Interim Report Axfood AB (publ)

For the period 1 January–31 March 2010

2010 Q1 Q2 Q3 Q4

- Axfood's consolidated sales for the period amounted to SEK 8,210 m (7,682), an increase of 6.9%.
- Retail sales for Group-owned stores rose 3.4% during the period. Like-for-like sales rose 2.4%.
- Operating profit for the period January–March was SEK 245 m (234).
- Profit after financial items for the period was SEK 235 m (221).
- Profit after tax for the period was SEK 174 m (163), and earnings per share were SEK 3.31 (3.10).
- Axfood's goal for 2010 is to achieve an operating profit at least, in level with 2009.

KEY RATIOS

	Jan.-March		Jan.-Dec.
SEK m	2010	2009	2009
Net sales	8,210	7,682	32,378
Operating profit	245	234	1,128
Operating margin, %	3.0	3.0	3.5
Profit after financial items	235	221	1,082
Profit for the period	174	163	793
Earnings per share, SEK[1]	3.31	3.10	15.13
Equity ratio, %	30.7	27.7	36.7
Return on capital employed, %	33.6	31.6	31.8
Return on shareholders' equity %	37.5	42.4	32.4
Net asset value per share, SEK	43.55	38.14	50.22

1) Before and after dilution.

CEO'S COMMENTS

Axfood began 2010 with good earnings, favourable sales growth and a continued positive operating result for all businesses. This was despite some initial challenges posed by the unusually cold and snowy winter. During the first quarter of the year we also established several new stores, had high campaign activity and successfully implemented the first phase of our new business system.

Willys continues its stable and profitable development and is defending its business concept as "Sweden's cheapest bag of groceries". To further strengthen its market position, during the quarter Willys opened six new stores, including three Willys hemma. Parallel with this, work continued on further developing the price and product line strategy, more sales-oriented customer service, and on improving customers' shopping experience. Several additional new stores are planned for establishment in 2010 or through conversions from Hemköp.

Hemköp, which continues to show increasingly stable operation, carried out its largest price-lowering campaign ever. This activity is part of Hemköp's new price strategy and improved customer offering. The outcome of the campaign showed a favourable trend toward the end of the period, and despite higher marketing costs, Hemköp posted an operating profit of SEK 6 m (13). The structural changes that were introduced in 2009 are continuing according to plan, and in the coming months, additional stores will be converted to Willys or closed. At present, decisions have been made regarding five stores. Due to a decrease in the number of stores, Hemköp's head office staff will be reduced by 14 positions.

For PrisXtra, we were happy to note favourable development for four of the chain's six stores during the quarter. At the same time, overall sales and profitability continue to be affected by the reduced customer flow at the two largest stores as a result of major ongoing roadwork since a couple of years.

Axfood Närlivs had a sluggish start to the year as a result of the harsh winter weather, which had a negative impact on customer flow. However, its performance was all that much better toward the end of the quarter, entailing stable development on the whole and good profitability. Dagab continues to show very strong delivery reliability, 97.2%, and good cost control, despite the challenges posed by the winter weather. The collaboration with the Vi stores continues to work well. In addition, a number of new environmental initiatives were taken.

On 7 April the Swedish Trade Federation and the Union of Commercial Employees reached a new 24-month collective bargaining agreement. The agreement entails a total cost increase for the entire period of 3.85% for employees in the retail operations and 3.55% for employees in the wholesale operations. A new agreement for salaried employees is not yet ready. Implementation of the new business system is on track, and the accounting module was successfully installed at the start of the year.

We see strong signs of rising optimism among households, however, we currently believe that the market conditions will continue to be characterized by relatively weak economic activity, high price competition and price-conscious customers. At the same time, our performance during the first quarter as well as last year shows that our strategic focus is on target. During the remainder of 2010 we will maintain a high pace of establishment and change, further develop our concepts, optimize store operations and stimulate sales growth. We also plan to further develop our successful private label strategy.

Axfood's goal for 2010 is to achieve an operating profit at least, in level with 2009.

Anders Strålman
President and CEO

IMPORTANT EVENTS DURING THE FIRST QUARTER

- Willys opened three stores – in Piteå, Södertälje and Rotebro – and Willys hemma opened new stores in Gnosjö and Liljeholmen.
- A store in Alvesta was converted from Hemköp to Willys.
- Ola Andersson was appointed as the new President of Hemköp, and will take office on 3 May 2010.
- Anders Agerberg was appointed as the new President of Dagab.

IMPORTANT EVENTS AFTER THE END OF THE PERIOD

- A new collective bargaining agreement was signed on 7 April for the Group's employees in the retail and wholesale operations.

CHANGE IN STORE STRUCTURE, JAN.-MARCH 2010

	Dec. 2009	Establish-ment	Acquisitions	Sales/ closures	Conversions to/from	March 2010
Hemköp	72				-1	71
Willys[1)]	147	4	1		1	153
PrisXtra	6					6
Total, wholly owned	**225**	**4**	**1**		**-**	**230**
Hemköp franchises	86			-1		85

1) Of which, Willys hemma 37, compared with 34 as per 31 December 2009.

NET SALES, OWN AND FRANCHISE STORES

	Jan.-March 2010, SEK m	% 1)	Like-for-like sales %1)
Hemköp	1,265	-5.7	1.0
Hemköp franchises	940	1.2	1.8
Hemköp total	**2,205**	**-2.9**	**1.3**
Willys total	**4,466**	**6.7**	**3.1**
PrisXtra	**171**	**-6.0**	**-6.0**
Total	**6,842**	**3.1**	**2.3**

1) Percentage change compared with the corresponding period a year ago.

SALES AND EARNINGS FOR THE AXFOOD GROUP

Consolidated wholesale and retail sales for the Axfood Group totalled SEK 8,210 m (7,682) for the period, an increase of 6.9%. Store sales for the Axfood Group (wholly owned stores and Hemköp franchises) amounted to SEK 6,842 m (6,638), an increase of 3.1%. Sales for Axfood-owned retail operations rose 3.4% during the period, with a 2.4% rise in like-for-like sales.

Operating profit for the period was SEK 245 m (234). The operating margin for the period was 3.0% (3.0%).

Net financial items totalled SEK -10 m (-13), and profit after financial items was SEK 235 m (221). The margin after financial items was 2.9% (2.9%). Profit after tax was SEK 174 m (163).

Axfood has no significant transactions with related parties, other than transactions with subsidiaries.

CAPITAL EXPENDITURES

Total capital expenditures during the period amounted to SEK 204 m (135), of which SEK 0 m (3) pertained to acquisitions of businesses. In addition, SEK 106 m (68) pertained to investments in non-current assets in retail operations, SEK 38 m (21) to investments in non-current assets in wholesale operations, and SEK 40 m (37) to IT development.

FINANCIAL POSITION

Cash flow from operating activities for the period before paid tax was SEK 531 m (478). Paid tax amounted to SEK -109 m (-94). Cash and cash equivalents held by the Group amounted to SEK 279 m, compared with SEK 316 m in December 2009. Interest-bearing assets amounted to SEK 279 m at the end of the period, compared with SEK 316 m in December 2009. Interest-bearing liabilities and provisions totalled SEK 1,114 m at the end of the period, compared with SEK 848 m in December 2009. Interest-bearing net debt was SEK 835 m at the end of the period, compared with SEK 532 m in December 2009. Payout of the shareholder dividend affected cash flow by SEK -525 m (-420), and net capital expenditures affected cash flow by SEK -199 m (-130).

The equity ratio was 30.7%, compared with 36.7% as per December 2009.

EMPLOYEES

The Axfood Group had an average of 6,669 employees (6,778) during the period. Of the Group's employees, slightly fewer than 75% work in the retail operations and slightly fewer than 20% in the wholesaling operations.

STORE OPERATIONS

WILLYS

Sales for Willys totalled SEK 4,466 m (4,186) during the period January–March, an increase of 6.7% compared with a year ago. Like-for-like sales rose 3.1% during the same period.

Operating profit for the period was SEK 167 m (167), and the operating margin was 3.7% (4.0%).

The private label share as of March was 23.5% (25.1%) for Willys and 28.4% (29.5%) for Willys hemma.

Willys continues to defend its position as "Sweden's cheapest bag of groceries", and to further strengthen its market share, the chain has stepped up the pace of establishment of new stores. During the period, three Willys and three Willys hemma stores were opened. The Willys chain thereby consists of 153 wholly owned stores, of which 37 are Willys hemma. The establishment of an additional number of new stores is planned during the year.

Parallel with new-store establishment, activity at Willys has been high, including advertising campaigns and continued further development of the price and product range strategies as well as customers' shopping experience. As part of this work, an additional number of stores will be modernized during the year.

HEMKÖP

Like-for-like sales for Group-owned stores increased by 1.0% during the period. Sales for Hemköp's stores – both wholly owned and franchises – decreased by 2.9% during the period January–March. Sales for Group-owned Hemköp stores totalled SEK 1,265 m (1,341) for the period, a decrease of 5.7%.

Sales for franchise stores totalled SEK 940 m (929), an increase of 1.2%, with a 1.8% rise in like-for-like sales.

Operating profit for the period January–March was SEK 6 m (13), and the operating margin was 0.5% (1.0%).

After the turnaround in 2009 to profitable operations through improved gross profit, cost control and the closure or conversion of underperforming stores, in January the next step was taken towards profitable growth. As part of Hemköp's new price strategy and improved customer offering, the largest price-reduction campaign ever was carried out. The outcome showed a favourable trend toward the end of the period, and despite higher marketing costs, Hemköp posted an operating profit.

Hemköp's new loyalty card continues to grow. By the end of the period slightly more than 315,000 cards were in issue. The loyalty card is a key part of a long-term effort to boost customer loyalty, and at present approximately 30% of Hemköp's sales are made using loyalty cards.

Hemköp's private label share (incl. franchise stores) was 15.3% (15.9%) as of March.

Hemköp had 156 stores at the end of the period, of which 71 were Group-owned, compared with 78 Group-owned stores at the end of March a year ago. During the period, one Group-owned store was converted to Willys hemma. During the remainder of the year, additional closures or conversions are planned – at present five stores will be affected.

PRISXTRA

PrisXtra's sales amounted to SEK 171 m during the period January–March (182). Operating profit for the period January–March was SEK 3 m (0), and the operating margin was 1.8% (0.0%).

At PrisXtra, sales performance was favourable for four of the chain's six stores. At the same time, overall performance continues to be dampened by ongoing road construction, which is obstructing the flow of customers to the two largest stores.

As from 1 January 2010, the online store NetXtra has been transferred to Axfood Närlivs.

AXFOOD WHOLESALING

DAGAB AND AXFOOD NÄRLIVS

Dagab's sales for the period January–March totalled SEK 6,179 m (5,669). Operating profit for the period was SEK 30 m (24), and the operating margin was 0.5% (0.4%). Delivery reliability remained strong, with a high level of accuracy of order deliveries and high quality. The collaboration with the Vi stores that was resumed in November 2009 is proceeding very satisfactorily.

Sales for Axfood Närlivs during the period January–March totalled SEK 1,293 m (1,254). Operating profit for the period was SEK 14 m (16), and the operating margin was 1.1% (1.3%). Axfood Närlivs was initially hurt by the severe winter weather, but through a good close to the quarter managed to show continued stable operations.

SIGNIFICANT RISKS AND UNCERTAINTIES

In the course of its business the Axfood Group is exposed to operational, strategic and financial risks. Operational and strategic risks include business and liability risks, among others, while financial risks include liquidity risk, interest rate risk and currency risk, among others.

Axfood works continuously with risk identification and assessment. One of the most significant business risks that Axfood has identified in its safety analysis work is a total loss, such as from a fire at one of the central warehouses in Jordbro or Backa. Major emphasis is put on preventive work, and the organization for this is well-developed, as is the Company's planning to maintain operating continuity in the event of unforeseen events.

For a thorough account of the risks that affect the Group, please refer to the 2009 Annual Report.

ENVIRONMENTAL IMPACT

One of Axfood's strategic objectives is to actively conduct work for sustainable development in the environmental area. In the day-to-day activities, sustainability aspects are integrated in purchasing as well as in logistics, transport, store operations and waste handling. In 2009 Axfood adopted a new sustainability programme containing goals, strategies and actions. A few of the areas covered include energy savings, waste handling, shrinkage and a transition to renewable electricity. An overall target has been set to reduce the climate impact of the Group's operations by 75% by 2020. In 2010, implementation of the new sustainability programme will be prioritized. A more detailed account of Axfood's work with environmental matters can be found in the 2009 Annual Report.

PARENT COMPANY

Other operating revenue for the Parent Company during the period January–March amounted to SEK 43 m (41). After selling expenses, administrative expenses and other operating expenses, totalling SEK 53 m (46), and SEK -4 m (-8) in net financial items, the result after financial items was SEK -14 m (-13). Capital expenditures during the period totalled SEK 1 m (0).

Cash and cash equivalents held by the Parent Company totalled SEK – m, compared with SEK – m in December 2009. Interest-bearing net debt was SEK 691 m at the end of the period, compared with SEK 1,187 m in December 2009.

The Parent Company has no significant transactions with related parties, other than transactions with subsidiaries.

ACCOUNTING PRINCIPLES

GROUP

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting. The same accounting policies and methods of calculation have been used as in the most recent annual report, except for with respect to the points described below.

In order to prepare the financial statements in accordance with IFRS, 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.

Effective 1 January 2010 the revised IFRS 3 Business Combinations took effect, along with the amended IAS 27 Consolidated and Separate Financial Statements. The revised and amended standards will only have prospective effects. In addition to IFRS 3 and IAS 27 are changes in IFRS 2 Share-based Payment, IAS 32 Financial Instruments: Presentation – with respect presentation of new issues – and IAS 39 Financial Instruments: Recognition and Measurement, with respect to items that qualify for hedge accounting. In addition to these changes are IFRIC 12 Service Concession Agreements, IFRIC 15 Agreements on the Construction of Real Estate, IFRIC 16 Hedges of a Net Investment in a Foreign Entity, IFRIC 17 Distribution of Non-cash Assets to Owners, and IFRIC 18 Transfers of Assets from Customers. The changes and IFRIC interpretations referred to here are not judged to have any effect on the Axfood Group's statements of comprehensive income, financial position, cash flows and changes in equity.

PARENT COMPANY

The same accounting policies and calculation methods as in the most recent annual report have been used. The Parent Company reports in conformity with the Swedish Annual Accounts Act and recommendation RFR 2.3 – Reporting for Legal Entities, issued by the Swedish Financial Reporting Board (RFR). Application of RFR 2.3 entails that in interim reporting for legal entities, the Parent Company applies all IFRSs and interpretations endorsed by the EU as far as practicable within the framework of the Swedish Annual Accounts Act, the Pension Obligations Vesting Act, and taking into account the connection between accounting and taxation.

As is the case for the Axfood Group, the new and amended standards that took effect on 1 January 2010 have no effect on the Parent Company's income statement, balance sheet, cash flow statement or shareholders' equity.

FUTURE OUTLOOK

Axfood's goal for 2010 is to achieve an operating profit at least, in level with 2009[1].

NEXT REPORTING DATE

The interim report for the period January–June 2010 will be presented on 15 July 2010.

This interim report has not been reviewed by the Company's auditors.

Stockholm, 20 April 2010

Anders Strålman

President and CEO

[1] Previous outlook: "Axfood's goal for 2010 is to achieve an operating profit at the same level as in 2009."

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FINANCIAL STATEMENTS, GROUP

NET SALES PER OPERATING SEGMENT

	Jan.-March		Jan.-Dec.
SEK m	2010	2009	2009
Hemköp	1,279	1,357	5,335
Willys	4,466	4,186	17,589
PrisXtra[1]	171	182	685
Axfood Närlivs[1]	1,293	1,254	5,611
Dagab	6,179	5,669	24,052
Other[2]	993	728	3,364
Internal sales			
Dagab	-5,221	-4,998	-21,049
Axfood Närlivs	-6	-5	-19
Other	-944	-691	-3,190
Net sales, total	**8,210**	**7,682**	**32,378**
Of which, distributed sales			
Axfood Närlivs	1,120	1,051	4,566
Dagab	4,174	3,781	15,327

OPERATING PROFIT FOR THE PERIOD (EBIT), BROKEN DOWN BY OPERATING SEGMENT

	Jan.-March		Jan.–Dec.
SEK m	2010	2009	2009
Hemköp	6	13	28
Willys	167	167	731
PrisXtra	3	0	6
Axfood Närlivs	14	16	132
Dagab	30	24	147
Other[2]	25	14	84
Operating profit for the period, total[3]	**245**	**234**	**1,128**

1) On 1 January 2010, NetXtra was transferred from PrisXtra to Axfood Närlivs. The comparison figures have been adjusted by SEK 12 m for the period and by SEK 40 m for the full year 2009.

2) Includes joint-Group support functions, such as purchasing coordination, IT and corporate offices. The item "other" also includes charges for, among other things, amortization of surplus value pertaining to the acquisition of PrisXtra. The increase in sales is attributable to higher internal volumes for Fruits and Vegetables and for Centrally Packaged Meat

3) Net financial items are not distributed per operating segment.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME, GROUP

	Jan.-March		Jan.-Dec.
SEK m	2010	2009	2009
Net sales	8,210	7,682	32,378
Cost of goods sold	-7,104	-6,647	-27,912
Gross profit	1,106	1,035	4,466
Selling/administrative expenses, etc.	-861	-801	-3,338
Operating profit	245	234	1,128
Net financial items	-10	-13	-46
Profit after financial items	235	221	1,082
Tax	-61	-58	-289
Profit for the period	**174**	**163**	**793**
Other comprehensive income			
Change in fair value of forward exchange contracts	1	-2	0
Change in fair value of available-for-sale financial assets	-	-	4
Tax attributable to components in other comprehensive income	0	1	-1
Other comprehensive income for the period	1	-1	3
Total comprehensive income for the period	**175**	**162**	**796**
Operating profit includes depreciation/amortization of	131	130	535
Earnings per share, SEK	3.31	3.10	15.13

CONDENSED STATEMENT OF FINANCIAL POSITION, GROUP

SEK m	31/3/2010	31/3/2009	31/12/2009
Assets			
Goodwill	1,539	1,538	1,539
Interest-bearing receivables	-	4	-
Other financial assets	33	28	30
Other non-current assets	2,182	2,052	2,118
Total non-current assets	**3,754**	**3,622**	**3,687**
Inventories	1,831	1,714	1,790
Accounts receivable — trade	685	781	539
Interest-bearing receivables	-	13	-
Other current assets	904	936	841
Cash and bank balances	279	160	316
Total current assets	**3,699**	**3,604**	**3,486**
Total assets	**7,453**	**7,226**	**7,173**
Shareholders' equity and liabilities			
Equity attributable to equity holders of the parent	2,285	2,001	2,635
Total shareholders' equity	**2,285**	**2,001**	**2,635**
Non-current interest-bearing liabilities	396	540	546
Noninterest-bearing non-current liabilities	205	202	204
Total non-current liabilities	**601**	**742**	**750**
Current interest-bearing liabilities	718	866	302
Accounts payable — trade	2,277	2,116	1,835
Other current noninterest-bearing liabilities	1,572	1,501	1,651
Total current liabilities	**4,567**	**4,483**	**3,788**
Total shareholders' equity and liabilities	**7,453**	**7,226**	**7,173**
Contingent liabilities	**19**	**21**	**19**
Pledged assets	**14**	**1**	**14**

CONDENSED STATEMENT CASH FLOWS, GROUP

	Jan.-March		Jan.-Dec.
SEK m	2010	2009	2009
Operating activities			
–Cash flow from operating activities before changes in working capital before paid tax	368	359	1,652
–Paid tax	-109	-94	-242
–Changes in working capital	163	119	148
Cash flow from operating activities	422	384	1,558
Investing activities			
–Company acquisitions, net	-1	-5	-6
–Acquisitions of non-current assets, net	-198	-125	-587
–Reduction of financial non-current assets, net	-1	-	13
Cash flow from investing activities	-200	-130	-580
Financing activities			
–Change in interest-bearing liabilities	266	14	-554
–Dividend paid out	-525	-420	-420
Cash flow from financing activities	-259	-406	-974
Cash flow for the period	**-37**	**-152**	**4**

CONDENSED STATEMENT OF CHANGES IN EQUITY, GROUP

SEK m	31/3/2010	31/3/2009	31/12/2009
Amount at start of year	2,635	2,259	2,259
Total comprehensive income for the period	175	162	796
Dividend to shareholders	-525	-420	-420
Amount at end of period	**2,285**	**2,001**	**2,635**

KEY RATIOS AND OTHER DATA, GROUP

	31/3/2010	31/3/2009	31/12/2009
Operating margin, %	3.0	3.0	3.5
Margin after financial items, %	2.9	2.9	3.3
Equity ratio, %	30.7	27.7	36.7
Debt-equity ratio, net, multiple	0.4	0.6	0.2
Debt-equity ratio, multiple	0.5	0.7	0.3
Interest coverage, multiple	24.5	16.8	22.2
Capital employed, SEK m	3,399	3,407	3,483
Return on capital employed, %	33.6	31.6	31.8
Return on shareholders' equity, %	37.5	42.4	32.4
Capital expenditures, SEK m	204	135	633
Earnings per share, SEK[1]	3.31	3.10	15.13
Dividend per share, SEK	-	-	10.00
Net asset value per share, SEK[1]	43.55	38.14	50.22
Number of shares outstanding[1]	52,467,678	52,467,678	52,467,678
Average number of employees during the year	6,669	6,778	6,816

1) The number of shares is the same before and after dilution. The average number of shares is the same as the number of shares outstanding. Axfood has no holdings of treasury shares.

FINANCIAL STATEMENTS, PARENT COMPANY

CONDENSED INCOME STATEMENT, PARENT COMPANY

	Jan.-March		Jan.-Dec.
SEK m.	2010	2009	2009
Net sales	-	-	-
Selling/administrative expenses, etc.	-10	-5	-26
Operating profit	-10	-5	-26
Net financial items	-4	-8	-20
Profit after financial items	-14	-13	-46
Untaxed reserves	-	-	1
Profit before tax	-14	-13	-45
Tax	4	3	11
Net profit for the period	**-10**	**-10**	**-34**
Operating profit includes depreciation/amortization of	2	2	8

Profit for the period corresponds to comprehensive income for the period.

CONDENSED BALANCE SHEET, PARENT COMPANY

SEK m	31/3/2010	31/3/2009	31/12/2009
Assets			
Property, plant and equipment	7	15	9
Participations in Group companies	3,468	3,468	3,468
Other financial non-current assets	3	3	3
Deferred tax assets	10	10	10
Total non-current assets	**3,488**	**3,496**	**3,490**
Receivables from Group companies[1)]	1,342	937	1,804
Interest-bearing receivables	-	13	-
Other current assets	61	80	13
Cash and bank balances	-	0	-
Total current assets	**1,403**	**1,030**	**1,817**
Total assets	**4,891**	**4,526**	**5,307**
Shareholders' equity and liabilities			
Restricted shareholders' equity	262	262	262
Unrestricted shareholders' equity	2,549	2,274	3,084
Total shareholders' equity	**2,811**	**2,536**	**3,346**
Untaxed reserves	5	6	5
Non-current interest-bearing liabilities	31	180	180
Noninterest-bearing non-current liabilities	7	7	7
Total non-current liabilities	**38**	**187**	**187**
Current interest-bearing liabilities	681	833	264
Liabilities to Group companies[2)]	1,323	932	1,417
Accounts payable — trade	6	5	8
Other current noninterest-bearing liabilities	27	27	80
Total current liabilities	**2,037**	**1,797**	**1,769**
Total shareholders' equity and liabilities	**4,891**	**4,526**	**5,307**
Contingent liabilities	**360**	**366**	**360**
Pledged assets	**-**	**-**	**-**
1) Of which, interest-bearing receivables	1,341	932	659
2) Of which, interest-bearing liabilities	1,321	810	1,402

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