

Axfood Annual Report 2005



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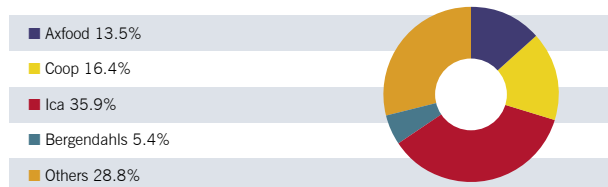
84 Annual General Meeting
Addresses

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 2004, 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 industry 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 aspires to be the challenger in the Nordic retail food market through distinct and unique customer offerings.

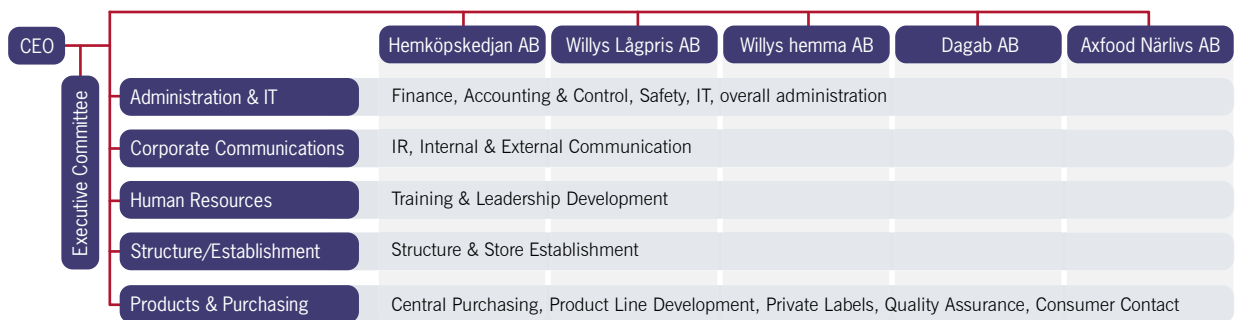
Market shares in Sweden 2005



Source: Icanyheter, Dec. 2005.

Axfood conducts food retail and wholesale trade in Sweden. The Group's retail operations are conducted through the wholly owned store chains Willys, Hemköp and Willys hemma, comprising a total of 235 wholly owned stores. In addition, Axfood collaborates with a large number of proprietor-run stores that are tied to Axfood through agreements. These include stores within the Hemköp and Willys chains as well as stores run under the Handlar'n and Tempo profiles. In all, Axfood collaborates with more than 500 proprietor-run stores. Axfood 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 13.5% market share in Sweden.



Organizational structure

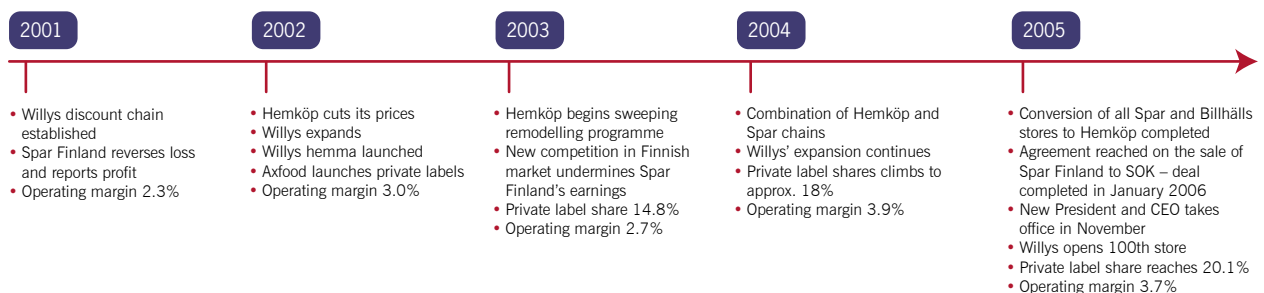
Axfood's organization is characterized by few decision-making levels and strong focus on low administrative costs. At the central level the Group achieves economies of scale by combining such functions as purchasing, private label products, delivery chain efficiency, IT, finance administration, human resources and leadership development.
















The management teams of the individual chains are

responsible for store operations, marketing, product selection and pricing strategies.

Axfood's store managers and collaborating proprietors work in daily contact with their customers. They are responsible for making sure their stores are appealing and well-stocked, and for treating customers in a professional manner that reflects their respective stores' profile. Store managers have personal responsibility for their store 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 of food enthusiasts. We strive 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 6,198 m 22% 	SEK 30 m 3% 	2,070 29% 	Number of stores: 87 Retail space: 132,600 sq.m.
Willy's Business concept: Willys' concept is to offer "Sweden's cheapest bag of groceries". The customer offering is based on everyday low prices and a broad selection of name brand products and private label alternatives.	SEK 12,675 m 45% 	SEK 522 m 50% 	2,641 37% 	Number of stores: 100 Retail space: 231,700 sq.m.
Willy's hemma Business concept: Willys hemma is a neighbourhood store that offers consistently low prices with an attractive selection of fresh products.	SEK 1,251 m 4% 	SEK -16 m 0% 	359 5% 	Number of stores: 48 Retail space: 35,500 sq.m.
Dagab Business concept: Dagab streamlines the flow of products and information between suppliers and retailers. Dagab will be integrated increasingly with Axfood's wholly owned stores in the aim of enhancing efficiency and delivery reliability.	External sales SEK 3,097 m 11% 	SEK 272 m 26% 	1,019 14% 	Distribution centres: 3 Cold-storage warehouses: 2
Axfood Närlivs Business concept: Axfood Närlivs offers commitment, knowledge and simplicity in its cooperation with customers and suppliers. By choosing the right product offering and market concepts, together we create conditions for profitability and growth.	SEK 4,680 m 17% 	SEK 103 m 10% 	649 9% 	Distribution centres: 3 Cash-and-carry outlets: 23
Other	SEK 185 m	SEK 129 m	328	Total number of stores: 235
Group total	SEK 28,086 m	SEK 1,040 m	7,066	Total number of distribution centres: 6 Total number of cash-and-carry outlets: 23 Total retail area 399,800 sq.m. (Axfood-owned stores)

Highlights 2005

- Consolidated sales totalled SEK 28,086 m (28,658).
- Sales for Axfood's wholly owned stores rose 4.8% during the year. Like-for-like sales decreased by 2.3%.
- Operating profit for 2005 was SEK 1,040 m (1,126).
- Earnings per share were SEK 13.37 (14.67).
- Willys' expansion continued. Sales rose 7.5% for the year, and the chain now has 100 stores. The number of stores with an extended offering of non-food products will be increased further.
- The conversion of all Spar and Billhalls stores to Hemköp was completed.
- On 7 September 2005 Axfood signed an agreement with the Finnish company SOK on the sale of Axfood's entire holding in Spar Finland Abp. The acquisition was completed on 12 January 2006.

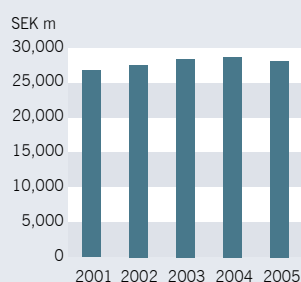


The year in figures ¹⁾

Amounts in SEK m unless indicated otherwise	2005	2004
Net sales	28,086	28,658
Operating profit	1,040	1,126
Operating margin, %	3.7	3.9
Profit after financial items	1,026	1,096
Profit after tax	729	786
Earnings per share, SEK	13.37	14.67
Earnings per share after dilution, SEK	13.35	14.42
Average number of employees during the year	7,066	6,941

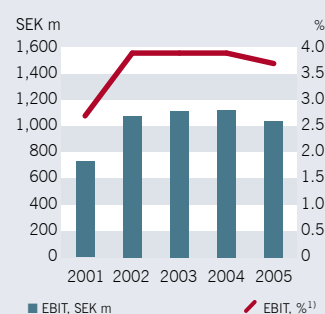
¹⁾ Spar Finland is reported as a discontinued operation on a separate line in the profit and loss account, in accordance with IFRS 5. The figures above pertain to continuing operations. Comparison figures have been recalculated.

Consolidated net sales ¹⁾



¹⁾ Figures adjusted for sales of Spar Finland.

Consolidated operating profit and operating margin ¹⁾



¹⁾ Figures for 2004 and 2005 reported according to IFRS. Goodwill amortization for the years 2001–2003 has been reversed.

Our sights are set on an even better...

“The ring of the cash register after every customer transaction – that’s music to my ears!”

Such was the humorous quip from a Hemköp store manager during my first days as Axfood’s newly appointed CEO this past autumn as I travelled around the country to learn more about the Axfood organization. As head of Willys for many years, I know exactly what he meant: putting money in the till is the most concrete proof that you have earned the customer’s confidence and done something good. It’s a good feeling!

In the same way, the fact that Axfood achieved an operating profit of SEK 1,040 m and an operating margin of 3.7% during one of the most challenging years that the Swedish retail food market has seen in a long time is proof that we have a great many satisfied customers across Sweden who show their confidence in us every day. This confidence is Axfood’s most important asset, especially in times like these.

Competition and the battle for market shares continued to be fierce during the year. The level of saturation in the market is tangible – never before have Swedish households had so many types of stores in so many formats, or so many attractively priced products to choose from.

Discount is main trend

Discount retailing is the dominant trend and is now a core theme among all market players in the market, with more or less success. Several of our pure-play discount competitors are having a rather difficult time with respect to both volume and profitability, while Willys is holding its position well despite the mounting competition. Willys thus upheld its position as the leading discount grocery chain in Sweden and as our foremost generator of earnings.

Sales for Axfood’s wholly owned stores rose 4.8%, to SEK 20,084 m, as a result of several strategic store acquisitions, but they were down slightly for comparable units. Earnings remained stable and satisfactory.

Our second main profit stream, the wholesale operations of Dagab and Axfood Närlivs, also continued to deliver satisfactory earnings, even though Dagab experienced a decline due to a change in product mix and a rising proportion of discount and private label products. Axfood Närlivs performed beyond our


expectations, posting very good and rising earnings through the course of the year.

As for private label products, which are a core concept in our discount strategy, we are also best in class. We passed a new milestone during the year by reaching a private label share of 20%. Our house brands give our customers highly appreciated value-added while making a tangible contribution to our earnings.

The Hemköp and Willys hemma store chains did not live up to our expectations during the year. Naturally, we are not satisfied with the relatively sharp earnings decline at Hemköp, despite substantial efforts to develop the concept and trim costs. Hemköp is working in perhaps the toughest segment of the market right now – supermarkets – where the competition is cutthroat. We must acknowledge that the turnaround that we have worked for will take more time and require more work and investment. Willys hemma showed a continued weak volume trend overall, while its stores in the big cities fared better. However, good cost control and well targeted efficiency improvement work were not enough to prevent a wider loss.

Core strategies remain

As the Axfood Group’s new CEO, my summation of 2005 is as follows: you win some, you lose some. Sweden’s retail food market is going through a difficult period, but without a doubt



“The most profitable growth is organic, and it will be achieved through focus on our customers, delivery reliability and further integration”

...and more profitable Axfood

Axfood has demonstrated sustainable strength and competitiveness that bode well for the future. And we are sticking to our core strategies. My priority now is to sharpen our focus on further development, improvement and efficiency enhancement in our operations.

We will continue to give priority to growth in our wholly owned retail units, where Willys and Hemköp give us two first-rate platforms for expansion. Even though we have now divested our Finnish involvement, the thought remains about participation in consolidation in the Nordic market. But I repeat – our immediate task must be improvement in our Swedish operations.

It thus follows from our core strategy that organic growth must take place with improved profitability. Naturally our focus is on Hemköp, which works in the traditional grocery store segment and is now under heavy pressure from discount stores and hypermarkets. We have already made substantial investments in remodelled stores, improved logistics, product supply and on rolling out a successful line of private label products.

Good foundation for Hemköp

We thus have a solid foundation to build further on, and we believe in Hemköp. The chain works in the market's largest store segment, which despite the competition from discounters, will continue to satisfy – and account for – most households' needs of groceries in most places in Sweden. We have also noted an incipient "discount fatigue" among households. Shoppers are showing a preference for a higher quality shopping experience with a broader and more inspiring selection of products. Added to this is the health trend, which we are warmly embracing with an extended product offering.

We have been overly optimistic in our expectations for Hemköp. But we know what has to be done. My guess is that we will need another two to three years before we succeed in restoring satisfactory profitability. We need to further improve the concept and product offering while supporting the stores and their staff in their work on more clearly marketing their strengths and advantages to customers. Delivery reliability and operating efficiencies must also be improved. We have already begun this work by introducing a new automatic replenishment system and a new store computer system – major projects that we will now continue to work with.

For Willys hemma, our plan is also set. We will be concentrating our operations. We will be opening more stores, mainly in Sweden's larger cities, where the concept is successful and profitability is good, at the same time that we close underperforming stores out in the country.

Retailing is about paying attention to detail

Familiar Axfood themes and an unrelenting effort to be even more efficient at all levels are priority items on my agenda. It's a matter of details, and retailing is about paying attention to detail. We earn money on keeping things in good order, on making sure our products are delivered at the right time and right place, on an effective supply chain – the many small details we work with day in and day out. In these day to day activities there are further profitability improvements we can make. We will also continue our aggressive and successful private label initiative. Our goal for 2008 is to achieve a private label share of 25%, compared with just 4% when we started five years ago.

Against this backdrop of situational description and the job that lies ahead, I believe that it is within our grasp to achieve earnings in 2006 on a par with the preceding year.

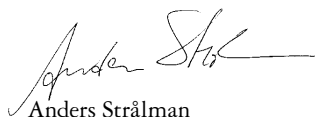
Together with our favourable financial position, which was further strengthened during the year after the divestment of Spar Finland, Axfood has good prospects to continue delivering stable and rising shareholder value.

People come first

I started out by saying that our customers' confidence is our most important asset and would like to conclude on that same note. It is important to point out that this confidence rests largely with all of Axfood's employees, both as a collective, but also as individuals in their daily encounters with customers.

In our business the customer comes first. This means that in leadership matters at Axfood, our employees also come first. We strive for balance between human relationships and good earnings. We have a shared view of employeeship and leadership, and we encourage continuous learning. What's important for us is "what" is right rather than "who" is right.

The involvement and driving force of our employees are crucial to our results. Toward this end, we have embraced "Compass" – a management tool that visualizes our success factors and measures our progress toward set goals. The work on Compass promotes participation and involvement, and sets up a meaningful dialogue in which we can learn from each other – employees, stores, logistics and staffs. It will be one of our foremost success factors when we now set full sail in our work toward are better and more profitable Axfood.



Anders Strålman
President and CEO, Axfood AB

Doubling of trading in Axfood shares in 2005

Axfood's shares have been listed on the Stockholm Stock Exchange since 1997, currently on the O-List, attract40. At year-end 2005 Axfood's share capital amounted to SEK 272.7 m, divided among 54,531,378 shares. 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 was virtually unchanged in 2005. The stock opened the year at a price of SEK 229.50 on 3 January. For much of 2005 the share price was just under SEK 200, and by year-end the stock had recovered, reaching a price of SEK 222 at the stock market closing on 30 December. The highest price quoted during the year was SEK 236.50, on 12 January. The lowest price paid during the year was on 21 March and again on 1 April, at SEK 168. The stock market as a whole (OMX All-Share Index) rose 33% for the year. Axfood's market capitalization at year-end was SEK 12,101 m (12,055).

For the last five years as a whole Axfood's stock has performed very well compared with the market average. Including reinvested dividends, an investment of SEK 1,000 in Axfood stock at the start of 2001 would have been worth SEK 3,445 at year-end 2005. If that same investment had performed in parity with the SIX Return Index, which gauges the market average including reinvested dividends, the investor's SEK 1,000 would have increased to only SEK 1,230 during the same period.

A total of 55.2 million Axfood shares were traded in 2005 (24.9), for a combined value of SEK 10,558 m (4,728). This corresponds to a turnover rate of 102% (47%), compared with average turnover of 87% (82%) for shares on the O-List. Average daily trading volume was 218,101 shares (98,487), for a value of SEK 41.7 m (18.7). An average of 247 transactions (102) were made per trading day.

Convertibles

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 1.32% at year-end 2005. In 2005, 953,550 shares were converted, corresponding

to dilution of approximately 1.8%. Convertibles for 52,550 were outstanding on 31 December 2005, corresponding to a dilutive effect of approximately 0.1%. Axfood's stock option programme was concluded in 2004.

Dividend

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

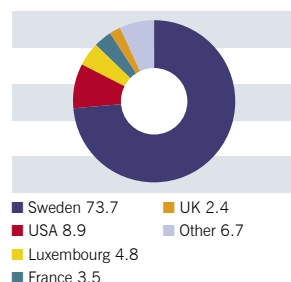
For the 2005 financial year the Board proposes a dividend of SEK 15.00¹⁾ per share, of which SEK 9.00 in ordinary dividend and SEK 6.00 in extra dividend (11.00, of which SEK 6.50 in ordinary dividend), corresponding to a total of SEK 818 m (589) based on 54,546,978 shares. The proposed dividend corresponds to 119.1% of profit after tax for 2005 (73.7%). Since 2001 Axfood has paid out an average of 67.3%¹⁾ of profit after tax in yearly dividends. Dividends are expected to be paid out via VPC on 17 March 2006.

Ownership structure

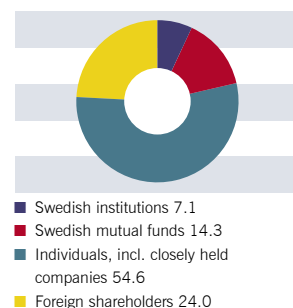
Axfood had 9,714 (9,519) shareholders at year-end 2005, at which time the ten largest owners held 57.5% of the shares (58.4%). Swedish individuals owned 54.6% of the shares at year-end 2005 (60%), while Swedish mutual funds and institutions owned slightly less than 21.5% (18%). Foreign ownership in Axfood was slightly more than 24% (22%).

¹⁾ Provided that the Board's dividend proposal for the 2005 financial year is approved by the Annual General Meeting.

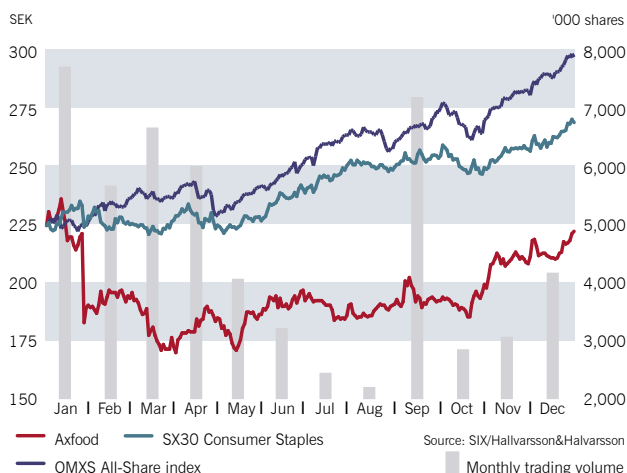
Geographic distribution of shareholders, five largest countries as per 31 December 2005, %



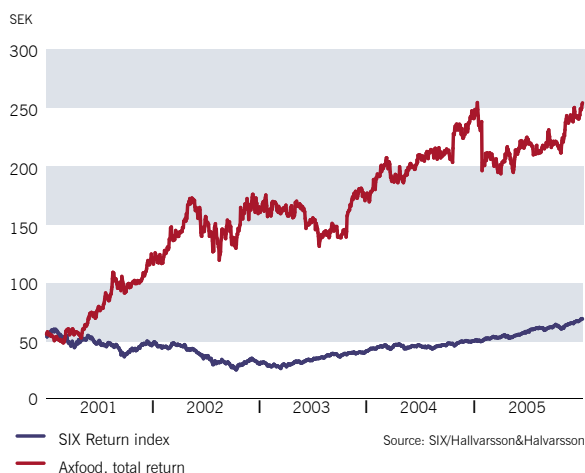
Shareholder categories as per 31 December 2005, %



Axfood shares, price trend and trading volume 2005



Axfood shares, total return 2001–2005



The 10 largest shareholders at 31 December 2005

Name	Number of shares	Share of capital and votes, %
Axel Johnson AB	24,290,066	44.5
SEB funds	2,558,020	4.7
SHB/SPP funds	769,595	1.4
Robur funds	663,537	1.2
Catella funds	616,800	1.1
Zenit Fund	593,900	1.1
Nordea funds	494,260	0.9
Sax Göran	460,010	0.9
SEB-Trygg Insurance	456,800	0.9
Eikos Fund	450,000	0.8
Total, 10 largest owners	31,352,988	57.5
Other owners	23,178,390	42.5
Total	54,531,378	100.0

Breakdown of shareholder by size of holding at 31 December 2005

Size class	No. shareholders	Share of capital and votes, %
1 – 500	8,078	2.3
501 – 1,000	749	1.1
1,001 – 2,000	307	0.9
2,001 – 5,000	199	1.3
5,001 – 10,000	120	1.7
10,001 – 20,000	90	2.4
20,001 – 50,000	59	3.4
50,001 – 100,000	45	6.1
100,001 –	67	80.8
	9,714	100.00

Key data for Axfood shares

	2005 ¹⁾	2004 ¹⁾	2003	2002	2001
Dividend, SEK	15.00 ²⁾	11.00	5.50	5.00	2.50
Dividend as % of net profit ³⁾	119.1	73.7	43.0	42.6	40.6
Number of shares outstanding at year-end	54,531,378	53,577,828	53,497,028	53,229,028	53,229,028
Average number of shares outstanding	54,531,378	53,567,009	53,248,074	53,229,028	53,229,028
Share price at year-end, SEK	222	225	166.5	162	117.5
Highest/lowest price paid, SEK	236.5/168	229/160.5	174.5/120	180/115	125.5/48
Dividend yield, % ⁴⁾	6.8	4.9	3.3	3.1	2.1
Earnings per share before dilution, SEK ⁵⁾	13.37	14.67	12.85	11.75	6.16
Earnings per share after dilution, SEK ⁵⁾	13.35	14.42	12.62	11.51	6.07
Net asset value per share, SEK	51.81	49.35	39.76	31.81	22.70
Net asset value per share after dilution, SEK	51.76	48.44	31.09	22.24	16.05
P/E multiple before dilution ^{5, 6)}	16.6	15.3	13.0	13.8	19.1
P/E multiple after dilution ^{5, 6)}	16.6	15.6	13.2	14.1	19.4
Turnover rate, %	102	47	57	36	27
Number of shareholders	9,714	9,519	9,890	9,613	9,565

¹⁾ The key ratios for 2004 and 2005 have been recalculated according to IFRS.

²⁾ Proposed by the Board of Directors.

³⁾ Dividend as a percentage of net profit.

⁴⁾ Dividend per share divided by the share price at year-end.

⁵⁾ Pertains to continuing operations in 2005 and 2004.

⁶⁾ Share price in relation to net profit per share before and after dilution for continuing operations.

Focus on profitable growth

Axfood's strategic platform

Axfood's business mission since the formation of the Group in 2000 has been 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.

From the onset, the strategic platform for accomplishing this mission has been based on seven points:

- Distinct brand strategy
- Market expansion
- Greater private label share
- More wholly owned stores
- Central purchasing
- Flat organization
- Integration

Strategies

The work on living up to Axfood's strategy has been successful and is today an integral part of the Group's daily business. The Group's strategic strengths are: financial strength, distinct discount concepts, good platform in revitalized Hemköp, cost-efficient wholesaling operations, coveted private label products, and strong base of wholly owned stores. Without detracting from these key success factors, Axfood is working according to three main strategies:

- Profitable growth
- Optimal operation
- Cost efficiency

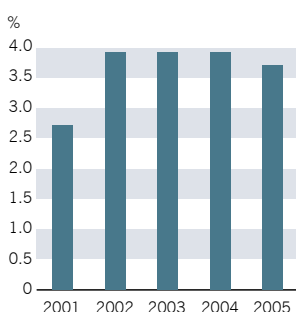
Focus 2006

In 2006 Axfood will be focusing primarily on the following areas and measures:

- Continued expansion of Willys
- Develop Hemköp's customer offering and operations
- Grow sales of existing units

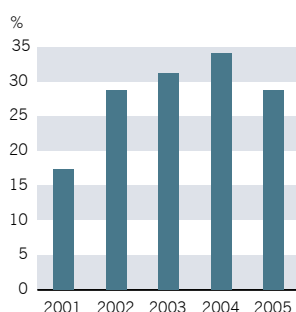
- Cost control
- Well-stocked stores through higher delivery reliability
- Adherence to private label strategy
- Improved IT support in stores
- Continued development of non-food product offering

Consolidated operating margin ¹⁾



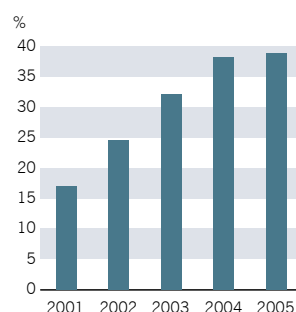
¹⁾ Figures for 2004 and 2005 reported according to IFRS. Goodwill amortization for the years 2001–2003 has been reversed.

Return on capital employed ²⁾

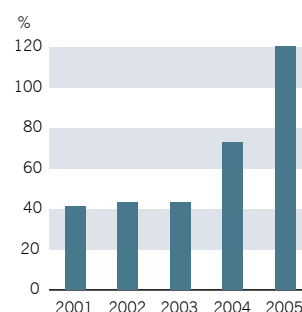


²⁾ Figures for 2005 are reported according to IFRS. Figures for 2004 have been recalculated according to IFRS. In accordance with IFRS 5, Spar Finland is reported as a discontinued operation on a separate line in the profit and loss account for 2005, and the comparison year 2004 has also been recalculated. Marked figures and key ratios pertain to continuing operations in 2004 and 2005. Other figures and key ratios apply for the total operations (including Spar Finland), since according to IFRS 5, the balance sheet for the comparison year, 2004, does not have to be recalculated.

Equity ratio ²⁾



Dividend as % of profit ²⁾



Operative goals

Growth

Axfood's focus is on profitable growth – with a strong emphasis on profitable. Axfood's wholly owned units shall strive for organic growth. Acquisitions and store establishment will bring additional stores into the Willys and Hemköp chains. Growth will also take place in new product segments and through a focus on non-food products such as kitchen supplies, textiles, small kitchen appliances, toys and multimedia products.

Optimal operation

Integration of Axfood's wholesale and retail operations is being steadily improved through measures such as centralized purchasing, automatic replenishment, development of store computer systems and centrally packaged meat. The store concepts will be developed particularly in the areas of perishables and fresh produce in order to achieve better customer benefit and efficiency. The Group-wide specialty product range under the Func and Fixa private labels will be expanded, and private labels as a whole will reach a 25% share of sales by 2008. Today private label products account for 20% of total sales for the three chains combined. By ensuring high delivery reliability – i.e., that the stores receive the products they have ordered – customers will always be greeted with well-stocked stores.

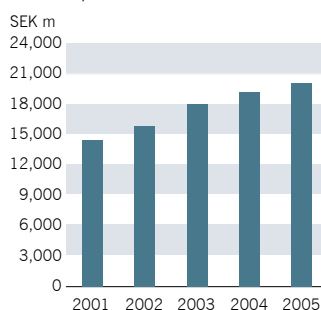
Store operations will be further refined in the respective store concepts, with the goal of being “best-in-class”. An important tool in this work is Compass, a management system introduced

in 2005 that will be fully implemented throughout the Group by 2006. Compass gives store managers and associates a simple and comprehensible monthly measurement of how their stores are living up to set goals in a number of areas. The training provided by Axfood Academy for store managers is another initiative aimed at strengthening and improving store operations.

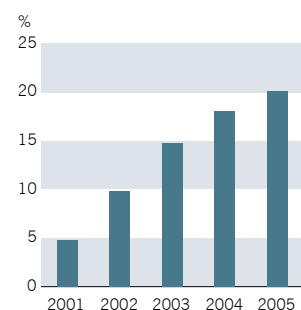
Cost efficiency

Cost efficiency shall permeate the entire organization. Through more efficient operation and a greater focus on management training, staff costs will be lowered in relation to sales. Administrative and staff costs within the Group will be maintained at a low level.

Wholly owned retail stores in Sweden, Sales



Private label share, Sales



Today's customers want both luxury and low prices

Consumers today are becoming increasingly diversified in their relation to consumption. As a result, it is becoming increasingly complex to work in an industry where serving consumers is the *raison d'être*. The big challenge for a company like Axfood is to be in tune with what consumers can be expected to demand today and tomorrow. One of the most distinctive characteristics of consumers today is not only their preference for quality, but also their thirst for sheer luxury and low prices. Consumers want it all, every day – that is, better service, value-added, quality, and on top of it all, lower prices.

What falls between – daily consumption – is given secondary priority, despite rising disposable incomes. Any money left over is used instead for more exotic endeavours, which in some contexts also includes food.

The demographic trend in Sweden is one factor behind this shift in preferences. An important feature here is that major metropolitan areas are growing at the expense of the more sparsely populated countryside. Today only one-ninth of Sweden's population lives north of the Dalälven river. Growth in the Greater Stockholm area, on the other hand, is equivalent to the population of the northern city of Umeå, every five years.

New lifestyles

With urbanization comes a different lifestyle. Households are shrinking – people are better-educated, they travel a lot and they are adopting new lifestyles and have grown accustomed to having a large daily availability of products and services. Time has also become a key factor. On weekdays, most people are not prepared to spend much time preparing meals or even thinking about doing so, for that matter.

An ageing population is another demographic change that Sweden shares with the rest of the Western world. The baby boomers who are now entering their retirement years have strong purchasing power; what's more, they are used to making demands and are quality-conscious. Here we foresee a change in consumption patterns compared with previous generations of seniors. The growing

proportion of older people in the population generally also have different needs, eating habits and demands for availability.

New consumption patterns

Small households and singles in larger cities have their own special consumption patterns. Among these groups, dining out and takeaway food pose serious competition to grocery stores. In recent decades this has resulted in a surge in growth for the restaurant industry. In the US, sales of food served at restaurants and fast food have passed sales of food at stores. And today, many young people are not bothering to get a driver's licence. As a result, they have rare opportunities to do “big” shopping at low prices at hypermarkets outside city centres.

Sweden has also become a multicultural society. Today a kaleidoscope of food traditions are all converging, which requires a more diverse selection at food stores. Healthy eating is yet

A photograph of a woman with dark hair, wearing a grey jacket and a red patterned scarf, smiling at a cashier. She is holding a card or small object. The background shows a supermarket aisle with shelves of products.

**Today's consumers
want the both of best worlds.
The shop at both discount
stores and exclusive
markets**

another salient trend, i.e., health awareness and source aspects are steering consumers' choices of foods.

Best of both worlds

At the same time, modern city people make a distinction between weekdays and weekends. On weekdays, time, price and availability are decisive competitive factors. But on weekends and for celebrations, the epicurean factor takes hold. We have acquired a "best of both worlds" attitude in our shopping behaviour, which means that we do our shopping at discount stores as well as at exclusive food markets.

In summary, modern consumers have adopted a changed view towards consumption. People today are more inclined to spend time and money on experiential consumption, such as health, leisure activities, education and travel, while they want their daily consumption of food, clothes and household products to go fast.

Axfood's position

With its differentiated store concepts, Axfood has positioned itself to meet today's diverging consumption patterns.

Customers at Willys will find a wide selection of traditional brand-name products as well as Axfood's own private label alternatives. Willys' value proposition lies in guaranteed low

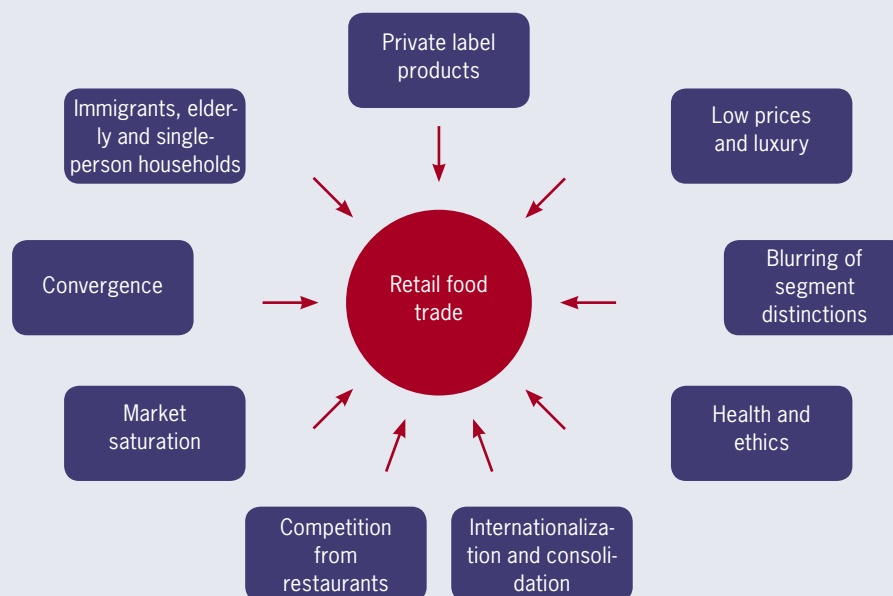
prices and "Sweden's cheapest bag of groceries". At the same time, Willys has a broad product offering, with a high degree of fresh products, and meets 95% of consumers' yearly grocery needs. In addition, Willys' reputation as a price leader in the market is firmly established among consumers. A cross-section of Sweden's entire population shop at Willys in their search for good prices for good quality.

Willys hemma is a discount alternative for people in small households, who often lack a car. Willys hemma also features a large selection of fresh products and an overall selection that far exceeds its competing peers in the market. In many respects, Willys hemma is an urban concept fashioned to bring even small households an attractive selection for their daily needs, at competitive prices.

Hemköp stands for a rich product offering, greater freedom of choice and at the same time competitive prices. Shoppers who visit Hemköp are looking for a high standard of service, delicacies and inspiration, at the same time that they want to shop near home or where they work. Hemköp also caters to quality- and health-conscious customers – a growing group in society today.

Through these three store concepts, Axfood is well positioned to bring Sweden's consumers the right offering for every need – for everyday consumption or special celebrations.

Trends affecting the retail food trade



Discount segment continues to win ground

For several years, the trend in the retail food market has been dictated by the advance of the discount segment. Focus on food prices, attention to price comparisons and the establishment of discount retailers continue. All players in the market are feeling the effects of competition, and traditional, medium-sized grocery stores are under particular strain.

During the past year, Axfood's competitors slashed their prices further, and on the whole, the current price trend has created a deflationary tendency in the retail food market.

And yet the discount segment is underrepresented in Sweden. In many other European countries, discounters account for 20%–40% of the total market, compared with 11% in Sweden.

Nevertheless, Sweden is moving in the same direction as the rest of Europe. Granted, the Swedish retail food market is currently suffering from saturation. Despite this, we can foresee a continued high rate of new store establishment, where pure-play discount chains and hypermarkets are expected to account for most of all new store establishment in the coming three years.

Growth and stagnation


As a result of price competition and market saturation, small, traditional grocery stores with sales under SEK 30 m are experiencing problems. These types of stores, which are common in residential areas and city commercial districts, and which have up to 15,000 items in their product range, still account for more than half of sales in the Swedish retail food market. But growth is taking place elsewhere. Aside from the discount segment, hypermarkets in city outskirts are experiencing the most growth.

Service station stores and convenience stores are another segment that is feeling the squeeze and where growth has stagnated. These have lost much of their competitive advantage – generous business hours – to larger stores, which have extended their business hours. Because of this, the major difference in price compared with the retail food market as a whole appears increasingly unjustified in consumers' eyes.

Low level of consolidation

Today the Swedish retail food market is dominated by three large players: Axfood, ICA and Coop. Thus far the market shares of hard discounters are marginal. At the same time, "other retailers" still make up nearly a fourth of the market. This means that the Swedish market is still characterized by a relatively low level of consolidation.

However, all indications – including experiences from other European countries – are that consolidation and concentration will be intensifying. In order for food retailers to be able to live up to consumers' demands to "provide more for less" with greater availability, longer business hours and lower prices, they will need to adopt economies of scale, more efficient handling at all levels, and a growing private label share.



Through Willys and Willys hemma, Axfood has a distinct discount profile that is highly recognized by consumers

The distinction between the various segments is also becoming blurred. Low prices and the accessibility of hypermarkets are competitive factors that are having an impact on all segments and customer categories. This blurring can also be seen on store shelves, where grocery stores are adding a larger selection of ready-made meals and non-food products. This trend has been intensified by the growing responsibility that retailers are taking for category management from suppliers.

Axfood's position

Axfood's strategy is geared to continued growth in this turbulent market. Axfood's competitive edge over its main

competitors is based on strong integration within the Group. This provides shorter and faster decision-making channels.

Through Willys and Willys hemma, Axfood has a distinct discount position that is well known among consumers. In the traditional grocery store segment, the Group has Hemköp and its broader product offering, higher standard of service and focus on fresh products and health aspects.

It is becoming increasingly clear that efficiency throughout the entire value chain will be essential to maintain or improve current margins. Distinct concepts and Axfood's integration, together with Axfood's financial strength, have created a sound base for continued growth with sustained profitability.

More distinct segmentation new for Sweden

	Hard Discount Netto Lidl	Discount Willys Willys hemma ⁵⁾ City Gross	Hypermarkets Ica Maxi Coop Forum	Traditional grocers Hemköp Vi-stores Coop Konsum Coop Extra Ica Supermarket Ica Kvantum AG:s	Service stations/ mini-markets Tempo Handlar'n Ica Nära 7-Eleven Direkten Petrol companies Ica Express Coop Nära Others
Market share/trend ¹⁾	4% 	11% 	12% 	57% 	16% 
Price index ²⁾	– ⁴⁾	88–97	92–99	95–116	109–130
Level of service ³⁾	2–3	3–5	7–8	6–10	3–5
No. items	1,100–1,800	7,500–	12,000–	10,000–15,000	1,000–3,000
Location	Residential and external	Residential and external	External	City centres, residential	Traffic- or residential-oriented

Source/interpretation: Axfood. Some data are estimates in cases where statistics were not available for 2005.

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, it is in the hypermarket and discount segments where growth is taking place.

¹⁾ **Market share/trend** Based on a total market in 2005 of approx. SEK 210 billion, 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** 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⁾ 3,500 items.

Good products at a lower price



Axfood is ahead of its competitors when it comes to private label product development in the Swedish retail food market. Private label products today account for 20% of Axfood's total sales. The goal is to grow this share to 25% of sales by 2008.

Axfood's private label initiative is strategically important, as it adds to customer benefit by offering shoppers quality products at a lower price. Customers thus gain value by consistently choosing Willys' or Hemköp's private label products, since they know that they will always get a lower price and at the same time comparable quality for comparable products.

Private label products are crucial for Axfood's profitability. But they also help the company build up its own competence regarding the relationship between purchasing, price, production and quality.

Private labels also present potential to smaller producers who may have high-quality niche products, but small volumes. By serving as a private label supplier, they can increase their production volumes to new levels.

Brand strategy

Willys' and Hemköp's house brand products have a comparable level of quality to the market-leading product in their respective categories, at a price that is roughly 10%–15% lower.

Eldorado is a so-called fighting brand, with prices that are 20%–30% lower than other, comparable products. Eldorado products generally have a lower level of quality than the market leaders.

To date, Axfood's private label products have had their greatest impact in the discount segment, where they account for approximately 28% of Willys' hemma's total sales and 24% of Willys'. Hemköp's private label share is 14%.

In 2004 Axfood added a further two private labels for non-food products to its offering: Fixa (kitchen supplies) and Func (batteries and lightbulbs).

Product safety

Product safety is paramount for Axfood's private label products. Toward this end, Axfood conducts extensive quality assurance and safety analysis. Quality assurance is conducted on several levels before a supplier is approved. Axfood also studies how consumers perceive the products' quality, both through internal and external tests.

Axfood is also one of some 270 retail companies around the world participating in the Global Food Safety Initiative. As of 2005 this organization had agreed on six global standards for food safety while also exercising oversight through on-site inspections, spot tests and analyses.

Axfood's work on food safety for its private label products is conducted in five steps:

- 1. Supplier evaluation.** Only suppliers that can show a valid certificate from any of the Global Food Initiative standards are considered as Axfood private label suppliers. Axfood makes recurrent visits to its suppliers to discuss product knowledge and product development.
 - 2. Product control.** A product specification is required for every product and must include an exact list of all ingredients and their sources.
 - 3. Laboratory analyses.** Axfood conducts its own microbiological and chemical analyses of products. For example, checks are made to ensure that products actually keep until their best-before date, or to trace any toxic moulds or residual insecticides.
 - 4. Package labelling.** Axfood always checks to make sure that everything that must be labelled on a package is actually included. Packages must also include instructions for sorting/disposal and consumer contact information.
 - 5. Consumer tests.** Quality is also about how a product is perceived by the consumer. Therefore it is important to also evaluate criteria such as appearance, taste and consistency, as well as nutritional value, safety and environmental aspects.
- Axfood contracts an independent company to test Willys' and Hemköps' private label products with the help of ordinary consumers who judge the products. In order for a product to be approved as an Axfood house brand, it must rank as high in consumer tests as the market leading brand.

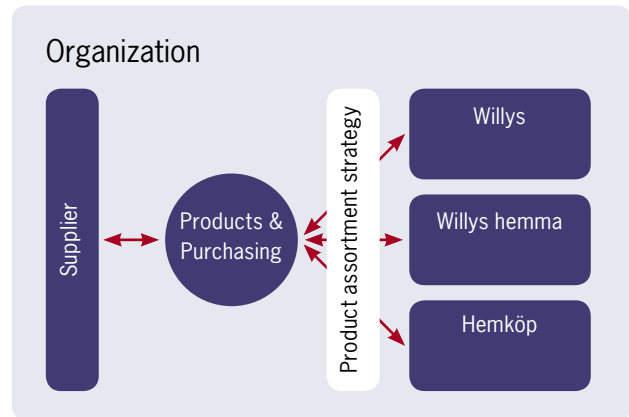
Efficiency at every level

Through its high degree of integration, Axfood has created good opportunities to influence costs and efficiency at every level of the supply chain. This means that Axfood, in contrast to independent retailers or more-or-less loosely affiliated grocery chains, can work actively on extracting cost and quality benefits from every aspect of its product flow.

Examples of such improvements include streamlining the information flow between Axfood and suppliers and thereby guaranteeing on-time deliveries. Other efficiency improvement gains can be gained from such areas as faster inventory turnover at Dagab and continuous improvements in transport planning.

Information from stores to wholesalers and suppliers is also facilitated by Axfood's integration. All of Axfood's supplier contacts and orders from the store chains are steered by the central Products & Purchasing function. This adds strength in negotiations with suppliers, but also builds reliability and security for suppliers, who know that all stores are bound to joint purchasing.

Axfood's store chains all have their own product assortment strategies. Moreover, Willys and Hemköp have their own



private labels. Large parts of the product range overlap each other, which adds further scale economies. Axfood's "fighting brand", Eldorado, as well as the non-food products sold under the Fixa and Func brands, are sold Group-wide.



Creating value for Axfood's shareholders

Axfood's business model is based on generating growth by offering customers the best value and shopping experience in the market. In doing so, we generate revenues that cover our overheads and leave us with a surplus that can be used for development opportunities. The model that we use to create value for Axfood's shareholders is fundamentally simple and is based on our core strategies, with three areas of focus: profitable growth, continued development of operations and cost efficiency.

Revenues

Profitable growth has top priority at Axfood. Since Axfood's formation in 2000, the Group's wholly owned stores in Sweden have boasted average annual growth of 14%. The overall market is expected to continue growing slowly, that is, by roughly 1%–2% per year, but with a high pace of change. Axfood's goal is to grow its market share.

To continue growing faster than the overall market, Axfood will need to grow organically as well as through store acquisitions and the establishment of new stores.

The discount segment in Sweden is expected to grow considerably faster than the total market, from 11% today to approximately 20% in the years immediately ahead. Axfood – with Willys and Willys hemma – is the largest in this segment with a market share of just over 50%. The goal is to maintain our leading presence in the growing discount segment.

The more traditional store segment in which Hemköp operates is expected over time to decrease from 57% of the total market to 40%. Through an ambitious store conversion programme, Hemköp has created a firm base of 164 stores in all, including franchisees, with potential for tangible synergies. Hemköp is seeking to maintain its position through selective establishment in large cities and by investing in marketing and higher sales that cater to new consumer behaviours.

Private label products are an important revenue stream for Axfood, and the potential is enormous. Since 2002, when the Axfood's private labels were launched, their share of sales has grown from 4% to 20% today. The improvement from 4% to 20% has added SEK 130 m to operating profit each year. An increase from 20% to the target of 25% is expected to improve operating profit by an additional SEK 60 m.

Costs

Axfood's largest outlays consist of purchases of goods, staff costs, and premises, which together account for approximately 96% of the store chains' total overhead. Coordinated purchasing and category management are by far the largest single measures

for keeping purchasing costs down. Since 2000 this coordination has made a strong contribution to Axfood's total operating profit improvement.

Staff costs are determined to a large degree by agreements in the labour market. Axfood has programmes in place to steadily raise its productivity in close cooperation with the Group's employees.

Administrative expenses are another major outlay. During the last five years Axfood has carried out a successful pruning of its organization. The goal is that administrative staff costs will be less than 1% of total sales.

Distribution is a sizeable cost item in the supply chain. The challenge lies in Sweden's small population that is spread out over a large area. Effective logistics are paramount for food retailers. At Axfood we see major opportunities to further integrate Dagab's operations with the retail operations and thereby lower costs across 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.

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 labour hours needed in the stores. Other initiatives for lowering costs in the value chain include automatic replenishment, increased automation, higher warehouse productivity and more efficient transports.

Cash flow/debt

From the start, efficient capital utilization has been a central pillar in Axfood's strategy, i.e., having as little capital as possible tied up in operations. At year-end 2000 the Group's interest-bearing net debt was SEK 2,206 m, compared with the close of 2005, when the Group had net receivables of SEK 225 m, i.e., an improvement of SEK 2,431 m. At the same time, during this period the company paid SEK 1,282 m in dividends to its shareholders. The equity ratio is now up to 38.9%, compared with a starting ratio of 13.7%.

Axfood's board has proposed to the 2006 Annual General Meeting a dividend of SEK 15.00 per share, or SEK 818 m. The dividend policy entails that a minimum of 50% of the Company's profit is to be paid out to the shareholders.

Axfood's cash flow improvement has been achieved primarily through sound and profitable business. Average capital employed has decreased from SEK 4,003 m to SEK 3,603 m today. Major capital rationalization measures have now been taken, so the

ambition is to keep capital employed intact through various efficiency-improvement programmes while pursuing expansion of the wholly owned retail operations. Through the combination of strong earnings and efficient use of capital, the return on shareholders' equity has spiked and now exceeds 25%.

Future cash flows 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 600–700 m per year, which can be put in relation to depreciation/amortization, which is expected to be somewhat lower.

Compass

In 2005 the Compass management tool was introduced at all stores in the Axfood Group. Through Compass, Axfood has acquired a tool for obtaining a balanced and long-term view of efficiency improvement measures in store operations. Compass provides clear signals on a monthly basis to all employees on where their store is headed and on the effects of changes and improvements. Compass quantifies financial key data, but also other parameters that are equally important for efficient store operation, such as:

Customers. This metric measures customer satisfaction, while internal audits ensure that stores adhere to their adopted retail concepts. In addition, a monthly measurement is made of whether the most popular products are available for customers or not.

Finance. This is a metric of sales trends, gross margins, staff costs, profit performance and shrinkage.

Operations measures the stores' current private label share, hygiene, food safety and brand loyalty.

Employees. This heading measures employee work attendance, exercise and health activities, organizational matters, meetings and employee well-being.

On the whole, the work with Compass aims to enhance customer benefit and raise the bar in all areas measured at each and every store. The ultimate goal is to create more profitable and better stores for more satisfied customers and employees.

Compass will also be introduced in the remaining operations in 2006.





The best selection for food enthusiasts

Food enthusiasts are Hemköp's target group. Customers at Hemköp are offered a broad and exciting product selection that is at the forefront of current food trends, along with a rich variety of fresh products and knowledgeable and service-minded staff. In terms of prices, Hemköp has positioned itself in the intermediate class in the retail food market while acknowledging the necessity of offering customers a wide range of choices and access to all price alternatives.

Hemköp's stores are located primarily where people live and work, i.e., in city centres and residential areas. Hemköp's customers are representative of the new "best of both worlds" behaviour exhibited by many of today's consumers. They are keen on hunting for low prices at the same time that they dedicate extra time and care to their grocery shopping and food interests. The large baby-boomer generation is the driver of this trend, which favours Hemköp's concept.

Important events during the year

2005 was characterized by mounting competition in a number of locations, where new establishment has led to an overabundance of grocery stores. Sales for wholly owned Hemköp stores in 2005, excluding franchise stores, increased to SEK 6,198 m (6,167). Like-for-like sales declined by 4.5%. Operating profit was SEK 30 m (102), and the operating margin was 0.5% (1.7%). Earnings were affected primarily by lower sales, but also by substantial capital expenditures, staff reductions and store closures.

During the first half of the year, the conversion of all Spar and Billhalls stores was completed – a process that was begun in 2004. As a result of this conversion, the number of Hemköp stores doubled, creating a solid platform of 87 wholly owned and 77 proprietor-run stores. In all, six stores were acquired during the year, of which four are in Stockholm. Six wholly owned stores became proprietor-run stores during the year.

Hemköp's private label product offering was increased by 200 items during the year and now accounts for slightly less than 14% of store sales.

A wide-reaching health project was initiated during the year at a number of test stores and will be introduced at all 164 stores in 2006. The project was created to concretize Axfood's ambition to take health issues seriously and involves extensive

Hemköp's customers are looking for inspiration, an exciting product selection and competitive prices



training initiatives for store employees at every level. Training focuses on personal health as well as health aspects of Hemköp's product offering.

The aim of the health initiative is to profile Hemköp as the store chain where it is easiest to do healthy shopping. It should be obvious throughout the store that Hemköp stands for health, through everything from product displays to food preparation advice and pointers on which food is the healthiest choice. Knowledgeable and energized employees will vouch for a sustainable health concept.

Challenges and opportunities

Hemköp has laid a solid foundation in recent years on which to build upon. Hemköp's stores operate in a segment that meets most people's daily grocery needs, and Hemköp has crafted a clear concept to achieve this.

Hemköp's specific opportunities lie in its initiatives to be even more inspiring when it comes to food choices – by offering an attractive range of ready-made meals, health foods and fresh products. Hemköp also sees signs that the pendulum is coming back a bit – away from the solitary focus on price to a growing interest in quality and healthy food choices. With such a development, Hemköp's concept is ideally positioned.

As a result, it is crucial for Hemköp to clearly present its value proposition and successfully communicate this to customers. Hemköp aims to compete primarily through quality, while its product offering and prices will be competitive in the supermarket segment.

Goals and strategies

Hemköp's growth will be achieved through continued selective acquisitions and establishment in large cities.

Hemköp is also channelling its energies into extracting the full synergies of the recent store conversions, such as through a better purchasing mandate, a shared range of private label products and shared marketing initiatives.

Sales and the operating margin will be improved with the help of an improved product offering, operations and pricing strategy.

Hemköp will continue to cater to new consumer behaviours, such as health awareness, the distinction consumers make between everyday needs and celebrations, and the decrease in time dedicated to preparing food. Hemköp's aspiration is to position itself in the midst of these trends.

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

Due to the location of Hemköp's stores, in cities and residential areas, its customers shop more frequently and for lower average amounts. Hemköp's customers are looking for food experiences and competitive prices at the same time. They are attracted to Hemköp's broad product range, with up to 15,000 items, and by Hemköp's focus on fresh products and personal service.

The future

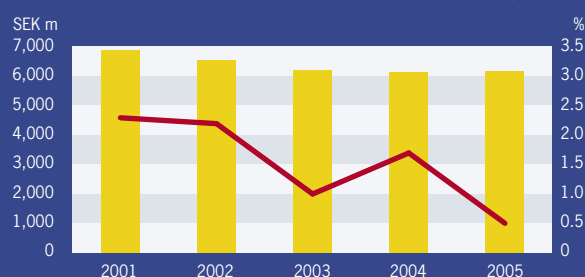
Hemköp will seek expansion through organic growth and by selectively establishing and acquiring new stores. The focus in the years ahead will be on Hemköp's operations and on growing sales. Hemköp will be developing its product selection and continuing its work on improving the shopping experience for its customers. New health initiatives will also be launched during the year.

Key ratios

Amounts in SEK m unless otherwise indicated	2005	2004
Net sales	6,198	6,167
Like-for-like sales growth, %	-4.5	0.9
Operating profit	30	102
Operating margin, %	0.5	1.7
Number of stores	87	90
Average number of employees during the year	2,070	2,174

Sales

Operating margin



Figures for 2004 and 2005 reported according to IFRS. Goodwill amortization for the years 2001–2003 has been reversed.

Willys

Sweden's cheapest bag of groceries

Willys has helped make food in Sweden cheaper. Willys has Sweden's lowest overall grocery prices, and its prices have set the norm for the market.

Willys is today Sweden's largest nationwide discount grocery store chain, with a wide selection of products – approximately 7,500 items – which cover 95% of consumers' yearly grocery needs. Fresh products make up a large part of the selection, including fruits & vegetables, baked goods, meats and processed meats, and dairy products. A key feature of Willys' value proposition is its product breadth, with name-brand products, private label products, non-food products and extremely low-price fighting brands. At Willys' largest stores, customers are also offered an extended range of some 3,000 non-food items.

In many ways, Willys' customer structure represents a cross-section of Sweden's population. More than nine million people visit Willys stores every month. Since the stores are located at both outlying and central areas, the customer makeup varies from store to store. Accordingly, product selection can also vary depending on the respective store location and its predominant customer categories.

Important events during the year

Despite a saturated market and fierce competitive climate, Willys succeeded in achieving its target for profitable growth. Sales in 2005 rose 7.5%, to SEK 12,675 m (11,789). Like-for-like sales decreased by 0.6%. Operating profit totalled SEK 522 m (530), and the operating margin was 4.1% (4.5%).

During the year, five new stores were established, eight stores were acquired, and one store was closed. The Willys chain thus



More than nine million people visit Willys stores every month

comprised 100 wholly owned stores and three franchise stores at year-end.

Sales of private label products accounted for roughly 24% of total sales.

In 2004 all Axfood stores took over shelf-stocking responsibility from suppliers. The change had positive effects beyond expectation and has put more employees out in store aisles interacting with customers. It has also improved job rotation.

In November, Urban Dahl took over as President of Willys. He was formerly Head of Purchasing for Axfood.

Challenges and opportunities

Willys is today a nationwide chain with an established discount profile and high credibility for its concept among customers. This is a good starting point for continued growth in a competitive climate characterized by market saturation, price competition and pressure on margins.

One of Willys' main challenges lies in maintaining satisfactory growth that is still profitable. Continued growth will be created through better cost efficiency and improved customer benefit brought about through initiatives involving pricing, fine-tuning of the product selection and customer service. Willys caters to all customer categories while at the same time avoiding products that require a high degree of personal handling.

Goals and strategies

In the year ahead, Willys will be giving priority to developing its largest stores. Based on customer surveys, store attractiveness will be enhanced through the addition of complementary product categories, such as kitchen supplies, home textiles, multimedia products, toys, and also a broader selection of food products.

Continued development of the private label offering also has priority, with the goal of growing further in the intermediate product segment.

Willys at a glance

Business concept

Willys' concept is to offer "Sweden's cheapest bag of groceries". The customer offering is based on everyday low prices and a broad selection of name brand products and private label alternatives.

Customer structure

Willys is the food store for price-conscious shoppers. With its broad selection and strong offering of fresh products, Willys meets 95% of customers' grocery needs. Approximately 9 million customers visit Willys stores every month.

The future

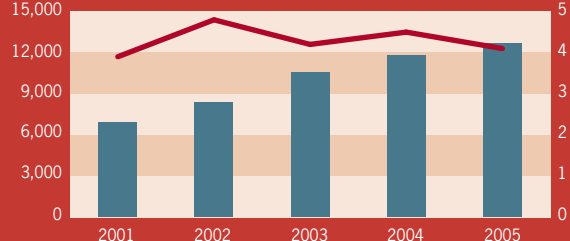
Willys will continue its expansion and will grow through new establishment and acquisition as well as organic growth. Continued growth will be created through further improvements in cost efficiency and by creating better customer benefit through focus on prices, development of the product offering and general customer care in the stores.

Key ratios

Amounts in SEK m unless otherwise indicated	2005	2004
Net sales	12,675	11,789
Like-for-like sales growth, %	-0.6	4.1
Operating profit	522	530
Operating margin, %	4.1	4.5
Number of stores	100	88
Average number of employees during the year	2,641	2,411

Sales

SEK m



Figures for 2004 and 2005 reported according to IFRS. Goodwill amortization for the years 2001-2003 has been reversed.



Cheap and nearby

Willys hemma caters to customers who prefer to do their shopping quickly, inexpensively and close to home, and who don't want or have the opportunity to shop at distant shopping centres. In Sweden's major cities this is a growing consumer group, in pace with the trend toward more single-person households, an ageing population and a rising number of young people who don't have a driver's licence.

Willys hemma has carved its own unique position in the market. This means that Willys hemma stores must be "cheap and nearby".

Cheap does not necessarily mean cheapest in the market. Instead, Willys hemma strives to guarantee dependably low prices across its entire product selection. *Nearby* means that Willys hemma stores are located close to people – where they live and work, in contrast to the discount segment as a whole. Willys hemma offers a considerably larger product offering than

comparable discount concepts. Willys hemma's customers can choose from among some 3,500 items for their daily grocery needs, which is more than three times as many as competing stores. Fresh products account for more than 50% of the selection.

Important events during the year

2005 was characterized by an intensifying competitive climate and strong price pressure, with soft sales as a result. For Willys hemma, the acquisition of new stores and a number of store closures also had a negative impact on earnings for the year. Continuing operations showed earnings at break-even for the year. Willys hemma's sales in 2005 decreased to SEK 1,251 m (1,284). Like-for-like sales decreased by 9.8%. An operating loss of SEK -16 m (-4) was reported. The operating margin was negative.

Stores in Stockholm continued to do well. Four stores were acquired and one new store was established. Three stores were closed during the year.

Sales of private label products rose from 24% to 28% of total. The target for 2006 is 30%.



Willys hemma offers 3,500 items, which is three times as many as its peer competitors

During the year, Willys hemma fine-tuned its value proposition by increasing the number of items from 1,900 to 3,500, with an emphasis on fresh products. Store layouts were improved during the year through an extensive remodelling programme. The aim was on making it easy for shoppers to find what they are looking for while highlighting Willys hemma's accent on fresh products.

In common with Axfood's other chains, Willys hemma has made use of "mystery shopper" studies as a way to directly factor in the customer's perspective in the development of stores and store operations. Mystery customer studies are also an effective tool for comparing different stores within the chain.

Challenges and opportunities

Willys hemma operates in the same market segment as traditional, small grocery stores. Many of these are expected to have a hard time surviving in the future.

Willys hemma's strength lies in good cost control. Integration with Axfood creates economies of scale through such measures as central purchasing and centrally packaged meat. This, together with the high private label share, allows Willys hemma to maintain an attractive product selection at attractive prices, despite the relatively small size of the stores. Willys hemma covers shoppers' daily needs. During the year, Axfood introduced a "products of the world" product range featuring foods from the Balkans and Middle East, which were very well received by customers.

Willys hemma's concept is particularly well-suited for big-city dwellers. Due to the demographic trend in Stockholm, for example, the region is taking on characteristics of an own market. This is creating ideal opportunities for Willys hemma to continue growing.

Goals and strategies

Willys hemma's growth target is based on having approximately 50 stores in Sweden's largest cities. The store structure is continuously being reviewed, and this can lead to store closures at locations where the Willys hemma concept is less suitable.

Additional priorities looking forward include continued work on store operations, dynamic category management and creating a positive shopping experience at Willys hemma stores. Active marketing will be used to strengthen the brand and increase sales.

Willys hemma at a glance

Business concept

Willys hemma is a neighbourhood store that offers consistently low prices with an attractive selection of fresh products.

Customer structure

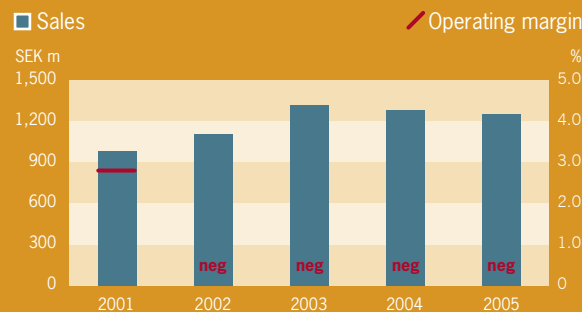
Willys hemma's customer base is dominated by price-conscious small households located near the chain's stores. Customers are drawn by well-stocked neighbourhood stores with consistently low prices.

The future

Willys hemma is an urban concept, which will be the focus of the chain's future growth. Priority will be given to continued work on store operations and product line development. Active marketing will help strengthen the brand and increase sales.

Key ratios

Amounts in SEK m unless otherwise indicated	2005	2004
Net sales	1,251	1,284
Like-for-like sales growth, %	-9.8	-2.4
Operating profit	-16	-4
Operating margin, %	neg	neg
Number of stores	48	45
Average number of employees during the year	359	329



Figures for 2004 and 2005 reported according to IFRS. Goodwill amortization for the years 2001-2003 has been reversed.

Dagab

Sweden's most efficient wholesaling operation

Dagab supplies approximately two-thirds of the retail food products needed by all stores in the Axfood Group and numerous independent retailers. Operations are conducted from three main distribution centres and two separate cold-storage warehouses. From these, Dagab orchestrates deliveries to some 550 stores around the country. Of Dagab's total sales, 97% are derived from Axfood's own stores or franchisees.

Dagab plays a central role in the growing integration within the Axfood Group. This integration, in turn, is an instrumental factor behind the continuously improved cost efficiencies being achieved across the supply chain.

Important events during the year

Sales increased during the year to SEK 19,487 m (19,320). Operating profit was SEK 272 m (328), and the operating margin was 1.4% (1.7%). During the year, the Vi-group changed wholesalers, causing a SEK 1.3 bn loss in sales. However, Dagab recovered approximately 20% of that volume. Another contributing factor to the decline in distributed sales was a conscious change in the product mix in Axfood's retail chains toward a greater share of private label products and discount products.

The year was dedicated to intensive work on adapting operations to the new level of volume. This involved primarily staff reductions at the distribution centre in Jordbro, where the workforce was reduced by 90 positions according to plan.

In October a sweeping structural change was executed in Dagab's meat and processed meat operations, involving the closure of the distribution centre in Kristianstad. Another change involved the centralization of meat and processed meat purchasing at Dagab. These initiatives were part of the Group's ambition to achieve a higher degree of integration between its companies. Together the changes will result in SEK 18 m in annual cost savings.

During the year, an extensive project was also

launched to improve Dagab's overall capacity with respect to floor space and inventory, involving an expansion of the distribution centre in Gothenburg. The expansion is being conducted in three stages, of which two were completed in 2005. One of these extensions involved unloading capacity, while the other pertained to loading space and cold-storage capacity. In 2006 a new high-rise warehouse is being built for imported goods, which is expected to be ready by mid-year. This expansion represents Dagab's largest investment in many years.

Operations are managed through a model called "Compass – Continuous Improvement at Dagab", which in 2005 was augmented with the introduction of the 5S tool, which aims to create standardized processes characterized by efficiency and clear structures.



Dagab's efficiency is crucial to Axfood's ability to meet the competitive pressure in the retail food market

The management organization was complemented during the year with the addition of a manager in charge of central transport matters.

Anders Agerberg has been serving as acting president since 1 September 2005, when Stefan Karlsson resigned.

Challenges and opportunities

A distinguishing feature of a successful wholesaling operation is the ability to work continuously with efficiency improvement and improved competitiveness on the cost side. Dagab is achieving this through greater automation, higher warehouse productivity and more efficient transports. A standing challenge for Dagab thus involves continuously improving productivity and keeping costs down in every part of the value chain. All this is being done to enable Axfood's store chains to meet competitive pressure from discount players in the market.

The Supply Chain project has for Dagab's part entailed an improvement in the timeliness of deliveries, among other things.

An additional challenge for Dagab is to increase its delivery reliability, i.e., the percentage of deliveries that meet store orders. The goal is to maintain a delivery reliability of 97%. Apart from developing rules and routines for flow planning within Dagab, this will involve initiatives to influence suppliers to improve their processes to a corresponding degree.

Goals and strategies

Dagab's goal is to uphold its position as Sweden's most efficient wholesale operation, and to grow in pace with Axfood's store chains. Through continuous improvement and development, Dagab will contribute to deeper integration, improved delivery reliability and efficiency throughout the Group's operations.



Dagab at a glance

Business concept

Dagab streamlines the flow of goods and information between retailers and suppliers. Dagab is being steadily 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 supplies Axfood Närlivs' Tempo stores. Axfood's own stores account for most of Dagab's sales.

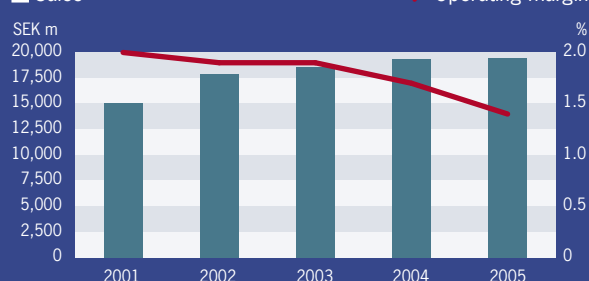
The future

Dagab's goal is to be Sweden's most efficient wholesale operation and to grow in pace with Axfood's store chains. Through continuous improvement and development, Dagab will contribute to deeper integration, improved delivery reliability and efficiency in the Group's operations.

Key ratios

Amounts in SEK m unless otherwise indicated	2005	2004
Net sales	19,487	19,320
Distributed sales	13,274	14,326
Operating profit	272	328
Operating margin, %	1.4	1.7
Average number of employees during the year	1,019	1,061

Sales



Figures for 2004 and 2005 reported according to IFRS. Goodwill amortization for the years 2001–2003 has been reversed.

Axfood Närlivs

Natural choice of wholesaler for convenience stores

Axfood Närlivs aspires to be the natural choice of wholesaler for customers in the convenience store/mini-market segment. As a market-leading and nationwide wholesaler, Axfood Närlivs delivers retail food products to service stations, mini-market chains, small businesses and restaurants. Axfood Närlivs conducts distribution activities under the Närlivs business unit and cash-and-carry activities through the subsidiary Snabbgross.

Axfood Närlivs also offers concept and profile development services as well as category management support. One example is the proprietor-run stores operating under the Tempo and Handlar'n names. Axfood Närlivs owns the Tempo and Handlar'n brands and has created a uniform profile and uniform concept for all stores in the two chains. Axfood Närlivs is also responsible for joint marketing activities.

Important events during the year

Axfood Närlivs performed well in 2005. Sales totalled SEK 4,680 m (4,589). Operating profit was SEK 103 m (97), and the operating margin was 2.2% (2.1%).

The agreement with Emab's independent service stations was renewed, while the agreement with Reitan, which operates the Pressbyrån and 7-Eleven stores, was extended. Additionally, fifty new stores decided to align themselves with the Tempo name.

Axfood Närlivs' supply agreement with Preem expired at year-end 2005. During the year, an online service was developed for small convenience stores, called Ax3. The service provides support to retailers in planning, efficiency improvement and category management at their stores. A decision was also made to introduce a new, internal sales support system in 2006.

The warehouse in Östersund was closed, and following this, Axfood Närlivs has warehouses in Skellefteå, Örebro and Tyringe. In addition, the decision was made during the year to close the sales office in Jönköping.

Axfood Snabbgross's cash-and-carry business was developed into a more distinct and integrated chain operation, with a new layout and market positioning.

Many of Axfood Närlivs' customers are small, independent grocers. They are also offered services such as concept development and category management

Challenges and opportunities

The convenience store segment is currently in the midst of a difficult market situation and is under strong price pressure. It is a market climate that is affecting Axfood Närlivs and its customers. The service station segment has become saturated, and the trend is moving toward unmanned petrol pumps. Independent convenience stores are increasingly aligning themselves to various concepts and brands. Shifts in consumption patterns from central city locations to outlying shopping centres are also hurting sales for convenience stores. At the same time, we have noted other changes in consumption patterns, such as new fast food products and an upswing for restaurants. Mini-markets are also broadening their service offering.

For Axfood Närlivs, these trends in the market represent an opportunity to develop new concepts for every customer category. Changes in store structures, such as the conversion of small grocery stores to more distinct convenience stores and the addition of new customer categories are opening new opportunities for Axfood Närlivs. As a market-leading and nationwide wholesaler, Axfood Närlivs is in a good competitive position to capitalize on such changes in the market.

Goals and strategies

Axfood Närlivs' key strategies will be focused on achieving cost efficiencies, growth and more distinctive value propositions for customers.

Accordingly, Axfood Närlivs' goal is to be the most cost-efficient alternative in the business, with a focus on low costs and efficiency at every level. This will be achieved, among other things, by penetrating new customer categories, adding new products to the customer offering, and ensuring that every customer group is profitable.

Axfood Närlivs will also be working on developing and adapting logistics solutions, product offerings and market concepts to the individual needs and market conditions of each customer group. This can entail, for example, working together with customers to customize an attractive line of fast food products and active category management.

Axfood Snabbgross aspires to be Sweden's leading cash-and-carry operator, offering an integrated chain with focus on growth, chain operation and cost efficiency.

Axfood Närlivs at a glance

Business concept

Axfood Närlivs offers commitment, knowledge and simplicity in its cooperation with customers and suppliers. By choosing the right product offering and market concepts, together we create conditions for profitability and growth.

Customer structure

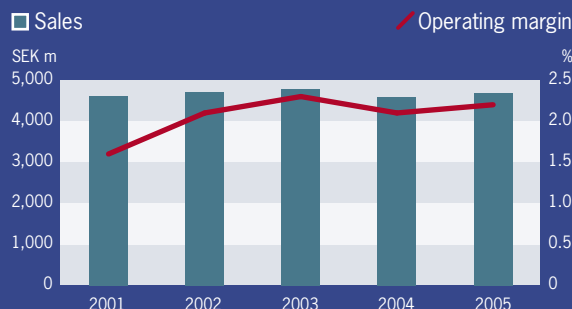
Axfood Närlivs has three dominant customer categories: contract customers, convenience store/mini-market chains, and small businesses and restaurants. The company offers distribution services to these customers via its Närlivs business unit and cash-and-carry activities through the subsidiary Axfood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

The future

The key strategies identified by Axfood Närlivs for the future are cost efficiency, growth and a refined customer value proposition. Through these, Axfood Närlivs seeks to strengthen its market position in the convenience store/mini-market segment.

Key ratios

Amounts in SEK m unless otherwise indicated	2005	2004
Net sales	4,680	4,589
Distributed sales	3,814	3,658
Operating profit	103	97
Operating margin, %	2.2	2.1
Number of stores (Tempo/Handlar'n)	381	350
Number of cash-and-carry outlets	23	23
Average number of employees for the year	649	655



Figures for 2004 and 2005 reported according to IFRS. Goodwill amortization for the years 2001-2003 has been reversed.

Ethics and quality across the value chain

Axfood is one of Sweden's largest retail food groups and has a significant presence in people's everyday lives, at all locations at which we work. At Axfood we take responsibility for the products we sell, for the health and safety of our customers and employees, and for the environments in which we work. We respect the laws and regulations in places where we work and also regard relevant international accords and agreements as cornerstones in our approach to corporate social responsibility initiatives.

Through our code of conduct, Axfood lays out in detail which parts of the value chain the company takes responsibility for and which issues Axfood can and wants to work on. These can be summarized in the following points:

- Sound business ethics in procurement, business contacts and pricing
- Good food hygiene
- Full product responsibility for Axfood's private label products
- Constructive human resource policies with respect to salaries, codetermination and safe and healthy work environments
- Compliance with UN and ILO conventions on child labour and human rights

Business ethics

Axfood is a significant player in the Swedish retail food market. Correct behaviour in dealings with business partners and competitors is critical for the Company's credibility.

To ensure uniform behaviour throughout the Group, Axfood has drawn up a policy that lays out Axfood's position on matters such as bribery, corruption, and collaboration within the industry. This policy is updated every year and certified by all employees who are authorized to approve expenses. In 2004 and 2005, more than 800 employees within the Group signed a confirmation that they had been informed about this policy.

Ethical choices/exclusions

Axfood has decided to exclude "hard lemonade" beverages from its wholly owned stores. Nor do Axfood's wholly owned stores sell magazines of a pornographic nature.

In Sweden it is against the law to sell tobacco and alcoholic beverages to persons under 18 years of age. Stores are required to check ID if the clerk feels the customer appears to be under the age of 25. Axfood works internally on informing store employees about these requirements, an internal oversight programme is in place, and all checkout staff are required to sign

a document certifying that they have been informed of the applicable rules. The Swedish Retail Food Trade Association, the Swedish National Institute of Public Health and the National Alcohol Committee conduct yearly spot checks to make sure that store employees request ID and refuse to sell these products to minors. Axfood supports this work on tighter controls.

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. There are major differences between various agents' knowledge about their suppliers.

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.

Audits of agents

In 2004 Axfood conducted a pilot project to acquire more knowledge about the conditions at ten randomly selected private label product suppliers in China, Vietnam and Malaysia.

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.

Axfood is continuing its work involving random visits to its suppliers, and the goal is to conduct five to ten visits per year for audits performed according to the international SA 8000 standard.

In 2005 a total of ten audits were performed in Thailand, India and China. These involved follow-ups of previous audits (3) as well as visits to new suppliers (7). Of these, seven were food producers. The results of the audits have been published on Axfood's website: www.axfood.se.

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 laid out in all agreements with suppliers and agents. Axfood does not accept child labour. We acknowledge that child labour exists in certain countries and aspire to work with factories and organizations to improve the situation for children. If a supplier does not accept our view of child labour, then we break off our cooperation.

Employees

A continuously learning organization

Axfood's strategies, efficient operation, cost efficiency and profitable growth are all achieved by employees who want to and can have an impact on achieving better operating results. Therefore, Axfood invests heavily in creating a continuous learning organization, above all through the Axfood Academy.

Due to the high level of competition in the retail food industry, leadership succession is a central concern. Axfood is working actively on identifying and recruiting tomorrow's leaders from within its own ranks.

Through the introduction of Compass as a management tool and follow-up model at all stores, Axfood has ensured that all employees are engaged in the work on achieving the company's strategies.

Added to this, a systematic work-environment and safety initiative will help create sound and safe workplaces throughout the Group.

Axfood Academy

The Axfood Academy has developed six basic modules for training store managers and prospective store managers. The six modules are: the B90 store system, Product Flows, HR Planning, Labour Law, Work Environment and Financial Analyses.

The aim of the training programme is to allow store managers to choose the modules that they are lacking knowledge in. The goal is to obtain a uniform level of base competencies among store managers throughout the Group. Approximately 230 managers participated in training courses during the year.

A further training step is offered to certified store managers. To become certified, the manager must have completed all of the basic modules and built upon this with a management training programme.

A core education programme is now being developed for foremen in Axfood's wholesale operations.

Internal knowledge sharing

To create a continuously learning organization, Axfood has developed a system of internal mentors. The internal mentors' job is to, within the framework of their ordinary work duties, train managers and employees within the Group and to provide guidance on further development opportunities.

Internal and external trainee programmes

Axfood has two separate trainee programmes, one internal and one external.

The external programme is set up for young college graduates, with the goal of creating Axfood Ambassadors with an all-embracing picture of the company.

**Axfood's strategies
are put in action by competent,
energized employees
who want to achieve better
operating results**



Six candidates were accepted to the year's external training programme, which involved internships in all parts of Axfood's operations. All six trainees were offered jobs by Axfood after their training.

The internal programme, which solicited applications from employees for the first time in 2005, was created to meet Axfood's need of store managers. Twelve employees began the programme in 2005.

Leader recruitment

The competition in Sweden's retail food industry puts high demands on Axfood's ability to recruit and retain good, com-

petent and energized leaders – especially in its stores. Axfood is therefore investing in identifying and developing tomorrow's leaders from within its own ranks. To facilitate this work, in 2005 Axfood developed uniform and effective internal recruitment processes for the Group.

During the year, considerable energies were focused on identifying candidates for future store manager positions. In 2006, more emphasis will be placed on assistant store managers in an effort to ensure management succession from the bottom up.

Equal opportunity and diversity

Starting in 2005, Axfood's companies work according to uniform plan- and activity templates laying out the Group's equal opportunity initiatives. The goal is that this will forge a strong bond between operations in the store chains and the Group's overarching equal opportunity goals. These include, among other things, increasing the percentage of women in senior positions throughout the Group. The joint templates also outline better opportunities to monitor goal fulfilment.

Equal opportunity and diversity are key aspects of leadership recruitment. Axfood has an express ambition to increase the percentage of women store managers.

Systematic work environment initiatives

Attention to work environments shall be an integral part of Axfood's operations and shall be addressed through a concerted effort between employers, employees and the unions. Work environments at Axfood shall meet all existing legal requirements. On top of these, Axfood takes measures to offer its employees a sound, stimulating, safe and fulfilling work environment. One example is Axfood's systematic work environment activities

at Willys. This work is based on a clearly defined process in which each of the 100

During the year, 6,500 employees at Axfood's stores received training in the Compass management tool. In all, 912 managers completed supervisory training in 2005, which they then shared with their respective employees



stores performs a quarterly follow-up of its store's status with respect to a number of joint criteria, such as work attendance, work injuries, safety, employee turnover, and so on.

The stores then report to one of Willys' six regional work environment committees, where the respective regional directors serve as committee chair. The regions, in turn, compile the stores' reports, which are then sent to the central work environment committee, whose members include the CEO and Head of Safety, among others. Through this reporting process, Axfood's executive management obtains an overall picture of work environment matters at the stores, which enables management to identify any actions that may need to be taken. In addition, Axfood's store managers are offered training in work environment matters.

Employee statistics for Sweden

	2005	2004	2003
Work attendance, store chains, %	93.2	92.7	92.4
Work attendance, Dagab, %	93.4	93.0	93.0
Employee turnover, %	7.5	10.0	n.a.
Average service time, years	9.9	9.2	n.a.
Number of full-time employees	4,322	4,610	n.a.
Number of part-time employees	3,410	3,554	n.a.
Average number of employees	7,066	6,941	6,998
Number of men	3,200	3,223	3,197
Number of women	3,866	3,718	3,801

Safety

Axfood's employees work in an environment that has become vulnerable in terms of safety, just like society in general. Axfood therefore puts a great amount of effort into creating the safest possible work environments for its employees.

The baseline is that all employees should have good knowledge about the kinds of problems they can encounter in their stores and about what their options are in difficult situations. Above all, it is important that every employee is aware of and can adhere to existing safety rules.

Axfood's store managers are educated centrally about safety matters and are responsible for passing on their knowledge to store employees. In the event of any incidents, routines are in place for dealing with the persons involved – initially at the employee's workplace, but also with external assistance.

Store safety is an important aspect of Axfood's quality work. Safety work is conducted on the basis of risk analyses performed using Axfood's own Axfood Blue analysis tool. With the help

of this tool, regular inspections are conducted to ensure that all operations work with risk-prevention in a systematic manner.

The most prominent safety risks in Axfood's operations are fire, violence and threats. In 2005, Axfood stores were subject to 18 robberies (2004: 14). Firearms were used in 14 of these. The number of robberies committed in retail businesses in Sweden as a whole was 941 in 2005, an increase of 12%. With respect to violence and threats, continuous preventive work is conducted which includes training and information for employees as well as work on technical safety solutions, such as minimizing the amount of cash kept in tills.

One particular problem is the current rise in shoplifting, involving the systematic sale of stolen goods and second-hand products. Axfood sees the rising share of private label products as one way of protecting itself, since they are difficult to disguise and the risk of discovery is too great if they were to be sold at other stores than Axfood's own.

Axfood cooperates with community organizations on safety issues and also participates in a special robbery group together with the Stockholm Police undercover unit. The robbery group is an important forum for exchanging experiences on criminality trends, perpetrator profiles, and so on.

The environment

Axfood's environmental work can be broken down into two aspects – environmental work that Axfood conducts in concert with others, and environmental work that Axfood conducts on its own.

Activities in the former category include the development or recycling of various types of packaging, CFCs and external transports. Axfood can establish requirements for practices within the Axfood Group, but it can only affect the overall situation in concert with others.

Within Axfood, environmental work is conducted in the three areas that have been previously identified as factors that Axfood can have a direct impact on: transports, waste management and electricity consumption. In addition to these, Axfood has begun work on improving information about ecological, ethically labelled and hypoallergenic products.

Energy consumption

In 2004 a preliminary study was conducted at a number of stores in an effort to identify potential sources of wasted energy. This led to a thorough examination during the past year of energy consumption at 20 selected stores. Certain measures were taken at these stores, and the results will form the basis

of a number of considerations on modernization needs and improvements for store equipment. The results will also be used in store refurbishment work.

The completed examination will lead to a number of more focused studies targeting areas with high energy use. For example, it might concern improving existing systems that produce heat or refrigeration, improving heat recovery systems, or overhauling the lighting at a given store. The study has also identified a need to increase employee awareness on initiatives that can be taken in their daily work to reduce energy consumption.

Electricity consumption by wholly owned stores and wholesale operations, MWh

Sweden	2005	2004
Retail units	275,752	251,083
Wholesale operations	44,193	44,917
Total	319,945	296,000
Number of stores	235	223

Electricity consumption kWh/sq.m.

Sweden	2005	2004
Stores	690	691
Warehouses	201	203

Waste management

Waste management at Axfood begins at the Group's stores. Development and use of reusable devices for transports play an important role in reducing packaging waste. Sorting of packaging material for recycling is another important measure. Axfood sorts primarily corrugated board, soft plastic and paper. Axfood's private label products, including the Willys and Hemköp brands, are labelled with information on how they are to be sorted for recycling.

In 2003 and 2004, new waste stations were built at most of Axfood's wholly owned stores (Willys and Hemköp). In connection with this, a review was conducted of which fractions are considered to be obligatory and necessary. At most of the Group's wholly owned stores, external packaging is sorted.

Axfood's stores also provide stations where customers can turn in recyclable bottles, crates, PET bottles and aluminium cans. At the wholesale operations' distribution centres, sorting is conducted primarily of corrugated board and soft plastic. Axfood's offices collect recyclable paper.

Sorted and recycled waste from stores and warehouses, tonnes

Corrugated board and boxes		Soft plastic		Combustible waste, incl. wood	
2005	2004	2005	2004	2005	2004
17,738	18,059	1,107	1,082	16,412	13,144

Transports

Transports of goods from wholesalers to retailers/stores are handled primarily by the subsidiary Dagab, which accounts for 60% of all product transports to stores. 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. To further reduce fuel consumption and emissions, Dagab's drivers receive training in so-called eco-driving. As of 2005, roughly 70% of Dagab's drivers had completed the eco-driving training course. Dagab has signed a declaration of intent "for environmental and traffic safety in the transport of retail food products". The aim of this is to certify that signatories will strive for improved traffic safety and lower environmental impact from the transports generated by the companies in their operations. Higher demands will also be placed on the external shipping firms that Dagab signs agreements with.

Total CO₂ emissions from Dagab's and Närlivs' own lorries for transports from warehouses to stores

Sweden	2005	2004	2003
Total CO ₂ , tonnes	10,640	11,584	11,319
CO ₂ kg/tonne, products	26.14	26.73	27.37
CO ₂ kg/SEK m in sales	665.81	687.80	697.76
Number of own vehicles	156	160	160

Organic/ethically labelled products

In autumn 2005 a major initiative was begun to give customers better information on organic, ethically labelled and hypoallergenic products sold by Axfood. This work is expected to be completed by summer 2006.

Quality

As a company working in the retail food business, Axfood must maintain a constant focus on quality. Quality work within the Group is highly important and is aimed at increasing benefit for both our customers and the Company. Our core values are the guiding principle for this work, which entails that we strive to pair the best possible quality and price with business acumen.

Axfood's quality work is also built upon openness and honesty, and that we stand for what we do. Axfood's customers must be able to feel confident that live up to our promises.

Quality work is handled by several different functions within the Group and is designed to be both preventive and corrective. Internal inspection programmes are in place for three priority areas: quality assurance of private label products, inspections of the cold storage chain, and inspections of store environments and safety.

Quality assurance, private label products			
	Targets	2005	2004
Product recalls from stores, private labels	0	18	13
Product recalls from stores, other	0	28	27
Share of private label suppliers approved according to GFSI	All suppliers	74.8%	51.10%

Cold storage chain

The integrity of the cold storage chain within the Axfood Group is maintained through routines for handling refrigerated and frozen products at all levels. In connection with deliveries to Dagab and Närlivs, temperature checks are made of all vehicles used to transport refrigerated and frozen products. Approximately 2,000 temperature checks are made per month by Dagab and approximately 700 a month by Närlivs. Continuous temperature monitoring is performed of all cold storage areas. Of Dagab's vehicles used for delivery of products to stores, approximately 65% have automatic temperature monitoring systems. On top of this, each month approximately 150 random temperature inspections are performed at Dagab and 60 at Närlivs. The cold storage chains at both Dagab and Närlivs are inspected and updated on a yearly basis. Pertinent employees, such as drivers, goods receivers and store support staff receive training in refrigeration and freezing matters. Systems are in place that enable follow-up.

In Axfood's stores, refrigeration and freezer displays are furnished with temperature sensors that are monitored by an external company and which issue an alarm if temperatures deviate from set norms.

Compass

Compass is a management tool and follow-up model that has been adopted throughout the Axfood Group as an aid in focusing on and prioritizing the most important areas and measures for improving operations.

Compass is a lucid business monitoring model that measures four operational dimensions: Customers, Employees, Finance and Operations.

Mystery shoppers

In 2005 Axfood launched a "mystery shopper" project at its stores. The aim is to make further improvements to store quality, based on the customers' perspective. Mystery shopper visits will be made once a month at all 235 wholly owned stores within the Group, or 3,000 test visits a year.

Following each visit, the job of the mystery shopper is to point out areas in the store that can be improved. Initially the scorecard will focus on factors such as overall shopping experience, treatment by store staff and how well stores do at displaying their products in an inspiring manner. Mystery shopper visits are a component of the Compass tool.

Food inspiration and health

Quality and health are becoming increasingly synonymous in society as a whole. To demonstrate Axfood's aspiration to take health issues seriously, during the year an extensive health project was initiated at Hemköp, starting with one pilot store. The intention over time is that this health concept will permeate all Hemköp stores.

The project is based on an extensive training initiative involving all of a store's employees. The training focuses partly on personal health and partly on health aspects of the product offering.

The aim is for the health concept to be visible throughout the store, with the help of display systems, preparation advice and tips on healthy food choices, and will be backed up by knowledgeable and engaged store staff.

Maintaining an unbroken cold storage chain has high priority at Axfood. All employees involved in this respect receive continuous training



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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 2005 financial year.

Operations

Axfood conducts food retail and wholesale trading operations in Sweden. The retail operations are conducted via the Willys, Hemköp and Willys hemma chains, with 235 wholly owned stores. During the year a number of stores were established, acquired, sold or closed. The net increase in the number of stores was 12. In addition, Axfood collaborates with a large number of proprietor-run stores that are tied to Axfood through agreements, including stores within the Hemköp and Willys chains, but also stores operating under the Handlar'n and Tempo names. In all, Axfood collaborates with over 500 proprietor-run stores. Wholesaling is conducted by Dagab, for which approximately 84% of distributed sales are made to Axfood-owned stores in Sweden, and Närlivs, whose customers consist primarily of mini-markets, service stations, restaurants and other convenience stores. Axfood Närlivs also has 23 cash-and-carry outlets in its subsidiary Axfood Snabbgross.

Ownership structure

Axfood is listed on the Stockholm Stock Exchange O-List, attract40. The principal owner is Axel Johnson AB, with approximately 45% of the shares.

Important events

On 7 September 2005 Axfood signed an agreement with the Finnish company SOK on the sale of Axfood's entire shareholding in Spar Finland Abp. Axfood owned 69.3% of the shares and 75.2% of the votes in Spar Finland. The deal was completed on 12 January 2006¹⁾.

During the year, the Board of Directors appointed Anders Strålmán as the Group's new President and CEO, as well as three new members of the Executive Committee.

Axfood acquired 19 stores during the year with combined annual sales of approximately SEK 1.8 bn.

Net sales

Consolidated net sales of the Axfood Group decreased by 2.0%, to SEK 28,086 m (28,658). Sales in Sweden in own and collaborating stores (at Hemköp and Willys), amounted to SEK 23,254 m (22,116) – an increase of 5.1% compared with the preceding year. Sales for Axfood's wholly owned stores in Sweden rose 4.8% during the year, while like-for-like sales decreased by 2.3%.

Earnings

Operating profit was SEK 1,040 m (1,126). The operating margin was 3.7% (3.9%). After net financial items, totalling SEK -14 m (-30), profit was SEK 1,026 m (1,096). After taxes totalling SEK -297 m (-310), profit for the year for continuing operations was SEK 729 m (786). A loss for the year was reported for discontinued operations (Spar Finland)¹⁾, totalling SEK -47 m (17), and net profit for the year amounted to SEK 682 m (803), of which the majority owner's share was SEK 687 m (799) and the minority owner's share was SEK -5 m (4).

Condensed profit and loss account

	2005	2004
Net sales, SEK m	28,086	28,658
Operating profit, SEK m	1,040	1,126
Operating margin, %	3.7	3.9
Profit after financial items, SEK m	1,026	1,096
Net profit for the year for continuing operations, SEK m	729	786
Earnings per share, SEK	12.59	14.92
Earnings per shares after dilution, SEK	12.58	14.66
Earnings per share for continuing operations, SEK	13.37	14.67
Earnings per share after dilution for continuing operations, SEK	13.35	14.42

Future outlook

Our view is that profit for 2006 will be level with the outcome for 2005.

Capital expenditures

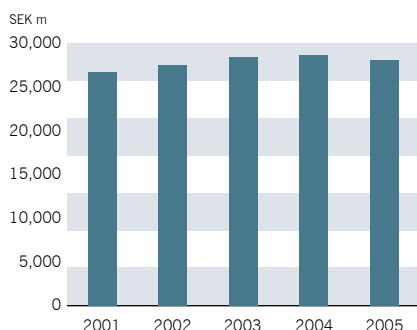
Capital expenditures for the year totalled SEK 1,036 m (537). Of these, SEK 352 m (18) pertained to acquisitions of stores in Sweden, SEK 576 m (454) to investments in fixed assets in the wholesaling operations, IT and in the store network in Sweden, and SEK 108 m (65) to investments in Finland.

Financial position

Cash and cash equivalents held by the Group amounted to SEK 639 m (977) at 31 December 2005. Cash flow from operating activities amounted to SEK 1,170 m (1,462). After net expenditures of SEK -850 m (-422), amortization of debt, new borrowing and payment of the dividend, together totalling SEK -579 m (-610), cash flow for the period was SEK -259 m (430).

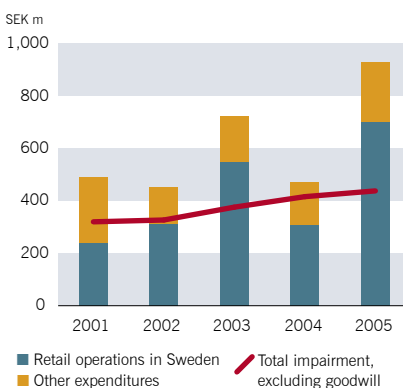
¹⁾ The effect of the sale of Spar Finland is reported in Note 4.

Consolidated net sales ¹⁾



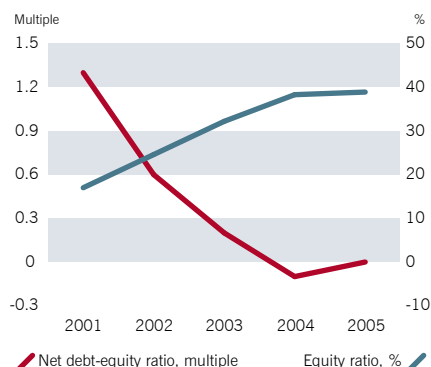
¹⁾ Figures are adjusted for sales by Spar Finland.

Capital expenditures ¹⁾



¹⁾ Figures adjusted for capital expenditures and impairment attributable to Spar Finland.

Net debt-equity ratio and equity ratio ¹⁾



¹⁾ 2004 and 2005 pertain to continuing operations, in accordance with IFRS.

Interest-bearing assets, including cash and cash equivalents, decreased by SEK 350 m to SEK 639 m (989), and interest-bearing liabilities and provisions decreased by SEK 262 m to SEK 414 m (676). Interest-bearing liabilities include SEK 347 m (358) in provisions for pensions. The interest-bearing net receivable decreased by SEK 88 m to SEK 225 m (313).

The equity ratio was 38.9% (38.3%), and the debt-equity ratio, net, was negative at -0.02 (multiple) (-0.11).

Parent Company

Other operating revenue for the Parent Company amounted to SEK 99 m (96) during the period. After selling and administrative expenses of SEK 178 m (181) and net financial items of SEK -9 m (0), profit after financial items was SEK -88 m (-85). Capital expenditures totalled SEK 33 m (3). Cash and cash equivalents held by the Parent Company totalled SEK 358 m (581).

Interest-bearing external assets amounted to SEK 358 m (581) at the end of the period. Interest-bearing net debt decreased by SEK 29 m and amounted to SEK 605 m (634) at the year-end.

Share repurchases

At the Annual General Meeting in March 2005 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 on the Stockholm Stock Exchange. The AGM also authorized the Board in connection with the financing of company acquisitions, to transfer treasury shares on the stock market or in another manner. During the year, no shares were repurchased or transferred. The Company had no treasury shares as per 31 December 2005.

IFRS

Starting on 1 January 2005, in its consolidated accounts Axfood applies International Financial Reporting Standards (IFRS). To achieve comparability regarding the Group's performance and position, the comparison year has been recalculated. The effects of the transition to IFRS are reported on Note 36.

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. In 2005, 953,550 convertibles were converted to stock, corresponding to a dilutive effect of approximately 1.8%. As per 31 December 2005 there were 52,550 convertibles outstanding.

Composition and work of the Board of Directors

Axfood's board consists of eight AGM-elected directors and three employee representatives with one alternate. The members of the Board are presented on pages 76–77.

According to its work plan, the Board shall have at least five meetings a year. In 2005 the Board met nine times. At the meetings in conjunction with the quarterly reports, the CEO

presents 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 auditors' report, which describes – among other things – the extent to which 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 without the presence of the CEO or any other representative from the Company.

The Board of Directors has a compensation committee, which handles, makes decisions on and submits recommendations on 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 committee chair. The current members of the Compensation Committee are Göran Ennerfelt, Antonia Ax:son Johnson and Marcus Storch.

Axfood's main owners have appointed a nominating committee for the period up until the next Annual General Meeting. The Nominating Committee is responsible for presenting recommendations on the number of directors serving on the Company's board and the composition of the Board of Directors to the Annual General Meeting on 9 March 2006. The members of the Nominating Committee are Hans Dalborg (committee chair), Antonia Ax:son Johnson, Inge Bäckström and Björn Lind. Axfood's chairman, Göran Ennerfelt, is a co-opted member of the Nominating Committee.

R&D activities

Axfood does not conduct any research activities, but does conduct some development of IT solutions.

Environmental impact

No operations requiring a permit in accordance with the environmental code are conducted by Axfood AB or the Axfood Group. However, operations are conducted that require notice in accordance with the environmental code. This notice requirement pertains to a cold storage system in the wholesale operation in which ammonia is used. This cold storage system that is subject to the notice requirement handles products corresponding to approximately 6% of the Group's net sales.

In September, Axfood signed an agreement with the Finnish company SOK on the sale of Axfood's entire shareholding in Spar Finland

Profit and Loss Account

Amounts in SEK m	Note	Group		Parent Company	
		2005	2004	2005	2004
Net sales	5, 36	28,086	28,658	–	–
Cost of goods sold	6	-24,172	-24,756	–	–
Gross profit		3,914	3,902	–	–
Selling expenses		-1,879	-1,789	-3	-2
Administrative expenses		-1,158	-1,160	-175	-179
Share of profit in associated companies	22	4	5	–	–
Other operating income	7	180	193	99	96
Other operating expense		-21	-25	0	–
Operating profit	2, 5, 6, 7, 8, 9, 10, 11, 12, 19, 32	1,040	1,126	-79	-85
Result from participations in Group companies	13	–	–	-11	9
Interest income and similar profit items		11	11	7	8
Interest expense and similar loss items		-25	-41	-5	-17
Profit after financial items	14, 32	1,026	1,096	-88	-85
Appropriations	15	–	–	665	-201
Profit/loss before tax		1,026	1,096	577	-286
Current tax	16	-576	-250	-176	79
Deferred tax	16	279	-60	5	3
Profit/loss for the year from continuing operations		729	786	406	-204
Profit/loss for the year from discontinued operation	4	-47	17	–	–
Net profit/loss for the year		682	803	406	-204
Of which, majority owner's share		687	799	–	–
Of which, minority owner's share		-5	4	–	–
Earnings per share, SEK	34	12.59	14.92	–	–
Earnings per share after dilution, SEK		12.58	14.66	–	–
Earnings per share for continuing operations, SEK		13.37	14.67	–	–
Earnings per share after dilution for continuing operations, SEK		13.35	14.42	–	–
Operating profit for continuing operations includes depreciation/amortization of	10	438	417	3	2

Comments on the Profit and Loss Account and Balance Sheet

Starting on 1 September 2005, Spar Finland is reported separately as a discontinued operation (see note 4, Discontinued operations). The Consolidated Profit and Loss Account pertains to continuing operations. Profit after tax from Spar Finland is reported on a separate line in the Consolidated Profit and Loss Account. Comparison figures have been recalculated. The comments below pertain to continuing operations.

In the Consolidated Balance Sheet, assets and liabilities pertaining to Spar Finland are reported separately on the lines Assets held for sale and Liabilities tied to assets held for sale. The balance sheet for the comparison year is not affected since the operation was not classified as discontinued until 2005.

Profit and Loss Account

Consolidated net sales amounted to SEK 28,086 m (28,658), a decrease of 2.0% compared with 2004. For Axfood's wholly owned retail operations in Sweden, sales increased by 4.8%, with a 2.3% decline for comparable units.

Operating profit was SEK 1,040 m (1,126). The preceding year's profit was charged with SEK 15 m in structural costs pertaining to organizational changes and preparations ahead of conversions from Spar to Hemköp. Profit for 2005 was charged with SEK 2 m in structural costs. Operating profit includes depreciation of SEK 438 m (417). Operating profit was only marginally affected by exchange rate movements.

Net financial items improved during the year from SEK -30 m to SEK -14 m, mainly due to the redemption of long-term and current liabilities to credit institutions in 2004. The tax charge was SEK 297 m (310), corresponding to a tax rate of 28.9% (28.3%). Excluding tax on tax allocation reserves, the tax rate was 28.1% (28.3%). Profit for the year was SEK 682 m (803). Minority share in profit year was SEK -5 m (4).

	2005	2004	2003	2002	2001
Earnings per share after dilution, SEK	13.35	14.42	12.62	11.51	6.07

Figures for 2004 and 2005 pertain to continuing operations and are recalculated according to IFRS. Figures for the years 2001–2003 pertain to total operations.

Balance Sheet

The Group's fixed assets increased during the year by SEK 439 m, from SEK 3,129 m to SEK 3,568 m, of which SEK 721 m is reported as assets held for sale and pertains to discontinued operations. Fixed assets consist primarily of goodwill, totalling SEK 1,204 m (995), of which SEK 73 m is reported as assets held for sale and SEK 1,643 m (1,544) as machinery and equipment, of which SEK 213 m is reported as assets held for sale. Of total goodwill, SEK 845 m (780) consists of consolidated acquisition goodwill, of which SEK 22 m (73) pertains to Spar Finland. The operations' total capital expenditures in tangible and intangible fixed assets amounted to SEK 630 m (519). Of these, SEK 576 m (454) pertained to investments in Sweden and SEK 54 m (65) investments in Spar Finland. In addition, units were acquired in Sweden for SEK 352 m (18) and in Spar Finland for SEK 54 m (-).

	2005	2004	2003	2002	2001
Capital expenditures/depreciation	2.12	1.13	1.45	1.11	1.00

Figures for 2004 and 2005 pertain to continuing operations and are recalculated according to IFRS. Figures for the years 2001–2003 pertain to total operations.

Of current assets, inventories make up the single largest item, totalling SEK 1,708 m (1,634), of which SEK 110 m is reported as assets held for sale. 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 2,944 m (2,763), a net increase of SEK 181 m.

Provisions for pensions and similar obligations pertain primarily to the FPG/PRI system. Starting in 2004, pension provisions are reported in accordance with IAS 19 Employee Benefits.

The interest-bearing net receivable as per 31 December 2004 amounted to SEK 313 m. In 2005 the interest-bearing net receivable decreased by SEK 88 m, and thus amounted to SEK 225 m as per 31 December 2005. The decrease is mainly due to a negative cash flow. The sale of Spar Finland contributed to a SEK 159 m increase in the interest-bearing net receivable.

Balance Sheet

SEK m	Note	Group		Parent Company	
		31/12/2005	31/12/2004	31/12/2005	31/12/2004
ASSETS					
Fixed assets					
Intangible fixed assets	17				
Goodwill		1,131	995	–	
Other intangible fixed assets		159	124	–	–
		1,290	1,119	–	–
Tangible fixed assets	18, 20				
Land and buildings		9	260	6	7
Equipment, tools and fixtures		1,430	1,544	35	4
Construction in progress		48	19	–	–
		1,487	1,823	41	11
Financial fixed assets	23, 28				
Participations in Group companies	21	–	–	3,285	3,244
Participations in associated companies	22	3	108	–	–
Other long-term securities holdings	28	19	21	3	3
Other long-term receivables	24	10	24	–	–
		32	153	3,288	3,247
Deferred tax assets	16	38	34	12	7
Total fixed assets		2,847	3,129	3,341	3,265
Current assets					
Inventories					
Finished products and goods for resale		1,598	1,634	–	–
		1,598	1,634	–	–
Current receivables	28				
Accounts receivable – trade		486	754	–	0
Receivables from Group companies		–	–	2,213	1,496
Receivables from associated companies		–	0	–	–
Current tax assets		88	89	–	4
Other current receivables	24	109	72	5	4
Prepaid expenses and accrued income	25	613	565	13	4
		1,296	1,480	2,231	1,508
Cash and cash equivalents	28, 29				
Cash and bank balances		639	977	358	581
		639	977	358	581
Assets held for sale	4	1,189	–	–	–
Total current assets		4,722	4,091	2,589	2,089
TOTAL ASSETS		7,569	7,220	5,930	5,354

SEK m	Note	Group		Parent Company	
		31/12/2005	31/12/2004	31/12/2005	31/12/2004
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	26, 32				
				Restricted shareholders' equity	
Share capital		273	268	273	268
Other capital contribution		492	427	–	–
Share premium reserve		–	–	–	1,608
Statutory reserve		–	–	1,699	25
				1,972	1,901
				Unrestricted shareholders' equity	
Accumulated translation differences		20	5	–	–
Hedging reserve		-2	–	–	–
Profit brought forward		1,355	1,145	1,281	1,101
Profit/loss for the year		687	799	406	-204
				1,687	897
Majority owner's share of shareholders' equity		2,825	2,644	–	–
Minority owner's share of shareholders' equity		119	119	–	–
Total shareholders' equity		2,944	2,763	3,659	2,798
Untaxed reserves	15	–	–	9	674
Long-term liabilities	20, 28, 29				
Provision for pensions and similar obligations	27	347	358	23	20
Other liabilities to credit institutions		7	44	–	–
Other interest-bearing liabilities		29	172	–	71
Deferred tax liability	16	157	434	–	–
Other long-term liabilities		–	20	5	5
		540	1,028	28	96
Current liabilities	28, 29				
Liabilities to credit institutions		3	10	–	–
Other interest-bearing liabilities	20	28	92	4	–
Accounts payable – trade		1,782	1,767	14	5
Liabilities to Group companies		–	–	1,794	1,729
Liabilities to associated companies		0	390	–	–
Current tax liability		442	103	390	21
Other current liabilities		85	73	2	3
Accrued expenses and deferred income	19, 30	983	994	30	28
		3,323	3,429	2,234	1,786
Liabilities tied to assets held for sale	4	762	–	–	–
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		7,569	7,220	5,930	5,354
CONTINGENT ASSETS, PLEDGED ASSETS AND CONTINGENT LIABILITIES					
	31				
Pledged assets		3	365	–	–
Contingent liabilities		28	85	377	384

Cash Flow Statement

SEK m	Note	Group		Parent Company	
		2005	2004	2005	2004
Operating activities					
Profit/loss after financial items		978	1,118	-87	-85
Depreciation/amortization charged against profit		467	461	3	2
Adjustments for non-cash items	33	42	69	27	2
Paid tax		-241	-289	-182	-224
Cash flow from operating activities before changes in working capital		1,246	1,359	-239	-305
Cash flow from changes in working capital					
Change in inventories		-34	-35	–	–
Change in current receivables		-49	196	-537	1,264
Change in current liabilities		7	-58	233	117
Cash flow from operating activities		1,170	1,462	-543	1,076
Investing activities					
Acquisitions of intangible fixed assets		-71	-52	–	–
Acquisitions of tangible fixed assets		-535	-449	-34	-1
Acquisitions of operations	3	-323	-17	–	-916
Earnings from associated companies		4	30	–	–
Sales of operations	4	8	5	46	5
Sales of tangible fixed assets		54	12	0	0
Change in other financial fixed assets		13	49	–	–
Cash flow from investing activities		-850	-422	12	-912
Financing activities					
New issue		–	6	–	6
Newly raised loans		43	–	–	–
Amortization of debt		-32	-321	–	-268
Dividend		-590	-295	-586	-222
Group contributions received/rendered, shareholder contribution		–	–	894	810
Cash flow from financing activities		-579	-610	308	326
CASH FLOW FOR THE YEAR					
		-259	430	-223	490
Cash and cash equivalents at start of year					
		977	548	581	91
Translation difference, cash and cash equivalents		6	-1	–	–
Cash and cash equivalents at year-end		724	977	358	581
Of which, cash flow from discontinued operation					
Cash flow from operating activities		24	59	–	–
Cash flow from investing activities		-118	-53	–	–
Cash flow from financing activities		53	-22	–	–
Cash flow for the year from discontinued operation		-41	-16	–	–

Comments on Cash Flow and Shareholders' Equity

The cash flow statement is prepared for total operations including discontinued operations. In association with the cash flow statement, cash flow from the discontinued operation is broken down into cash flow from operating activities, cash flow from investing activities, and cash flow from financing activities.

Cash flow from operating activities

Cash flow from operating activities before changes in operating capital decreased by SEK 113 m, to SEK 1,246 m (1,359), 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 20 m (31). Adjustment for non-cash items amounted to SEK 42 m (69) and pertained mainly to capital gains, impairment charges, disposals and structural costs. Interest received during the year amounted to SEK 19 m (18), and interest paid amounted to SEK 11 m (25).

Capital expenditures and divestments

The Group's total capital expenditures amounted to SEK 1,036 m (537) and pertained primarily to investments of SEK 593 m (460) in machinery and equipment and investments of SEK 406 m (17) in operations. Of total capital expenditures, SEK 929 m (518) affected the Group's cash flow. In cash flow, capital expenditures have been adjusted in the amount of SEK -25 m (-16) for finance leases.

Sales of associated companies affected cash flow positively in the amount of SEK 1 m (27). Dividends from associated companies were received in the amount of SEK 2 m (3). The sales proceeds for Spar Finland Abp had a positive effect on the group's cash flow in January 2006 in the amount of SEK 338 m.

Financing activities

The Group's change in interest-bearing liabilities affected cash flow in the amount of SEK 11 m (-321). During the year SEK 43 m (-) in new loans were raised. Ongoing financing was handled during the year with cash flow from operating activities. The dividend paid in 2005 amounted to SEK 590 m (295), corresponding to SEK 11.00 (5.50) per share. For the Parent Company, the dividend includes SEK 3 m (73) in dividends received from subsidiaries.

Cash and cash equivalents

The Group's cash and cash equivalents include the Group's balances in Group accounts and other bank accounts, including currency accounts and pending payments. The Parent Company's cash and cash equivalents include the Group's balances in Group accounts and own bank accounts.

Comments on shareholders' equity

The Group's shareholders' equity amounted to SEK 2,944 m (2,763) at year-end. The return on shareholders' equity was 25.1% (32.6%).

Starting on 1 January 2005, Axfood applies IAS 39 Financial Instruments: Recognition and Measurement. For Axfood, IAS 39 entails that the fair value of foreign exchange contracts is to be carried on the balance sheet. The transition to IAS 39 is reported as a change of accounting principle through shareholders' equity and had no effect on the Group's shareholders' equity. The effect on shareholders' equity as per 31 December 2005 was SEK -2 m.

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 during the period 21 January 2005–20 March 2006. Upon full conversion the number of shares would increase by 1,006,100. In 2005, 953,550 convertibles were converted to shares. As per 31 December 2005 there were 52,550 outstanding convertibles. The conversions in 2005 increased the Group's and Parent Company's shareholders' equity by SEK 69.6 m, of which SEK 4.8 m represented an increase in share capital and SEK 64.8 m an increase in other contributed capital in the Group and the Parent Company's statutory reserve. Issue costs amounted to SEK 0 m (0).

In 2005, shareholders' equity increased by SEK 20 m in translation differences pertaining to Axfood's holding in Spar Finland Abp, of which SEK 5 m is attributable to the minority owner's share. Accumulated translation differences pertaining to the majority owner's share amounted to SEK 20 m as per 31 December 2005.

The Board of Directors has proposed a dividend of SEK 15.00 (11.00) for 2005. Based on the number of shares outstanding, totalling 54,546,978, the dividend will amount to SEK 818,204,670.

Change in interest-bearing net receivable for the Group

Amounts in SEK m	31/12/2004	Cash flow	Change in loans	Less: from discontinued operation	Other changes	31/12/2005
Cash and cash equivalents	977	-259		-85	6	639
Long-term interest-bearing receivables	6			-3	-3	0
Current interest-bearing receivables	6			0	-6	0
Long-term interest-bearing liabilities	-216		32	96	52	-36
Current interest-bearing liabilities	-102		-43	144	-30	-31
Interest-bearing pensions	-358			7	4	-347
Interest-bearing net receivable	313	-259	-11	159	23	225

Summary Regarding Changes in Shareholders' Equity

Group

Amounts in SEK m	Share capital	Other capital contributions	Accumulated translation differences	Hedging reserve	Profit brought forward	Majority owner's share	Minority owner's share	Total shareholders' equity
Opening shareholders' equity 2004	267	422	8	–	1,426	2,123	122	2,245
Change of accounting principle, IAS 19	–	–	–	–	14	14	–	14
Exchange rate difference	–	–	-3	–	–	-3	-1	-4
Acquired minority interest	–	–	–	–	–	–	-2	-2
Total changes in net worth reported directly against shareholders' equity ¹⁾	267	422	5	–	1,440	2,134	119	2,253
Profit for the year	–	–	–	–	799	799	4	803
Total changes in net worth ¹⁾	267	422	5	–	2,239	2,933	123	3,056
Shareholder dividend	–	–	–	–	-295	-295	-4	-299
New issue/conversion	1	5	–	–	–	6	–	6
Closing shareholder' equity 2004	268	427	5	–	1,944	2,644	119	2,763
Change of accounting principle, IAS 39	–	–	–	0	–	0	–	0
Fair value of forward exchange contracts	–	–	–	-2	–	-2	–	-2
Exchange rate difference	–	–	15	–	–	15	5	20
Minority in acquired operation	–	–	–	–	–	–	1	1
Total changes in net worth reported directly against shareholders' equity ¹⁾	–	–	15	-2	–	13	6	19
Profit for the year	–	–	–	–	687	687	-5	682
Total changes in net worth ¹⁾	–	–	15	-2	687	700	1	701
Shareholder dividend	–	–	–	–	-589	-589	-1	-590
New issue/conversion	5	65	–	–	–	70	–	70
Closing shareholders' equity 2005	273	492	20	-2	2,042	2,825	119	2,944

Parent Company

Amounts in SEK m	Share capital	Share premium reserve	Statutory reserve	Profit brought forward	Total
Opening shareholders' equity 2004	267	1,603	25	754	2,649
Change of accounting principle, IAS 19	–	–	–	-2	-2
Shareholder dividend	–	–	–	-295	-295
New issue/conversion	1	5	–	–	6
Group contribution	–	–	–	894	894
Tax effect of Group contribution	–	–	–	-250	-250
Mergers	–	–	–	0	0
Loss for the year	–	–	–	-204	-204
Closing shareholders' equity 2004	268	1,608	25	897	2,798
Shareholder dividend	–	–	–	-589	-589
New issue/conversion	5	65	–	–	70
Group contribution	–	–	–	1,352	1,352
Tax effect of Group contribution	–	–	–	-378	-378
Reclassification of share premium reserve	–	-1,673	1,674	-1	–
Profit for the year	–	–	–	406	406
Closing shareholders' equity 2005	273	0	1,699	1,687	3,659

¹⁾ Excluding transactions with the Company's owners.

The share capital as per 31 December 2005 consisted of 54,531,378 shares, distributed among share capital of SEK 272,656,890.

The Board of Directors proposes a dividend of SEK 15.00 per share, of which SEK 9.00 pertains to the ordinary dividend and SEK 6.00 an extra dividend, based on 54,546,978 shares (including shares converted in January 2006).

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. Subsidiaries are required to finance their operations via the central Group account system. Confirmed credit lines must have a minimum average remaining contract term of 12 months. As per 31 December 2005 the average remaining contract term was 598 days (498).

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 reserve, a financing reserve, and an operating reserve. The refinancing risk reserve must always amount to at least SEK 500 m. As per 31 December 2005, the refinancing risk reserve amounted to SEK 1,008 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 2005 the average term of fixed interest was 291 days (264), 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 18 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. Approved hedge instruments are spot contracts, forward exchange contracts and currency swap contracts. In 2005 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

Competitors

Axfood is in an entirely different competitive situation today than when the Company was established. All players in the retail food market are under fierce competitive pressure, driven by a saturated market, among other things. Axfood's aim is to continue growing, but at the same time, Axfood is careful to stress that growth is not an end in itself and must be achieved while maintaining profitability.

A central issue in establishing new stores is that these are preceded by very thorough market analyses with respect to matters related to the competitive situation and demographics. Every investment calculation stretches several years into the future. Continuous analysis work can also lead to geographic shifts in Axfood's store establishment priorities.

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 are all operated in leased premises. For newly established stores, the leases are commonly for 10 years, while for established stores the leases are from 3–5 years.

Operating risks

Axfood's safety analysis work has identified a total loss, such as through fire at one of the central warehouses in Jordbro or Backa, as one of the most significant operating risks that the company must manage.

Awareness is great within the company that centralization increases the company's vulnerability. Therefore, considerable weight is dedicated to preventive work, and the organization for this is well-developed, as is the company's planning for operating continuity in the event of unforeseen events.

Regular risk analyses are performed with the help of Axfood Blue, Axfood's own risk analysis tool. Calculations of estimated maximum loss have also been done with the assistance of insurance brokers. Continuous follow-up is performed of Axfood's safety work, which has led to a gradual decline in claims and lower insurance premiums.

Reviews using Axfood Blue are performed by the stores and the wholesale operations themselves, while oversight of the distribution centres is exercised by Axfood's central safety function.

The Group's systematic fire safety work puts great emphasis on an effective fire safety organization and regular internal controls. In this respect, the priority of fire safety work conducted at the Group's stores lies on evacuation plans, where the primary focus is on employee and customer safety.

Money handling risks

Axfood has Group-wide agreements for security services, security systems and money handling. The justification for this is to ensure a uniform level of security throughout the Group. Strict rules are in place for cash handling at stores. Axfood is closely monitoring developments related to closed money handling systems.

Shrinkage

A shrinkage project is being conducted at Axfood's stores to define how much of shrinkages consists of disposal of outdated defective products, own consumption and actual theft. Shrinkage amounts to approximately SEK 500 m, of which half consists of scrapping of old products. Work on reducing shrinkage is based on the conviction that it is important to work with all aspects of shrinkage, such as by reviewing ordering routines, delivery inspections and unpacking of goods. In this way, better knowledge and routines are created for handling shrinkage while at the same time providing a basis for greater vigilance for products that are particularly prone to theft. Shrinkage work is also included as a parameter in the Compass management tool.

Environmental risks

Axfood does not conduct any operations requiring a permit in accordance with the environmental code. However, operations are conducted that require notice in accordance with the environmental code. This notice requirement pertains to a cold storage system in the wholesale operation in which ammonia is used.

Notes

1. Accounting principles

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS/IAS) and the interpretive pronouncements issued by the International Financial Reporting Interpretations Committee (IFRIC/SIC), as approved by the EU Commission for application within the EU. The 2005 Annual Report is the first complete report that the Group has prepared in accordance with IFRS. In the transition to reporting in accordance with IFRS, IFRS 1 is used, which describes how the transition to IFRS is to be reported for the first time. In addition, Swedish Financial Accounting Standards Council (SFASC) recommendation RR 30 Complementary Reporting Rules for Groups is used. According to the IFRS/IAS transitional rules, a comparison year is required, which entails that 2004 is also reported in accordance with IFRS/IAS in the reporting for 2005. The effect of the transition to IFRS/IAS for the full-year 2004, including a calculation of the differences between previous accounting principles and IFRS/IAS, is presented in Note 36.

The Parent Company applies the same accounting principles as the Group, except in the cases indicated under the section "Parent Company's accounting principles".

The Annual Report and consolidated financial statements were approved for publication by the Board on 13 February 2006. The consolidated profit and loss account and balance sheet, and the Parent Company profit and loss account and balance sheet, are subject to adoption by the Annual General Meeting on 9 March 2006.

Changed accounting principles 2005

Starting on 1 January 2005, the Group applies IAS 39, IFRS 4 and IFRS 5.

IAS 39 Financial Instruments: Recognition and Measurement, IFRS 4 Insurance Contracts, and IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations are required to be applied starting on 1 January 2005 and are exempt from the requirement for recalculation of the comparison year. The effect of the transition to IAS 39 (see Note 36) on the Axfood Group's shareholders' equity as per 1 January 2005 is SEK 0 after tax and SEK -2 m after tax as per 31 December 2005. The transition to IFRS 4 has no effect on the Axfood Group's profit and loss account, balance sheet, cash flow statement or shareholders' equity.

Starting on 1 January 2005, Axfood applies IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations. On 7 September 2005, Axfood signed an agreement on the sale of its shareholding in Spar Finland (see Note 4). The deal was completed on 12 January 2006 and entailed that the Group, as per 31 December 2005, reported a loss of SEK -47 m from discontinued operations after tax. In connection with the sale of Spar Finland, the holding is reported as a discontinued operation. Spar Finland's net result from the start of the year is reported on a separate line in the profit and loss account as "Profit/loss for the period from discontinued operation". Comparison figures in the profit and loss account have been recalculated. Starting on 1 September 2005 and forward, depreciation/amortization of tangible and intangible fixed assets pertaining to Spar Finland ceases. Instead, valuation of said assets is done at the lower of reported and fair value less selling costs. In the balance sheet, starting on 1 September 2005, assets and liabilities pertaining to Spar Finland are reported separately. The balance sheets for the comparison periods are not affected, since the business was not classified as a discontinued operation until 2005.

Changed accounting principles 2006

Starting on 1 January 2006, Axfood is applying the amendment to IAS 19 Employee Benefits, the amendment to IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 Financial Instruments: Disclosures. The amendment to IAS 19 provides the option to report actuarial gains and losses from pension obligations either in shareholders' equity or through profit and loss. The IAS 19 amendment also entails an increased disclosure requirement. Among other things, separate reconciliations are to be made for the change in defined benefit obligations during the year and the change in plan assets for the year.

The amendment to IAS 39 mainly concerns the option to measure financial instruments at fair value (The fair value option) and internal Group hedges between subsidiaries in different countries (Intra-group cash flow hedge accounting). The IAS 39 amendment has no effect on the Axfood Group's profit and loss account, balance sheet, cash flow statement or shareholders' equity.

IFRS 7 entails no change in the reporting and measurement of financial instruments. However, it does entail certain disclosure requirements compared with the previous requirements under IAS 32.

Conditions in the the preparation of the Parent Company's and Group's financial reports

The Parent Company's functional currency is Swedish kronor, which is also the reporting currency for the Parent Company and Group. Financial reports are thus presented in Swedish kronor. All amounts are rounded off to the nearest million kronor (SEK m), unless stated otherwise.

In order to prepare the financial reports in accordance with generally accepted accounting principles, the Board and company management make estimations and assumptions that affect the Company's result and position as well as other disclosures in general. These estimations and assumptions are based on historical experience and are reviewed on a regular basis. Estimations made by company management in the application of IFRS which have a material impact on the financial reports, and estimations made that can entail material adjustments in subsequent years' financial reports, are described in more detail in Note 35.

The accounting principles presented below are applied consistently in the financial reports submitted and which are based on IFRS/IAS.

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 is not amortized, but is tested annually for impairment, see Note 17.

Intra-group assets and liabilities, income and expenses, and unrealized gains and losses between companies in the Group, are eliminated.

Translation of foreign subsidiaries

The Group's foreign subsidiaries are independent entities. The financial statements of foreign subsidiaries are translated to

Swedish kronor at the exchange rate in effect on the balance sheet date. The profit and loss account is translated at the average rate for the year. Translation differences that arise are transferred 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 cost and deferred tax liability, respectively. Equity share of untaxed reserves is reported in retained earnings.

Associated companies

Companies in which Group companies have a significant but not controlling influence are classified as associated companies and are reported in accordance with the equity method. The holding amounts to 20%–50% of the number of votes. The equity method entails that the Group's share of the associated company's shareholders' equity, including Group goodwill and remaining Group surplus and deficit values, is reported as shares and participations in associated companies. The increase or decrease of the associated company's book value that arises through application of the equity method increases/decreases the Group's retained earnings. Dividends received from associated companies decrease the reported value of shares and participations in associated companies. When the Group's share of reported losses in the associated company exceeds the reported value of the participations in the Group, the value of the participations is reduced to zero. Deduction for losses is also made from long-term financial dealings without collateral, which in an economical sense constitutes the owning company's net investment in the associated company.

The Group's share of the associated company's net profit/loss including depreciation, impairment charges and dissolution of any surplus and deficit values reported in connection with the acquisition is reported in the consolidated profit and loss account. Unrealized gains that arise between a wholly owned companies and associated companies in the Group are eliminated to the extent that they correspond to the Group's ownership stake in the associated company.

Joint ventures

For accounting purposes, joint ventures are companies for which the Group, through a cooperation agreement with one or more parties, has a joint controlling influence over the operational and financial management. In the consolidated financial statements, holdings in joint ventures are consolidated in accordance

with the proportional method. For joint-venture companies, the proportional method entails that the Group's share of the company's income and expenses as well as its assets and liabilities is reported the consolidated profit and loss account and balance sheet. This is done in such way that the co-owner's share of assets, liabilities, income and expenses is reported as separate items in the co-owner's consolidated accounts. Only shareholders' equity earned after the acquisition is reported in the Group's shareholders' equity. The proportional method is applied from the date on which the joint influence is acquired and up until the date on which the joint influence ceases.

Segment reporting

For accounting purposes, a segment is an identifiable part of the Group that either provides products and services (business segments), or products or services in a certain economic environment (geographic areas), which are exposed to risks and opportunities that differ from other segments. In accordance with IAS 14, segment information is provided only for the Group.

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 84% of sales going to Axfood-owned stores.

Närlivs. Wholesaling and cash-and-carry business; sales primarily to mini-markets, 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 management.

Revenues

Net sales are reported net after VAT and discounts. Revenues from sales of products are reported in the profit and loss account when material risks and benefits have been transferred to the buyer. Consolidated net sales pertain primarily to store sales. A total of 0.2% of net sales consist of franchise fees from collaborating chain stores. Intra-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, Tempo and Handlar'n brands. The grocers pay annual sales-based fees to Axfood for participation in marketing programmes, purchasing coordination and support in such areas as technical support, administration and store operations. Franchise revenues are recognized in the profit and loss account as they are earned. During each financial year, preliminary franchise fees are invoiced on a continuing basis, and a definitive reconciliation is made during the following financial year.

Rental income

Axfood sublets store premises. Rents from this activity are reported in a linear manner over the term of the rental agreement. Similarly, rental costs are reported over the term of the rental agreement.

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 during 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.

Classification, etc.

In the Axfood Group's accounting, assets and liabilities are broken down into current and long-term. Long-term receivables and liabilities consist in all essential respects of amounts that are expected to fall due for payment after one year from the balance sheet date. Current assets and liabilities are defined as

those that fall due for payment within one year from the balance sheet date.

Receivables and liabilities in foreign currency are recalculated to the year-end exchange rate. For reporting of currency forward contracts used to hedge payments in foreign currency, see the heading “Financial instruments”.

Financial instruments

Financial instruments are measured and recognized in accordance with the rules in IAS 39.

Financial instruments recognized in the balance sheet include – on the assets side – cash and cash equivalents, and trade accounts receivable. Trade accounts payable, issued debt and equity capital instruments, and borrowings are reported among liabilities and shareholders’ equity. Currency derivatives are reported either as an asset or liability, depending on the change in the exchange rate.

Financial instruments are initially reported at cost, corresponding to the instrument’s fair value plus transaction costs.

A financial asset or liability is carried in the balance sheet when the company becomes party to the instrument’s contractual terms and conditions. Trade accounts receivable are recorded in the balance sheet when an invoice has been sent. A liability is recorded when the counterparty has delivered a product or service and a contractual obligation to pay exists, even if an invoice has not been received. Trade accounts payable are recorded when an invoice has been received.

A financial asset is removed from the balance sheet when the rights to the agreement are realized, mature, or the company loses control over them. The same applies for a part of a financial asset. A financial liability is removed from the balance sheet when the obligation in the agreement is fulfilled or ceases in some other way. The same applies for a part of a financial liability.

Purchases and sales of financial assets are reported on the settlement date.

On each reporting occasion, the Company evaluates whether there are objective indications that a financial asset is in need of impairment.

Cash and cash equivalents

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 and pending payments.

This means that the Group’s holdings of cash and cash equivalents are exposed only to a minute risk for value fluctuations.

Accounts receivable – trade

Trade accounts receivable are reported in the amount at which they are expected to be received, less a deduction for bad debts, which are assessed individually. The anticipated duration of trade accounts receivable is short, which is why the value is reported at nominal amount without discounting. Write-downs of trade accounts receivable are reported in operating expenses.

Liabilities

Liabilities are classified as other financial liabilities, which entails that they are initially reported in the amount at which they were incurred. After the date of acquisition, loans are valued at amortized cost in accordance with the effective interest method.

Accounts payable – trade

Trade accounts payable are classified as other financial liabilities. Trade accounts payable have a short anticipated duration and are valued without discounting at their nominal amount.

Derivatives and hedge accounting

Derivative instruments consist of forward exchange contracts that are used to cover risks for fluctuations in exchange rates.

Axfood’s transaction exposure in foreign currency arises in connection with the import of goods paid for in foreign currency. All of these exposures are hedged through spot and forward exchange contracts. Axfood applies hedge accounting of contracted purchases until the time of payment. For all orders, currency hedges are taken out directly after the order was placed with the supplier. This is documented by entering the exchange rate for each order in Axfood’s import system, and for each hedge, there is underlying documentation on which order it applies to. This documentation ensures that the Group has effectively hedged the item and that it has the option to measure and conduct follow-ups.

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 forward exchange contracts are reported in a hedging reserve directly against shareholders’ equity until the hedged flow is reported in the consolidated balance sheet, whereby the hedging instrument’s accumulated change in value is transferred to the profit and loss account, where it meets and matches the profit/loss effects of the hedged transaction. 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 separately at fair value in the balance sheet.

IAS 39 has not been applied for the comparison year, 2004. The effect of the transition on the Axfood Group's shareholders' equity after tax as per 1 January 2005 was SEK 0, and the effect on the Group's other current receivables was SEK 0.

Intangible fixed assets

Goodwill

In connection with acquisitions of operations, goodwill is reported in the balance sheet in cases where the cost exceeds the fair value of the acquired assets and liabilities taken over. With respect to goodwill attributable to acquisitions that took place before 1 January 2004, the Group has not applied IFRS retroactively, which means that the reported value of goodwill as per 1 January 2004 will continue to constitute the Group's cost after testing for impairment, see Note 17.

Goodwill is valued at cost less any accumulated impairment charges. Goodwill is broken down into cash-generating units and is not amortized, but is instead tested annually for impairment, see the heading "Impairment".

If the net fair value of the acquired operation's identifiable assets, liabilities and contingent liabilities exceeds their cost, the surplus (negative goodwill) is reported immediately in the profit or loss account.

Other intangible fixed assets

Direct and indirect external and internal costs for software development for internal use are reported as an asset in the balance sheet, under the condition that future efficiency improvement gains are likely and will exceed incurred costs. Costs for pre-studies, training and continuing maintenance are expensed as incurred. Development costs reported in the balance sheet are carried at cost less accumulated depreciation and any impairment charges.

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. Eligible intangible fixed assets are amortized from the date they are put in use. The following percentages have been applied:

IT projects	20
Other intangible assets	20–33

Goodwill is not amortized, but is tested for impairment annually, or more frequently, if factors indicate that the asset in

question has decreased in value.

Tangible fixed assets

Tangible fixed assets are carried as an asset in the balance sheet if it is likely that the Company will experience future economic benefit and the cost of the asset can be calculated in a reliable manner. Tangible fixed assets are reported at cost after deducting scheduled depreciation and any impairment. Cost includes the purchase price plus direct costs associated with bring the asset to place and in condition to be used in the operations.

Gains or losses that arise upon the sale or disposal of tangible fixed assets consist of the difference between the sales price and the reported value less direct costs associated with the sale. This profit/loss item is reported among "Other operating income/expenses".

Leased assets

The Axfood Group applies IAS 17 Leases for classification of leases as finance or operating leases. Finance leases are carried 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. The leased assets are depreciated on a straight-line basis, while the leasing fees are reported as interest and amortization of the liability.

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
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 goodwill and other intangible fixed assets is tested annually for impairment. The carrying amount is also tested when an indication of a decline in value has been identified. IAS 36 Impairment of Assets is used to determine any need to recognize impairment. According to IAS 36, 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 generate are discounted using an interest rate that corresponds to Axfood's weighted cost of capital. A separate asset is attributed to the smallest cash-generating unit in which independent cash flows can be determined. In 2005, goodwill impairment was recognized in the amount of SEK 51 m (-).

The carrying amount of other assets, except for inventories, assets held for sale and deferred tax assets, which are exempt from the requirement for impairment testing, is tested in cases where there is an indication for a need to recognize impairment.

For further information on cash-generating units and the carrying value of goodwill and other intangible fixed assets, see Note 17.

Inventories

Inventories are carried at the lower of cost or net sales value. Cost is calculated through application of the first-in first-out (FIFO) principle. The net sales value consists of the anticipated sales price in the continuing operations less selling costs.

Provisions

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 when 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 estimation of the amount. The provision is reported in an amount that corresponds to the best estimation of the payment required to settle the obligation. When the outflow of resources is expected to take place a long time in the future, the anticipated future cash flow is discounted, and the provision is reported at present value. The discount rate corresponds to the market rate of interest before tax and the risks associated with the liability. Provisions are reported in the balance sheet under current and long-term liabilities.

Taxes

The Axfood Group reports income taxes in accordance with IAS 12 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 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.

Employee benefits

The Axfood Group reports employee benefits in accordance with IAS 19 Employee Benefits.

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 falls 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 on the balance sheet date. The obligation is discounted to present value on the balance sheet date, from which the fair value of any plan assets is deducted. Further, the calculations are affected by actuarial assumptions, such as remaining lifetime, future rates of employee turnover and future salary levels. Actuarial gains and losses arise either when an assumption changes or when the actual outcome devi-

ates 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 service period, beginning with the year after the current financial year. Calculations of defined benefit pension plans are performed by an independent external actuary.

All actuarial gains and losses as per 1 January 2004, which is the date for transition to IFRS, have been reported.

When there is a difference between how the pension cost is established for legal entities and groups, a provision or receivable is reported with respect to the special employer's payroll tax based on this difference. The provision or receivable is not discounted.

Alecta

Retirement pension and family pension obligations for employees in Sweden are vested partly through insurance with Alecta. According to pronouncement URA 42 issued by the SFASC Emerging Issues Task Force, this is classified as a multi-employer defined benefit plan. For the 2005 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 30 m (30). Alecta's surplus can be apportioned to the policyholders and/or the insureds. At year-end 2005 Alecta's surplus in the form of its collective funding ratio was 128.5% (128.0%). The collective funding ratio consists of the market value of Alecta's assets measured as a percentage of the insurance obligations calculated using Alecta's actuarial assumptions, which is not compatible with IAS 19.

Severance benefits

A provision is reported in connection with employee redundancies only if the company is demonstrably committed to a redundancy before the normal retirement date or when severance benefits are provided as an offer to encourage voluntary departures. In the event a company dismisses 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

severance benefits for each job classification or function and the time at which the plan will be implemented.

Spar Finland

Finland has a statutory retirement and invalidity pension scheme that is governed by the Occupational Pensions Act (APL) and applies for all companies in Finland. 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.

Shareholder's equity instruments/ warrants and convertible debenture loan

Convertible debentures that can be converted to shares by means of the counterparty exercising its option to convert the receivable right to shares are reported as a composite financial instrument, broken down into a liability portion and a shareholders' equity portion. 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 transferred to shareholders' equity (toward the statutory reserve for the Parent Company) 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. Upon conversion, the loan liability is decreased and applied to shareholders' equity and other contributed shareholders' equity (to the statutory reserve for the Parent Company). The interest cost is reported in the profit and loss account and is calculated in accordance with the effective interest rate method. Payment for the issued warrants that have not yet been exercised is reported as other contributed shareholders' equity (in the statutory reserve for the Parent Company). For the options that have been exercised to subscribe for shares, payment for the subscribed shares has been applied to share capital and other contributed shareholders' equity (to the statutory reserve for the Parent Company).

Other

Contingent liabilities

A contingent liability is reported when there is a possible obligation that stems from events that have occurred and whose occurrence is confirmed only by one or more uncertain future

events or when there is an obligation that cannot be reported as a liability or provision because it is not likely that an outflow of resources will be required.

Parent Company accounting principles

The Parent Company complies with the Swedish Annual Accounts Act and SFASC recommendation RR 32 Reporting for Legal Entities. RR 32 entails that the Parent Company shall comply with IFRS/IAS as far as possible. The differences between the Parent Company's and Group's accounting principles are due primarily to the Annual Accounts Act, the Pension Obligations Vesting Act ("Tryggandelagen"), and in certain cases to special tax rules. The Parent Company's accounting principles are not in agreement with IFRS in the following cases.

Employee benefits/defined benefit pension plans

For calculations of defined benefit pension plans, the Parent Company adheres to the guidelines of the Pension Obligations Vesting Act and the Financial Supervisory Authority, since this is a prerequisite for having the right to deduct taxes. The most significant differences compared with the rules in IAS 19 concerns how the discount rate is determined – that calculation of the defined benefit obligation is done based on current salary levels without assumptions on future salary increases, and that all actuarial gains and losses are reported through profit and loss as they are incurred.

Financial instruments

The Parent Company does not apply the valuation rules of IAS 39. In the Parent Company, financial fixed assets are stated at cost less any write-downs, and financial current assets are stated at the lower of cost and market.

Leased assets

In the Parent Company, all leases are reported in accordance with the rules for operating leases.

Taxes

In the Parent Company, untaxed reserves are reported inclusive of deferred tax liabilities. In the consolidated financial statements, however, untaxed reserves are broken down into deferred tax liability and shareholders' equity.

Group contributions and shareholder contributions

Axfood AB reports group contributions and shareholder contributions in accordance with pronouncement URA 7 issued by the SFASC Emerging Issues Task Force. Shareholder contributions are taken directly to shareholders' equity by the receiver and capitalized in the shares and participations by the giver, to the extent that no write-down is required. Group contributions are reported based on their economic significance. This means that group contributions rendered for the purpose of minimizing the Group's total tax are reported directly against retained earnings after deducting their current tax effect.

Mergers

During the year, eleven mergers were carried out within the Group. Of these, none were made with Axfood AB. 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.

Changed accounting principles for Parent Company

Starting on 1 January 2006, the Parent Company is applying IAS 39 Financial Instruments: Recognition and Measurement. The transition to IAS 39 has no effect on the Parent Company's profit and loss account, balance sheet or shareholders' equity.

2. Segment reporting

Per business segment	Hemköp		Willlys		Willys hemma		Axfood Närlivs		Dagab	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Result										
External net sales	6,198	6,163	12,675	11,789	1,251	1,284	4,680	4,589	3,097	4,616
Internal net sales		4							16,390	14,704
Net sales	6,198	6,167	12,675	11,789	1,251	1,284	4,680	4,589	19,487	19,320
Operating profit in associated companies	1	2								
Operating profit/loss (EBIT) per segment	30	102	522	530	-16	-4	103	97	272	328
Undistributed costs										
Operating profit (EBIT)										
Undistributed net financial items										
Tax cost for the year										
Profit for the year from continuing operations										
Profit/loss for the year from discontinued operations										
Net profit for the year										
Of which, majority owner's share										
Of which, minority owner's share										
Other data										
Assets	1,245	1,146	1,826	1,539	273	263	620	651	3,249	3,042
Equity shares	3	4								
Undistributed assets										
Total assets										
Liabilities	846	740	1,510	1,196	134	118	525	548	2,092	1,814
Undistributed liabilities										
Total liabilities										
Capital expenditures*	126	122	192	157	28	11	25	26	40	56
Depreciation/amortization	132	126	174	159	21	22	24	24	42	51
Significant costs not corresponding to outgoing payments	0	15	0	0	0	0	0	0	0	0

Per business segment	Other units		Eliminations		Total continuing operations		Discontinued operation		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Result										
External net sales	185	217			28,086	28,658	4,920	5,168	33,006	33,826
Internal net sales	663	532	-17,053	-15,240	0	0				
Net sales	848	749	-17,053	-15,240	28,086	28,658	4,920	5,168	33,006	33,826
Operating profit in associated companies	3	3			4	5	-2	-2	2	3
Operating profit (EBIT) per segment	137	85			1,048	1,138	-49	22	999	1,160
Undistributed costs					-8	-12			-8	-12
Operating profit (EBIT)					1,040	1,126	-49	22	991	1,148
Undistributed net financial items					-14	-30	0		-14	-30
Tax cost for the year					-297	-310	2	-5	-295	-315
Profit for the year from continuing operations					729	786	-47	17	682	803
Profit/loss for the year from discontinued operation					-47	17			-	-
Net profit for the year					682	803			682	803
Of which, majority owner's share					687	799			687	799
Of which, minority owner's share					-5	4			-5	4
Other data										
Assets	7,597	6,771	-8,456	-7,441	6,354	5,971	1,219	1,193	7,573	7,164
Equity shares		10			3	14	-39	-37	-36	-23
Undistributed assets					23	67	9	12	32	79
Total assets					6,380	6,052	1,189	1,168	7,569	7,220
Liabilities	3,387	2,546	-5,202	-4,123	3,292	2,839	762	710	4,054	3,549
Undistributed liabilities					571	909			571	909
Total liabilities					3,863	3,748	762	710	4,625	4,458
Capital expenditures *	164	82			575	454	55	65	630	519
Depreciation/amortization	45	35			438	417	49	75	487	492
Significant costs not corresponding to outgoing payments	0	0			0	15	51	0	51	15

Per geographic market	Net sales		Operating profit/loss (EBIT)		Assets		Capital expenditures*	
	2005	2004	2005	2004	2005	2004	2005	2004
Sweden (continuing operations)	28,086	28,658	1,040	1,126	6,380	6,052	575	454
Finland (discontinued operation)	4,920	5,168	-49	22	1,189	1,168	55	65
Total	33,006	33,826	991	1,148	7,569	7,220	630	519

* Tangible and intangible fixed assets.

3. Acquired operations

During the year, Axfood acquired 19 independent store operations. Of these, six were converted to Hemköp, eight to Willys and five to Willys hemma. Nine stores are in the Stockholm region, four in the Gothenburg region, and six around the rest of the country. The combined purchase price for the year's acquisitions amounted to SEK 352 m (18). The purchase price for acquired companies amounted to SEK 180 m (10), and for assets SEK 172 m (8). All acquisitions were paid for in cash. Acquired assets and liabilities are stated in Axfood's balance sheet at fair value. The reported values for tangible fixed assets have been adjusted in the amount of SEK +1 m. Additional adjustments of reported values to fair value according to IFRS have not been necessary.

No intangible fixed assets other than goodwill have been identified. The goodwill that Axfood has paid for in the operations is entirely attributable to the synergies that will arise in connection with the acquisitions. Acquired goodwill for continuing operations amounted to SEK 250 m (9). For all acquisitions, Axfood's ownership stake after the acquisitions amounts to 100%. In the months that followed after the acquisitions, the acquired operations contributed SEK -23 m to the Group's profit after tax. If the acquisitions had been made as per 1 January 2005, the Group's income would have been approximately SEK 900 m higher, i.e., a total of SEK 28,986 m. The profit/loss effect from 1 January 2005 until the date of acquisition is difficult to estimate, as the stores were initially burdened with one-time costs.

The following assets and liabilities pertaining to companies were acquired in 2005:

	In continuing operations	In discontinued operation	Total
Goodwill	-118		-118
Tangible fixed assets	-18	-70	-88
Financial fixed assets	9		9
Inventories	-40		-40
Accounts receivable – trade	-2		-2
Other current receivables	-12		-12
Cash and cash equivalents	-82	-1	-83
Long-term liabilities	13	21	34
Accounts payable – trade	10	1	11
Current tax liabilities	3		3
Other current liabilities	57		57
Total purchase price	-180	-49	-229
Cash and cash equivalents in acquired companies	82	1	83
Impact of acquisition of companies on cash and cash equivalents since the start of the year	-98	-48	-146

The following assets were acquired during year through acquisition of assets and liabilities:

	In continuing operations	In discontinued operation	Total
Goodwill	-132	-5	-137
Tangible fixed assets	-40	-	-40
Total purchase price	-172	-5	-177
Impact of acquisition of operations on cash and cash equivalents since the start of the year	-270	-53	-323

For information on the year's change in consolidated goodwill in general, see Notes 4 and 17. During the period 31/12/2005 – 13/2/2006, the Group did not acquire any operations.

The following assets and liabilities in continuing operations were acquired in 2004. The discontinued operation did not acquire any operations during the year.

	Acquisitions of companies	Acquisitions of assets and liabilities	Total
Goodwill	-9	-8	-17
Tangible fixed assets	-3		-3
Inventories	-5		-5
Other current receivables	0		0
Cash and cash equivalents	-1		-1
Long-term liabilities	2		2
Other current liabilities	6		6
Total purchase price	-10	-8	-18
Cash and cash equivalents in acquired companies	1	-	1
Impact of acquisition of assets and liabilities on cash and cash equivalents since the start of the year	-9	-8	-17

4. Discontinued operations

In September 2005 an agreement was reached with SOK on the sale of Axfood's shareholding in Spar Finland Abp. Axfood owned 69.3% of the shares and 75.2% of the votes in Spar Finland. The purchase price for the shares was EUR 46.01 per share, for a total of EUR 36.2 m, or SEK 338 m. The sale was completed on 12 January 2006.

Starting on 1 September 2005, Axfood's holding in Spar Finland Abp is reported as a discontinued operation, which entails that Spar Finland's net result is reported on a separate line in the consolidated profit and loss account. Spar Finland constituted its own segment.

In accordance with IFRS 5, starting on 1 September 2005, no amortization/depreciation is reported for intangible and tangible fixed assets pertaining to Spar Finland. Reversal of amortization/depreciation pertaining to Spar Finland for the period 1 September 2005 – 31 December 2005 amounted to SEK 27 m before tax and SEK 19 m after tax. The reversal is reported in the function charged with the cost.

As per 31 December 2005, Spar Finland is valued at its net sales value, which entails that profit has been charged with SEK 51 m in goodwill impairment attributable to Spar Finland. This impairment is reported in Spar Finland's gross profit.

The following is a compilation of Spar Finland's profit and loss account and balance sheet.

Profit and loss account

SEK m	2005	2004
Net sales	4,920	5,168
Cost of goods sold	-4,661	-4,852
Gross profit	259	316
Selling expenses	-285	-266
Administrative expenses	-26	-28
Share in associated company profit/loss	1	-2
Other operating income	3	2
Other operating expense	-1	0
Operating profit/loss	-49	22
Interest income and similar income	7	7
Interest expense and similar expense	-7	-7
Profit/loss before tax	-49	22
Current tax	9	-4
Deferred tax	-7	-1
Net profit/loss for the year	-47	17

Balance sheet

SEK m	2005	2004
ASSETS		
Fixed assets		
Intangible fixed assets		
Goodwill	73	114
Other intangible fixed assets	14	10
	87	124
Tangible fixed assets		
Land and buildings	311	242
Equipment, tools and fixtures	213	197
Construction in progress	1	1
	525	440
Financial fixed assets		
Participations in associated companies	94	90
Other long-term securities holdings	2	2
Other long-term receivables	8	10
	104	102
Deferred tax assets	5	-
Total fixed assets	721	666

Current assets		
Inventories	110	111
Accounts receivable – trade	239	240
Current tax assets	9	4
Other current receivables	3	3
Prepaid expenses and accrued income	22	23
	383	381
Cash and cash equivalents		
	85	121
Total current assets	468	502
TOTAL ASSETS		
	1,189	1,168
LIABILITIES		
Majority owner's share of shareholders' equity		
	427	458
Minority owner's share of shareholders' equity		
	1	–
Total shareholders' equity	428	458
Long-term liabilities		
Provision for pensions and similar obligations	7	8
Liabilities to credit institutions	28	34
Other interest-bearing liabilities	68	68
Other long-term liabilities	31	31
	134	141
Current liabilities		
Liabilities to credit institutions	8	8
Other interest-bearing liabilities	136	74
Accounts payable – trade	17	22
Liabilities to associated companies	385	390
Other current liabilities	19	14
Accrued expenses and deferred income	62	61
	627	569
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	1,189	1,168

Cash flow from sold operations amounts to SEK 8 m (5). Cash flow for the year is attributable to the sale of assets and liabilities of operations, while in the preceding year it was attributable to the purchase price paid concerning earlier years' sales of companies.

5. Breakdown of income

	Group	
	2005	2004
Net sales:		
Sales of products	27,860	28,363
Other	226	295
Total	28,086	28,658

6. Breakdown of expenses

	Group	
	2005	2004
Cost of goods for resale	22,631	23,179
Payroll costs	2,994	2,867
Depreciation/amortization	438	417
Other	1,167	1,267
Total	27,230	27,730

7. Information on intra-group revenues and expenses

The Parent Company's revenues from subsidiaries amounted to SEK 94 m (94). The Parent Company's expenses from subsidiaries amounted to SEK 25 m (19).

8. Information on employees; compensation of directors and CEO

Average number of employees¹⁾	2005	Of whom, men	2004	Of whom, men
Parent Company				
Sweden	101	27	106	30
Subsidiaries				
Sweden	6,965	3,173	6,835	3,193
TOTAL, GROUP	7,066	3,200	6,941	3,223

¹⁾ Pertains to continuing operations. A full-time employee is calculated on the basis of 1,800 hours. Discontinued operations had 856 (823) employees.

	2005			2004		
	Wages, salaries and other remuneration	Social security charges	Of which, pension costs	Wages, salaries and other remuneration	Social security charges	Of which, pension costs
Parent Company						
Sweden	54	34	15	56	41	21
Subsidiaries						
Sweden	1,992	837	173	1,909	829	162
TOTAL, GROUP	2,046	871	188	1,965	870	183¹⁾

¹⁾ Of the Parent Company's pension costs, SEK 3 m (6) pertains to the CEO and SEK 3 m (5) to executive vice presidents. Pertains to continuing operations. Of pension costs in subsidiaries, SEK 4 m (5) pertains to presidents and vice presidents. The Group has no outstanding pension obligations to the board, CEO or executive vice presidents beyond the expensed pension provision.

Gender breakdown, Group	Boards		Company management	
	2005	2004	2005	2004
Men	26	38	58	62
Women	5	12	6	8
Total	31	50	64	70
Gender breakdown, Parent Company	Board of Directors		Company management	
	2005	2004	2005	2004
Men	4	5	8	10
Women	4	4	1	1
Total	8	9	9	11

The share of sickness-related absence lasting for an uninterrupted period of 60 days or more is 57% (49%).

Sickness-related absences as % of total working time	Men		Women		Total	
	2005	2004	2005	2004	2005	2004
Parent Company						
< 29 years	0.98	0.79	1.25	2.15	1.16	1.66
30–49 years	1.59	0.80	3.08	2.66	2.82	2.29
50 > years	0.32	0.95	7.21	7.11	4.64	4.55

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

	2005		2004	
	Boards, presidents and vice presidents	Other employees	Boards, presidents and vice presidents	Other employees
Parent Company				
Sweden	18 ¹⁾	36	15 ¹⁾	41
Subsidiaries				
Sweden	12 ²⁾	1,980	13 ²⁾	1,896
TOTAL, GROUP	30	2,016	28	1,937

¹⁾ Of the year's costs, SEK 2 (2) pertains to boards, SEK 8 m (6) to presidents, and SEK 8 m (7) to vice presidents, of which, variable compensation to presidents SEK 1 m (0) and vice presidents 1 (0).

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

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

	Base salary/ directors' fees	Variable compensation	Other benefits	Pension cost	Financial instruments	Other compensation	Total
2005							
Chairman of the Board	392	–	–	–	–	–	392
Other board members	1,285	–	–	–	–	–	1,285
CEO (departing)	6,748	507	99	3,279	–	–	10,633
CEO (new)	700	–	49	223	–	–	972
Other senior executives ¹⁾	6,535	805	240	3,579	–	5	11,164
Total	15,660	1,312	388	7,081	–	5	24,446

2004							
Chairman of the Board ²⁾	648	–	–	–	–	–	648
Other board members ²⁾	2,327	–	–	–	–	–	2,327
CEO	6,319	–	120	6,178	–	–	12,617
Other senior executives ¹⁾	6,663	496	245	4,570	–	10	11,984
Total	15,957	496	365	10,748	–	10	27,576

¹⁾ Axfood AB's three executive vice presidents: Lars Nilsson, Bodil Eriksson and Anders Nyberg.

²⁾ During 2005, 75% of directors' fees for 2005 and 25% of directors' fees for 2004 was paid out.

Comments, Note 8

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 2005 Annual General Meeting at SEK 1,670,000 (1,700,000), of which SEK 400,000 (370,000) is payable to the Chairman. Seventy-five per cent of the fee was paid out in 2005, and the remainder will be paid out after year-end.

Axfood's CEO through 31 October 2005, Mats Jansson, received salary and other benefits in 2005 totalling SEK 7.4 m (6.4), including SEK 0.5 m (0) in variable compensation. Axfood's new CEO from 1 November 2005, Anders Strålmán, received salary and other benefits in 2005 totalling SEK 0.7 m (-). Variable compensation for the CEO 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 Annual General Meeting that is held three years later, provided he is still employed.

In addition, the CEOs have a car benefit and healthcare insurance. The new CEO also has a taxable housing and travel benefit. The departing CEO was entitled to retirement pension from 60 years of age, entailed a right to provisions corresponding to 40% of his cash salary. The provision through 31 October 2005 amounted to SEK 22.3 m (19.7). The departing CEO also had a defined benefit family pension plan, which has lapsed in connection with his departure. The newly installed CEO is entitled to retirement pension from 65 year of age, and a right to provisions corresponding to 35% of his cash salary. The provision as per 31 December 2005 amounted to SEK 0.2 m (-). In the event Axfood serves notice, the CEO is entitled to a 12-month term of notice plus 12 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 7.6 m (7.4), including variable compensation of SEK 0.8 m (0.5). As per 31 December 2005, one executive vice president had left the Company and another had given notice. 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 plus severance pay corresponding to 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 34.

9. Auditors' fees

	Group		Parent Company	
	2005	2004	2005	2004
KPMG				
Auditing fees	4	5	1	1
Fees for other consulting	1	2	0	2
Total	5	7	1	3

10. Depreciation and amortization

Scheduled depreciation broken down by function

Group	Other intangible assets		Land and buildings		Equipment, tools and fixtures		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Cost of goods sold	4	3	0	0	332	278	336	281
Selling expenses	–	0	0	0	46	64	46	64
Administrative expenses	18	13	0	0	38	59	56	72
Total, continuing operations	22	16	0	0	416	401	438	417
Depreciation/amortization pertaining to discontinued operations	1	6	11	14	37	55	49	75
Total depreciation/amortization	23	22	11	14	453	456	487	492

The Parent Company's depreciation of SEK 3 m (2) pertains to equipment, tools and fixtures under administrative expenses.

11. Operating leases

Continuing operations	Group		Parent Company	
	2005	2004	2005	2004
Minimum lease payments during the financial year ¹⁾	880	852	10	6
Variable charges	32	37	–	–
Total lease payments during the financial year	912	889	10	6
Leasing income pertaining to sublet premises	140	159	–	–
Contracted future minimum lease payments				
Within one year	880	870	19	6
Between one and five years	1,950	1,788	86	8
Longer than five years	330	350	25	–
Total future lease payments	3,160	3,008	130	14

¹⁾ Of which, rents for premises SEK 870 m (846) for the Group and SEK 9 m (5) for the Parent Company.

Axfood rents warehouse and store premises. Renting is done from outside parties, while subletting is mainly done to Group companies and to franchisees. The terms of rental agreements are in line with the going rate in the market with respect to price as well as duration. The variable charge consists of an arrangement whereby certain rental agreements have minimum rents plus a sales-based portion.

Leasing expenses for discontinued operations in 2005 amounted to SEK 302 m (279). Future contracted minimum lease payments amount to SEK 1,694 m (1,123).

12. 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 4,861 m (5,076), including SEK 4,860 m (5,076) in purchases from Tuko Logistics Oy (Spar Finland's partly owned wholesaling operation), and SEK 1 m (0) from others. Sales to associated companies totalled SEK 108 m (407) and consisted primarily of sales of goods. All prices are set at going rates in the market.

Axfood AB is 44.5%-owned by Axel Johnson AB. Axfood AB and Axel Johnson AB have signed joint purchasing agreements in the areas of travel, transport and lodging in connection with business travel. No transactions between the companies with respect to these agreements took place during the year.

Servera R&S AB, a subsidiary of Axel Johnson AB, delivers food service supplies to Axfood companies. Purchase made in 2005 from Servera amounted to SEK 116 m (70). Axfood's sales to Servera in 2005 amounted to SEK 33 m (30). As per 31 December 2005, the Axfood Group's current liabilities to Servera amounted to - (5), and current receivables totalled SEK 5 m (1).

Axfast AB, a company in the Axel Johnson Group, leases property to companies in the Axfood Group. During the year Axfood's profit was charged with SEK 121 m (174) in rents to Axfast AB. All rents have been set according to going rates in the market. As per 31 December 2005, the Axfood Group's current liabilities to Axfast AB amounted to SEK 19 m (28).

Associated companies' holdings of shares in Axfood AB amounted to a total of 1,500 shares as per 31 December 2005 (44,687), corresponding to SEK 7,500 (223,435) in share capital.

13. Result from participations in Group companies

	Parent Company	
	2005	2004
Dividends received	3	73
Capital gain on sale of subsidiary	5	–
Write-downs	-19	-64
Total	-11	9

14. Net financial items

	Group		Parent Company	
	2005	2004	2005	2004
Result from participations in Group companies	–	–	-11	9
Interest income ¹⁾	11	11	7	8
Other financial income	0	0	–	–
Total financial income	11	11	-4	17
Interest expense ²⁾	24	39	-4	-15
Other financial expenses	1	2	-1	-2
Total financial expenses	25	41	-5	-17
Net financial items	-14	-30	-9	0

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

²⁾ Interest expense in the Parent Company to Group companies amounted to - (0).

15. Appropriations and untaxed reserves

	Parent Company	
	2005	2004
Appropriations		
Change in tax allocation reserve	672	-201
Change in accumulated excess depreciation	-7	–
Total	665	-201
Untaxed reserves		
Accumulated excess depreciation	9	2
Tax allocation reserve 1999	–	4
Tax allocation reserve 2000	–	4
Tax allocation reserve 2001	–	102
Tax allocation reserve 2002	–	175
Tax allocation reserve 2003	–	184
Tax allocation reserve 2004	–	203
Total	9	674

16. Taxes

	Group		Parent Company	
	2005	2004	2005	2004
Current tax				
Current tax on profit/loss for the year	-572	-249	-172	79
Adjustment of current tax from previous years	-4	-1	-4	0
	-576	-250	-176	79
Deferred tax				
Deferred tax pertaining to temporary differences	279	-59	5	3
Deferred tax pertaining to changed tax rate	–	0	–	–
Adjustment of deferred tax pertaining to previous years	–	-1	–	–
	279	-60	5	3
Total reported tax charge	-297	-310	-171	82
Group – reconciliation of applicable tax rate and effective tax rate	2005	%	2004	%
Reported profit before tax	1,026		1,096	
Tax based on applicable tax rate for Parent Company	-287	-28	-307	-28
Tax effect of:				
Tax on tax allocation reserve	-9	-1	–	–
Other non-deductible expenses	-3	0	-4	0
Tax-exempt capital gains	–	–	0	0
Other tax-exempt revenues	2	0	3	0
Adjustments of current tax pertaining to previous years	–	–	-1	0
Adjustments of deferred tax pertaining to previous years	–	–	-1	0
Reported tax charge/effective tax rate	-297	-29	-310	-28
Current and deferred tax items reported directly against shareholders' equity	–	–	-5	–
Parent Company – reconciliation of current tax rate and effective tax rate	2005	%	2004	%
Reported profit/loss before tax	577		-286	
Tax according to applicable tax rate for Parent Company	-162	28	80	28
Tax effect of:				
Tax on tax allocation reserve	-5	1	–	–
Other non-deductible expenses	-6	1	-18	-6
Tax-exempt capital gains	2	0	–	–
Other tax-exempt revenues	–	–	20	7
Reported tax charge/effective tax rate	-171	30	82	29
Current and deferred tax items reported directly against shareholders' equity	-378	–	-250	–

	Group		Parent Company	
	2005	2004	2005	2004
Reported deferred tax assets and tax liabilities				
Intangible fixed assets	-11	-4	–	–
Equipment, tools and fixtures	6	5	–	–
Long-term receivables	–	1	–	–
Other receivables	17	15	–	–
Tax-loss carryforward	1	1	–	–
Untaxed reserves	-137	-424	–	–
Provisions	3	2	12	7
Other liabilities	2	4	–	–
Total deferred tax asset (+)/deferred-tax liability (-), net	-119	-400	12	7
Deferred tax asset	38	34	12	7
Deferred tax liability	-157	-434	–	–

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

	Amount at start of year	Reported in profit and loss account	Less: attributable to discontinued operations	Plus: from acquired operations	Amount at end of year
Change in deferred tax in temporary differences and tax-loss carryforwards during the year, Group					
Intangible fixed assets	-4	-7	–	–	-11
Equipment, tools and fixtures	5	1	–	–	6
Long-term receivables	1	-1	–	–	0
Other receivables	15	2	–	–	17
Tax-loss carryforward	1	–	–	–	1
Untaxed reserves	-424	280	15	-8	-137
Provisions	2	4	-3	–	3
Other liabilities	4	0	-2	–	2
Total	-400	279	10	-8	-119

17. Intangible fixed assets

Group	Goodwill		Intangible assets in progress		Other intangible assets	
	31/12/05	31/12/04	31/12/05	31/12/04	31/12/05	31/12/04
Opening cost	995	1 675	43	52	172	116
Change of accounting principle ¹⁾	–	-697	–	–	–	–
Investments	255	17	71	50	–	2
(of which, internally developed)	–	–	(24)	(14)	–	–
Sales and disposals	–	–	–	–	-1	-3
Translation differences	5	0	–	-1	2	-1
Reclassifications	–	–	-24	-58	24	58
(of which, internally developed)	–	–	(-11)	(-13)	(11)	(13)
Closing accumulated amortization	-124	–	-5	–	-39	–
Closing accumulated cost	1,131	995	85	43	158	172
Opening amortization	–	-670	–	–	-91	-71
Change of accounting principle ¹⁾	–	671	–	–	–	–
Sales and disposals	–	–	–	–	1	2
Translation differences	–	-1	–	–	-2	0
Amortization for the year	–	0	–	–	-23	-22
Assets reported as discontinued operation	–	–	–	–	31	–
Closing accumulated amortization	–	0	–	–	-84	-91
Opening impairment	–	-26	–	–	–	–
Change of accounting principle ¹⁾	–	26	–	–	–	–
Impairment for the year	-51	–	–	–	–	–
Impairment reported as discontinued operation	51	–	–	–	–	–
Closing accumulated impairment	0	0	–	–	–	–
Closing planned residual value	1,131	995	85	43	74	81

¹⁾ Pertains to transition to IFRS. The reported value as per 1 January 2004 makes up the Group's historical cost.

Goodwill

The Group's reported goodwill for continuing operations as per 31 December 2005 is broken down per segment as follows:

Hemköp	203
Willys	305
Willys hemma	66
Axfood Närlivs	40
Dagab	517
Total	1,131

The Group's reported goodwill for discontinued operations as per 31 December 2005 amounts to:

Spar Finland	73
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Intangible fixed assets in progress and other intangible fixed assets

The Group's intangible fixed assets in progress and other intangible fixed assets consist exclusively of capitalized costs for IT development. During the year, IT costs of SEK 1 m (2) were expensed. Capitalized IT costs are amortized on a straight-line basis according to the estimated useful life of the assets, which amounts to five years. The remaining useful life for reported in tangible fixed assets is six years. The useful life of all intangible fixed assets except for goodwill is limited.

Amortization of other intangible fixed assets is broken down in the profit and loss account in accordance with Note 10.

Testing of impairment of intangible fixed assets

Estimations of the value of the Group's goodwill items and other intangible fixed assets have been made based on the cash-generating units' benefit in use, except for Spar Finland, which starting on 1 September 2005 is reported as a discontinued operation (see below). Benefit in use is based on the cash flows that are expected to be generated during an average remaining useful life of the unit's tangible fixed assets. The remaining useful life varies between four and six years.

For the first year, the future cash flows that have been used in calculation of the respective units' benefit in use are based on the business plan for 2006 for the respective units. Thereafter, the cash flows are based on the Group's strategic plan, which extends up until 2008. Forecast cash flows after 2008 are not based on any annual growth, but are based on cash flow in 2008. The forecast cash flows have been discounted to present value using a discount rate of 15% before tax. With a discounting factor of 15%, the benefit in use exceeds the reported value for all units.

Future cash flows for all units are based on the same assumptions. Important assumptions, i.e., assumptions that have a large effect on cash flows in the event of changes, include assumptions on future price and volume developments. In the business plans and strategic plans that form the basis for cash flow calculations, company management has made an assumption on price development of +/- 0%, which is based on the recent price trend in Sweden for retail food products in Axfood's offering. This estimation is also an agreement with external estimations. With respect to volume development, management has made an estimation which entails an increase of between 0.5% and 1.5% per year up until 2008. This estimation is based on previous years' experience and on the anticipated competitive situation in the industry. In the opinion of company management, reasonable possible changes in the variables (assumptions) used in these calculations would not have such large effects that they would individually reduce the recoverable value to a value that is lower than the reported value.

Spar Finland

Starting on 1 September 2005, Spar Finland is reported as a discontinued operation (see Note 4). Axfood sold its shareholding in Spar Finland on 12 January 2006 pursuant to the agreement on the sale that was signed with the buyer on 7 September 2005. The holding in Spar Finland is thus reported as per 31 December 2005 at its net sales value. The purchase price of the shares amounted to SEK 338 m. The valuation of Spar Finland entails that the Axfood Group reports goodwill impairment attributable to Spar Finland in the amount of SEK 51 m. This impairment is reported in gross profit for discontinued operations in Note 4.

18. Tangible fixed assets

Group	Land and buildings ^{1, 2)}		Equipment, tools and fixtures		Construction in progress	
	31/12/05	31/12/04	31/12/05	31/12/04	31/12/05	31/12/04
Opening cost	355	371	3,708	3,482	19	11
Investments	4	6	519	434	74	27
Increases through acquisitions	70	–	90	–	–	–
Sales and disposals	-18	-19	-220	-222	–	–
Translation differences	14	-3	23	-6	-1	1
Reclassifications	–	–	40	20	-43	-20
Assets pertaining to discontinued operations	-412	–	-548	–	-1	–
Closing accumulated cost	13	355	3,612	3,708	48	19
Opening depreciation	-95	-94	-2,160	-1,882	–	–
Increases through acquisitions	–	–	-70	–	–	–
Sales and disposals	10	13	178	174	–	–
Translation differences	-4	–	-15	4	–	–
Depreciation for the year	-11	-14	-453	-456	–	–
Assets pertaining to discontinued operations	96	–	342	–	–	–
Closing accumulated depreciation	-4	-95	-2,178	-2,160	–	–
Opening impairment	–	–	-4	-9	–	–
Sales and disposals	–	–	–	8	–	–
Impairment for the year	–	–	–	-3	–	–
Closing accumulated impairment	–	–	-4	-4	–	–
CLOSING PLANNED RESIDUAL VALUE	9	260	1,430	1,544	48	19

¹⁾ The tax assessment value of Swedish buildings was SEK 4 m (10) and of land SEK 2 m (4).

²⁾ The cost of land was SEK 4 m (59).

Parent Company	Land and buildings		Equipment, tools and fixtures	
	31/12/05	31/12/04	31/12/05	31/12/04
Opening cost	7	7	14	11
Investments	–	–	33	0
Increases from other Group companies	–	–	1	3
Sales and disposals	–	–	-6	0
Closing accumulated cost	7	7	42	14
Opening depreciation	0	0	-10	-6
Investments from other Group companies	–	–	0	-2
Sales and disposals	–	–	6	0
Depreciation for the year	-1	0	-3	-2
Closing accumulated depreciation	-1	0	-7	-10
CLOSING PLANNED RESIDUAL VALUE	6	7	35	4

19. Government subsidies

Government subsidies in the form of labour market policy subsidies amounted to SEK 0 m (2) in the consolidated balance sheet (reported under prepaid income) and SEK 28 m (24) in the consolidated profit and loss account, which have reduced payroll costs. No other unfulfilled conditions or contingent liabilities exist.

20. Finance leases

Group	Equipment, tools and fixtures	
	31/12/05	31/12/04
Opening cost	160	191
Increases through acquisitions	1	0
Investments	37	27
Sales and disposals	-31	-58
Less: discontinued operation	-65	–
Closing accumulated cost	102	160
Opening depreciation	-57	-56
Increases through acquisitions	-1	0
Sales and disposals	18	29
Depreciation for the year	-20	-30
Less: discontinued operation	11	–
Closing accumulated depreciation	-49	-57

CLOSING PLANNED RESIDUAL VALUE **53** **103**

Finance lease liabilities falling due for payment:	Minimum lease payments	Minimum lease payments
	2005	2004
Within one year	24	23
Between 1 and 5 years	29	44
After 5 years	–	36
Total current and long-term liability	53	103

In the Group, no properties with finance leases have been sublet. In addition, there were no variable fees in profit for the period.

21. 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	226
Axfood Sverige AB	556004-7903	Solna	3,434,656	100	1,548
Willys Lågpris AB	556163-2232	Gothenburg	1,000	100	179
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					2,996
Finland					
Spar Finland Abp:s	0196683-5	Finland	357,715 A / 429,657 K	69.3	289
Total, Group companies					3,285

22. Participations in associated companies

Group	2005	2004
Accumulated cost		
Opening cost	131	133
Translation difference	6	-1
Divestments	-4	-1
Assets pertaining to discontinued operation	-133	–
Closing cost	0	131
Adjustments of shareholders' equity pertaining to investments in associated companies		
Opening carrying amount	-23	-21
Share in profit before tax	4	5
Translation difference	-2	1
Dividend received	-2	-3
Divestments and other changes	-13	-5
Assets pertaining to discontinued operation	39	–
Closing carrying amount	3	-23
Total	3	108

Group	Reg. no.	Registered office	Number of shares	Share of capital/ votes, %	Book value	Share of capital
Best i Garvaren AB	556456-0752	Ljungby	250	25	0	1
Kaj Bergkvist Livs AB	556028-5792	Helsingborg	250	25	0	1
Kvarnkullens Livs i Mellerud AB	556188-2985	Mellerud	250	25	0	0
Nya Vårgårda Matmarknad AB	556085-9653	Vårgårda	250	25	0	1
United Nordic Inc AB	556043-4606	Solna	250	25	0	0
Total					0	3

23. 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, 1/1/2005	3,308	108	3	21	56
Acquisitions	100	–	–	–	–
Disposals/amortization	-105	-17	–	–	-5
Share in associated company profits, after tax	–	4	–	–	–
Dividends received	–	-2	–	–	–
Translation differences	–	4	–	–	–
Assets pertaining to discontinued operation	–	-94	–	-2	-9
Closing accumulated cost	3,303	3	3	19	42
Opening impairment	-64	–	–	–	-32
Impairment for the year	-18	–	–	–	–
Disposals	64	–	–	–	–
Closing accumulated impairment	-18	–	–	0	–
CLOSING RESIDUAL VALUE	3,285	3	3	19	10

24. Long-term and current receivables

	Group		Parent Company	
	31/12/05	31/12/04	31/12/05	31/12/04
Long-term noninterest-bearing receivables	10	17	–	–
Alecta (formerly SPP)	–	1	–	–
Long-term interest-bearing receivables	–	6	–	–
Total long-term receivables	10	24	–	–
Other noninterest-bearing receivables	109	67	5	4
Other interest-bearing receivables	–	5	–	–
Total current receivables	109	72	5	4

25. Prepaid expenses and accrued income

	Group		Parent Company	
	31/12/05	31/12/04	31/12/05	31/12/04
Prepaid rents	231	166	6	2
Prepayment of leases	1	2	0	0
Accrued bonuses and similar	327	354	–	–
Accrued interest income	1	–	–	–
Delivered, uninvoiced	10	9	–	–
Other prepaid expenses	27	27	7	2
Other accrued income	16	7	–	0
Total	613	565	13	4

26. Share repurchases

During the year the Company did not repurchase or transfer any of its own shares. The Company had no holdings of treasury stock as per 31 December 2005.

27. Provision for pensions and similar obligations

Group		
Defined benefit pension plans	2005	2004
Present value of funded obligations	12	15
Fair value of plan assets	-11	-12
	1	3
Present value of unfunded obligations	385	370
Unreported actuarial losses	-39	-15
Net liability on balance sheet	347	358
Amounts reported on balance sheet		
• provisions	347	358
• assets	–	–
Net liability on balance sheet	347	358

Of Axfood's defined benefit pension plans in Sweden, SEK 320 m (319) consist of obligations within the FPG/PRI system. Of these obligations, SEK 251 m (255) 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.

Costs reported in the profit and loss account	2005	2004
Defined benefit pension plans		
Benefits earned during the year	-1	7
Interest cost	16	17
Actual return on plan assets	-1	0
Net actuarial gains/losses reported for the year	–	–
Total	14	24

Defined contribution pension plans		
Benefits earned during the period	190	187
Total pension cost	204	211

Pension costs are broken down per function in the profit and loss account as follows:

Cost of goods sold	91	94
Selling expenses	45	52
Administrative expenses	52	48
Interest cost	16	17
Total	204	211

Change in net liability during the year		
Net liability at start of year	358	373
Less: attributable to discontinued operation	-8	–
Reclassification	2	-1
Change of accounting principle	–	-18
Net expense in profit and loss account	14	24
Pension disbursements	-19	-20
Net liability at end of year	347	358

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

	31/12/05	31/12/04
Discount rate	4.0%	4.6%
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 23 m (20) and pertains to obligations to the former and present CEOs. All pension obligations to the current and former CEOs are reported on the balance sheet.

28. Fair value of financial instruments

No financial assets or liabilities have been reported at a value that significantly deviates from fair value.

29. Long-term and current interest-bearing liabilities

	Group		Parent Company	
	31/12/05	31/12/04	31/12/05	31/12/04
Committed credit lines				
Long-term committed credit lines	200	200	200	200
Bank overdraft facilities	450	465	450	450
Total committed credit lines	650	665	650	650
Drawn long-term credit lines	–	–	–	–
Drawn bank overdraft facilities	–	–	–	–
Cash and bank balances	639	977	358	581
Total committed credit lines/ refinancing risk reserve	1,289	1,642	1,008	1,231

	Group		Parent Company	
	31/12/05	31/12/04	31/12/05	31/12/04
Long-term interest-bearing liabilities¹⁾				
Loans from credit institutions	7	44	–	–
Convertible debenture ²⁾	–	71	–	71
Finance leases	29	80	–	–
Interest-bearing advance and annual discounts to grocers in Spar Finland	–	21	–	–
Total other interest-bearing long-term liabilities	29	172	–	71

Total long-term interest-bearing liabilities for continuing operations	36	216	–	71
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Long-term interest-bearing liabilities for discontinued operations	96	–	–	–
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Current interest-bearing liabilities				
Liabilities to credit institutions	3	10	–	–

Convertible debenture ²⁾	4	–	4	–
Finance leases	24	23	–	–

Interest-bearing advances and annual discounts to grocers in Spar Finland	–	69	–	–
Total other interest-bearing current liabilities	28	92	4	–

Total interest-bearing current liabilities for continuing operations	31	102	4	–
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Interest-bearing current liabilities for discontinued operations	144	–	–	–
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¹⁾ Of long-term interest-bearing liabilities, SEK 1 m (43) have a term exceeding five years.

²⁾ In January 2001 a convertible debenture of SEK 73 m was issued to the employees. Conversion to shares can take place from 21 January 2005 – 20 March 2006, at the conversion price of SEK 73. As per 31 December 2005, SEK 4 m remained that has not yet been converted.

Group	31/12/05	Effective interest rate	31/12/04	Effective interest rate
Interest exposure, liabilities				
Maturity less than 1 year	31	2.41%	91	2.60%
Maturity later than 1 year but less than 5 years	35	2.60%	184	2.72%
Maturity later than 5 years	1	3.16%	43	3.29%
Total interest-bearing liabilities	67	2.46%	318	2.77%

Parent Company	31/12/05	Effective interest rate	31/12/04	Effective interest rate
Interest exposure, liabilities				
Maturity less than 1 year	4	1.32%	–	–
Maturity later than 1 year but less than 5 years	–	–	71	1.89%
Maturity later than 5 years	–	–	–	–
Total interest-bearing liabilities	4	1.32%	71	1.89%

30. Accrued expenses and deferred income

	Group		Parent Company	
	31/12/05	31/12/04	31/12/05	31/12/04
Payroll-related items	643	672	21	19
Restructuring measures	6	7	–	–
Accrued bonuses and similar	56	56	–	–
Accrued auditing costs	2	2	0	0
Accrued real estate costs	15	26	–	–
Accrued income	0	1	0	1
Delivered, uninvoiced	119	123	–	–
Other accrued expenses	93	67	9	8
Other deferred income	49	40	–	–
Total	983	994	30	28

31. Contingent assets, pledged assets and contingent liabilities

	Group		Parent Company	
	31/12/05	31/12/04	31/12/05	31/12/04
Contingent assets ¹⁾				
Property mortgages	0	127	–	–
Chattel mortgages	0	99	–	–
Shares in subsidiaries	0	–	–	–
Other pledged assets	3	139	–	–
Total	3	365	–	–

¹⁾ Pertains to continuing operations in 2005. Discontinued operations account for SEK 377 m.

	Group		Parent Company	
	31/12/05	31/12/04	31/12/05	31/12/04
Contingent liabilities ¹⁾				
Guarantees for subsidiaries	–	–	374	380
Guarantees for others	18	69	3	4
FPG/PRI	7	7	–	–
Other contingent liabilities	3	9	–	–
Total	28	85	377	384

¹⁾ Pertains to continuing operations in 2005. Discontinued operations account for SEK 44 m.

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	
	31/12/05	31/12/04	31/12/05	31/12/04
Pledged assets broken down into own provisions and liabilities				
Liabilities to credit institutions ¹⁾				
Property mortgages	–	127	–	–
Chattel mortgages	–	99	–	–
Other pledged assets	3	139	–	–
Total	3	365	–	–
Total pledged assets for own provisions and liabilities	3	365	–	–

¹⁾ Pertains to continuing operations in 2005. Discontinued operations account for SEK 377 m.

32. Exchange rate differences and currency exposure

	Group	
	31/12/05	31/12/04
Exchange rate differences reported in the 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	5	8
Change for the year	15	-3
Exchange rate differences at year-end	20	5

	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	127	127	127	9.47	–
USD	20	20	20	8.02	–
DKK	5	5	5	1.27	–
NOK	5	5	5	1.19	–
Total outstanding currency risk	157	157	157		

Reported result of outstanding currency hedges	
EUR	-1
USD	-1
Other	0
Total	-2

Transaction exposure

The Group's transaction exposure is broken down into the following currencies:

Currency	2005	%	2004	%
EUR	856	82.5	701	83.8
USD	95	9.1	71	8.5
DKK	53	5.1	46	5.5
NOK	31	3.0	15	1.8
GBP	2	0.2	2	0.2
CAD	1	0.1	2	0.2
Total	1,038	100.0	837	100.0

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 not later than at the time the order is placed. Hedges have been taken out through forward exchange contracts.

33. Adjustment for non-cash items

	Group		Parent Company	
	2005	2004	2005	2004
Change in pension liabilities	-27	-19	4	7
Capital gains, etc., pertaining to fixed assets	43	42	18	–
Non-cash interest expenses	21	21	3	1
Other	5	25	2	-6
Total	42	69	27	2

34. Earnings per share

SEK	Before dilution		After dilution	
	2005	2004	2005	2004
Earnings per share	12.59	14.92	12.58	14.66
Earnings per share from continuing operations	13.37	14.67	13.35	14.42
Earnings per share from discontinued operations	-0.78	0.25	-0.77	0.24
			2005	2004
Net profit for the year after tax pertaining to Parent Company's shareholders			687	799
Reversal of interest expense after tax pertaining to convertibles			0	1
Adjusted net profit pertaining to Parent Company's shareholders			687	800
Weighted average number of shares before dilution		54,531,378	53,567,009	
Additional shares upon full conversion		52,550	1,006,100	
Total weighted average number of shares after dilutive effect		54,583,928	54,573,109	

Earnings per share from continuing and discontinued operations have been calculated using the same figures as earnings per share, with the difference that profit for the year has been broken down into profit from continuing operations pertaining to the Parent Company's common stock shareholders, amounting to SEK 729 m (786), and profit/loss from discontinued operations, amounting to SEK -42 m (13).

35. Critical assessments and estimations

Impairment testing, goodwill

In calculating cash-generating units' recoverable value in connection with the Company's estimation of any need to recognize goodwill impairment, assumptions on future conditions and estimations of parameters have been made. An account of these can be found in Note 17. As understood in the description in Note 17, changes in 2006 of the underlying conditions for these assumptions and estimations could have an effect on the value of goodwill. However, company management is of the opinion that reasonable changes in these variables (assumptions) in the calculations would not have such a large effect that they individually would reduce the recoverable value to a value that is lower than the carrying amount.

Assumptions for calculations of pension provisions

The actuarial computation of pension obligations and pension costs are based on actuarial assumptions, which are specified in Note 27. A change in any of these assumptions could have a material effect on calculated pension obligations and pension costs.

The discount rate is based on the long-term government bond rate with a term that corresponds to the Group's average remaining duration of its obligations, which in Axfood's case amounts to 19 years.

None of the assumptions described in Note 27 deviate from what can be regarded as standard practice in the Swedish market.

36. Specification of transition to IFRS

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 exempted 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 correspond relatively well to 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 depreciation. 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 Abp 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" in the Accounting Principles). 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. 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. Due to the sale of Spar Finland, IFRS 5 affects the profit and loss account for 2005 (see Changed accounting principles 2005). 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, the adjustments for amortization of goodwill and profit after financial items were affected in the amount of SEK -138 m and SEK +138 m, respectively, which corresponds to goodwill amortization in 2004.

	According to previous GAAP	IAS 17	IFRS 3	IFRS 5*	According to IFRS
Profit and loss accounts 2004					
Net sales	33,826			-5,168	28,658
Cost of goods sold	-29,748	2	138	4,852	-24,756
Gross profit	4,078	2	138	-316	3,902
Selling expenses	-2,056			267	-1,789
Administrative expenses	-1,187			27	-1,160
Other operating income	198			–	198
Other operating expense	-25			–	-25
Operating profit	1,008	2	138	-22	1,126
Interest income and similar items	18			-7	11
Interest expense and similar items	-46	-2		7	-41
Profit after financial items	980		138	-22	1,096
Current tax	-254			4	-250
Deferred tax	-58		-3	1	-60
Minority share of profit for the year	-4		4	–	–
Profit/loss for the year from continuing operations	664		139	-17	786
Profit for the year from discontinued operation				17	17
Net profit for the year					803
Of which, majority owner's share					799
Of which, minority owner's share					4
Earnings per share, SEK	12.40		2.52		14.92
Earnings per share after dilution, SEK	12.19		2.47		14.66
Weighted average number of shares	53,567,009				53,567,009
Weighted average number of shares after dilution	54,573,109				54,573,109

* The adjustment to IFRS 5 (2005) pertains to effects of the classification in September 2005 of Spar Finland as a discontinued operation, where IFRS 5 requires reclassification of the comparison year's profit/loss. It is thus not a matter of a retroactive application of IFRS 5, but only a reclassification prompted by application of IFRS 5 for a discontinuation transaction in September 2005.

	31/12/2004 according to previous GAAP	IAS 17	IAS 27	IAS 31	31/12/2004 according to IFRS
Balance sheets as per 1 January 2004					
Assets					
Intangible fixed assets	1,076				1,076
Tangible fixed assets	1,821	46		14	1,881
Financial fixed assets	230			-20	210
Deferred tax liabilities	27				27
Total fixed assets	3,154	46	0	-6	3,194
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	6,981	46	0	-4	7,023
Shareholders' equity and liabilities					
Majority owner's share of shareholders' equity	2,141			-4	2,137
Minority owner's share of shareholders' equity			122		122
Total shareholders' equity	2,141	0	122	-4	2,259
Minority interest	122		-122		0
Long-term liabilities	1,077	44			1,121
Current liabilities	3,641	2			3,643
Total shareholders' equity and liabilities	6,981	46	0	-4	7,023

	According to previous GAAP	IAS 17	IAS 27	IAS 31	IFRS 3	According to IFRS
Balance sheets as per 31 December 2004						
Assets						
Intangible fixed assets	981				138	1,119
Tangible fixed assets	1,765	44		14		1,823
Financial fixed assets	173			-20		153
Deferred tax assets	34					34
Total fixed assets	2,953	44	0	-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	0	0	2	0	4,091
Total assets	7,042	44	0	-4	138	7,220

Shareholders' equity and liabilities						
Majority owner's share of shareholders' equity	2,513			-4	135	2,644
Minority owner's share of shareholders' equity			119			119
Total shareholders' equity	2,513	0	119	-4	135	2,763
Minority interest	119		-119			0
Long-term liabilities	983	42			3	1,028
Current liabilities	3,427	2				3,429
Total shareholders' equity and liabilities	7,042	44	0	-4	138	7,220

	Majority owner's share according to previous GAAP	IFRS 3	IAS 31	Majority owner's share according to IFRS	Minority share	Total
Change in shareholders' equity 2004						
Amount at start of year	2,127		-4	2,123	122	2,245
Change of accounting principle, IAS 19	14			14		14
Acquired minority entrust				0	-2	-2
Translation difference	-3			-3	-1	-4
Shareholder dividend	-295			-295	-4	-299
New issue	6			6		6
Net profit for the year	664	135		799	4	803
Amount at year-end	2,513	135	-4	2,644	119	2,763

The adjustment according to IAS 31 (-4) has in its entirety affected profit brought forward. The transition to IAS 19 (14) was done as per 1 January 2004 and is presented in the 2004 Annual Report. Similarly, the adjustment according to IAS 19 has in its entirety affected profit brought forward. In connection with the transition to IFRS, a breakdown is no longer made of the Group's restricted and unrestricted reserves. Reporting according to IFRS has entailed a transfer of SEK 499 m from previously reported restricted reserves to retained earnings.

The following key ratios have been affected by the transition to IFRS:

	31/12/2004 according to previous GAAP	IAS 17	IAS 27	IAS 31	IFRS 3	31/12/2004 according to IFRS
Key ratios						
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				4.0	32.6

Proposed disposition of earnings

Registered number 556542-0824

The Board of Directors and President propose that the following retained earnings, totalling SEK 1,687,237 thousand be distributed as follows:

Shareholder dividend	
SEK 15.00 per share (54,546,978 x SEK 15.00), totalling	818,205
To be carried forward	869,032
SEK 000s	1,687,237

In reference to the above and to other information that has been brought to the Board's attention, the Board is of the opinion that, following a comprehensive assessment of the Company's and Group's financial position, the dividend is justified in view of the demands that the nature, scope and risks in the business place upon the size of the Company's and Group's equity and the Company's and Group's operations' funding needs, liquidity and position in general.

The Board of Directors and President herewith ensure that, to the best of our knowledge, the Annual Report has been prepared in accordance with generally accepted accounting principles for stock market companies. The disclosures made are in agreement with the actual state of affairs in the operations, and nothing of material importance has been excluded that could affect the view of the Group and the Parent Company created by the Annual Report.

The Annual Report and consolidated financial statements have, as stated above, been approved for publication by the Board of Directors on 13 February 2006. The Consolidated Profit and Loss Account and Balance Sheet, and the Parent Company Profit and Loss Account and Balance Sheet will be subject to approval by the Annual General Meeting on 9 March 2006.

Stockholm, Sweden, 13 February 2006

Göran Ennerfelt
Chairman

Marcus Storch
Vice Chairman

Antonia Ax:son Johnson

Peggy Bruzelius

Maria Curman

Mats Jansson

Assar Johansson

Hans-Gunnar Johansson

Inger Sjöstrand

Gunnar Söderling

Annika Åhnberg

Anders Strålmán
President and CEO

Our audit report was submitted on 13 February 2006

Per Bergman
Authorized Public Accountant

Ola Forsberg
Authorized Public Accountant

Audit Report

To the annual meeting of the shareholders of Axfood AB (publ)
Corporate identity number 556542-0824

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the president of Axfood AB (publ) for the year 2005. The board of directors and the president are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. 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 high but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the president and significant estimates made by the board of directors and the president when preparing the annual accounts and the consolidated accounts as well as evaluating 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 have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements 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, 13 February 2006

Per Bergman
Authorized Public Accountant

Ola Forsberg
Authorized Public Accountant

Corporate Governance Report for Axfood AB (publ) 2005

Registered number 556542-0824

Swedish Code of Corporate Governance

Axfood is quoted on the Stockholm Stock Exchange's O-List and has a market capitalization in excess of three billion kronor. As from 2005 the Company is thus required to apply the Swedish Code of Corporate Governance, entailing that the Company must include a corporate governance report in its annual report.

The purpose of the Swedish Code of Corporate Governance is, among other things, to create conditions for the exercise of an active in responsible ownership role, to insure the owners' opportunities to assert their interests vis-à-vis the Company's management, to clarify the delegation of roles and responsibility between the Company's management and control bodies, and to ensure the highest degree of openness toward the Company's owners and the capital market. These are factors that have always been guiding principles for Axfood's board.

If a company that is subject to the Code does not apply its principles in a particular respect, this must be clearly indicated and explained. Axfood applies the Swedish Code of Corporate Governance, with the following exceptions:

■ Sections 3.7.2 and 3.7.3 of the Swedish Code of Corporate Governance require the Board to describe the following in a separate report:

- How internal control, to the extent it pertains to financial reporting, is organized
- How effective the Company's internal control has been during the financial year
- An annual evaluation of the need for separate auditing function (internal audit)

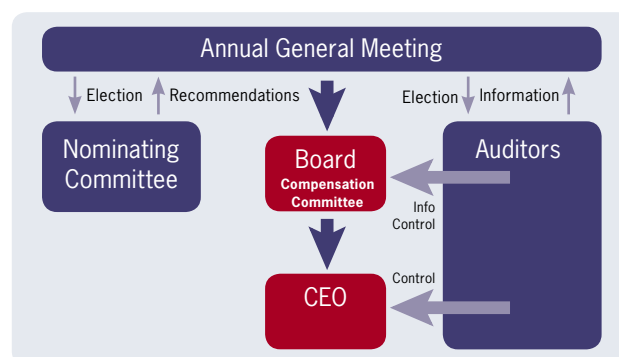
On 17 October 2005, working groups from the Confederation of Swedish Enterprise and FAR (the institute for the accounting profession in Sweden) published a guide for board reporting on internal control of financial reporting. Established practice for how a board's evaluation of a company's internal control should be carried out is currently being developed. According to the Code, the Board's evaluation shall also be reviewed by the Company's auditors. A framework for this review will be drawn up by FAR in 2006. Against this background, on 15 December 2005 the Council for Swedish Corporate Governance issued a statement that for 2005 reporting, it will suffice if the board, in its report on internal control, limits its discussion to a description of how the Company's internal control is organized without commenting on how well it has worked and without review by the auditors.

In view of this, Axfood's board has elected to depart from sections 3.7.2 and 3.7.3 of the Code by integrating the Board's report on internal control of financial reporting in the Corporate Governance Report in a separate section called "Internal control", where the discussion is limited to how the Company's internal control is organized.

Nine board meetings were held in 2005, of which one dealt with the Company's strategy and one with the business plan for 2006

- Axfood's board does not have an audit committee – the entire board is responsible for ensuring that the Company's audit effectively ensures that the Group has acceptable routines for internal control as well as correct, high quality financial reporting. The Company's auditors are elected by the Annual General Meeting for a term of four years. At least once a year the Company's auditors report on the extent to which the Company has ensured the effectiveness of its bookkeeping, administration and financial control. Following presentation of this formal report, the CEO and CFO leave the board meeting so that the other board members can have a dialogue with the auditors without the presence of company executives.
- The Swedish Code of Corporate Governance stipulates that public announcement of a nominating committee's members must be made not later than six months prior to the Annual General Meeting (AGM). The 2005 AGM resolved in favour of a procedure in which Axfood's main owners, representing more than 45% of the number of votes, appoint a nominating committee for the purpose of making recommendations on the number of directors, the Board's composition, and directors' fees to the forthcoming Annual General Meeting. The members of the Nominating Committee shall be announced in connection with the release of the third quarter interim report. Since Axfood's AGM is held relatively early in the year, this means that announcement of the Nominating Committee takes place approximately five months before the AGM. This is considered by the AGM to be sufficient time to fulfil the duties of the Nominating Committee.
- Axfood's finance functions are integrated through a joint finance and accounting system and joint accounting instructions. The Group's controllers also work in close cooperation with subsidiary controllers with respect to book-closings and reporting. In addition, the Group has a central safety function that works through the companies. Axfood has no internal audit function, since the functions referred to above fulfil this task. For more information on Axfood's management systems for internal control, see the Internal control section below.

Aside from these departures, Axfood applies the Code. The Board is responsible for ensuring compliance with the Code by the Board as well as by the executive management of the Company in general. The Board performs a yearly evaluation to ensure compliance with the Code.



This report is not part of the formal Annual Report, nor has it been reviewed by the Company's auditors.

Corporate governance at Axfood

Pursuant to Swedish company law, the Swedish Code of Corporate Governance and Axfood's Articles of Association, governance, management and control of Axfood are delegated between the shareholders (at the Annual General Meeting), the Board of Directors, and the CEO.

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 AGMs. The complete Articles of Association are available on Axfood's website: www.axfood.se. At the 2006 AGM, Axfood will be submitting proposals for amendments to the Articles of Association in reference to the Swedish Code of Corporate Governance and the new Swedish Companies Act.

General information on Annual General Meetings

Axfood's supreme governing body is the Annual General Meeting, where every shareholder has a right to participate, either in person or by proxy via power of attorney. The AGM can decide on all matters which according to law or the Company's Articles of Association do not fall under the exclusive competence area of another company body. All shareholders have the right to have a matter taken up for consideration by the AGM. The AGM elects the Company's board and, starting in 2006, the chairman of the

board. The AGM's duties include, among other things, adopting the Company's balance sheets and profit and loss accounts, deciding and appropriating of the result of the Company's business, and deciding on whether to grant discharge of liability to the members of the Board of Directors and the CEO. The AGM also elects the Company's auditors and decides on increases or decreases in share capital. The AGM can also make amendments to the Company's Articles of Association. Further, the AGM sets directors' fees and approves the principles of compensation and other terms of employment for the Company's management.

At the AGM, every shareholder, as a main rule, has the right to vote for all of his/her shares. Decisions by the AGM are made by simple majority of available votes. However, to protect the interests of small shareholders, certain decisions must be made by a qualified majority of the available votes and shares represented at the meeting. In addition, as a general minority protection rule, the AGM may not make decisions that can improperly benefit certain shareholders over others, to the detriment of the Company or other shareholders.

2006 Annual General Meeting

The next Annual General Meeting of shareholders of Axfood AB will be held on 9 March 2006 in Stockholm. Notice of this meeting will be made in accordance with the Articles of Association and in compliance with the recommendations of the Swedish Code of Corporate Governance.

2005 Annual General Meeting

The 2005 Annual General Meeting of shareholders of Axfood AB was held on Thursday, 10 March 2005 in Stockholm.

The following resolutions were made

■ Election of directors

Axfood's AGM resolved on 10 March 2005 that the Company's board shall have eight regular members. The Board resolved to re-elect Göran Ennerfelt, Antonia Ax:son Johnson, Marcus Storch, Peggy Bruzelius, Annika Åhnberg, Maria Curman, Gunnar Söderling and Mats Jansson as directors on the Company's board. Gösta Törnroth declined re-election.

■ Election of auditors

Per Bergman, KPMG, and Ola Forsberg, KPMG, were elected by the 2004 AGM to serve as auditors through the end of the 2008 AGM.

■ Dividend and record date

The AGM resolved that the dividend per share shall be SEK 11, including SEK 6.50 in ordinary dividend and SEK 4.50 in extra dividend. The record date was set at Tuesday, 15 March 2005. Dividends were expected to be sent out via VPC AB on Friday, 18 March 2005.

■ Purchases and transfers of own shares

The AGM resolved to authorize the Board, on one or more occasions during the period up until the next AGM, to decide on purchases of the Company's own stock, including the right for the Board to decide on purchases 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.

Further, the AGM resolved to authorize the Board on one or more occasions in connection with the financing of company acquisitions – in cases where the Board finds it appropriate – to sell a maximum of 2,000,000 treasury shares 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 2005 AGM resolved to support a procedure whereby Axfood's main owners, representing more than 45% of the votes, appoint a nominating committee for the purpose of making recommendations on the number of directors, the composition of the Board of Directors, and directors' fees to the forthcoming AGM. The members of the Nominating Committee are to be announced in connection with the release of the third quarter interim report. The Committee's recommendation for the new board will be announced in connection with the publication of the notice of the forthcoming AGM.

Composition of Nominating Committee and number of meetings

Ahead of the 2006 AGM, Axfood AB's main owners in October 2005 appointed a new nominating committee with the purpose of making recommendations on the number of directors and the composition of the Board at the AGM on 9 March 2006.

The Nominating Committee has the following composition

Hans Dalborg, Committee Chair

Antonia Axson Johnson, Axel Johnson AB

Björn Lind, SEB

Inge Bäckstöm, Axfood's shareholders' association

Göran Ennerfelt, co-opted member

The Chairman of the Board of Axfood, Göran Ennerfelt, is a co-opted member of the Nominating Committee.

The Chairman of the Board conducted an evaluation of the Board's work during the year, which he presented to the Nominating Committee. He also reported on his assessment of the Board's composition with respect to its members' expertise.

The Nominating Committee discussed these evaluations as well as the Board's size and composition based on the requirements of the Swedish Code of Corporate Governance. The Nominating Committee's recommendation for company directors and directors' fees are presented in the notice of the Annual General Meeting.

Prior to the 2006 AGM, the Nominating Committee had two meetings. No fee has been paid for members' work on the committee.

All shareholders have the right to submit proposals for board members to the Nominating Committee. Proposals are to be












sent to the Nominating Committee chair. Ahead of the 2006 AGM no proposals had been submitted.

The Board of Directors

According to the Company's Articles of Association, the Board shall consist of three to ten AGM-elected members, with not more than two deputies. In 2005 Axfood's board had eight AGM-elected members without deputies, and three employee representatives with one deputy. The CEO is a member of the Board. On 1 November 2005, Mats Jansson resigned as CEO, but continues to serve as a director on the Board. The new CEO, Anders Strålmán, participates at board meetings by making presentations. The Board constituted itself on 10 March 2005 and elected Göran Ennerfelt as Chairman and Marcus Storch as Vice Chairman until the next Annual General Meeting. Three of the AGM-elected directors are independent. The company secretary has been Lars Nilsson, Axfood's chief financial officer. Other Axfood employees participate at board meetings by submitting reports.


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

Board of Directors

	Attendance	Dependent/ independent ¹⁾	Compensation Committee	Fee ²⁾ , SEK	Shareholding ³⁾
Göran Ennerfelt, Chairman	8/9		2/3 (chair)	400,000	10,000
Maria Curman	8/9			200,000	1,000
Antonia Ax:son Johnson	9/9		3/3	200,000	24,290,066
Assar Johansson	9/9				0
Peggy Bruzelius	8/9			200,000	1,500
Inger Sjöstrand	9/9				0
Hans G. Johansson	9/9				0
Marcus Storch	9/9		3/3	270,000	12,000
Annika Åhnberg	9/9			200,000	0
Gunnar Söderling	8/9			200,000	300
Mats Jansson	9/9		3/3 (co-opted)		4,300
Average duration	4 hrs.		2 hrs.		
Total				1,670,000	

 = Director is to be considered as independent with respect to the Company and its management.

 = Director is to be considered as independent with respect to both the Company and its management, as well as to the Company's major shareholders.

 = Appointed by a union.

 = Director is to be considered as dependent with respect to both the Company and its management, as well as to the Company's major shareholders.

¹⁾ According to the definition in the Swedish Code of Corporate Governance.

²⁾ The amount pertains to directors' fees. Former CEO Mats Jansson did not receive any directors' fee, but did receive salary and other benefits. Apart from this, no director received any compensation other than directors' fee.

³⁾ Including converted shares under Axfood's convertible programme. No other financial instruments have been issued.

to ensure the Board's need of information and a suitable division of responsibilities 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, which is part of the Board's work plan. The Board oversees the CEO's work, is responsible for ensuring that the Company's organization, management and guidelines for management of the Company's assets are suitably structured. In addition, the Board is responsible for 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 continuous follow-up of operations during the year.

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

Board meetings

Axfood's board holds a statutory meeting immediately following the Annual General Meeting. Thereafter the Board shall have at least four meetings per calendar year. In 2005 the Board had nine meetings, whereby one was dedicated to strategic discussion and one dealt with the 2006 business plan. Each of the regular board meetings follows a set agenda that is included in the Board's work plan and includes such points as the CEO's report, financial reports, investments and strategic matters.

Important matters that were discussed during the year included the sale of Spar Finland, store investments, concept development and the appointment of a new CEO and members of the executive management.

Chairman of the Board

Following the 2005 AGM, the Board constituted itself and elected Göran Ennerfelt as Chairman and Marcus Storch as Vice Chairman. The Chairman directs 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.

Directors' fees

Total fees paid to the AGM-elected directors are decided by the Annual General Meeting and amounted to SEK 1,670,000 for 2005. The Chairman receives an annual fee of SEK 400,000, the Vice Chairman SEK 270,000, and each of the other directors SEK 200,000. Axfood's former CEO, Mats Jansson, received no fee for his board work in 2005. No fee is paid to employee representatives or for directors' work on committees.

The Board's evaluation of its work

The Chairman of the Board conducted in evaluation of the Board's work in 2005. This was conducted in part through the use of a questionnaire that was sent to all of the board members and in part through individual talks between the Chairman and each of the directors. The result of this evaluation was also presented to the Nominating Committee.

Compensation Committee

The Board has appointed a compensation committee that deals with, decides on and makes recommendations on the CEO's and executive management's salaries, other terms of employment and incentive programmes. The Committee reports to the Board.

The members are

Göran Ennerfelt (Committee Chair)

Antonia Axson Johnson

Marcus Storch

Mats Jansson (co-opted member)

The CEO does not participate in discussions concerning his own terms of employment. An independent consultant is tied to the committee for issues concerning incentive programmes. The committee met three times in 2005.

Auditors' fees (KPMG)

SEK m	Group ¹⁾			Parent Company		
	2005	2004	2003	2005	2004	2003
Auditing fees	4	5	6	1	1	1
Consulting fees	1	2	2	0	2	1

¹⁾ 2005 and 2004 pertain to continuing operations, i.e., excluding Spar Finland.

Audit and reporting

Audit

Axfood's 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 Company's auditors report on the extent to which the Company has ensured the effectiveness of its bookkeeping, administration and financial control. 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 Company executives. In addition to its auditing assignment, Axfood's auditor, KPMG, received SEK 1 m in consulting fees. At the 2004 AGM, auditors were elected for terms until the 2008 AGM.

Auditors

Per Bergman, KPMG Bohlins AB

Ola Forsberg, KPMG Bohlins AB

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.

Internal control

According to the Swedish Companies Act, the Board is responsible for ensuring that the Company's organization is designed in such way that the bookkeeping, financial management and the Company's financial conditions in general are controlled in a satisfactory manner. The Swedish Code of Corporate Governance clarifies this and prescribes that the Board is responsible for internal control.

Organization of internal control

The platform of internal control consists of the control environment, which includes the culture in which the Board and company management communicate and operate. A good control environment inspires discipline and structure for other components of the process, which involves risk assessment with-

in the parameters set by the Board and company management. Control activities shall be conducted at both the overall and detailed levels and be aimed at preventing, discovering and correcting errors and deviations. They should also check to ensure that systems are in place for internal and external information as well as follow-up by the Board and company management down through the organization in order to ensure quality in the process.

Axfood has elected to describe how its internal control is organized in the way proposed by the Confederation of Swedish Enterprise and FAR in their guide for the Swedish Code of Corporate Governance. Neither the documented organization of internal control nor the content in the respective areas is to be viewed as being static – they are continuously adapted to Axfood's operations and business environment.

Work in progress

In autumn 2005 Axfood mapped its internal control structure based on the COSO model, whose framework has been applied to Axfood's operations and conditions. A review and assessment has been made of areas of Control Environment, Risk Assessment, Control Activities, Information and Communication, and Follow-up in accordance with the COSO model.

Based on this mapping, certain development areas have been identified and assigned priority for further handling in operations in 2006.

Description

Control Environment

An important part of the control environment is that decision-making channels, authorizations and responsibility are clearly defined and communicated between the various levels of the organization and that governing documents such as internal policies, handbooks, guidelines and manuals are on hand. Axfood's board has established clear work processes and plans for its work and the work of its committees. An important part of the Board's work involves drawing up and approving numerous fundamental policies, guidelines and frameworks. These include the Board's work plan, the CEO instructions, decision-making procedures, the investment policy, the finance and credit policy and the information policy. In addition to these, Axfood applies other policies, such as the Group's IT policy, Code of Conduct, ethical guidelines, HR policy and internal dishonesty policy. The aim of these policies is to create a platform for good internal control.

In addition, the Board has ensured that the organizational structure defines clear roles, responsibility and processes that

promote the effective management of the operations' risks and enable goal fulfilment. As part of the responsibility structure, the Board evaluates business performance and results using a special report package covering outcomes, forecasts, business plans, strategic plans, monitoring of financial risks and analyses of important key factors.

A steering committee under the direction of the CFO is the Group's forum for evaluating the extent to which all relevant areas are covered by internal control and are suitably designed.

As part of the work on strengthening internal control, Axfood has chosen to compile control documents in an electronic financial manual, which is accessible to all employees within the Group. The financial manual provides an overall view of existing policies, rules and routines.

Risk assessment

In autumn 2005 Axfood conducted a review and analysis aimed at assessing risks that could lead to errors in financial reporting. As a result of this review, the Board will be making decisions on which risks are essential to acknowledge in order to ensure good internal control in the Group's financial reporting

In the course of this review, Axfood identified a number of profit/loss and balance sheet items where there is an elevated risk for errors. The Company is working continuously on strengthening controls surrounding these risks.

Risks are addressed, assessed and reported by the Group companies. In addition, risks are addressed in special forums, such as due diligence in connection with store establishment.

Control activities

The Group's control structure is designed to manage the risks that the Board considers to be of material importance for internal control of financial reporting. At Axfood these control structures consist of an organization with clear roles that enable an effective delegation of responsibility from an internal control perspective as well as specific control activities that are designed to discover or prevent risks for reporting errors in a timely fashion. Examples of control activities include clear decision-making processes and procedures for important decisions, performance analyses and other control activities within the processes involving revenues & receivables, purchasing & payments, fixed assets, inventories, salaries, VAT/taxes, finance, bookkeeping, consolidation & reporting, and updating of lists and registers.

Information and communication

Axfood's critical, governing documentation in the form of policies, guidelines and manuals, to the extent it pertains to

financial reporting, is communicated primarily via the Group's intranet and the Group's financial manual. Communication is also done in connection with monthly controller meetings attended by all company CFOs. For communication with internal and external parties, Axfood adheres to an information policy that stipulates guidelines for how this communication should take place. The purpose of the policy is to provide assurances that all information obligations are met in a correct and complete manner. All communication by the Group, internal and external, is based on the watchwords true, open, fast and relevant. Internal communication aims to ensure that every employee will have the conditions to understand Axfood's business and build a shared view of Axfood's values and mission. Every manager at Axfood is responsible for making sure that a continuous and open dialogue is carried on in his or her respective unit. Axfood's employees also have a personal responsibility to search for information in their own areas of operation.

Follow-up

Axfood has no internal audit function. However, the Group does have a defined process for evaluating and monitoring internal control. The method of follow-up is decided on by the Board, which also conducts a yearly evaluation of the need of a separate internal audit function. Axfood's CFO is responsible for ensuring that follow-up of Axfood's internal control is conducted in accordance with the method decided on by the Board.

Executive Committee

The Board has delegated the day-to-day responsibility for the Company's management to the CEO and the Executive Committee. Axfood Executive Committee consists of nine persons. Of these, five are presidents of operating companies within the Group and four are staff heads. The Executive Committee meets once a month for ongoing matters and discussions, and holds a more lengthy strategy meeting once a year. The Executive Committee has a store-establishment and financing committee tied to it which meets once a month for regulatory and decision matters concerning store investments, store sales, new leases and renewals of existing leases.

An annual 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 the end of the year. The business plan process engages employees on several levels within the Group. The business plan for the current 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. Anders Strålman is chairman of all companies. Other members are made up of various groupings from the Executive Committee. The companies hold board meetings at least four times a year.

Executive compensation

CEO's salary and compensation

Axfood's CEO through 31 October 2005, Mats Jansson, received salary and other benefits in 2005 totalling SEK 7.4 m (6.4), including SEK 0.5 m (0) in variable compensation. Axfood's CEO from 1 November 2005, Anders Strålman, received salary and other benefits in 2005 totalling SEK 0.7 m (-). Variable compensation for the CEO 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 CEO will receive the remaining 50% after the Annual General Meeting that is held three years later, provided he is still employed.

Pension, terms of notice and other benefits for the CEO

The CEO has a car benefit and healthcare insurance.

The departing CEO was entitled to retirement pension from 60 years of age, entailing a right to provisions corresponding to 40% of his cash salary. The provision through 31 October 2005 amounted to SEK 22.3 m (19.7). The departing CEO also had a defined benefit family pension plan, which has lapsed in connection with his departure. The new CEO is entitled to retirement pension from 65 year of age, and a right to provisions corresponding to 35% of his cash salary. The provision as per 31 December 2005 amounted to SEK 0.2 m (-).

In the event Axfood serves notice, the CEO is entitled to a 12-month term of notice plus 12 months' severance pay, on account.

Salaries and compensation of other senior executives

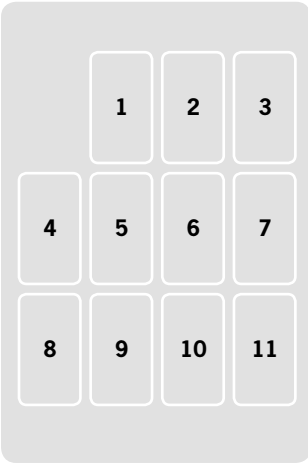
Other senior executives – Axfood's three executive vice presidents – received salary and other benefits amounting to a total of SEK 7.6 m (7.4), including variable compensation of SEK 0.8 m (0.5). As per 31 December 2005, one executive vice president had left the Company and another had given notice. 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 plus severance pay corresponding to 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.

Stock-related incentive programmes for Company management

As per 31 December 2005 there were no outstanding stock-related incentive programmes for Company management.

Compensation of CEO and senior executives, SEK m

Name	Year	Base salary	Variable compensation	Other benefits	Pension cost	Financial instruments	Other
Anders Strålman, CEO from 1/11/2005	2005	0.7	-	0.0	0.2	-	-
	2004	-	-	-	-	-	-
Mats Jansson, CEO through 31/10/2005	2005	6.8	0.5	0.1	3.3	-	-
	2004	6.3	-	0.1	6.2	-	-
Executive Committee	2005	6.5	0.8	0.2	3.6	-	0
	2004	6.7	0.5	0.2	4.6	-	0



1. Göran Ennerfelt, b. 1940

Chairman
 Director since 2000
 Other assignments:
 President and CEO of Axel Johnson Gruppen AB
 Chairman of Åhléns AB, Servera R&S AB, Novax AB, Axel Johnson International AB, AxFast AB, and the Stockholm Institute of East European Economics
 Vice Chairman of Axel Johnson AB and the Confederation of Swedish Enterprise
 Director of Svenska Handelsbanken, Spirent plc, Axel Johnson Inc. and the International Chamber of Commerce
 Number of shares: 10,000
 Education: Academic studies in USA (Williams College, Mass.), Stockholm University (MA). Stockholm School of Economics, M.Sc. Econ.
 Professional experience: President and CEO, Executive Vice President of Axel Johnson AB, former executive vice president of Axel Johnson AB
 Committee membership: Compensation Committee and Nominating Committee

2. Maria Curman, b. 1950

Director since 2003
 Other assignments:
 CEO of Bonnier Books
 Chairman of Bonnierföretagen AB, J.W. Cappelens Forlag AS (Norway), OY Tammi (Finland), Bonnierforlagene A/S (Denmark), Autumn Publishing Group (England) and AdLibris AB
 Number of shares: 1,000
 Education: M.Sc. Econ., Stockholm School of Economics
 Professional experience: CEO of Bonnierförlagen AB, CEO of Bonnier Books, President of Sveriges Television

3. Antonia Ax:son Johnson, b. 1943

Director since 2000
 Other assignments:
 Chairman of Axel Johnson AB and Axel Johnson Inc.
 Director of Åhléns AB, Servera R&S AB, Axel Johnson International AB, AxFast AB, Nordstjernan AB, NCC AB, the Axel and Margaret Ax:son Johnson Foundation for Public Service, the World Childhood Foundation and the Royal Swedish Academy of Engineering Sciences
 Committee membership: Compensation Committee and Nominating Committee
 Number of shares: 24,290,066, via companies
 Education/professional experience: B.Sc., Stockholm University and studies at Radcliffe College, Cambridge, Mass., USA

4. Assar Johansson, b. 1939

Director since 2002
 Employee representative
 Other assignments:
 Employee representative on Dagab's and Axfood Närlivs' boards
 Number of shares: 0
 Education: Completed "Union board representative for limited companies" course with Salaried Employees Union (HTF). Internal courses in marketing and logistics.
 Professional experience: Employed by Ce-Jis kolonial in 1962, which merged with Dagab in 1989

5. Peggy Bruzelius, b. 1949

Director since 2000
 Other assignments:
 Chairman of Lancelot Asset Management
 Vice Chairman of AB Electrolux
 Director of Axel Johnson AB, Bodyshop plc, Scania AB, Ratos AB, Syngenta AB, the Stockholm School of Economics Association and the Swedish Industry and Commerce Stock Exchange Committee
 Number of shares: 1,500
 Education: MBA, Stockholm School of Economics, Honorary Doctor of Economics
 Professional experience: President and CEO of ABB Financial Services

6. Gunnar Söderling, b. 1943

Director since 2003
 Other assignments:
 Director of Frigoscandia Distribution AB and Bioett AB
 Number of shares: 300
 Education: B.Sc., Lund University
 Professional experience: Executive Vice President of Svenska Nestlé AB

7. Hans G. Johansson, b. 1945

Director since 2000
 Employee representative
 Other assignments:
 Employee representative on Hemköp's board
 Number of shares: 0
 Education: Swedish Trade Union Confederation course on company board work
 Professional experience: Former director of Åhléns AB, Åhléns Livs AB, Axel Johnson AB and Axel Johnson Saba AB
 Joined Hemköp in 1965

See also table on page 71 for information on directors' dependence/independence.

8. Inger Sjöstrand, b. 1953

Director since 2003
 Employee representative
 Other assignments: Chairman of Handels Dalarna and ABF Södra Östra Dalarna
 Employee representative on Hemköp's board
 Number of shares: 0
 Professional experience: Joined Hemköp in 1977

9. Marcus Storch, b. 1942

Vice Chairman
 Director since 2000
 Other assignments: Chairman of the Nobel Foundation. Vice Chairman of Axel Johnson AB, Director of NCC AB, DI Holding AB, AB Hanells 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
 Education: M.Sc. Eng., Royal Swedish Institute of Technology, Honorary Doctor of Medicine
 Professional experience: President and CEO of AGA
 Committee membership: Compensation Committee

10. Annika Åhnberg, b. 1949

Director since 2000
 Other assignments:
 Chairman of the general department of the Royal Swedish Academy of Agriculture and Forestry
 Member of the Review Board for Radio and TV
 Director of HANDU AB, the Royal Swedish Academy of Agriculture and Forestry, and the Royal Swedish Academy of Engineering Sciences (IVA)
 Number of shares: 0
 Education: Graduate of Social Studies, Department of Social Work, Stockholm University
 Professional experience: Consultant in own practice, Tankeföda AB

11. Mats Jansson, b. 1951

Director since 2000
 Other assignments: President and CEO of Axel Johnson AB, Director of Ahlsell AB, Hufvudstaden AB and Swedish Trade Federation
 Number of shares: 4,300
 Professional experience: President and CEO of the following companies: Axfood AB, Oy Karl Fazer AB and AB Catena (now Bilia AB). Executive Vice President of ICA and President of ICA Detaljhandel AB



▲ **Anders Strålman**, b. 1953
President and CEO, Axfood AB
Employed since 1993*
Number of shares: 11,500
Other assignments: director of Bergendahls El & Installation AB, KA-Berg AB
Education: M.Sc. Econ., Gothenburg University
Professional experience: President of Willys, CEO of Billhalls, President and head of operations for Bergendahls El & Installation AB
Member of Axfood's Executive Committee since 2000



◀ **Lars Nilsson**, b. 1956
Executive Vice President and Chief Financial Officer
Employed since 2000
Number of shares: 13,200
Education: M.Sc. Econ., Linköping University
Professional experience: CFO of Fritidsresgruppen, President and CEO of Aros Fondkommission, CFO of ABB Financial Services
Member of Axfood's Executive Committee since 2000



▲ **Urban Dahl**, b. 1953
President of Willys Lågpris AB
Employed since 1985 (not between 1989–90)
Number of shares: 0
Education: technical upper secondary school
Professional experience: Purchasing Director, Axfood AB, President of Axfood Närlivs and Dagab Syd, Marketing Manager of Dagab Väst AB
Member of Axfood's Executive Committee since 2000



▲ **Thomas Strömer**, b. 1950
President of Willys hemma AB
Employed since 2000
Number of shares: 1,500
Education: trade school
Professional experience: Director of Operations, Axfood Närlivs, Operations Manager, Spar Inn. Employee of KF, including positions as sales manager and marketing manager
Member of Axfood's Executive Committee since 2003

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

All shareholdings as per 31 December 2005.



◀◀ **Carl-Erik Möller**, b. 1947

President of Hemköpskedjan AB
Employed since 1998*
Number of shares: 1,500
Education: commercial upper secondary school
Professional experience: Employment with ICA and COOP
Member of Axfood's Executive Committee since 2000



◀ **Benny Hast**, b. 1955

President of Axfood Närlivs AB
Employed since 1995*
Number of shares: 900
Education: M.Sc. Econ., Gothenburg University
Professional experience: CFO, Dagab, Director of Operations, Axfood Närlivs
Member of Axfood's Executive Committee since 2004



▲ **Mats Sjö Dahl**, b. 1961

Purchasing Director
Employed since 1994*
Number of shares: 2,507
Education: Market Economy, IHM
Professional experience: Purchasing Director, Willys AB, Chief Purchaser, Axfood AB, Business Area Head/Deputy Purchasing Director, Axfood AB
Member of Axfood's Executive Committee since 2005



▲ **Louise Ring**, b. 1955

Head of Human Resources
Employed since 2003
Number of shares: 0
Education: University studies in behavioural sciences, Umeå University
Professional experience: CFO and HR Manager, ICA Handlarnas AB, store manager, head of training, organizational and operating matters, H&M
Member of Axfood's Executive Committee since 2005



▲ **Anders Agerberg**, b. 1953

Acting President of Dagab AB
Employed since 1976*
Number of shares: 0
Education: natural sciences upper secondary school
Professional experience: Logistics Manager/Operations Manager, Dagab, member of Dagab's management group since 1999
Member of Axfood's Executive Committee since 2005

Several-year overview

Amounts in SEK m	2005 ^{*)}	2004 ^{*)}	2003	2002	2001
Profit and loss account					
Net sales ^{*)}	28,086	28,658	33,616	33,115	32,428
Capital gains/structural costs ^{*)}	-2	-15	132	37	-79
Operating profit ^{*)}	1,040	1,126	1,034	1,023	653
Profit after financial items ^{*)}	1,026	1,096	971	919	527
Minority share ^{*)}	-5	4	-12	-14	-11
Tax ^{*)}	-297	-310	-275	-280	-188
Profit for the year from continuing operations ^{*)}	729	786	684	625	328
Profit/loss for the year from discontinued operations	-47	17	–	–	–
Net profit for the year	682	803	684	625	328
Balance sheet					
Intangible fixed assets	1,290	1,119	1,076	1,098	1,165
Tangible fixed assets	1,487	1,823	1,821	2,172	2,264
Financial fixed assets	32	153	253	412	541
Other fixed asset	38	34	–	–	–
Inventories	1,598	1,634	1,599	1,631	1,559
Other current assets	1,296	1,480	1,680	1,598	1,832
Cash and cash equivalents	639	977	548	444	406
Assets held for sale	1,189	–	–	–	–
Assets	7,569	7,220	6,977	7,355	7,767
Shareholders' equity	2,825	2,644	2,127	1,693	1,208
Minority interests	119	119	122	119	109
Provisions	–	–	743	701	637
Interest-bearing liabilities	414	676	599	1,320	2,070
Noninterest-bearing liabilities	3,449	3,781	3,386	3,522	3,743
Liabilities tied to assets held for sale	762	–	–	–	–
Shareholders' equity and liabilities	7,569	7,220	6,977	7,355	7,767
Cash flow					
Cash flow from operating activities	1,170	1,462	1,026	1,104	1,046
Cash flow from investing activities	-850	-422	-315	-192	-293
Cash flow from financing activities	-579	-610	-606	-873	-625
Cash flow for the year from continuing operations	-259	430	105	39	128
Of which, cash flow for the year from discontinued operation	-41	-16	–	–	–

Amounts in SEK m	2005 ^{*)}	2004 ^{*)}	2003	2002	2001
Key ratios					
Operating margin,					
excluding capital gains and structural costs, %*	3.7	3.9	2.7	3.0	2.3
Margin after financial items, %*	3.7	3.8	2.9	2.8	1.6
Equity ratio, %	38.9	38.3	32.2	24.6	17.0
Net debt-equity ratio, multiple	-0.0	-0.1	0.2	0.6	1.3
Debt-equity ratio, multiple	0.22	0.24	0.43	0.94	1.85
Capital employed	3,603	3,439	3,221	3,510	3,752
Return on capital employed, %	28.7	34.1	31.2	28.7	17.3
Return on shareholders' equity, %	25.1	32.6	35.8	43.1	31.8
Interest coverage, multiple	31.6	24.3	13.3	8.4	4.7
Capital expenditures, SEK m	1,036	537	660	455	404
Earnings per share, SEK*	13.37	14.67	12.85	11.75	6.16
Earnings per share from discontinued operation, SEK*	-0.78	0.25	–	–	–
Earnings per share after dilution, SEK*	13.35	14.42	12.62	11.51	6.07
Earnings per share after dilution for discontinued operation, SEK*	-0.77	0.24	–	–	–
Net asset value per share, SEK	51.81	49.35	39.76	31.81	22.7
Net asset value per share after dilution, SEK	51.76	48.44	38.97	31.09	22.24
Cash flow per share, SEK	-4.75	8.03	1.97	0.73	2.4
Cash flow per share after dilution, SEK	-4.74	7.88	1.93	0.72	2.36
Number of shares outstanding	54,531,378	53,577,828	53,497,028	53,229,028	53,229,028
Weighted average number of shares	54,531,378	53,567,009	53,248,074	53,229,028	53,229,028
Number of shares outstanding after dilution	54,583,928	54,583,928	54,585,054	54,459,993	54,327,524
Weighted average number of shares after dilution	54,583,928	54,573,109	54,336,100	54,459,993	54,327,524
Average number of employees during the year ¹⁾	7,922 ²⁾	7,764 ²⁾	7,773	8,312	8,514
Dividend	15.00 ³⁾	11.00	5.50	5.00	2.50

*) According to IFRS, in 2005 figures are also reported after recalculation to IFRS. According to IFRS 5, Spar Finland is reported as a discontinued operation on a separate line in the profit and loss account for 2005, and the comparison year 2004 is also recalculated. The figures and key ratios marked with an asterisk pertain to continuing operations in 2004 in 2005. Other figures and key ratios apply for total operations (including Spar Finland), since the balance sheet for the comparison year 2004, in accordance with IFRS 5, is not to be recalculated.

¹⁾ Starting in 2004, a full-time employee is calculated on the basis of 1,800 hours. For 2000–2002, 1,600 hours were used.

²⁾ Of which, discontinued operations 856 (823).

³⁾ Proposed by the Board of Directors.

Definitions and explanations

Definitions

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

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.

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.

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

Earnings per share: Majority owner's share of net profit for the year divided by the average weighted number of shares outstanding.

Earnings per share after dilution: Majority owner's share of 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. A 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 stated at fair value that this subscription payment corresponds to.

EBIT: Operating profit.

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

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

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

Net asset value per share: Majority owner's share of equity divided by the number of shares outstanding. For net asset value per share after the dilutive effect, see "Earnings per share after dilution" above.

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

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

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

Return on capital employed: Profit after financial items, plus financial expenses, as a percentage of average capital employed.

Return on shareholders' equity: Majority owner's share of net profit as per the profit and loss account as a percentage of average shareholders' equity. Average shareholders' equity is calculated as shareholders' equity at the beginning of the year plus shareholders' equity at the end of the year, divided by two.

Explanations

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 share 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 billion during the half-year period (corresponding to approx. SEK 24 m/day), plus the company must have a market capitalization in excess of SEK 8 billion.
3. The company must have a free float of at least SEK 500 m at the end of the measurement period.
4. The company must issue market information in English.
5. Companies on the observation list are not eligible for inclusion on the 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.

GAAP

General Accepted Accounting Principles.



Annual General Meeting and Financial Calender

Annual General Meeting

The Annual General Meeting of the shareholders of Axfood AB (publ) will be held at 5 p.m. on Thursday, 9 March 2006, 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, 3 March 2006, at the following address: Axfood AGM, Box 47021, SE-100 74 Stockholm. Notification can also be made by phone by calling +46-8-775 03 23, by fax at +46-8-775 81 65, or by e-mail: jessica.olvestad@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. For notifications sent by fax, please mark the fax "Axfood AGM". If participating by proxy, a proxy form should 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 Friday, 3 March 2006, and notify the Company of their intention to participate in the Meeting not later than 4 p.m. on Friday, 3 March 2006. 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 Friday, 3 March 2006.

Proposed dividend

The Board of Directors proposes an increased dividend of SEK 9.00 per share (6.50). In addition, the Board proposes an extra dividend of SEK 6.00 per share (4.50), entailing a total dividend for 2005 of SEK 15.00 per share (11.00). The record date is Tuesday, 14 March 2006, and dividends are expected to be paid via VPC on Friday, 17 March 2006. The last day for trading in the Company's stock including the right to the dividend is Thursday, 9 March 2006.

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 2006

Interim report January–March, 19 April

Interim report January–June, 19 July

Interim report January–September, 24 October

Sales reports are released separately for the months 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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