their accompanying hedge instruments. According to IAS 39, the liability reported at the year-end exchange rate and the hedge instrument are stated at fair value in the balance sheet. According to IAS 39, no comparison figures are required for 2004. The transition to IAS 39 as per 1/1/2005 affects the Axfood Group's shareholders' equity by SEK 0 m after tax. The effect before tax in the balance sheet is SEK 0 m. If the transition to IAS 39 had been made as per 1/1/2004, it would have affected the Axfood Group's shareholders' equity by SEK 0 m after tax.

Adoption of IFRS 2 Share Based Payment and **IFRS 5** Non-Current Assets Held for Sale and Discontinued Operations entails no effect on the Axfood Group's opening balance for 2004. The share-related compensation programmes (stock option programme and convertible debenture programme) that are in place in the Axfood Group are not covered by IFRS 2, partly because the price of the stock options and the convertible debentures was equivalent to the market price at the time of subscription and in part because both compensation programmes were created before 7 November 2002.

The effect on Axfood's profit and loss account, balance sheet, shareholders' equity and certain key ratios for 2004 is shown in the following tables. With regard to the cash flow statement, the physical cash flow is not affected; however, certain adjustments for goodwill are affected.

Balance sheets as per 1 January 2004

Amounts in SEK m	According to previous GAAP	IAS 17	IAS 27	IAS 31	According to IFRS
ASSETS					
Intangible fixed assets	1,076				1,076
Tangible fixed assets	1,821	46		14	1,881
Financial fixed assets	253			-20	233
Total fixed assets	3,150	46		-6	3,190
Inventories	1,599				1,599
Current receivables	1,680			2	1,682
Cash and cash equivalents	548				548
Total current assets	3,827			2	3,829
TOTAL ASSETS	6,977	46		-4	7,019
SHAREHOLDERS' EQUITY AND LIABILITIES					
Restricted shareholders' equity	1,191				1,191
Unrestricted shareholders' equity	936			-4	932
Minority interests in shareholders' equity			122		122
Total shareholders' equity	2,127		122	-4	2,245
Minority interests	122		-122		
Provisions	743				743
Long-term liabilities	344	44			388
Current liabilities	3,641	2			3,643
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	6,977	46		-4	7,019

Balance sheets as per 31 December 2004

Amounts in SEK m	According to previous GAAP	IAS 17	IAS 27	IAS 31	IFRS 3	According to IFRS
ASSETS						
Intangible fixed assets	981				138	1,119
Tangible fixed assets	1,765	44		14		1,823
Financial fixed assets	207			-20		187
Total fixed assets	2,953	44		-6	138	3,129
Inventories	1,634					1,634
Current receivables	1,478			2		1,480
Cash and cash equivalents	977					977
Total current assets	4,089			2		4,091
TOTAL ASSETS	7,042	44		-4	138	7,220
SHAREHOLDERS' EQUITY AND LIABILITIES						
Restricted shareholders' equity	1,364					1,364
Unrestricted shareholders' equity	1,149			-4	135	1,280
Minority interests in shareholders' equity			119			119
Total shareholders' equity	2,513		119	-4	135	2,763
Minority interests	119		-119			-
Provisions	797				3	800
Long-term liabilities	186	42				228
Current liabilities	3,427	2				3,429
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	7,042	44		-4	138	7,220

Profit and loss accounts 2004

Amounts in SEK m	According to previous GAAP	IAS 17	IFRS 3	According to IFRS
Net sales	33,826			33,826
Cost of goods sold	-29,748	2	138	-29,608
Gross profit	4,078	2	138	4,218
Selling expenses	-2,056			-2,056
Administrative expenses	-1,187			-1,187
Other operating income	198			198
Other operating expenses	-25			-25
Operating profit	1,008	2	138	1,148
Interest income and similar items	18			18
Interest expense and similar items	-46	-2		-48
Profit after financial items	980		138	1,118
Current tax	-254			-254
Deferred tax	-58		-3	-61
Minority share of profit for the year	-4		4	-
Profit for the year	664		139	803
Of which, majority owners' share				799
Of which, minority owners' share				4
Earnings per share, SEK	12.40		2.58	14.98
Earnings per share after dilution, SEK	12.19		2.54	14.73
Weighted average number of shares outstanding	53,567,009			53,567,009
Weighted average number of shares outstanding after dilution	54,573,109			54,573,109

Cash flow statements 2004

Amounts in SEK m	2004 according to previous GAAP	IFRS 3	2004 according to IFRS
Operating activities			
Profit after financial items	980	138	1,118
Impairment charged against profit	599	-138	461
Adjustments for non-cash items	69		69
Paid tax	-289		-289
Cash flow from operating activities before changes in working capital	1,359		1,359
Cash flow from changes in working capital			
Change in inventories	-35		-35
Change in current receivables	196		196
Change in current liabilities	-58		-58
Cash flow from operating activities	1,462		1,462
Investing activities			
Acquisitions of intangible fixed assets	-52		-52
Acquisitions of tangible fixed assets	-449		-449
Acquisitions of subsidiaries	-17		-17
Earnings from associated companies	30		30
Sales of subsidiaries	5		5
Sales of tangible fixed assets	12		12
Change in other financial fixed assets	49		49
Cash flow from investing activities	-422		-422
Financing activities			
New issue	6		6
Amortization of debt	-321		-321
Dividend	-295		-295
Cash flow from financing activities	-610		-610
Cash flow for the year	430		430

Key ratios

	2004 according to previous GAAP	IAS 17	IAS 27	IAS 31	IFRS 3	2004 according to IFRS
Operating margin, %	3.0				+0.4	3.4
Equity ratio, %	37.4	-0.3		-0.1	+1.3	38.3
Return on shareholders' equity, %	28.6				+5.1	33.7

Notes

1. Segment reporting

Per business segment	Hemköp ³⁾		Willlys		Willlys hemma		Axfood Närlivs		Spar Finland	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Result										
External net sales	6,163	6,208	11,789	10,567	1,284	1,317	4,589	4,779	5,168	5,178
Internal net sales	4	5	–	–	–	–	–	–	–	–
Net sales	6,167	6,213	11,789	10,567	1,284	1,317	4,589	4,779	5,168	5,178
Operating profit/loss in associated companies	2	10	–	–	–	–	–	–	-2	-1
Operating profit/loss (EBIT) per segment	95	60	479	395	-11	-27	92	106	8	40
Undistributed costs										
Operating profit (EBIT)										
Undistributed net financial items										
Minority share in profit for the year									-4	-12
Tax cost for the year										
Net profit for the year										
Other data										
Assets	1,145	1,196	1,508	1,665	263	307	648	709	1,121	1,065
Equity shares	4	3		1					-37	-34
Undistributed assets										
Total assets										
Liabilities ²⁾	740	770	1,196	1,399	118	170	548	599	487	490
Undistributed liabilities ²⁾										
Total liabilities ²⁾										
Capital expenditures ¹⁾	122	206	157	192	11	16	26	30	65	81
Impairment, incl. goodwill amortization	132	119	209	185	30	32	29	27	87	90
Significant costs not corresponding to outgoing payments	15						4		2	
Per business segment	Dagab		Other units		Eliminations		Total			
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Result										
External net sales			4,616	5,296	217	271			33,826	33,616
Internal net sales			14,704	13,265	532	464	-15,240	-13,734	0	
Net sales			19,320	18,561	749	735	-15,240	-13,734	33,826	33,616
Operating profit/loss in associated companies					3	1			3	10
Operating profit (EBIT) per segment			277	300	80	162			1,020	1,036
Undistributed costs									-12	-2
Operating profit (EBIT)									1,008	1,034
Undistributed net financial items									-28	-63
Minority share in profit for the year									-4	-12
Tax cost for the year									-312	-275
Net profit for the year									664	684
Other data										
Assets			3,040	3,091	6,734	6,859	-7,493	-8,168	6,966	6,724
Equity shares					10	9			-23	-21
Undistributed assets									99	274
Total assets									7,042	6,977
Liabilities ²⁾			1,814	1,904	2,546	2,513	-4,123	-4,472	3,326	3,373
Undistributed liabilities ²⁾									1,084	1,355
Total liabilities ²⁾									4,410	4,728
Capital expenditures ¹⁾			56	47	82	88			519	660
Impairment, incl. goodwill amortization			108	101	35	37			630	591
Significant costs not corresponding to outgoing payments					6				27	
Per geographic market	Net sales		Operating profit (EBIT)		Assets		Capital expenditures			
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Sweden	28,658	28,438	1,000	994	5,859	5,672	454	579		
Finland	5,168	5,178	8	40	1,084	1,031	65	81		
Total	33,826	33,616	1,008	1,034	6,943	6,703	519	660		

¹⁾ Tangible and intangible fixed assets.

²⁾ Including provisions.

³⁾ Starting in 2004, Spar Sverige AB is reported together with Hemköp. Comparison figures for 2003 have been adjusted.

2. Capital gains and structural costs

	Group		Parent Company	
	2004	2003	2004	2003
Capital gains on sales of:				
- subsidiary, Axfood Fastigheter AB	–	110	–	198
- associated company	–	22	–	–
Structural costs	-15	–	–	–
Total	-15	132	–	198

Capital gains from sales are reported as other operating income.

Structural costs pertain to costs in connection with conversions of Spar/Hemköp. These costs are reported mainly as administrative expenses.

3. Information on intra-Group revenues and expenses

The Parent Company's revenues from subsidiaries amounted to SEK 94 m (80). The Parent Company's expenses from subsidiaries amounted to SEK 19 m (9).

4. Information on employees; compensation of directors and CEO

Average number of employees ¹⁾	2004	Of whom, men	2003	Of whom, men
<i>Parent Company</i>				
Sweden	106	30	99	29
<i>Subsidiaries</i>				
Sweden	6,835	3,193	6,899	3,168
Finland	823	163	775	162
Total, subsidiaries	7,658	3,356	7,674	3,330
TOTAL, GROUP	7,764	3,386	7,773	3,359

¹⁾ Starting in 2004, a full-time employee is calculated on the basis of 1,800 hours (formerly 1,600 hours). Comparison figures for 2003 have been recalculated.

Wages, salaries and other remuneration, and social security charges	2004			2003		
	Wages, salaries and other remuneration	Social security charges	Of which, pension costs	Wages, salaries and other remuneration	Social security charges	Of which, pension costs
<i>Parent Company</i>						
Sweden	56	41	21	50	33	16
<i>Subsidiaries</i>						
Sweden	1,909	829	162	1,916	798	127
Finland	192	50	33	176	44	28
Total, subsidiaries	2,101	879	195	2,092	842	155
TOTAL, GROUP	2,157	920	216	2,142	875	171 ¹⁾

¹⁾ Of the Parent Company's pension cost, SEK 6 m (5) pertains to the CEO and SEK 5 m (4) to executive vice presidents. Of pension costs in subsidiaries, SEK 5 m (6) pertains to presidents and vice presidents. The Group has no outstanding pension obligations to the board, CEO or executive vice presidents beyond pension entered as a liability.

Gender breakdown	Group				Parent Company			
	Boards of directors		Company management		Board of Directors		Company management	
	2004	2003	2004	2003	2004	2003	2004	2003
Men	46	51	68	66	5	5	10	9
Women	13	13	10	11	4	4	1	2
Total	59	64	78	77	9	9	11	11

Note 4. (Continued)

The share of sickness-related absence lasting for an uninterrupted period of 60 days or more is 49% (45%).

Sickness-related absence as % of total working time

Parent Company	Men 2004	Men 1/7/2003–31/12/2003	Women 2004	Women 1/7/2003–31/12/2003	Total 2004	Total 1/7/2003–31/12/2003
< 29 years	0.79	0.41	2.15	0.71	1.66	0.64
30–49 years	0.80	0.38	2.66	0.75	2.29	0.68
> 50 years	0.95	0.12	7.11	6.79	4.55	4.11

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

Parent Company	2004		2003	
	Boards, presidents and vice presidents	Other employees	Boards, presidents and vice presidents	Other employees
Sweden	15 ¹⁾	41	15 ¹⁾	35
Subsidiaries				
Sweden	13 ²⁾	1,896	22 ²⁾	1,894
Finland	3 ³⁾	189	3 ³⁾	173
Total, subsidiaries	16	2,085	25	2,067
TOTAL, GROUP	31	2,126	40	2,102

¹⁾ Of the years's costs, SEK 2 m (2) pertains to boards, SEK 6 m (6) to presidents, and SEK 7 m (7) to vice presidents, of which, variable compensation to presidents SEK 0 m (–) and vice presidents 0 (0).

²⁾ Of which, variable compensation SEK 2 m (1).

³⁾ Of which, variable compensation SEK 0 m (0).

Wages, salaries and other remuneration paid to senior executives of the Parent Company

SEK 000	Base salary/ directors' fees	Variable compensation	Other benefits	Pension cost	Financial instruments	Other compensation	Total
2004							
Chairman of the Board ¹⁾	648	–	–	–	–	–	648
Other board members ¹⁾	2,327	–	–	–	–	–	2,327
CEO	6,319	–	120	6,178	–	–	12,617
Other senior executives ²⁾	6,663	496	245	4,570	–	10	11,984
Total	15,957	496	365	10,748	–	10	27,576
2003							
Chairman of the Board	275	–	–	–	–	–	275
Other board members	1,210	–	–	–	–	–	1,210
CEO	6,075	1,985	118	5,554	–	15	13,747
Other senior executives ²⁾	6,139	2,008	191	3,711	–	–	12,049
Total	13,699	3,993	309	9,265	–	15	27,281

¹⁾ In 2004 the entire 2003 directors' fee and 75% of the 2004 directors' fee was paid.

²⁾ Axfood AB's three executive vice presidents: Lars Nilsson, Bodil Eriksson and Anders Nyberg.

Comments, Note 4

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 separate fee is paid for committee work. The Group CEO and employee representatives do not receive any directors' fees. The annual fee payable to directors was set by the 2004 Annual General Meeting at SEK 1,700,000 (1,700,000), of which SEK 370,000 (370,000) is payable to the Chairman. Seventy-five per cent of the fee was paid out in 2004, and the remainder will be paid out after year-end.

Axfood's CEO, Mats Jansson, received salary and other benefits totalling SEK 6.4 m (8.2) in 2004, including SEK 0 m (2.0) in variable compensation. The CEO's variable compensation is based on the performance and development of the business. The variable compensation can amount to a maximum of 70% of annual salary. Fifty per cent of the set variable compensation is paid out after the Annual General Meeting in the year following the year in which it was earned. The remaining 50% will be paid out after the 2007 Annual General Meeting, provided he is still employed. 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. Through the adoption of RR 29, starting on 1 January 2004 this is reported on the balance sheet; the obligation amounted to SEK 2.6 m (2.3) as per 31 December 2004. The present value of survivorship benefits that would be paid out for a claim made today is SEK 40.5 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 7.4 m (8.3), including variable compensation of SEK 0.5 m (2.0). Variable compensation is mostly based on the performance and development of the business, and partly on personal targets. Variable compensation can amount to a maximum of 55% of annual salary. Fifty per cent of the set variable compensation is paid out after the Annual General Meeting in the year following the year in which it was earned. The remaining 50% will be paid out after the 2007 Annual General Meeting, provided they are still employed. 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, with the addition of a defined contribution pension amounting to 25% of salary amounts between 20–50 times the Price Base Amount. The Board's compensation committee makes decisions on salary and other terms of employment for the CEO and senior executives. See also the Administration Report, page 33.

Note 4. (Continued)

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. Ten thousand options were subsequently repurchased. As per 31 December 2003, 80,800 options remained, which were redeemed for Axfood shares in 2004. The exercise price was SEK 77, and as per 31 December 2004 there are no stock options outstanding.

5. Auditors' fees

	Group		Parent Company	
	2004	2003	2004	2003
KPMG				
Auditing fees	6	6	1	1
Fees for other consulting	2	2	2	1
Total	8	8	3	2

6. Depreciation and amortization

Scheduled depreciation broken down by function

Group	Goodwill		Other intangible assets		Land and buildings		Equipment, tools and fixtures		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Cost of goods sold	138	137	9	7	13	18	327	241	487	403
Selling expenses	–	–	0	1	1	1	69	135	70	137
Administrative expenses	–	–	13	3	0	–	60	48	73	51
Total	138	137	22	11	14	19	456	424	630	591

The Parent Company's depreciation of SEK 2 m (2) pertains to equipment, tools and fixtures under administrative expenses.

7. Operating leases

	Group		Parent Company	
	2004	2003	2004	2003
Leasing payments during the financial year	1,195	1,158	6	5
Of which, rents for premises	1,148	1,103	5	4
Contracted minimum lease payments				
Maturity year 1	1,089	103	6	5
Maturity year 2	931	929	6	5
Maturity year 3	660	719	1	5
Maturity year 4	470	449	1	1
Maturity year 5	312	320	–	–
Maturity year 6–	587	558	–	–
Total future lease payments	4,049	4,078	14	16

Of the year's and future contracted minimum lease payments, approximately one-third pertain to premises that have been sub-let to others.

8. Related party transactions

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 5,076 m (5,077), including SEK 5,076 m (5,072) in purchases from Tuko Logistics Oy (Spar Finland's partly owned wholesaling operation), and SEK 0 m (5) from others. Sales to associated companies totalled SEK 407 m (568) and consisted primarily of sales of goods. All prices are set at going rates in the market.

Axfood AB is 45.3%-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.

Servera R&S, a subsidiary of Axel Johnson AB, delivers supplies in the food service segment to Axfood companies. Purchases made during the year from Servera amounted to SEK 70 m (75). As per 31 December 2004, the Axfood Group's current liabilities to Servera amounted to SEK 5 m (2), and current receivables totalled SEK 1 m (0).

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 174 m (172) in rents to Axfast AB. All rents have been set according to going rates in the market. As per 31 December 2004, the Axfood Group's current liabilities to Axfast AB amounted to SEK 28 m (10).

Associated companies' holdings of shares in Axfood AB amounted to a total of 44,687 shares as per 31 December 2004 (29,237), corresponding to a par value of SEK 223,435 (146,184).

9. Result from participations in Group companies

	Parent Company	
	2004	2003
Dividends received	73	11
Impairment	-64	–
Total	9	11

10. Interest income and similar profit/loss items

	Group		Parent Company	
	2004	2003	2004	2003
Interest income	17	15	8	29
Other financial income	1	1	–	–
Total	18	16	8	29

Interest income in the Parent Company from Group companies amounted to SEK 1 m (26).

11. Interest expense and similar profit/loss items

	Group		Parent Company	
	2004	2003	2004	2003
Interest expense	43	61	15	35
Other financial expenses	3	18	2	2
Total	46	79	17	37

Interest expense in the Parent Company to Group companies amounted to SEK 0 m (0).

12. Appropriations and untaxed reserves

	Parent Company	
	2004	2003
Appropriations		
Change in tax allocation reserve	-201	-184
Total	-201	-184
Untaxed reserves		
Accumulated excess depreciation	2	1
Tax allocation reserve 1998	–	3
Tax allocation reserve 1999	4	4
Tax allocation reserve 2000	4	4
Tax allocation reserve 2001	102	102
Tax allocation reserve 2002	175	175
Tax allocation reserve 2003	184	184
Tax allocation reserve 2004	203	–
Total	674	473

13. Taxes

	Group		Parent Company	
	2004	2003	2004	2003
Current tax				
Current tax on profit/loss for the year	-253	-223	79	71
Adjustment of current tax from previous years	-1	8	0	1
	-254	-215	79	72
Deferred tax				
Deferred tax pertaining to temporary differences	-58	-60	3	-12
Deferred tax pertaining to changed tax rate	1	–	–	–
Adjustment of deferred tax pertaining to previous years	-1	–	–	–
	-58	-60	3	-12
Total reported tax charge	-312	-275	82	60

Reconciliation of current tax rate and effective tax rate	2004	%	2003	%	2004	%	2003	%
Reported profit/loss before tax	980		971		-286		-53	
Tax based on applicable tax rate for Parent Company	-274	-28	-272	-28	80	28	15	28
Effect of other tax rates for foreign subsidiaries	0	0	0	0	–		–	
Tax effect of:								
Amortization of Group goodwill	-35	-4	-35	-4	–		–	
Other non-deductible expenses	-5	-1	-6	-1	-18	-6	-1	-3
Tax-exempt capital gains	0	0	24	3	–		45	86
Other non-taxable revenues	3	1	6	1	20	7	–	
Adjustments of current tax pertaining to previous years	-1	0	8	1	–		1	2
Adjustments of deferred tax pertaining to previous years	-1	0	–		–		–	
Adjustment of deferred tax pertaining to changed tax rate	1	0	–		–		–	
Reported tax charge/effective tax rate	-312	-32	-275	-28	82	29	60	113

Current and deferred tax items reported directly against shareholders' equity -5 – -250 -227

	Group		Parent Company	
	2004	2003	2004	2003
Reported deferred tax assets and tax liabilities				
Intangible fixed assets	0	1	–	–
Land and buildings	–	-1	–	–
Equipment, tools and fixtures	5	3	–	–
Long-term receivables	1	–	–	–
Other receivables	15	14	–	–
Tax-loss carryforward	1	1	–	–
Untaxed reserves	-424	-360	–	–
Provisions	2	9	7	3
Other liabilities	4	0	–	–
Total deferred tax asset (+)/deferred tax liability (-), net	-396	-333	7	3
Deferred tax asset	34	23	7	3
Deferred tax liability	-430	-356	–	–

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

Change in deferred tax in temporary differences and tax-loss carryforwards during the year, Group	Amount at start of year	Reported in profit and loss account	Reported in shareholders' equity	Amount at end of year
Intangible fixed assets	1	-1	–	0
Land and buildings	-1	1	–	–
Equipment, tools and fixtures	3	2	–	5
Long-term receivables	–	1	–	1
Other receivables	14	1	–	15
Tax-loss carryforward	1	–	–	1
Untaxed reserves	-360	-64	–	-424
Provisions	9	-2	-5	2
Other liabilities	0	4	–	4
Total	-333	-58	-5	-396

14. Intangible fixed assets

Group	Goodwill ¹⁾		Intangible asset in progress		Other intangible assets	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Opening cost	1,675	1,584	52	25	116	108
Investments	17	88	50	49	2	2
(of which, internally developed)	–	–	(14)	(12)	–	–
Increases through acquisitions	–	4	–	–	–	–
Sales and disposals	–	–	–	–	-3	-1
Translation differences	0	-1	-1	–	-1	–
Reclassifications ²⁾	–	–	-58	-22	58	7
Closing accumulated cost	1,692	1,675	43	52	172	116
Opening amortization	-670	-531	–	–	-71	-62
Increases through acquisitions	–	-1	–	–	–	–
Sales and disposals	–	–	–	–	2	2
Translation differences	-1	-1	–	–	0	–
Amortization for the year	-138	-137	–	–	-22	-11
Closing accumulated amortization	-809	-670	–	–	-91	-71
Opening impairment	-26	-26	–	–	–	–
Closing accumulated impairment	-26	-26	–	–	–	–
CLOSING PLANNED RESIDUAL VALUE	857	979	43	52	81	45

¹⁾ Goodwill pertains primarily to acquisition goodwill from 1999 to 2001. The three largest entries pertain to Dagab, SEK 461 m (518), Willys, SEK 161 m (203), and Spar Finland, SEK 101 m (114). Total acquisition goodwill amounts to SEK 825 m (944). Of total acquisition goodwill, 13% 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 58 m from Intangible assets in progress to Other intangible assets, SEK 13 m pertains to internally developed IT investments.

15. Tangible fixed assets

Group	Land and buildings ^{1) 2)}		Equipment, tools and fixtures		Construction in progress	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Opening cost	311	921	3,482	3,040	11	21
Investments	6	32	434	556	27	21
Increases through acquisitions	–	–	–	83	–	–
Sales and disposals	-19	-639	-222	-210	–	–
Translation differences	-3	-3	-6	-5	1	-13
Reclassifications	–	–	20	18	-20	-18
Closing accumulated cost	295	311	3,708	3,482	19	11
Opening depreciation	-92	-220	-1,882	-1,577	–	–
Increases through acquisitions	–	–	–	-44	–	–
Sales and disposals	13	147	174	160	–	–
Translation differences	–	–	4	3	–	–
Depreciation for the year	-14	-19	-456	-424	–	–
Closing accumulated depreciation	-93	-92	-2,160	1,882	–	–
Opening impairment	–	–	-9	-13	–	–
Sales and disposals	–	–	8	4	–	–
Impairment for the year	–	–	-3	–	–	–
Closing accumulated impairment	–	–	-4	-9	–	–
CLOSING PLANNED RESIDUAL VALUE	202	219	1,544	1,591	19	11

¹⁾ The tax assessment value of Swedish buildings was SEK 10 m (17) and of land SEK 4 m (3).

²⁾ The cost of land was SEK 59 m (60).

Note 15. (continued)

Parent Company	Land and buildings		Equipment, tools and fixtures	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Opening cost	7	7	11	8
Investments	–	–	0	4
Increases from other Group companies	–	–	3	–
Sales and disposals	–	–	0	-1
Closing accumulated cost	7	7	14	11
Opening depreciation	0	–	-6	-5
Investments from other Group companies	–	–	-2	–
Sales and disposals	–	–	0	1
Depreciation for the year	0	0	-2	-2
Closing accumulated depreciation	0	0	-10	-6
CLOSING PLANNED RESIDUAL VALUE	7	7	4	5

16. Government subsidies

Government subsidies in the form of labour market policy subsidies amounted to SEK 2 m (1) in the consolidated balance sheet (reported under accrued expenses) and SEK 24 m (18) in the consolidated profit and loss account, which have reduced payroll costs. No other unfulfilled conditions or contingent liabilities exist.

17. Finance leases

Group	Equipment, tools and fixtures	
	31/12/2004	31/12/2003
Opening cost	143	159
Increases through acquisitions	0	0
Investments	27	27
Sales and disposals	-58	-43
Closing accumulated cost	112	143
Opening depreciation	-54	-50
Increases through acquisitions	0	0
Sales and disposals	29	35
Depreciation for the year	-30	-39
Closing accumulated depreciation	-55	-54
Current liability (year 1)	21	27
Remaining long-term liability		
Maturity year 2	21	21
Maturity year 3	11	25
Maturity year 4	3	10
Maturity year 5	1	6
Maturity year 6–	0	0
Total long-term liability	36	62

18. Participations in Group companies

Parent Company	Reg. no.	Registered office	Number of shares	Share of capital, %	Book value
Sweden					
Hemköpskedjan AB	556113-8826	Solna	100,000	100	162
Axfood Sverige AB	556004-7903	Solna	3,434,656	100	1,548
Spar Sverige AB	556025-1992	Gothenburg	14,100	100	19
Axfood Finans AB	556039-0188	Solna	142,027	100	22
Willys Lågpris AB	556163-2232	Gothenburg	1,000	100	143
Willys hemma AB	556359-3671	Gothenburg	10,000	100	109
Axfood IT AB	556035-6163	Solna	1,000	100	2
Axfood Närlivs AB	556488-5654	Örebro	1,000	100	27
Dagab AB	556070-3166	Solna	28,000,000	100	905
Total, Swedish Group companies					2,937
Finland					
Spar Finland Abp:s ¹⁾	0196683-5	Finland	357,715 A/429,657 K	69.3	307
Total, Group companies					3,244

¹⁾ The market value as per 31/12/2004 was EUR 30 m (SEK 270 m). The voting share is 75.2%.

19. Participations in associated companies

	Group	
	2004	2003
Accumulated cost		
Opening cost	133	178
Translation differences	-1	-1
Divestments	-1	-44
Closing cost	131	133
Adjustments of shareholders' equity pertaining to investments in associated companies		
Opening carrying amount	-21	-13
Share in profit before tax	3	10
Translation difference	1	-
Dividends received	-3	-10
Taxes	-1	-3
Divestments and other changes	-2	-5
Closing carrying amount	-23	-21
Total	108	112

Group	Reg. no.	Registered office	Number of shares	Share of capital/ votes, %	Book value	Share of capital
Tuko Logistics Oy	0858675-5	Finland	2,100	35	127	-37
Eurospar Oy	0971908-9	Finland	2	50	0	0
Best i Garvaren AB	556456-0752	Ljungby	250	25	0	0
Bra Matmarknad i Kinna AB	556514-8896	Gothenburg	250	25	0	0
Bra Matmarknad i Källered AB	556571-1479	Gothenburg	250	25	0	0
Bra Matmarknad i Skene AB	556533-0262	Gothenburg	250	25	0	3
Bra Matmarknad i Stenungsund AB	556083-5992	Gothenburg	490	25	1	7
Kaj Bergqvist Livs AB	556028-5792	Helsingborg	250	25	0	1
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
United Nordic Inc AB	556043-4606	Solna	250	25	0	0
Lindér Livsmedel AB	556538-6645	Skövde	750	25	0	0
R. Stenbergs-Gruppen Invest AB	556540-0404	Härnösand	500	25	1	-2
Fålhagens Livs i Uppsala AB	556451-8370	Uppsala	375	25	2	2
Total					131	-23

20. Other long-term securities

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

21. Other long-term receivables

	Group	
	31/12/2004	31/12/2003
Long-term noninterest-bearing receivables	17	15
Alecta (formerly SPP)	1	3
Long-term interest-bearing receivables	6	59
Total	24	77

22. Financial fixed assets

	Participations in Group companies Parent Company	Participations in associated companies Group	Other long-term securities holdings Parent Company	Other long-term securities holdings Group	Other long-term receivables Group
Opening cost, 1/1/2004	2,485	112	3	41	109
Acquisitions	916	–	–	–	–
Disposals/amortization	–	-3	–	–	-52
Merged subsidiaries	-93	–	–	–	–
Share in associated company profits, after tax	–	2	–	–	–
Utilization	–	–	–	–	-1
Dividends received	–	-3	–	–	–
Closing accumulated cost	3,308	108	3	41	56
Opening impairment	0	–	–	–	-32
Impairment for the year	-64	–	–	–	–
Closing accumulated impairment	-64	–	–	–	-32
CLOSING RESIDUAL VALUE	3,244	108	3	41	24

23. Other current receivables

	Group		Parent Company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Other noninterest-bearing receivables	67	126	4	9
Alecta (formerly SPP)	–	6	–	–
Other interest-bearing receivables	5	2	–	–
Total	72	134	4	9

24. Prepaid expenses and accrued income

	Group		Parent Company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Prepaid rents	166	237	2	1
Prepayment of leases	2	3	0	–
Accrued bonuses and similar	354	183	–	–
Accrued interest income	–	1	–	–
Delivered, uninvoiced	9	27	–	–
Other prepaid expenses	27	262	2	1
Other accrued income	7	27	0	–
Total	565	740	4	2

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 2004.

26. Provision for pensions and similar obligations

Group

In the transition to RR 29, figures for the comparison year are not reported, in accordance with the recommendation. The value of all funded and unfunded pension plans, including the year's change, is shown in the tables below.

	2004
Defined benefit pension plans	
Present value of funded obligations	15
Fair value of plan assets	-12
	3
Present value of unfunded obligations	370
Unreported actuarial losses	-15
Net liability on balance sheet	358
Amounts reported on balance sheet	
• provisions	358
• assets	–
Net liability on balance sheet	358

Of Axfood's defined benefit pension plans in Sweden, SEK 319 m consist of obligations within the FPG/PRI system. Of these obligations, SEK 255 m are locked, which for Axfood's part entails that all new earnings take place in the Alecta system. Obligations in the FPG/PRI system are unfunded pension plans, which is why these are reported in their entirety as Provision for pensions.

In addition to unfunded pension plans, Axfood has two individual pension plans that are partly funded, of which one is managed by the Axel Johnson pension foundation.

	2004
Costs reported in the profit and loss account	
<i>Defined benefit pension plans</i>	
Benefits earned during the year	7
Interest cost	17
Actual return on plan assets	0
Actuarial gains/losses reported for the year	–
Total	24
<i>Defined contribution pension plans</i>	
Benefits earned during the period	187
Total pension liability	211
<i>Pension costs are broken down per function in the profit and loss account as follows:</i>	
Cost of goods sold	94
Selling expenses	52
Administrative expenses	48
Interest cost	17
Total	211
<i>Change in net liability during the year</i>	
Net liability at start of year	373
Reclassification	-1
Change of accounting principle	-18
Net expense in profit and loss account	24
Pension disbursements	-20
Net liability at end of year	358

The following actuarial assumptions have been made in calculating the present value of defined benefit obligations.

	31/12/2004	1/1/2004
Discount rate	4.6%	4.9%
Future annual salary increases	3.0%	3.0%
Future annual pension increases	2.0%	2.0%
Employee turnover rate	4.0%	4.0%

Parent Company

The Parent Company's reported pension liability amounted to SEK 20 m (14) and pertains to obligations to the CEO. Starting in 2004, all pension obligations to the CEO are reported on the balance sheet.

27. Other provisions

	Group 31/12/2004	Parent Company 31/12/2004
Amount at start of year	14	–
Change of accounting principle	-1	3
Provision for the year	3	2
Reversal during the year	-1	–
Utilization	-6	–
Translation difference	–	–
Amount at end of year	9	5

Pertains to rental provisions in Spar Finland and to provision for special payroll tax in the Parent Company. Of rental provisions, SEK 8 m fall due for payment in 2005 and 2006.

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 present value discounting based on the market value at 31 December 2004. 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..

	Carried amount 2004	Group Fair value 2004	Carried amount 2003	Fair value 2003	Carried amount 2004	Parent Company Fair value 2004	Carried amount 2003	Fair value 2003
Financial fixed assets								
Share in real estate company in Finland ¹⁾	22	16	22	16	–	–	–	–
Tenant-owner cooperatives ²⁾	19	20	19	20	3	3	3	3
Other	–	–	0	0	–	–	–	–
Total other long-term securities holdings	41	36	41	36	3	3	3	3
Long-term liabilities								
Long-term liabilities to credit institutes	44	44	175	178	–	–	120	123
Convertible debenture ³⁾	71	71	68	68	71	71	68	68
Other long-term interest-bearing liabilities	59	59	88	88	–	–	–	–
Total other interest-bearing liabilities	130	130	156	156	71	71	68	68
Current liabilities								
Bank overdraft facility	–	–	58	58	–	–	58	58
Current liabilities to credit institutes	10	10	101	102	–	–	90	91
Other interest-bearing current liabilities	90	90	109	109	–	–	–	–
Trade accounts payable								
Trade accounts payable	1,767	1,767	1,636	1,636	5	5	3	3
Of which, trade accounts payable in foreign currency	61	61	47	48	–	–	–	–
Less: amounts hedged by forward exchange contracts ⁴⁾	-41	-42	-22	-23	–	–	–	–
Less: amounts hedged by spot purchases	-20	-19	-25	-25	–	–	–	–
Trade accounts payable, net	1,767	1,767	1,636	1,636	5	5	3	3
Hedging on orders placed	0	85	0	61	–	–	–	–

¹⁾ The value of the share in the real estate company in Finland is estimated for the Group to be higher than the fair value.

²⁾ Pertains mainly to tenant-owner cooperatives in which store operations are conducted.

³⁾ 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 1.89%, 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.

⁴⁾ The interest component in forward exchange contracts exceeding 3 months is reported as interest income or expense. As per 31 December 2004, there were no forward exchange contracts with terms of more than 3 months.

29. Long-term and current liabilities

	Group		Parent Company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Granted credit lines				
Long-term committed credit lines	200	200	200	200
Short-term committed credit lines	–	200	–	200
Bank overdraft facilities	465	465	450	450
Total committed credit lines	665	865	650	850
Drawn long-term credit lines	–	–	–	–
Drawn short-term credit lines	–	–	–	–
Drawn bank overdraft facilities	–	-58	–	-58
Short-term investments	676	202	581	91
Total committed credit lines/refinancing risk reserve	1,341	1,009	1,231	883
Long-term liabilities				
Loans to credit institutions	44	175	–	120
Convertible debenture	71	68	71	68
Finance leases	36	62	–	–
Other interest-bearing	23	26	–	–
Other noninterest-bearing	12	13	–	–
Total	186	344	71	188
Current portion of long-term debt	43	137	–	90
Maturity year 1	117	180	71	128
Maturity year 2	34	109	–	60
Maturity year 3	15	21	–	–
Maturity year 4	11	17	–	–
Maturity year 5	4	10	–	–
Maturity year 6–	5	7	–	–
Total long-term liabilities	186	344	71	188

In January 2001 a convertible debenture of SEK 73 m was issued to the employees, of which SEK 71 m (68) 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.

	Group			Parent Company				
	31/12/2004	Effective interest	31/12/2003	Effective interest	31/12/2004	Effective interest	31/12/2003	Effective interest
Interest exposure, liabilities								
Maturity less than 1 year ¹⁾	89	2.60 %	268	3.80 %	–	–	148	4.55 %
Maturity later than 1 year but less than 5 years	177	2.70 %	314	4.29 %	71	1.89 %	188	4.70 %
Maturity later than 5 years	8	3.20 %	17	3.32 %	–	–	–	–
Total interest-bearing liabilities	274	2.58 %	599	3.95 %	71	1.89 %	336	4.64 %

¹⁾ This includes the convertible debenture of SEK 71 m carrying interest equivalent to the Stibor rate less one percentage point, currently 1.89%. 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.

30. Accrued expenses and deferred income

	Group		Parent Company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Payroll-related items	672	637	19	14
Restructuring measures	7	–	–	–
Accrued bonuses and similar	56	61	–	–
Accrued auditing costs	2	2	0	0
Accrued real estate costs	26	16	–	–
Accrued income	1	3	1	2
Delivered, uninvoiced	123	177	–	–
Prepaid rents	–	41	–	–
Other accrued expenses	67	71	8	12
Other deferred income	40	75	–	–
Total	994	1,083	28	28

31. Contingent assets, pledged assets and contingent liabilities

	Group		Parent Company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Contingent assets				
Legal claim with uncertain outcome	–	1	–	–
Total	–	1	–	–
Pledged assets				
Property mortgages	127	130	–	–
Chattel mortgages	99	100	–	–
Shares in subsidiaries	–	1,249	–	2,177
Other pledged assets	139	141	–	–
Total	365	1,620	–	2,177

	Group		Parent Company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Contingent liabilities				
Guarantees for subsidiaries	–	–	380	463
Guarantees for others	69	58	4	6
FPG/PRI	7	7	–	–
Other contingent liabilities	9	13	–	2
Total	85	78	384	471

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 National Tax Board and to Swedish Customs.

	Group		Parent Company	
	31/12/2004	31/12/2003	31/12/2004	31/12/2003
Pledged assets broken down into own provisions and liabilities				
<i>Liabilities to credit institutions</i>				
Shares in subsidiaries	–	1,249	–	2,177
Chattel mortgages	99	100	–	–
Property mortgages	127	130	–	–
Other pledged assets	139	141	–	–
Total	365	1,620	–	2,177
Total pledged assets for own provisions and liabilities	365	1,620	–	2,177

32. Exchange rate differences and currency exposure

	Group				
	31/12/2004	31/12/2003			
Exchange rate differences in profit and loss account					
Exchange rate differences included in operating profit	0	0			
Exchange rate differences included in financial items	0	0			
Total	0	0			
Exchange rate differences reported directly against shareholders' equity					
Exchange rate differences at start of year	8	12			
Change for the year	-3	-4			
Exchange rate differences at year-end	5	8			
	Estimated future net flow	Of which, contracted net flow	Amount hedged through forward exchange contracts	Estimated average forward rate	Outstanding currency risk
Currency exposure					
EUR	100	100	100	8.99	-
USD	15	15	15	6.75	-
DKK	7	7	7	1.21	-
NOK	3	3	3	1.09	-
GBP	1	1	1	12.75	-
Total outstanding currency risk	126	126	126		-
Deferred gains/losses for outstanding currency hedges					
EUR	0				
USD	0				
Other	0				
Total	0				

Flow hedges and transaction exposure in foreign currency arise 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 126 m in outstanding forward contracts as per 31 December 2004, no contracts had a term in excess of 3 months.

33. Adjustment for non-cash items

	Group		Parent Company	
	2004	2003	2004	2003
Change in pension liabilities	-13	-14	6	6
Non-cash changes in other provisions	-6	-8	–	–
Non-cash capital gains on sale of subsidiary	–	-132	–	-198
Capital gains, etc., pertaining to fixed assets	42	17	–	–
Non-cash interest expenses	21	19	1	–
Other	25	-7	-5	-1
Total	69	-125	2	-193

34. Acquisitions of subsidiaries

	Group		Parent Company	
	2004	2003	2004	2003
Intangible fixed assets	17	89		
Tangible fixed assets	3	44		
Financial fixed assets	–	-30		
Inventories	5	31		
Other current assets	0	26		
Cash and cash equivalents	1	70		
Minority interests	–	2		
Provisions	–	-2		
Long-term liabilities	-2	-5		
Current liabilities	-6	-83		
Total purchase price paid	18	142		
Cash and cash equivalents in acquired companies	-1	-70		
Impact of cash and cash equivalents from the year's acquisitions	17	72	916	138
Total cash flow pertaining to investments in subsidiaries	17	72	916	138

35. Sales of subsidiaries

	Group	
	2004	2003
Divested net assets		
Current assets	–	7
Cash and cash equivalents	–	6
Current liabilities	–	-367
Tangible fixed assets	–	509
Provisions	–	-18
Capital gains on sales	–	112
Net cash flow from divestments	–	249
Purchase price not yet received	–	-6
Less: cash and cash equivalents in sold companies	–	-6
Purchase price paid for divestments from previous years	5	–
Cash flow from divestments, net	5	237

The Parent Company divested subsidiaries in the amount of SEK 5 m (284). Purchase price not yet received: SEK – m (6).

36. Earnings per share after dilution

	2004	2003
Net profit for the year after tax	664	684
Reversal of interest expense after tax pertaining to convertibles	2	2
Adjusted net profit	666	686
Weighted average number of shares before dilution	53,567,009	53,248,074
Additional shares upon full conversion	1,006,100	1,006,100
Dilutive effect of warrants	–	81,926
Total weighted average number of shares after dilutive effect	54,573,109	54,336,100
EARNINGS PER SHARE AFTER DILUTION	12.19	12.62

37. Mergers

During the year, the following company was merged with Axfood AB. The company was not acquired during the year.

Company	Date of merger	Assets taken over	Liabilities taken over	Untaxed reserves taken over	Net sales	Operating profit
HP Billigt & Nära Holding AB Reg. no. 556554-5786	28/6/2004	92	–	–	–	–
Total		92	–	–	–	–

Proposed disposition of earnings

Registered number 556542-0824

According to the consolidated balance sheet, unrestricted shareholders' equity amounted to SEK 1,149 m at 31 December 2004, of which SEK 664 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	1,100,827
Net loss for the year	204,088
Total, SEK 000	896,739

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

Shareholder dividend of SEK 11.00	589,356
To be carried forward	307,383
Total, SEK 000	896,739

Stockholm, Sweden, 14 February 2005

Göran Ennerfelt
Chairman

Marcus Storch
Vice Chairman

Antonia Ax:son Johnson

Peggy Bruzelius

Maria Curman

Assar Johansson

Hans-Gunnar Johansson

Inger Sjöstrand

Gunnar Söderling

Gösta Törnroth

Annika Åhnberg

Mats Jansson
President and CEO

Our audit report was submitted on 14 February 2005

Per Bergman
Authorized Public Accountant

Ola Forsberg
Authorized Public Accountant

Auditors' Report

To the Annual General Meeting of Axfood AB (publ.)
Reg. no. 556542-0824

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and president of Axfood AB for the 2004 financial year. These accounts and the administration of the company and the application of the Annual Accounts Act when preparing the annual accounts and the consolidated accounts are the responsibility of the board of directors and president. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts 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 annual accounts and the consolidated accounts are free from material misstatement. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the accounting policies used and of their application by the board of directors and the president, and of the significant estimates and judgements made by the directors in the preparation of the annual accounts and consolidated accounts as well as an evaluation of the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined

significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the president. We also examined whether any board member or the president has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and thereby give a true and fair view of the company's and the group's financial position and results of operations in accordance with generally accepted auditing standards in Sweden. The administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual general meeting that the profit and loss accounts and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report, and that the members of the board of directors and the president be discharged from liability for the financial year.

Stockholm, Sweden, 14 February 2005

Per Bergman
*Authorized Public
Accountant*

Ola Forsberg
*Authorized Public
Accountant*

Corporate governance

Governance, management and control of Axfood are divided among the shareholders at general shareholder meetings, the Board of Directors, and the CEO, in accordance with Swedish company law and Axfood's Articles of Association. Axfood complies with applicable areas of the Swedish Code of Corporate Governance, published in December 2004.

Articles of Association

According to Axfood's Articles of Association, "the objects of the Company's business are to directly or indirectly conduct trading in fast moving consumer goods, wholesaling, retailing and consulting in the fast moving consumer goods sector, especially in the food industry, to own and manage securities, inventories and real property, and to conduct financing business and similar activities." The Board's registered office is in Stockholm. There is no limitation on the voting rights of shares represented at general meetings.

Annual General Meeting 2004

The General Meeting is Axfood's supreme governing body. The Annual General Meeting was held on 4 March 2004 in Stockholm. Göran Ennerfelt was elected as chairman to preside over the meeting.

The following resolutions were made:

- The AGM adopted the profit and loss account and balance sheet, and resolved to dispose of the Company's profit in accordance with the adopted balance sheet, grant discharge of liability to the members of the Board of Directors and the President, and to pay a dividend of SEK 5.50 per share for the 2003 financial year, in accordance with the Board's recommendation.
- The AGM resolved in accordance with the nominating committee's recommendation
 - that the number of directors elected by the general meeting shall be nine, with no alternates,
 - to re-elect Göran Ennerfelt, Antonia Ax:son Johnson, Marcus Storch, Gösta Törnroth, Peggy Bruzelius, Annika Åhnberg, Maria Curman, Gunnar Söderling and Mats Jansson as directors on the Company's board
 - to set the directors' fees at an unchanged amount of SEK 1,700,000, to be apportioned among the directors
 - to elect as auditors Per Bergman (re-election) and Ola Forsberg (new election), from KPMG Bohlins AB, for terms extending through the end of the 2008 Annual General Meeting, and

– that auditors' fees shall be paid as invoiced and approved by the Board of Directors.

- The Board was authorized to decide on purchases and transfers of the Company's own stock on the Stockholm Stock Exchange. The authorization pertains to purchases of up to 2,000,000 shares at a price per share that is within the price interval registered on the Stockholm Stock Exchange at the time of purchase.
- The Board was granted authorization, in connection with the financing of company acquisitions – in cases where the Board finds it appropriate – to transfer the Company's own stock on the stock market or in another manner than on the stock market, entailing the right to decide on deviation from the shareholders' pre-emption rights and that payment shall be possible in another form than money.

Nominating committee

The 2004 Annual General Meeting resolved to support a procedure whereby Axfood's principal owner, representing more than 40% of the votes, appoints a nominating committee for the purpose of presenting recommendations to the Annual General Meeting on 10 March 2005 on the number of directors, the composition of the Board of Directors, and directors' fees. This procedure was applied ahead of the 2004 Annual General Meeting. The members of the nominating committee are to be announced in connection with the release of the third quarter interim report. For nomination ahead of the 2005 Annual General Meeting, the committee had the following members: Hans Dalborg (chairman), Antonia Ax:son Johnson, Joachim Spetz (representative for SHB), and Inge Bäckström (representative for Axfood's shareholder association). Axfood's chairman, Göran Ennerfelt, is a co-opted member of the nominating committee.

The nominating committee held two meetings in 2004. No compensation is paid to the members.

Composition of nominating committee and number of meetings

Hans Dalborg, chairman	2
Antonia Ax:son Johnson	2
Joachim Spetz, representative for SHB	2
Inge Bäckström, representative for Axfood's shareholders' association	2
Göran Ennerfelt, co-opted member	2
Number of meetings	2

The Board of Directors and its work

General

According to the Company's articles of association, the Board shall consist of three to ten members, with not more than two alternates elected by the Annual General Meeting. In 2004 Axfood's board had nine members elected by the Annual General Meeting and no alternates, and three employee representatives with one alternate. The CEO is a member of the Board. The Board appointed itself on 4 March 2004 and elected Göran Ennerfelt as Chairman and Marcus Storch as Vice Chairman until the next Annual General Meeting. Four of the AGM-elected directors are independent of Axfood. The company secretary is Lars Nilsson, Axfood's chief financial officer. Other Axfood employees participate at board meetings by submitting reports. The Board of Directors is presented on pages 70–71.

The Board's work is governed by a work plan that is adopted each year and stipulates the Board's internal division of duties, decision-making procedures within the Company, signatories, rules of order at board meetings, and the Chairman's duties. The Board's work is conducted according to a set procedure designed to ensure the Board's need of information and that a suitable division of responsibilities exists between the Board and the CEO. The Board has chosen to appoint a compensation committee from among its members to conduct a more in-depth examination of compensation matters. The Board as a whole serves as an audit committee.

The Board has adopted a special CEO instruction for the Company. The Board oversees the CEO's work and is responsible for ensuring that the Company's organization, management and guidelines for management of the Company's assets are suitably built up. In addition, the Board is responsible for the development and follow-up of the Company's strategies through plans and targets, decisions on acquisitions and divestments of businesses, major investments, appointments and compensation to management, and continuing follow-up of operations during the year.

Axfood's guidelines for board work are applied by all of the Group's Swedish subsidiaries.

The Chairman

The Chairman leads the Board's work to ensure that it is in compliance with the Swedish Companies Act and other relevant laws. The Chairman monitors operations in dialogue with the CEO and is responsible for ensuring that the other directors receive the information that is necessary for high quality discussions and decisions. The Chairman represents the Company in ownership matters.

The work of the Board

Axfood's board holds its statutory meeting immediately after the Annual General Meeting. Thereafter the Board shall have at least four meetings per calendar year. In 2004 the Board had eight meetings, whereby one was dedicated to strategic discussion and one dealt with the 2005 business plan.

Composition of the Board and number of meetings

	Board	Compensation committee
Göran Ennerfelt, Chairman	8	2
Peggy Bruzelius, Director	8	
Maria Curman, Director	7	
Mats Jansson, Director	8	2
Antonia Ax:son Johnson, Director	8	2
Marcus Storch, Vice Chairman	8	2
Gunnar Söderling, Director	7	
Gösta Törnroth, Director	8	
Annika Åhnberg, Director	8	
Assar Johansson, employee representative	8	
Hans G. Johansson, employee representative	8	
Inger Sjöstrand, employee representative	8	
Number of meetings	8	2
Average duration (hours)	4	3

Directors' fees

Total fees paid to the directors elected by the Annual General Meeting are decided by the Annual General Meeting and amounted to SEK 1,700,000 for 2004. The Chairman receives an annual fee of SEK 370,000, the Vice Chairman SEK 250,000, and each of the other directors SEK 180,000. Axfood's CEO, Mats Jansson, receives no fee for his board work. No fee is paid to employee representatives or for directors' work on committees.

Compensation committee

The Board has a compensation committee that focuses on the CEO's and executive management's salaries, other terms of employment and incentive programmes ahead of decisions by the Board. The members are Göran Ennerfelt (chairman), Antonia Ax:son Johnson, Marcus Storch, and Axfood's CEO, Mats Jansson, who is a co-opted member. The CEO does not participate in discussions concerning his own terms. An independent consulting firm, Mercer Consulting AB, is tied to the committee for issues concerning incentive programmes. The committee met two times in 2004.

Audit

The Board has no audit committee – the Board as a whole is responsible for ensuring that the Company's audit effectively

makes sure that the Group has satisfactory routines for internal control and that its financial reporting is correct and maintains a high standard of quality. The Company's auditors are elected by the Annual General Meeting for a period of four years. At least once a year the auditors report on the extent to which the Company has ensured that the bookkeeping, administration and financial control work. Following 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.

In addition to its auditing assignment, Axfood's auditing firm, KPMG, received SEK 2 m in consulting fees.

Reporting

The Board oversees the quality of the financial reporting by providing instructions to the CEO. The CEO is responsible for working together with the chief financial officer and head of corporate communications to examine and ensure the quality of all external financial reporting, including year-end earnings reports, interim reports, annual reports, press releases with financial content, and presentation material in connection with meetings with the media, owners and financial institutions.

Executive Committee

The Board has delegated the continuing responsibility for the Company's management to the CEO and the Executive Committee. Axfood Executive Committee consists of eleven persons, of whom one is a woman. Of these, six are presidents of


operating companies within the Group and four are staff heads. The Executive Committee meets once a month for continuing matters and discussions, and holds a more lengthy strategy meeting once a year. The Executive Committee has an establishment and financing committee tied to it which meets once a month for application and decision matters concerning store investments.

In 2004 Axfood's management drew up a new, long-term strategic plan (2004–2008) that was adopted by the Board during the summer. This plan is revised yearly by the Executive Committee and forms the platform for the strategy work carried out by Axfood's subsidiaries. A yearly business plan is drafted by the companies and Executive Committee during the last four months of the year and is presented to the Board at year-end. The business plan work engages employees on several levels within the Group. The business plan for each year is revised prior to the start of each quarter, with new forecasts, and is thus a dynamic planning document.

The companies in the Axfood Group are governed by internal boards. Mats Jansson is chairman of all companies. Other members are made up of various groupings from the Executive Committee. Gösta Törnroth, a director of Axfood, is a director of Willys hemma. The companies hold board meetings at least four times a year.

Internal review

Axfood's finance functions are integrated through joint finance and accounting systems and joint accounting instructions. The Group's controllers also work in close cooperation with company controllers with respect to the book-closing and reporting. In addition, the Board has a central security function that works through the companies. Axfood has no internal audit function, as this role is filled by the above-mentioned functions.



'The Board held eight meetings in 2004, of which one was dedicated to strategic discussion. One meeting focused on the 2005 business plan'



1. Göran Ennerfelt, b. 1940

Chairman

Director since 2000

Other assignments:

Chairman of Åhléns AB, Servera R&S AB, Novax AB, Axel Johnson International AB, AxFast AB, Svensk Handel and the Stockholm Institute of East European Economics. Director of Axel Johnson AB, Axel Johnson Inc., Svenska Handelsbanken AB, Spirent plc and the International Chamber of Commerce.

Number of shares: 10,000

2. Maria Curman, b. 1950

Director since 2003

Other assignments:

CEO of Bonnier Books and Bonnierföretagen AB. Chairman of J.W. Cappelens Forlag AS, Norway, OY Tammi, Finland, Bonnierforlagene A/S, Denmark, Autumn Publishing Group, England, and Månadens Bok. Independent director in accordance with the Stockholm Stock Exchange listing agreement.

Number of shares: 1,000

3. Gösta Törnroth, b. 1943

Director since 2000

Other assignments:

Chairman of AB Gostin, Färgsam AB and FärgSpektrum AB.

Director of Willys hemma AB and Axlon International AB.

Senior adviser of Nyföretagarcentrum i Solna. Former CEO and Chairman of D-Gruppen AB since its establishment in 1983 until 1998, director of D&D from 1998–2000, and director of Dagab AB from 1991–1994

Independent director in accordance with the Stockholm Stock Exchange listing agreement.

Number of shares: 2,500

4. Antonia Ax:son Johnson, b. 1943

Director since 2000

Other assignments:

Chairman of Axel Johnson AB, Axel Johnson Inc. and the City Mission of Stockholm.

Director of Åhléns AB, Servera R&S AB, Axel Johnson International AB, Nordstjernan AB, the Axel and Margaret Ax:son Johnson Foundation for Public Service and the World Childhood Foundation.

Number of shares: 24,257,566, via companies.

5. Assar Johansson, b. 1939

Employee representative

Director since 2002

Other assignments:

Employee representative on Dagab's and Axfood Närlivs' boards.

Number of shares: 0

6. Peggy Bruzelius, b. 1949

Director since 2000

Other assignments:

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

Vice Chairman of AB Electrolux.

Director of Axel Johnson AB, Scania AB, Ratos AB, Syngenta AB, the Stockholm School of Economics Association and the Swedish Industry and Commerce Stock Exchange Committee (NBK). Vice President of the Royal Swedish Academy of Engineering Sciences (IVA)

Number of shares: 1,500

7. Gunnar Söderling, b. 1943

Director since 2003

Other assignments:

Director of Frigoscandia Distribution AB and Bioett AB.

Independent director in accordance with the Stockholm Stock Exchange listing agreement.

Number of shares: 300

8. Hans G. Johansson, b. 1945

Employee representative

Director since 2000

Other assignments:

Employee representative on Hemköp's board.

Number of shares: 0

9. Inger Sjöstrand, b. 1953

Employee representative

Director since 2003

Other assignments:

Chairman of Handels Dalarna and ABF Södra Östra Dalarna.

Employee representative on Hemköp's board.

Number of shares: 0

10. Marcus Storch, b. 1942

Vice Chairman

Director since 2000

Other assignments:

Vice Chairman of Axel Johnson AB and the Nobel Foundation.

Director of NCC AB, Dagens Industri Holding AB, AB Hannells Industrier, Nordstjernan AB, the Royal Swedish Academy of Science, the Royal Swedish Academy of Engineering Sciences (IVA), and Stockholm börsens börskommitté.

Number of shares: 12,000

11. Annika Åhnberg, b. 1949

Director since 2000

Other assignments:

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), the Royal Swedish Academy of Engineering Sciences (IVA) and the Monsanto Biotech Advisory Council. Independent director in accordance with the Stockholm Stock Exchange listing agreement.

Number of shares: 0

12. Mats Jansson, b. 1951

President and CEO of Axfood AB

Director since 2000

Other assignments:

Chairman of Spar Finland Abp. Director of Ahlsell AB and Hufvudstaden AB.

Number of shares: 4,300

Holdings of convertibles: SEK 36,500



1. Mats Jansson, b. 1951

President and Chief Executive Officer
Employed since 2000

Other assignments:

Director of Ahlsell AB and Hufvudstaden AB.

Number of shares: 4,300

Holdings of convertibles: SEK 36,500

2. Urban Dahl, b. 1953

Purchasing Director

Employed since 1985* (not between
1989–90)

Number of shares: 0

Holdings of convertibles: SEK 109,500

3. Bodil Eriksson, b. 1963

Executive Vice President, Corporate
Communications, Investor Relations and
Human Resources

Employed since 2000

Other assignments:

Director of Nobia AB and Oriflame
Cosmetic S.A.

Number of shares: 0

Holdings of convertibles: SEK 43,800

4. Anders Strålman, b. 1953

President of Willys Lågpris AB

Employed since 1992*

Number of shares: 10,000

Holdings of convertibles: SEK 109,500

5. Lars Nilsson, b. 1956

Executive Vice President, Deputy CEO,
Chief Financial Officer

Employed since 2000

Number of shares: 13,200

Holdings of convertibles: SEK 109,500

6. Thomas Strömer, b. 1950

President of Willys hemma AB

Employed since 2000

Number of shares: 0

Holdings of convertibles: SEK 109,500

7. Stefan Karlsson, b. 1961

President of Dagab AB

Employed since 2000

Number of shares: 9,700

Holdings of convertibles: SEK 109,500

8. Pekka Kosonen, b. 1954

President of Spar Finland Abp

Employed since 2000

Number of shares: 0

Holdings of convertibles: 0

9. Carl-Erik Möller, b. 1947

President of Hemköpskedjan AB

Employed since 1998*

Number of shares: 5,750

Holdings of convertibles: SEK 109,500

10. Benny Hast, b. 1955

President of Axfood Närlivs AB

Employed since 1985*

Number of shares: 0

Number of convertibles: 109,500

11. Anders Nyberg, b. 1956

Executive Vice President, Director of Retail
Trade Development

Employed since 2001

Number of shares: 9,000

Holdings of convertibles: SEK 109,500

* Pertains to employment in companies that
are now part of the Axfood Group.

All shareholdings as per 31 December 2004.

Several-year overview

Amounts in SEK m	2004	2003	2002	2001	2000
Profit and loss account					
Net sales	33,826	33,616	33,115	32,428	30,230
Capital gains/structural costs	-15	132	37	-79	-162
Operating profit	1,008	1,034	1,023	653	112
Profit after financial items	980	971	919	527	0
Minority share	-4	-12	-14	-11	-10
Tax	-312	-275	-280	-188	-24
Net profit/loss for the year	664	684	625	328	-34
Balance sheet					
Intangible fixed assets	981	1,076	1,098	1,165	1,233
Tangible fixed assets	1,765	1,821	2,172	2,264	2,168
Financial fixed assets	207	253	412	541	716
Inventories	1,634	1,599	1,631	1,559	1,518
Other current assets	1,478	1,680	1,598	1,832	1,707
Cash and cash equivalents	977	548	444	406	278
Assets	7,042	6,977	7,355	7,767	7,620
Shareholders' equity	2,513	2,127	1,693	1,208	855
Minority interests	119	122	119	109	181
Provisions	797	743	701	637	595
Interest-bearing liabilities	274	599	1,320	2,070	2,610
Noninterest-bearing liabilities	3,339	3,386	3,522	3,743	3,379
Shareholders' equity and liabilities	7,042	6,977	7,355	7,767	7,620
Cash flow					
Cash flow from operating activities	1,462	1,026	1,104	1,046	445
Cash flow from investing activities	-422	-315	-192	-293	-690
Cash flow from financing activities	-610	-606	-873	-625	331
Cash flow for the period	430	105	39	128	86

Amounts in SEK m	2004	2003	2002	2001	2000
Key ratios					
Operating margin, excluding capital gains and structural costs, %	3.0	2.7	3.0	2.3	0.9
Margin after financial items, %	2.9	2.9	2.8	1.6	0.0
Equity ratio, %	37.4	32.2	24.6	17.0	13.7
Net debt-equity ratio, multiple	-0.1	0.2	0.6	1.3	2.1
Debt-equity ratio, multiple	0.24	0.43	0.94	1.85	2.86
Capital employed	3,264	3,221	3,510	3,752	4,003
Return on capital employed, %	31.6	31.2	28.7	17.3	3.8
Return on shareholders' equity, %	28.6	35.8	43.1	31.8	neg.
Interest coverage, multiple	22.3	13.3	8.4	4.7	1.0
Capital expenditures	519	660	455	404	579
Earnings per share, SEK	12.40	12.85	11.75	6.16	-0.65
Earnings per share after dilution, SEK	12.19	12.62	11.51	6.07	-0.65
Net asset value per share, SEK	46.90	39.76	31.81	22.70	16.06
Net asset value per share after dilution, SEK	46.04	38.97	31.09	22.24	16.05
Cash flow per share, SEK	8.03	1.97	0.73	2.40	1.65
Cash flow per share after dilution, SEK	7.88	1.93	0.72	2.36	1,65
Number of shares outstanding	53,577,828	53,497,028	53,229,028	53,229,028	53,229,028
Weighted average number of shares	53,567,009	53,248,074	53,229,028	53,229,028	52,064,644
Number of shares outstanding after dilution	54,583,928	54,585,054	54,459,993	54,327,524	53,274,545
Weighted average number of shares after dilution	54,573,109	54,336,100	54,459,993	54,327,524	52,110,162
Average number of employees during the year ¹⁾	7,764	7,773	8,312	8,514	8,146
Dividend	11.00 ²⁾	5.50	5.00	2.50	0

¹⁾ Starting in 2003, a full-time employee is calculated on the basis of 1,800 hours. For 2000–2002, 1,600 hours were used.

²⁾ Proposed by the Board of Directors.

Definitions and explanations

Definitions

Operating margin: Operating profit as a percentage of net sales for the year.

Margin after financial items: Profit after financial items as a percentage of net sales for the year.

Equity ratio: Shareholders' equity including minority interests, as a percentage of total assets.

Capital employed: Total assets less noninterest-bearing liabilities and non-interest-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.

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.

Earnings per share: Net profit for the year divided by the average weighted 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 a weighted 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 fair value of the common shares. The fair 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 fair value that this subscription payment corresponds to.

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.

Cash flow per share: Cash flow for the year divided by a weighted average number of shares outstanding. For cash flow per share after the dilutive effect see "Earnings per share after dilution" below.

Net debt/net interest-bearing assets: Cash and cash equivalents plus interest-bearing receivables less interest-bearing liabilities and provisions.

Net debt-equity ratio: Interest-bearing liabilities and provisions less cash and cash equivalents and interest-bearing receivables, divided by shareholders' equity including minority interests.

Debt-equity ratio: Interest-bearing liabilities and provisions divided by shareholders' equity including minority interests.

Interest cover ratio: Profit after financial items plus financial expenses, divided by financial expenses.

Average number of employees during the year: Total number of hours worked divided by the year's working time (1,800 hours).

EBIT: Operating profit.

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.

Explanations

attract40

The Stockholm Stock Exchange's rules for inclusion on the attract40 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 the Stockholm Stock Exchange's O-list.
2. Companies that do not meet the turnover requirement can be given the opportunity to be included on the attract40 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 bn 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 bn.
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 attract40. If a company is the subject of a hostile takeover bid, this can prevent it from inclusion on the attract40 list.
6. In certain specific cases, newly introduced companies can be given the opportunity to be included on the attract40 list. In order for the Stockholm Stock Exchange to be able to approve a company for inclusion on the attract40 list 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.

GAAP

Generally Accepted Accounting Principles.

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.

LUI

LUI Marknadsinformation AB specializes in consumer surveys and market analyses related to the food and beverage industries.

Annual General Meeting

The Annual General Meeting of the shareholders of Axfood AB (publ.) will be held at 5 p.m. on Thursday, 10 March 2005, 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 Friday, 4 March 2005, 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 proxy form 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, 28 February 2005, and notify the company of their intention to participate in the Meeting not later than 4 p.m. on Friday, 4 March 2005. 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 vote at the Meeting. Shareholders must notify their nominees well in advance of Monday, 28 February 2005.

Proposed dividend

The Board of Directors proposes an increased dividend of SEK 6.50 per share. In addition, the Board proposes an extra dividend of SEK 4.50 per share, entailing a total dividend for 2004 of SEK 11.00 per share (5.50). The record date is Tuesday, 15 March 2005, and dividends are expected to be paid via VPC on Friday, 18 March 2005.

The last day for trading in the Company's stock including the right to the dividend is Thursday, 10 March 2005.

Notice of Annual General Meeting

Notice of the Annual General Meeting is made by letter to the shareholders as well as through advertisements in Svenska Dagbladet and the Official Swedish Gazette. The agenda of the Meeting and items of business to be conducted are included in this notice.

Financial calendar 2005

Interim report January–March, 21 April

Interim report January–June, 21 July

Interim report January–September, 21 October

Sales reports are released separately for the months of January, February, April, May, July, August, October and November.

For release dates, visit www.axfood.se financial info/calendar.

This annual report will be sent to shareholders upon request.

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