

Axfood Annual Report 2006



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Report on operations

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Axfood is a Swedish company that is governed by Swedish law. All monetary amounts stated herein are in Swedish kronor. Millions of kronor are abbreviated as SEK m and billions as SEK bn. Figures in parentheses pertain to 2005, 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.



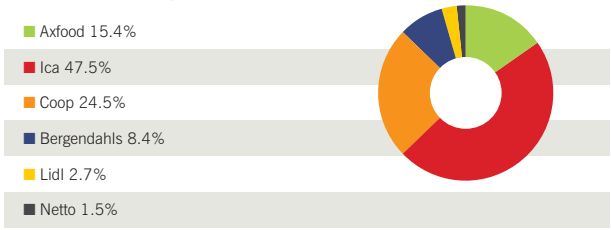
Axfood's business mission is to create, develop and operate successful grocery store chains – wholly owned or in franchise form. Axfood aspires to be the challenger in the Nordic retail food market through distinct and unique customer offerings.

Presenting Axfood

Axfood conducts food retail and wholesale trade in Sweden. The Group's retail operations are conducted through the Group-owned Willys and Hemköp stores, comprising 224 stores in all. 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. Wholesale business is conducted through Dagab and Axfood Närlivs. Axfood is quoted on the OMX Nordic Exchange, Large Cap list. Axel Johnson AB is the principal owner with approximately 45% of the shares.

Axfood has an approximate 15.4% market share in Sweden.

Market shares, largest competitors in Sweden 2006, %



Source: ICA Nyheter, Dec. 2006.




















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, logistics, IT, finance administration, human resources and leadership development.

The management teams of the individual chains are responsible for store operations, marketing, product assortment and pricing strategies.

Axfood's store managers and collaborating proprietors work in direct daily contact with their customers and are responsible for making sure that their stores are appealing, well-stocked, and for treating customers in a professional manner that reflects the profile of their respective stores.

Company	Sales, SEK m <small>Share of Group total</small>	Operating profit, SEK m <small>Share of Group total</small>	Average no. employees <small>Share of Group total</small>	Key data
 <p>Business concept: Hemköp develops Sweden's best food stores. Hemköp promotes the well-being of its customers by helping them find healthy foods.</p>	 <p>SEK 5,829 m 20%</p>	 <p>SEK 79 m 7%</p>	 <p>1,920 27%</p>	<p>Number of wholly owned stores: 76</p> <p>Number of franchise stores: 82</p> <p>Retail area, Group-owned stores: 116,500 sq.m.</p>
 <p>Business concept: Willys seeks to lead and develop the discount retail food segment by: offering "Sweden's cheapest bag of groceries" and giving its customers an inspiring shopping experience.</p>	 <p>SEK 15,115 m 52%</p>	 <p>SEK 558 m 46%</p>	 <p>3,150 45%</p>	<p>Number of stores: 148, of which are 43 Willys hemma stores</p> <p>Number of franchise stores: 3</p> <p>Retail area (Willys): 248,700 sq.m.</p> <p>Retail area (Willys hemma): 30,400 sq.m.</p>
 <p>Business concept: Dagab streamlines the flow of products and information between suppliers and retailers. Dagab is being integrated increasingly with Axfood's wholly owned store chains in the aim of enhancing efficiency and delivery reliability.</p>	 <p>External sales SEK 3,127 m 11%</p>	 <p>SEK 226 m 19%</p>	 <p>978 14%</p>	<p>Distribution centres: 3</p> <p>Cold-storage warehouses: 1</p> <p>Total sales: SEK 20,572 m</p>
 <p>Business concept: Axfood Närlivs cooperates with customers and suppliers through commitment, knowledge and simplicity. With the right product range and marketing concepts, Axfood Närlivs works together with its customers to create conditions for profitability and growth.</p>	 <p>SEK 4,570 m 16%</p>	 <p>SEK 108 m 9%</p>	 <p>611 9%</p>	<p>Distribution centres: 3</p> <p>Cash and carry outlets: 20</p>
 <p>Other</p> <p>Group total</p>	<p>SEK 167 m</p> <p>SEK 28,808 m</p>	<p>SEK 233 m</p> <p>SEK 1,204 m</p>	<p>348</p> <p>7,007</p>	<p>Total number of wholly owned stores: 224</p> <p>Total number of distribution centres: 6</p> <p>Total number of cash and carry outlets: 20</p> <p>Total retail area 395,600 sq.m. (Group-owned stores)</p>

Highlights 2006

- Consolidated sales totalled SEK 28,808 m (28,086).
- Sales for Group-owned stores rose 4.0% during the year. Like-for-like sales increased by 1.0%.
- Operating profit was SEK 1,204 m (1,040).
- Earnings per share were SEK 16.03 (13.37).
- Willys and Willys hemma were merged.
- The decision was made to concentrate Axfood's fruit and vegetable purchasing to a single supplier.
- The dispute between Axfood and the Vi retailers association was resolved through a settlement.
- The sale of Spar Finland was completed on 12 January 2006.



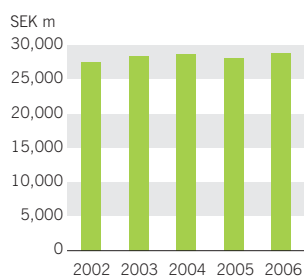
The year in figures ¹⁾

Amounts in SEK m unless indicated otherwise	2006	2005
Net sales	28,808	28,086
Operating profit	1,204	1,040
Operating margin, % ²⁾	3.9	3.7
Profit after financial items	1,183	1,026
Profit after tax	852	729
Earnings per share, SEK	16.03	13.37
Earnings per share after dilution, SEK	16.03	13.35
Average number of employees during the year	7,007	7,066

¹⁾ Spar Finland is reported as a discontinued operation on a separate line in the income statement for 2005, in accordance with IFRS 5. The figures above pertain to continuing operations.

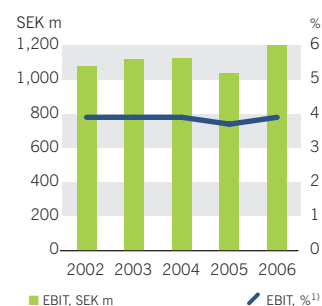
²⁾ Operating margin for 2006 excluding payment of SEK 89 m for the settlement with Vi.

Consolidated net sales ¹⁾



¹⁾ Figures adjusted for sales of Spar Finland.

Consolidated operating profit and operating margin ^{1, 2)}



¹⁾ Figures for 2004–2006 are reported according to IFRS. Goodwill amortization for 2002 and 2003 has been reversed.

²⁾ Operating margin for 2006 excluding payment of SEK 89 m for the settlement with Vi.

2006 the best year in the Group's history

In 2006 Axfood achieved its best result ever in the Group's history, when we posted an operating profit of SEK 1,204 m (1,040) on sales of SEK 28,808 m (28,086). Axfood has benefited from the high level of consumption in Sweden and

greater integration within the Group. Despite continued tough competition, Axfood defended its market shares at the same time that we kept a close eye on margins and earnings. Willys continues to be the engine behind Axfood.

During the year, the market was characterized by continued fierce competition, especially from newly established stores. In some areas and in certain regions, we are currently seeing saturation in the market. Today we can say that it is a customer's market. The offering is great, the variations are many, and customers are being offered more and more alternatives. On weekdays, many customers – especially families with children – want to be able to shop efficiently and at relatively low prices to meet their basic needs. On weekends, customers are more selective and are looking for food ideas that are conducive to socializing and to spending time with friends and family. Axfood is meeting all these needs through the Hemköp and Willys chains. We have also benefited from higher consumption in the restaurant segment via Axfood Närlivs and Snabbgross.

Today discount stores make up a clear segment for shoppers, with more or less distinct store formats that are run in chain form. I am happy to note that Willys, which now has a nationwide presence, is a shining star in the discount market and now has a presence from Trelleborg in the south to Luleå in the north. The challenge is to maintain and strengthen this position in order to further increase our market shares.

Nine new Willys stores were opened during the past year. In 2007 we will be focusing on organic growth throughout the chain. Our long-term growth targets remain unmoved, however.



Willys hemma was integrated with the rest of the Willys chain in 2006. Combining these chains was a logical move considering the synergies that exist in administration, pricing and product strategies.

Development at Hemköp is moving in the right direction, and in 2006 we saw the result of several changes in the product offering and stores. We will need both this year and next to reach profitability levels that are satisfactory.

Half of Hemköp's 158 stores are today owned by Axfood, while the other half are run as franchises. We work together with our franchisees in a daily process in which we exchange experiences and ideas.

Five new Hemköp stores are planned for 2007, of which two will be converted from Willys. For Hemköp as well, the primary focus in 2007 will be on organic growth.

Dagab has gradually been transformed into a logistics partner for Axfood's wholly owned chains and franchise stores. A further step in this integration involves the total implementation of a system for automatic re-stocking. This will help optimize the inventory structure, which in turn will lead to lower costs and create a more efficient supply chain. Another major step in Dagab's efficiency improvement work entailed the construction of a new high-rise warehouse in Gothenburg, which began operating in 2006. During the year, a decision was also made to build a new high-rise warehouse in Jordbro, outside Stockholm, and to invest in a new cold-storage warehouse in Borlänge.

Axfood Närlivs and Snabbgross have had outstanding development in recent years. Snabbgross has done very well with its expansion in the food service and restaurant segment, and this focus will continue. Axfood Närlivs supplies products and services to the Handlar'n and Tempo chains, as well as to service stations and other convenience stores. In all there are some 150 stores operating under the Tempo concept and about 230 Handlar'n stores.

In 2006 Axfood reached a settlement with the Vi retailers association, and we chose to go our own ways.

Our focus in 2007 will be on growing organically, through existing units. This means that we will be slowing the pace of new establishment by accelerating our work on further streamlining flows that favour organic growth.

Higher energy costs for transports, refrigeration/freezer systems and store operations are something we must manage in order to be able to continue growing with satisfactory profitability. We cannot achieve this only by cutting costs. We must also increase our sales volume and sell a little more to every customer who has chosen to shop at one of our stores.


Our consistent focus on our private label products makes both us and our customers winners. Our customers gain the option to choose a product that is cheaper than the leading brand, but with a comparable level of quality and taste. By 2008, private label products will account for 25% of our total sales.

2006 would not have been the strong year it was without committed employees – something that is characteristic of Axfood. From north to south, every committed employee makes the difference between a good result and a less-good result.

The store is our stage, and every day is a new show. Much of the challenge facing our leaders involves inspiring commitment and enthusiasm to step up on this stage and perform over and over again – and to win an ovation from the customers every time.

We expect the fierce level of competition to continue in 2007. For Axfood, our focus is on growing organically, with existing units.

Axfood expects operating profit for 2007 to be level with 2006, excluding the compensation from the settlement with Vi.



Anders Strålman
President and CEO
Axfood AB

Axfood's strategic platform

Axfood is the challenger in the Swedish and Nordic retail food market. Since its start in 2000, Axfood has held fast to its business mission to create, develop and operate successful grocery store chains – Group-owned or proprietor-operated. Through distinct and unique customer offerings, we provide quality, wholesome food to our customers at reasonable prices. Axfood's business mission can be summarized in the following seven points:

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

Strategies

Axfood's strategic initiatives are a natural part of the Group's daily business. The Group's strategic strengths are:

- Long-term financial strength
- A strong discount concept
- A viable platform in the revitalized Hemköp
- An integrated logistics partner
- Strong private labels
- A strong base of Group-owned stores

Without detracting from these key success factors, Axfood works according to three main strategies: profitable growth, optimal operation and cost efficiency.

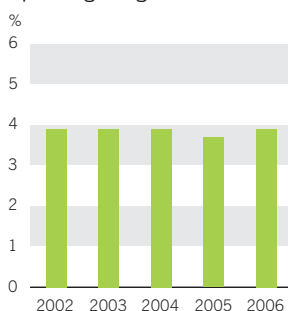
Focus 2007

In 2007 Axfood will be focusing primarily on the following areas and measures:

- Organic growth of Willys and Hemköp
- Continued refinement of the customer offering
- Continued build-up of IT structure

- Cost control
- Developing and fine-tuning the Group's private label strategy
- Continued development of the non-food product offering

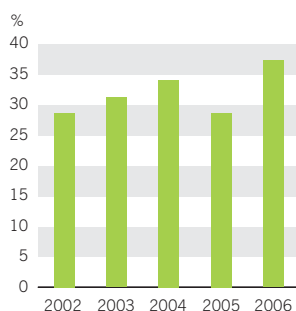
Consolidated operating margin ^{1, 2)}



¹⁾ Figures for 2004–2006 are reported according to IFRS. Goodwill amortization for 2002 and 2003 has been reversed.

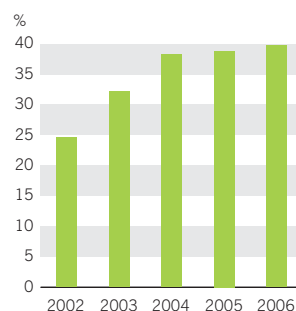
²⁾ Operating margin for 2006 excluding payment of SEK 89 m for the settlement with Vi.

Return on capital employed ³⁾

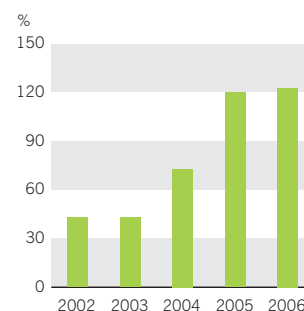


³⁾ Figures for 2005 and 2006 are reported according to IFRS. Figures for 2004 have been recalculated according to IFRS. In accordance with IFRS 5, Spar Finland is reported as a discontinued operation on a separate line in the income statement for 2005. Marked figures and key ratios pertain to continuing operations in 2004 and 2005. Other figures and key ratios pertain to the total operations (including Spar Finland), since according to IFRS 5, the balance sheet for the comparison year, 2004, is not to be recalculated.

Equity ratio ³⁾



Dividend as % of profit ³⁾



Operative goals

Profitable growth

For Axfood, profitability is paramount. Without profitability we can't build a future. Axfood's Group-owned stores shall strive for organic growth, while growth will also be pursued through acquisitions and store establishment in the Willys and Hemköp chains, and through stores tied to the Axfood Närlivs chains – Tempo and Handlar'n.

Axfood is also pursuing growth through new product segments, new private label products, and through expansion of its non-food product offering, which includes such products as kitchen accessories, toys and textiles.

Optimal operation

In order to re-stock store shelves and inventories as smoothly as possible, Axfood has adopted a new strategy for its supply chain and wholesale activities. Today Dagab is an integrated logistics partner that mainly serves the Group's stores. To further improve Dagab's efficiency, in 2007 an automated ordering system, called Autoorder, is being installed in stores throughout the Group to facilitate order-handling and re-stocking. Dagab is also changing its internal structures, and in an effort to better serve stores across the country, the warehouse in Borlänge is being expanded to incorporate a full-range cold storage facility.

By maintaining high delivery reliability, Dagab is helping to make sure that Axfood's customers are always greeted with well-stocked stores no matter where they do their shopping.

The Group's stores in the Willys, Hemköp and Axfood Närlivs operations will be further developed in 2007, among other things through an increased offering of perishables.

Axfood's range of private label products will be expanded and developed to the customers' benefit. Demand for Axfood's

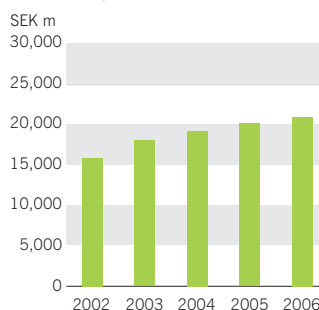
house brands is high, since they maintain a high standard of quality at low prices.

The Compass management tool is being used to optimize store operations to the customers' benefit. Compass was introduced in 2005 and further developed in 2006. In 2007, yet another step will be taken when Compass becomes a functional tool that management and store employees can use on a daily basis. Compass provides a handy indicator of goals in various areas which are easy to monitor and measure and which improve store performance.

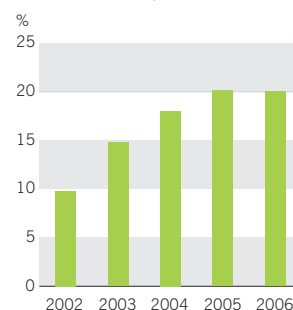
Cost efficiency

Through efficient operation and leadership training initiatives, the aim is to lower staff costs in relation to sales. Cost efficiency permeates the entire Group – from stores to staffs – and is the backbone of our low prices.

Group-owned retail stores in Sweden, Sales



Private label products, % of total sales, December



How often do you shop at Willys?

Frequently – once or twice a week. The quality is good. I buy Willys' own products and am making my way through the entire product line to see which ones I like the best. Price is important when I do my weekly "big" shopping.

Ann-Charlotte Wester

Creating value for Axfood's shareholders

The business model we use to create value for Axfood's shareholders is fundamentally simple. It is based on our core strategies, with three areas of focus: profitable growth, continued operational development and cost efficiency.

Revenues

Profitable growth has top priority at Axfood. To achieve this, we must offer customers the best value and shopping experience at our stores.

Since its formation in 2000, Axfood's wholly owned stores in Sweden have posted average annual growth of 13%. Since the overall market has grown by only a couple per cent per year, this means that Axfood has been gaining market share every year. Axfood's goal is to continue taking market share.


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

The discount segment in Sweden is expected to grow considerably faster than the total market, from about 13% today to approximately 20% in the years immediately ahead.

Axfood – through Willys – is the largest in this segment today with a market share of slightly more than 50%. The goal is to maintain our leading position in the growing discount segment, where the number of new players has increased.

Axfood's other major store chain, Hemköp, exists in a tough market. Although the traditional grocery store segment is expected to contract in relation to the overall market, it is still the largest segment. By addressing the rising environmental awareness of consumers and taking a more distinct focus on health, quality and wholesome food, Hemköp has found a viable position in metropolitan areas and other central city locations.

Private label products are an important revenue stream which strengthen Axfood's offering to its customers and give them access to high-quality products at attractive prices. Since 2000, when Axfood's private labels were launched, their share of total sales has grown from 4% to 20% today. This translates to SEK 150 m in improved operating profit each year for the Group. Axfood's goal is that private label products will account for 25% of total sales.



Customers
receive the best
value in our
stores.

Costs

Personnel, purchases of goods and premises account for 96% of the store chains' total overhead. Through centralized purchasing, costs can be cut significantly. Since Axfood's establishment, coordinated purchasing and category management have been cornerstones in its efficiency improvement work and have made a strong contribution to the Group's earnings improvements.

In close cooperation with its employees, Axfood has adopted an ongoing programme to raise productivity while not cutting back on customer service.

Distributing products across Sweden is a major challenge due to a sparse population in a very long country. By integrating our own logistics partner Dagab in the Group, we have been successively lowering our distribution costs at the same time that Axfood has gained opportunities to provide better service to its customers and stores.

Automatic re-stocking, increased automation and more efficient and environmentally friendly transports are other aspects in our work on keeping costs to a minimum.

As a part of this efficiency-improvement work, Dagab has changed its internal organization, expanded outwards and upwards in Backa, and in 2007 and 2008 it will be carrying out changes at its distribution centres in both Borlänge and Jordbro. The aim is to facilitate product handling at stores so that employees will not have to spend as many hours receiving and unpacking products, but can instead spend more of their time on customers and service.

Cash flow/debt

Axfood's strategy from the start has been to have as little capital tied up in operations as possible. At year-end 2000 the Group's interest-bearing net debt was SEK 2,206 m, compared with the close of 2006, when net debt was SEK 61 m. During this same period, the Company paid SEK 2,093 m in dividends to its shareholders and repurchased shares worth SEK 430 m. The equity ratio is now up to 39.8%, compared with 13.7% in 2000.

Axfood's board has proposed a dividend of SEK 20.00 per share to the 2007 Annual General Meeting, or SEK 1,049 m.

Axfood's cash flow improvements have been achieved primarily through sound and profitable business. Average capital employed has decreased from SEK 4,003 m to SEK 2,887 m today. The major capital rationalization measures have now been taken, and the ambition is to keep capital employed intact through various efficiency-improvement programmes while

pursuing expansion of the Group-owned retail operations. Through the combination of strong earnings and efficient use of capital, the return on shareholders' equity is now 32.5%.

Future cash flows will finance Axfood's investments 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 and amortization, which are expected to be somewhat lower.

Compass

The Compass management tool was introduced at all stores in the Axfood Group in 2005. Through Compass, Axfood employees have acquired a tool for conducting month-by-month comparisons of store performance as well as comparisons with other stores within their respective chains. Compass is based on four parameters:

Customers. This metric measures how satisfied customers are. Internal audits are performed to ensure that stores adhere to their adopted retail concepts. In addition, monthly checks are made of whether some of the most popular products are in stock or not.

Finance. This measures sales trends, gross margins, staff costs, profit performance and shrinkage.

Operations. This metric measures the stores' current private label share, hygiene, food safety and loyalty to the product offering.

Employees. This metric measures – among other things – employee work attendance and exercise habits, as well as the effectiveness of workplace organization and meeting structures.

Compass results are presented on a scale of green, yellow and red, where green means pass and red fail.

In 2006 Compass was also introduced at Dagab and Axfood Närlivs.

The ultimate goal of Compass is to create more profitable and better stores, which will lead to more satisfied customers and employees.



Axfood shares rose 27% in 2006

Axfood's shares have been listed on the Stockholm Stock Exchange since 1997 – today the OMX Nordic Exchange, Large Cap list. At year-end 2006 Axfood's share capital was SEK 272.9 m, divided among 54,583,828 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 rose by approximately 27% in 2006. The stock opened the year at a price of SEK 222.0, on 2 January. The share price turned downward early in 2006, but was followed by a strong rise during the autumn. On 29 December Axfood's shares closed at SEK 283.0, after hitting an all-time high of SEK 285.5 during the day. The lowest price paid during the year was SEK 185.0, on 4 April. The stock market as a whole (OMX Nordic All-Share index) gained 24% for the year. Axfood's market capitalization at year-end was SEK 15,447 m (12,101).

During the last five years Axfood's stock has performed very well compared with the market average. An investment of SEK 1,000 in Axfood shares at the start of 2002 would have been worth SEK 2,984 at year-end 2006, including reinvested dividends. 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 SEK 2,843 during the same period.

A total of 48.9 million (55.2) Axfood shares were traded in 2006, for a combined value of SEK 10,625 m (10,558). This corresponds to a turnover rate of 90% (102%), compared with average turnover of 132% (87%) for shares on the Nordic Exchange. Average daily trading volume was 194,656 shares (218,101), for a value of SEK 42.3 m (41.7). An average of 312 transactions (247) were made per trading day.

Dividend

Axfood's dividend policy is to pay out a minimum of 50% of profit after tax. For the 2006 financial year the Board proposes a dividend of SEK 20 per share, of which SEK 12 in ordinary dividend and SEK 8 as an extra dividend (SEK 15, of which SEK 9 in ordinary dividend), corresponding to a total of SEK 1,049 m (811) based on 52,467,678 shares in issue. The proposed dividend corresponds to 123.1% (119.1%) of profit after tax for 2006. Since 2002 Axfood has paid out an average of 83.2% of profit after tax in yearly dividends. Dividends are expected to be paid out via VPC on 16 March 2007.

Ownership structure

Axfood had 9,972 (9,714) shareholders at year-end 2006, at which time the ten largest owners held 57.0% of the shares (57.5%). Swedish individuals owned 56.2% (54.6%) of the shares at year-end 2006, while Swedish mutual funds and institutions owned slightly less than 16.3% (21.5%). Foreign ownership in Axfood was approximately 27% (24%).

Share repurchases

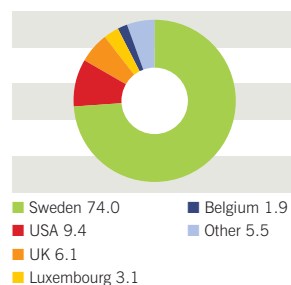
In March 2005, Axfood's Annual General Meeting (AGM) resolved to authorize the Board to repurchase up to 2,000,000 of the Company's own shares, on one or more occasions during the time up to the next AGM. In February 2006, Axfood's board decided to initiate share repurchases within the scope of the above mandate, continuing up until the 2006 AGM. A total of 476,400 shares were repurchased for a total of SEK 95 m.

At the 2006 AGM, it was resolved to authorize the Board to decide on repurchases of up to 4,000,000 of the Company's own shares – through purchases on the Stockholm Stock Exchange – on one or more occasions during the time up to the next AGM. The AGM also authorized the Board to, in connection with the financing of company acquisitions, transfer treasury shares on the stock exchange or in some other way. In March 2006, Axfood's board decided to initiate share repurchases under the new 4,000,000 share mandate, up until the 2007 AGM. At total of 1,639,750 shares were repurchased under this mandate for a total payment of SEK 335 m.

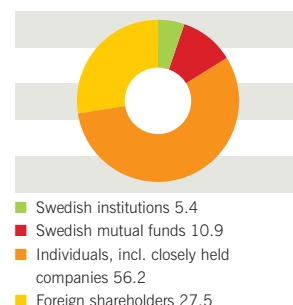
The repurchases were made in stages and are dependent on market terms and applicable rules at each specific point in time. The aim of both repurchase programmes was to adapt the Company's capital structure to its current operations.

As per 31 December 2006, Axfood had 2,116,150 treasury shares, against payment of SEK 430 m. No treasury shares were transferred during the year.

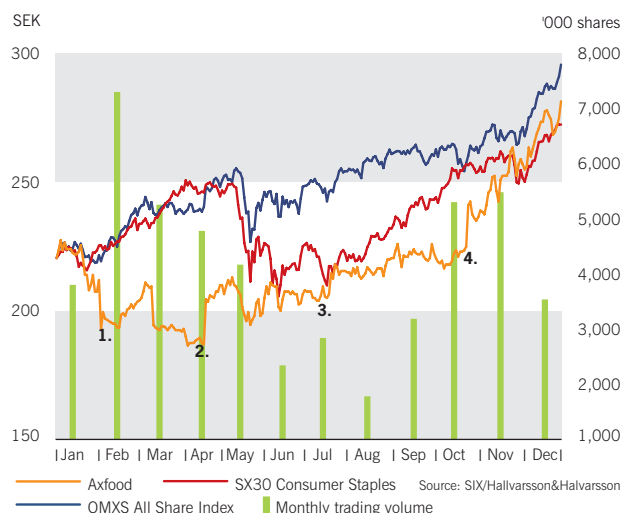
Geographic distribution of shareholders by the five largest countries, 31 December 2006, %



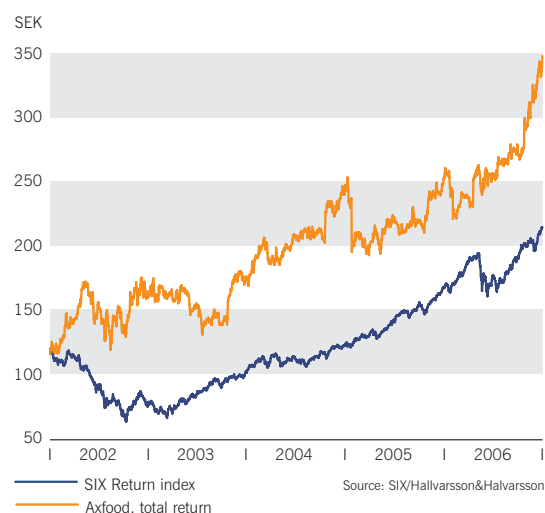
Shareholder categories, 31 December 2006, %



Axfood shares, price trend and trading volume 2006



Axfood shares, total return 2002–2006



Reporting dates 2006

1. Year-end report, 2 Feb. 2006
2. Q1 report, 19 April 2006
3. Q2 report, 19 July 2006
4. Q3 report, 24 Oct. 2006

Breakdown of shareholder by size of holding at 31 December 2006

Size class	No. share- holders, %	No. share- holders	Share of capital, %	Share of votes, %
1 – 500	82.3	8,202	2.5	2.5
501 – 1,000	7.8	775	1.2	1.3
1,001 – 2,000	3.6	358	1.1	1.1
2,001 – 5,000	2.4	242	1.5	1.6
5,001 – 10,000	1.3	126	1.7	1.8
10,001 – 20,000	0.9	89	2.4	2.5
20,001 – 50,000	0.8	80	4.7	4.9
50,001 – 100,000	0.3	30	4.1	4.3
100,001 –	0.6	70	80.8	80.0
	100.0	9,972	100.0	100.0

The 10 largest shareholders at 31 December 2006

Name	No. shares	Share of capital, %	Share of votes, %
Axel Johnson AB	24,290,066	44.5	46.3
SEB funds	1,445,749	2.7	2.8
SHB/SPP funds	1,170,712	2.2	2.2
Swedbank Robur funds	545,524	1.0	1.0
Enter funds	529,400	1.0	1.0
Nordea funds	511,819	0.9	1.0
Sax Göran (via family and companies)	460,013	0.8	0.9
SEB-Trygg Insurance	338,700	0.6	0.6
Skandia funds	333,913	0.6	0.6
Skandia Global Funds	319,100	0.6	0.6
Total, 10 largest owners	29,944,996	54.9	57.0
Other owners	22,522,682	41.2	43.0
Total	52,467,678		
Treasury shares	2,116,150	3.9	–
Total	54,583,828	100.0	100.0

Key data for Axfood shares

	2006 ¹⁾	2005 ¹⁾	2004 ¹⁾	2003	2002
Dividend, SEK	20.00²⁾	15.00	11.00	5.50	5.00
Dividend as % of net profit ³⁾	123.1	119.1	73.7	43.0	42.6
Number of shares outstanding at year-end ⁴⁾	52,467,678	54,531,378	53,577,828	53,497,028	53,229,028
Average number of shares outstanding	53,162,625	54,531,378	53,567,009	53,248,074	53,229,028
Share price at year-end, SEK	283	222	225	166.5	162
Highest/lowest price paid, SEK	285.5/185.0	236.5/168	229/160.5	174.5/120	180/115
Dividend yield, % ⁵⁾	7.1	6.8	4.9	3.3	3.1
Earnings per share before dilution, SEK ⁶⁾	16.03	13.37	14.67	12.85	11.75
Earnings per share after dilution, SEK ⁶⁾	16.03	13.35	14.42	12.62	11.51
Net asset value per share, SEK	46.12	51.81	49.35	39.76	31.81
Net asset value per share after dilution, SEK	46.12	51.76	48.44	38.97	31.09
P/E multiple before dilution ^{6, 7)}	17.7	16.6	15.3	13.0	13.8
P/E multiple after dilution ^{6, 7)}	17.7	16.6	15.6	13.2	14.1
Turnover rate, %	90	102	47	57	36
Number of shareholders	9,972	9,714	9,519	9,890	9,613

¹⁾ The key ratios for 2004–2006 have been recalculated according to IFRS.

²⁾ Proposed by the Board of Directors.

³⁾ Dividend as a percentage of net profit.

⁴⁾ Number of shares excluding the holding of 2,116,150 treasury shares.

⁵⁾ Dividend per share divided by the share price at year-end.

⁶⁾ Pertains to continuing operations in 2005 and 2004.

⁷⁾ Share price in relation to net profit per share before and after dilution.

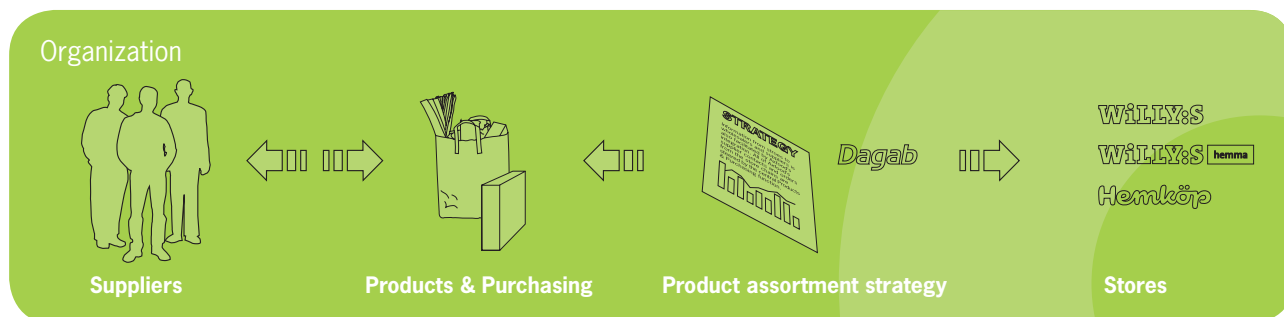
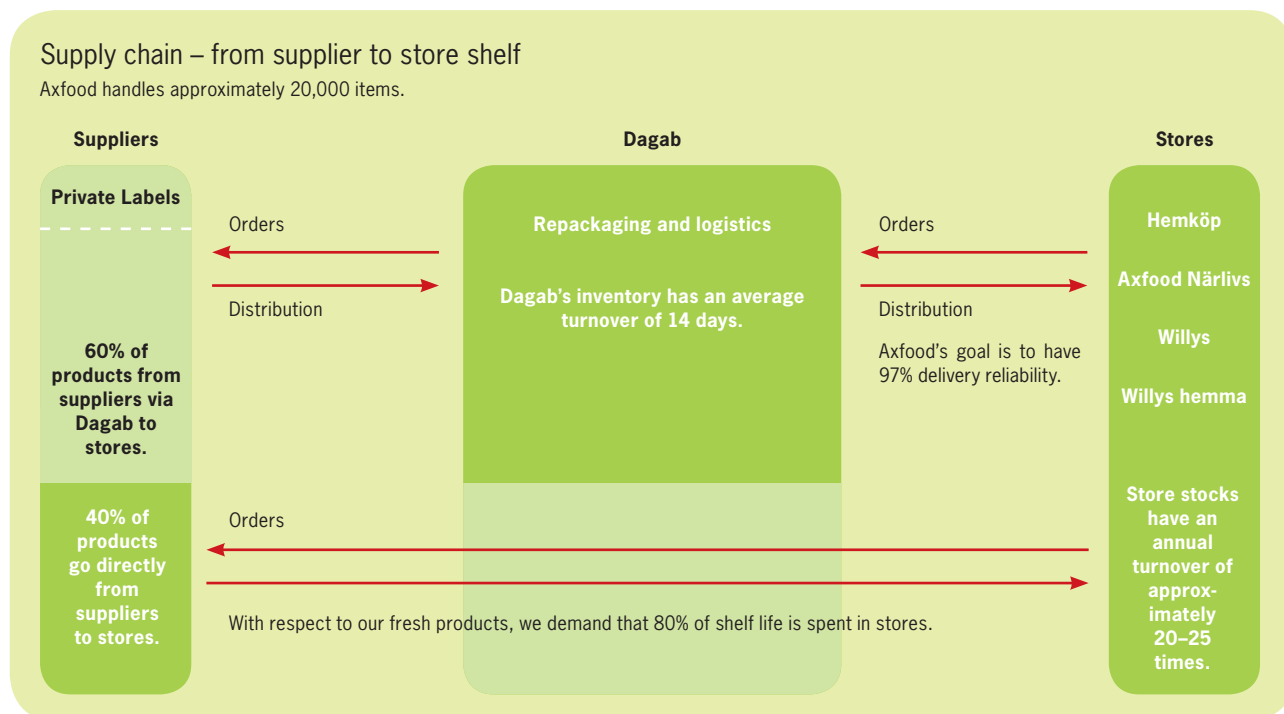
Efficiency at every level

Axfood has a department that has overall responsibility for all store purchasing. All of Axfood's supplier contracts are routed through this department. In consultation with the store chains, the purchasing department is also responsible for determining what the product offering will be in the various stores.

In the same way, Axfood has a central logistics partner in Dagab, which manages and takes responsibility for deliveries to the Axfood Group's stores. Having a single purchasing department and a single logistics company ensures an efficient flow of products from suppliers to store shelves. Moreover, Axfood's purchasing and logistics model provides opportunities for greater efficiency gains, such as through faster inventory turnover, faster product ordering, simpler ordering routines and more efficient transports.

For Axfood, the work of a centralized purchasing and product unit and a centralized logistics handler means that we can focus on extracting cost- and quality advantages from every link in the supply chain. This also gives Axfood strength and credibility in its relations with suppliers, who know that all our stores are bound to our joint purchasing routines and joint product assortment.

Axfood's store chains all have their own product assortment strategies. Hemköp and Willys also have their own private labels. Over the years, Axfood has invested heavily in IT in the aim of creating a well-working infrastructure, which is generating significant efficiency gains.



Good products at attractive prices

When customers buy groceries, they are usually looking for brand-name products. To avoid being totally dependent on suppliers and to be able to some extent to steer our product assortment, over the years at Axfood we have built up a line of our own private label products.

The majority of shoppers in the Swedish retail food market today have a positive view of private label products. According to a study conducted by the Swedish Research Institute of Trade (HUI) in autumn 2006, 62% of respondents said that store chains' own products gave them better freedom of choice. Most older respondents said that they trusted the stores' private label products more than the brand-name suppliers' products. This can partly explain the very high growth in Axfood's private label sales, which have risen from 4% to 20% of total sales.

For Axfood, it is not a matter of opposition, but of complementing its product offering. Private label products are needed to help customers find quality products with good value.

Today Axfood is leading the trend in private label product development in Sweden, and private label products account for more than 20% of the Group's total sales. The goal is to continue growing this share.

Brand strategy

Axfood's private label strategy is simple. In order for products to bear the Willys or Hemköp name, they must have a comparable level of quality to the market-leading product in their respective categories, at a price that is roughly 10%–15% lower.

Axfood also has other private labels than the Willys and Hemköp house brands. Two of these that are used throughout the Group are Func, featuring a line of batteries, lightbulbs, and similar, and Fixa, a line of kitchen supplies. Another Group-wide private label is Eldorado, which is a so-called fighting brand that features prices that are 20%–30% lower than other brand-name products. Eldorado products generally have a simpler standard of quality than the market leaders.

To date, Axfood's private label products have had their greatest success in the discount segment, where they account for 24%–27% of Willys' and Willys hemma's total sales. For Hemköp, private label products account for 13% of total sales.

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, in both 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 2006 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 always 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 Willy's and Hemköp's 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 and have the same percentages of raw material.



Strong growth in health trend

The strong focus on price in recent years continues to prevail among Swedish consumers. Price-consciousness remains high for basic food supplies and non-priority consumption. At the same time, people want the opportunity to treat themselves to premium and specialty products – a form of consumption that they often finance through discount shopping for their ordinary needs. Other strong trends include convenience and food safety awareness – but above all, it is the health trend that is most salient.

Luxury and low prices

Consumers today can be grouped into three categories. The first consists of *bargain hunters*. These are shoppers who are looking for low prices in all situations. The second category consists of *quality-conscious shoppers*, for whom price is usually not a decisive factor. The third category can be called *smart shoppers*. These are people who search for bargains in their everyday shopping and basic consumption, and who in return want to be able to spend more on priority products, luxury goods and specialty items. More than half of the Swedish population belongs to this category. As a result, price pressure is prevailing in the retail food market and is contributing to market homogenization, both in terms of product assortment and price levels.

However, the emphasis on low prices does not mean that most consumers are prepared to accept poorer quality. Extremely low-price products are actually a limited segment in which consumer interest is beginning to wane. What's most positive from a consumer viewpoint are

Customers are either bargain hunters or smart shoppers.

competitive prices for well-known brands and private label products in the category-leading segment – that is, the price levels offered by private labels. Shoppers also feel it is important to be able to find everything they need at a single store.

Health and well-being

The health trend has made an impact across a broad front in recent years, and it's not only about food and not only in Sweden. The phenomenon is global and reflects a shift in focus among modern consumers.

A number of factors indicate that this trend will be lasting and intensify. In many respects it involves an increase in knowledge which is prompting people to change their lifestyle and eating habits. This trend is being fuelled by the attention that has been focused in recent years to growing health problems such as obesity, allergies and childhood diabetes. In the media, too, we see a steady stream of alarm reports on sugar, risks for cancer, and declining nutritional values in fruits and vegetables. Young people today are highly health-conscious, even though they do not always put their knowledge into action.

For the retail food industry, it is imperative to embrace this health trend and meet the changed pattern in demand. This pertains to product selection in stores as well as to the development of new products with less sugar and fat, and more wholesome ready-made meals.

Convenience

Sales of ready-made meals continue to rise. This is very likely because consumers are short on time. However, this does not necessarily mean that they want to save time preparing food, but rather that they can't be bothered to think so much about what to have for dinner. The health trend is also prevalent in the fast-food sector, where food has to be convenient, but also healthy.

Locally-produced and natural products on the rise

An elevated sense of insecurity is a common feature in modern society. In a global world where disasters, external threats and climate issues are brought closer to home, people have a need to search for things that feel genuine, authentic and thus safe. There are signs that this





Do you shop frequently at Willys?

Yes, we do! They have a good selection of products from the Balkans. Our kids appreciate it that we can find the same food that Grandma serves. We can also find a good selection of foreign spices at Willys, which we recommend to our friends. We also test Willys' own products – today it will be exciting to try their whole coffee beans in our new coffee grinder. The prices are amazing here!

The Grabus family

trend is on the rise, as seen in growing demand for products that are produced and/or handled in an ethically proper manner, and for products that are natural, simple and environmentally friendly. People are also increasingly looking for good old-fashioned products that are produced locally, as well as products that appeal to their cultural diversity.

Trends affecting the retail food trade



Axfood's position

Through its differentiated store concepts as well as within its own chains, Axfood has long positioned itself to meet new consumption patterns and trends in demand.

Customers at Willys will find a wide selection of brand-name products as well as Willys' own private label alternatives.

Willys' value proposition lies in guaranteed low prices and in providing "Sweden's cheapest bag of groceries". At the same time, Willys has a broad product offering with a high degree of fresh products, where shoppers can find 95% of their daily grocery needs at a single location.

Willys hemma is a discount alternative for people in small households, many of whom don't have a car. Willys hemma also features a large selection of fresh products and a breadth of products that exceeds its competing peers in the market.

Hemköp stands for an even broader product offering and greater freedom of choice – still at competitive prices. Shoppers who visit Hemköp are looking for a high level of personal service, delicacy items and culinary delight. Hemköp is also the chain that is most clearly addressing the growing health interest, in terms of its product selection as well as in store displays and staff training.

Global product line

Axfood is a leader in Sweden in selling products targeted primarily at consumers with an immigrant background. These are jointly grouped under the global product line category. The goal of our global product line is to meet existing demand and to entice other customers to try something new.

The global product line includes some 150 basic grocery items with known brands originating from the Middle East and the Balkans. During certain seasons, such as Ramadan, for example, the product line is complemented with products that are in demand for the holiday celebration. In 2006, sales during the first three weeks of Ramadan rose 44% compared with 2005. The product line includes raw materials that people need to prepare meals themselves as well as finished products such as hummus and dolmades.

Volume retailers a clear winner

A steady shift is taking place between various segments in the Swedish retail food market. Shoppers want to be able to satisfy most of their needs in a single stop. Grocery stores today sell everything from make-up to screws, while cosmetic stores sell gloves and the corner convenience store sells books. In the face of this, growth in food consumption has been strong, with the retail food market posting record sales in 2006.

In pace with this segment shift, price competition has intensified.

Volume retailers are a clear winner in this trend, i.e., hypermarkets and large-format stores, which are steadily increasing their share of the market. Discount stores like Willys and hard discount stores are also gaining ground. The segment that is feeling the biggest pinch in the current market shift consists of traditional grocery stores. But the picture is not entirely clear-cut. The traditional segment still accounts for about half of the retail food market in Sweden, and among the larger stores in the segment, today we can see a very vibrant and growing group of grocers. Generally speaking, it is small stores that are losing ground. But even here we can find examples of survivors, including some that have been converted to convenience stores.

Parallel with this development, a number of other trends are crystallizing in the retail food trade. Most concern retailers' efforts to meet new consumption behaviours and demand patterns.

Large selection

Today's shoppers want to be able to satisfy their needs at one location. Moreover, consumers want a large selection to choose from and low prices. Hypermarkets are already meeting this need. What's new with this concept, however, is the nascent development of smaller units – "compact hypermarkets" – with 3,000–5,000 sq.m. of retail area. Willys has a large number of stores than can be converted to the compact hypermarket format.

Sector convergence

Competition in the retail food industry is not only internal. The restaurant industry is also a significant competitor that accounts for a large share of food consumption.

To meet competition from restaurants, food retailers are building up their offering of prepared and ready-made meals as well as various types of services. The build-up of non-food prod-

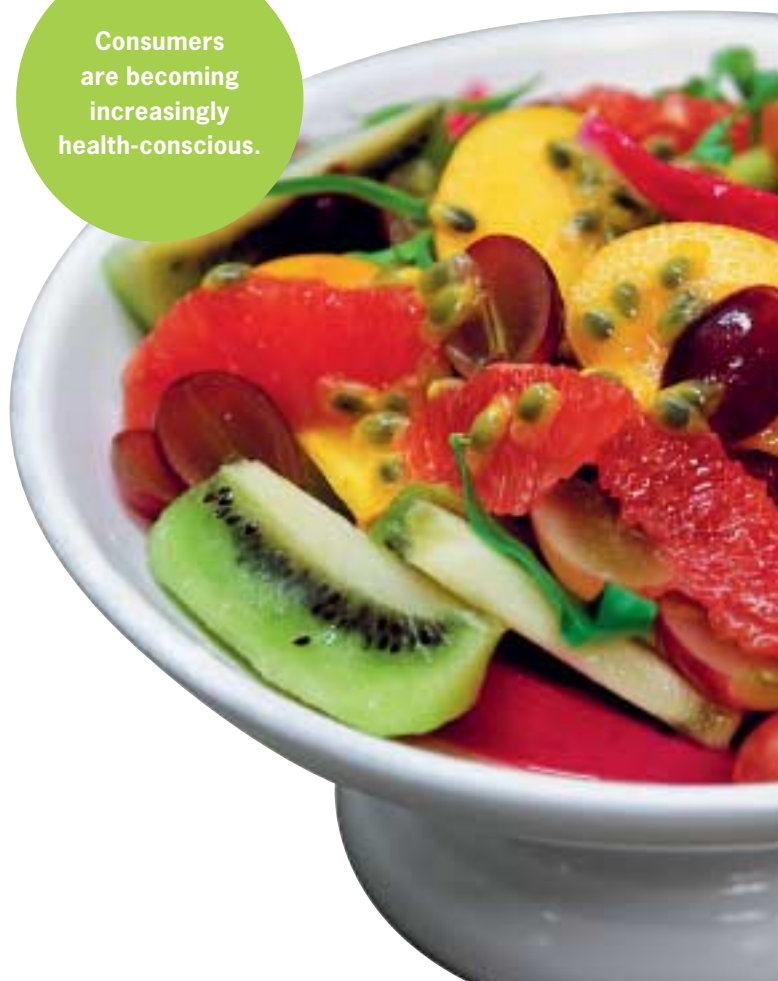
ucts, such as clothes, shoes and electronics, is another feature of sector convergence.

This trend is being intensified by the fact that retailers have advanced their positions and, with the customers' interests in mind, they taken greater responsibility for category management.

Private labels

Private label products make up a growing share of store chains' total product offer. Previously, private label products were grouped under two main categories – a segment with roughly the same quality as the category leader for each product, i.e., a mid-range segment but with lower prices, and a discount segment with simpler quality and prices that are substantially lower than the mid-range category. What is now happening is that interest is rising in the market for private label products in the premium segment. These may be luxury alternatives to name-brand products, but also products with such attributes as natural and locally-produced. This trend has already had a breakthrough in several European countries and is now gaining a foothold in Sweden.

Consumers
are becoming
increasingly
health-conscious.



More distinct segmentation new for Sweden

	Hard Discount Netto Lidl	Discount Willys City Gross Willys hemma	Hypermarkets Ica Maxi Coop Forum	Traditional grocers Hemköp Vi-stores Coop Konsum Coop Extra Ica Supermarket Ica Kvantum	Service stations/ mini-markets Tempo Handlar'n Ica Nära 7-Eleven Direkten Service stations Ica Express Coop Nära Other
Market share/trend ¹⁾	4% →	13% ↗	16% ↗	49% ↓	18% ↗
Price index ²⁾	— ⁴⁾	88–93	91–102	92–114	104–130
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 2006.

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. Although traditional grocery stores still account for nearly half of sales in the industry, growth is taking place in the hypermarket and discount segments.

¹⁾ **Market share/trend** Based on a total market in 2006 of approx. SEK 210 bn, incl. VAT. Trend pertains to total development for the profiles in the segment.

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

³⁾ **Level of service 1–10** This concept includes indirect service such as parking availability, customer information initiatives, business hours and direct customer service, including high staff-to-customer ratio, staffed counters, advice and food/product knowledge.

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

Axfood's strategies

Axfood's strategies are aimed at generating continued growth, such as by embracing new trends that are emerging in the industry.

Willys stands for simplicity and low prices, along with a broad offering of name-brand products and perishables. Through Willys and Willys hemma, Axfood has a distinct discount position that is well known among consumers.

Hemköp is firmly rooted in the traditional grocery store segment, where a shift is taking place toward the growing hypermarket segment.

In addition, it is becoming increasingly clear that efficiency throughout the entire chain will be essential to maintain or improve current margins. Integration within the Axfood Group, coupled with Axfood's financial strength, has created a sound base for continued growth with sustained profitability.



Passion for food

Hemköp is the store that makes it easy to buy healthy, wholesome food. With central locations in city centres and residential areas, Hemköp offers exciting food stores with a focus on fresh products, fruits and vegetables. The stores feature a rich product selection, a high level of personal service and competitive prices. Hemköp is the store where you will find your basic groceries as well as those extra items for more festive occasions. Hemköp inspires passion for food in Sweden.

Important events during the year

Hemköp's total store sales, including proprietor-run stores, rose 0.2% to SEK 9,141 m (9,119). Operating profit was SEK 79 m (30), which is more than a doubling compared with a year earlier. The operating margin was 1.4% (0.5%). During the year, four stores were converted to proprietor-run units, one store was converted to Willys, and six stores were closed. The Hemköp chain today comprises 76 wholly owned stores and 82 proprietor-run stores. In all, the Hemköp chain has 158 stores.

2006 was characterized by a sweeping change process that is still in progress. Per Uebel took office in March as the company's new president, and a new management team was installed with a focus on redirecting and strengthening day-to-day operations. Much of this work has involved ensuring proper routines are in place, and the resulting good order in the chain's stores can already be seen in its impact on earnings.

In spring 2006 a long-term health initiative was launched, which made use of TV advertising and stepped-up marketing activities. Hemköp's employees received training in diet and nutrition. With the help of handy store displays, employees help customers with tips and advice on how to buy healthy products. The "Hemköp Healthy" product line, with low sugar and fat content, was launched, and all stores now have at least one sweets-free checkout aisle. Customer reactions have been very positive. During the early stages of the health initiative, sales of "green keyhole"-labelled foods rose 20% compared with the same period a year earlier.

During the autumn, Hemköp drafted strategies and action plans for explaining its health concept to consumers. All stores,



The "Hemköp Healthy" symbol for low-sugar and low-fat products.

regardless of ownership form, will be working toward the same goals and vision.

The Hemköp chain's private label share (including franchise stores) was 13% in December 2006.

Challenges and opportunities

Hemköp has had a few difficult years involving extensive structural changes and cost-cutting. Throughout this, the chain has maintained a loyal customer base. However, sales have not risen as much as desired, and this is where the major challenge lies. Hemköp is striving to profile its position more clearly and to stay the course. Having a rich offering of fresh products, bread, fruits and vegetables is a base-line for doing business. For Hemköp it is a matter of being the best at in-store presentation and living up to its motto of "passion for food in Sweden."

In 2007 the product selection will be further developed and changed as part of Hemköp's work on refining its customer offering. Stores will become more sales-oriented in an effort to enhance customers' shopping experience. Hemköp's customer card programme will be expanded and improved.

Goals and strategies

Sales and the operating margin will be improved through strengthened and improved operations, development of the product selection and a clearer customer offering.

Growth will be achieved through continued selective acquisitions and establishment in large cities. At least five new store establishments are planned for 2007.

Hemköp's long-term health initiative has made a favourable impact, and marketing activities for this product line will continue in 2007.



Hemköp at a glance

Business concept

Hemköp develops Sweden's best food stores. We promote the well-being of our customers by helping them find healthy foods.

Customer structure

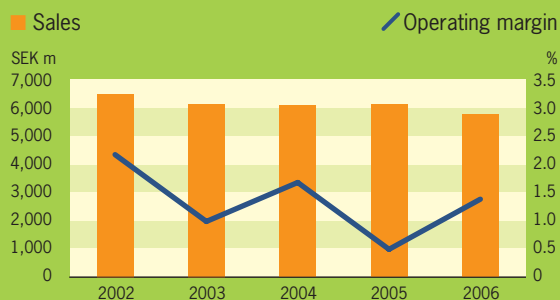
Due to the location of Hemköp's stores, in cities and residential areas, the chain's customers shop more frequently and for lower average amounts. Hemköp's customers are looking for food inspiration and competitive prices all at the same time. They are attracted to Hemköp's broad product range, with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

The future

The focus in the years ahead will be on Hemköp's operations and on growing sales. Hemköp will be refining its product selection and continuing its work on improving the shopping experience for its customers.

Key ratios

Amounts in SEK m unless otherwise indicated	2006	2005
Store sales incl. proprietor-run stores	9,141	9,119
Net sales	5,829	6,198
Like-for-like sales growth, (%)	-0.2	-4.5
Operating profit	79	30
Operating margin, (%)	1.4	0.5
Number of Group-owned stores	76	87
Average number of employees during the year	1,920	2,070



Figures for 2004–2006 reported according to IFRS. Goodwill amortization for 2002 and 2003 has been reversed.

WILLYS **WILLYS** hemma

Willys across Sweden

Willys is Sweden's leading discount chain, with 108 modern grocery stores from Trelleborg in the south to Luleå in the north. Willys hemma is a chain of neighbourhood grocery stores that offer everyday low prices and a large selection of fresh products from 43 stores across Sweden. These two store concepts were merged on 1 September 2006.

Willys is the food store for price-conscious shoppers. Its business concept is to offer "Sweden's cheapest bag of groceries". The Willys concept is also based on a wide selection of products, comprising approximately 8,000 items in all.

Willys hemma is the food store for price-conscious shoppers who prefer to do their daily grocery shopping close to home. The product offering includes approximately 3,500 items.

While most Willys stores are located in shopping centres outside of city centres, most Willys hemma stores are located in urban settings. What both chains share in common is their low prices and their large offering of fresh products. More than five million customers visit either of the Willys store formats in a given week.

Important events during the year

Despite fierce competition, Willys consolidated its strong market position in 2006. Sales rose 8.5%, to SEK 15,115 m (13,926). Like-for-like sales growth was 1.6% for Willys, while like-for-like sales for Willys hemma decreased by 3.1%.

Lotta Rosén and daughter Fredrika belong to Willys' priority customer group.



Operating profit was SEK 558 m (506), and the operating margin was 3.7% (3.6%). Sales of private label products accounted for 24% of Willys' total sales.

During the year, nine new Willys stores were opened, of which four replaced existing Willys stores in the same location. One store was taken over from Hemköp and one was closed. At year-end Willys had 108 stores, including 21 "Super-Willys" stores with an extended product offering. Three stores are proprietor-run.

During the second quarter of 2006, Axfood's board decided to merge Willys and Willys hemma into a joint organization. Anticipated effects of the merger include cost-savings, greater integration with Axfood and a sharper focus on operational matters. The Willys hemma brand has been retained. The new organization took effect in October 2006, and the effects are expected to be fully noticeable in 2007. Starting on 1 January 2007, Willys and Willys hemma have been transferred to a joint company called Willys AB. The results for both store concepts have been jointly reported in Willys since the third quarter of 2006.

During 2006, all of the stores were fitted with new, modern checkout systems that are more accurate, more efficient and reduce the risks for operational disruptions.

Challenges and opportunities

To date, Willys has established 108 stores nationwide in Sweden. Now Willys is moving into a new phase of development and is thereby facing new challenges which primarily revolve around generating even more profitable growth through increased sales in existing stores. Another priority area involves raising the minimum level for stores that are the least profitable.

In 2007 Willys will be testing the Group's Autoorder system for automatic product ordering, which is expected to lead to a more efficient supply chain, faster re-stocking and thus higher sales. Autoorder will be gradually implemented in all stores.

Willys intends to continue developing its non-food product line. Also, the global product line, which has been particularly successful for Willys, has great potential for further development and sales increases.

Goals and strategies

In 2007 Willys will be focusing on refining and developing its retail concept. This work will revolve around strengthening and promoting Willys' low-price image while allowing the chain to chart its own course in a continued tough market.

An organic growth strategy entails increasing sales by taking advantage of and refining what Willys has built up to date.

Store operations continue to be in focus, where the goal is to achieve more consistent operating quality throughout all stores. Several stores will be remodelled in an effort to rise average purchase amounts and store standards.

To achieve the anticipated effects of the merger between Willys and Willys hemma, integration will continue to be a priority matter in 2007.

Willys hemma

Willys hemma is a mini version of Willys. With everyday low prices and an attractive basic product selection, Willys hemma aims to be the natural choice for priceconscious shoppers who want to do their everyday grocery shopping close to home. Willys hemma's stores are located primarily in central city locations and residential areas in Sweden's major cities, with a few stores also operating in small towns. At year-end 2006 Willys hemma had 43 stores. Private label products account for 27% of Willys hemma's total sales, which is the highest within the Axfood Group.

Key issues for Willys hemma in 2006 concerned increasing sales and profitability, reducing shrinkage and establishing stores in central city locations, primarily in Stockholm. A new store was opened during the year at Medborgarplatsen in Stockholm. During the year, Willys hemma refined and modernized its store concept, and expanded its product offering with a continued focus on fresh products.

The merger with Willys will give Willys hemma access to a larger operational organization, with opportunities for higher and more consistent operating quality. In addition, the product offering, strategic pricing and marketing will be reviewed in the aim of fine-tuning and further developing the value proposition.

In 2007, priority will be given to continued focus on central city locations, further development of the fresh-product offering, and new customer offerings in an appealing and modern discount concept close to home.



Willys at a glance

Business concept

Willys seeks to lead and develop the discount retail food segment by always offering customers the lowest prices – “Sweden's cheapest bag of groceries” – and giving customers an inspiring shopping experience.

Customer structure

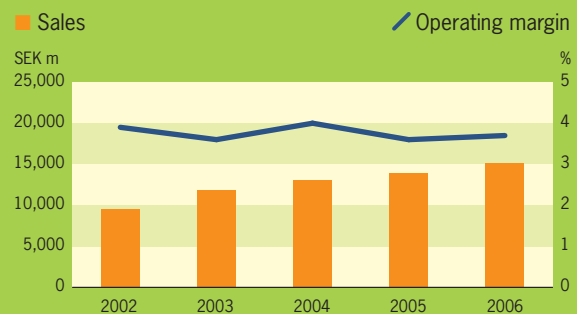
Willys is the food store for price-conscious shoppers. With its wide selection of some 8,000 items and rich offering of fresh products, Willys meets 95% of customers' grocery needs with the lowest composite prices in Sweden. Families with children are the top-priority customer category for Willys.

The future

Willys will continue to grow, primarily through profitable growth resulting from higher sales in existing units. Growth will be secured through an even stronger focus on sales, operations, customer service and refinement of the concept.

Key ratios

Amounts in SEK m unless otherwise indicated	2006	2005
Net sales	15,115	13,926
Like-for-like sales growth (%)		
– Willys	1.6	-0.6
– Willys hemma	-3.1	-9.8
Operating profit	558	506
Operating margin (%)	3.7	3.6
Number of Group-owned stores	148	148
Average number of employees during the year	3,150	3,000



Figures for 2004–2006 reported according to IFRS. Goodwill amortization for 2002 and 2003 has been reversed.



Taking product flows to new heights

Dagab is Axfood's logistics company and supplies retail food products to Axfood's own and collaborating stores. Operations are conducted from two main distribution centres in Gothenburg and Stockholm, and from two satellite warehouses in Borlänge and Jönköping. From these, Dagab orchestrates deliveries to some 400 stores around the country.

Axfood's various wholesaling operations are currently in an intensive development phase in which positive results are already starting to show. Work is in progress on more clearly defining the offering and on streamlining product flows. Dagab is moving from being a traditional product supplier to a comprehensive logistics partner.

Important events during the year

Sales increased during the year to SEK 20,572 m (19,487). Operating profit was SEK 226 m (272), and the operating margin was 1.1% (1.4%).

To be able to effectively use Dagab's resources and serve Axfood's stores in an optimal manner, the old geographical/regional breakdown has been reassessed. To be able to make decisions based on the total picture, operations have instead been broken down by function in the Transport and Logistics areas. Operations have been made more flexible through cooperation across the previous regional borders.

Work continued during the year on developing a platform for automatic re-stocking of products in stores – called Autoorder – and in 2007 the project will be tested in 6–8 pilot stores. Autoorder is expected to generate more efficient product flows and a faster replenishment rate in stores. The idea is to avoid situations in which customers learn that the product they are looking for is out of stock. Today products are ordered manually by store staff. With Autoorder, product stocking at stores will be less vulnerable and quality will be more consistent from store to store. The system will be successively implemented in all Axfood stores. For Dagab's part, Autoorder will result in a smoother flow. Some stores will see more frequent deliveries, and customer benefit will increase considerably.

A new high-rise warehouse for palletted products was inaugurated in Backa in summer 2006. This expansion was Dagab's largest

investment in many years. Further review will be made of Dagab's structure in 2007, and a similar high-rise warehouse will be built in Jordbro, outside Stockholm.

Dagab's freezer capacity in Jordbro has been expanded by slightly more than 50%. This new freezer aggregate uses calcium chloride as the freezing agent, thereby substantially reducing the use of ammonia.

Håkan Åkerström took office as President in March 2006, and the management team was strengthened with the addition of several new key persons.

Challenges and opportunities

By tradition, Dagab's performance has been gauged according to operating profit. But since Dagab is now fully integrated in the Axfood Group and delivers products only to Axfood's own



Dagab's modern high-rise warehouse in Backa has storage capacity for more than 10,000 pallets.

and collaborating stores, the focus must be shifted away from operating profit to key ratios that instead measure efficiency, productivity, customer benefit and delivery reliability. Internally, the key is to work smarter and more efficiently – to constantly raise the bar in all work performance.

Another challenge for Dagab is to increase its delivery reliability, which is a measure of how well Dagab can fill the stores' orders or needs. The goal is to maintain delivery reliability at 97%, compared with the 2006 outcome of 96%. Apart from developing internal rules and routines for flow planning within Dagab, achieving this target requires efforts to influence suppliers and get them to improve their processes to a corresponding degree.

During the year, Axfood entered into a cooperation agreement with Saba. As a result, total control has been gained over Axfood's purchasing of fruits and vegetables, and all transports will be steered by Dagab. This deal will give Dagab yet another flow to incorporate into its distribution.

Opportunities in the future can be found in flows to and from stores that Dagab is currently not involved in. Examples include transports of returnable bottles and packaging. The goal is that Dagab's trucks will be fully loaded both to and from stores. This will allow Dagab to optimally utilize its existing resources and structures, which will also benefit the environment.

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

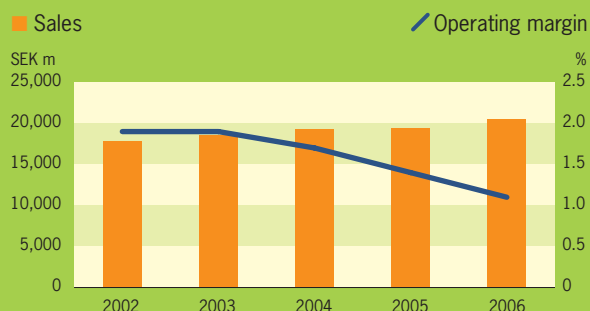
Dagab's customer structure consists of Axfood's various retail chains, franchise stores and independent retailers working in collaboration with Dagab, such as in the Tempo and Handlar'n chains.

The future

Dagab's goal is to maintain 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 in the Group's operations.

Key ratios

Amounts in SEK m unless otherwise indicated	2006	2005
Net sales	20,572	19,487
Distributed sales	13,428	13,274
Operating profit	226	272
Operating margin, %	1.1	1.4
Average number of employees during the year	978	1,019



Figures for 2004–2006 reported according to IFRS. Goodwill amortization for 2002 and 2003 has been reversed.

Axfood Närlivs

Open wholesaling

Axfood Närlivs is a market-leading wholesaler to the Swedish convenience store/mini-market segment. With Axfood Närlivs, customers can choose between taking delivery from Axfood Närlivs or picking up products themselves from the cash and carry subsidiary Axfood Snabbgross. Axfood Närlivs' customers include small, independent grocers, such as Tempo and Handlar'n, service station chains such as Shell and OKQ8, convenience stores such as Pressbyrå and 7-Eleven, and small businesses and restaurants.



Important events during the year

Sales amounted to SEK 4,570 m (4,680). Operating profit was SEK 108 m (103), and the operating margin was 2.4% (2.2%).

During the year, Axfood Snabbgross continued its work on restructuring its cash and carry outlets into a concept-steered chain. Sales were strong, and the focus on restaurants and the food-service sectors has proved to be on target. The decision was made to expand the warehouse in Örebro, which has contributed to a more efficient product flow for Axfood Snabbgross.

An IT process has been started at Axfood Snabbgross in the aim of integrating the company with the rest of Axfood. The project involves replacing all cash registers and back-office systems at the cash and carry outlets. This will enable joint product assortment monitoring and more accurate monitoring of sales, shrinkage and profitability.

Three cash and carry outlets were closed during the year, and following this Axfood has 20 cash and carry outlets.

Several supply agreements with chain customers were extended during the year, which has contributed to stability of the operation and a focus on long-term development of the customer offering. At the start of 2007, marketing activities directed at all of Axfood's independent customers will be transferred to Axfood Närlivs, which will thereby become Axfood's open wholesaling alternative.

Greater sales to non-chain affiliated customers signified a breakthrough and was the result of a targeted sales effort.

Axfood Närlivs has entered into an agreement with Shell Sverige AB to form a partnership in the fast-food product category. During the year, an entirely new concept was developed with an emphasis on fresh salads, sandwiches, fresh bread and healthy fast food alternatives. The concept will be rolled out at all Shell stations in Sweden in 2007 and 2008.

Challenges and opportunities

Axfood Snabbgross is adhering to its challenging strategy, and the work on creating an integrated chain focusing on growth and on being Sweden's leading self-service wholesaler will continue in 2007.

Consumer behaviours are decisive for Axfood Närlivs' business. People demand simplicity – they want to be able to do complementary

shopping quickly and conveniently at a nearby convenience store. The large number of single-person households in Sweden – especially in the major cities – demand accessibility and simplicity. A large share of households' total grocery purchasing volume consists of complementary shopping, which is done somewhere else than the ordinary store that people shop at. Convenience stores and mini-markets play an important role in this regard. One challenge for Axfood Närlivs and its retail customers is to attract these consumers by making it easy and accessible to shop at their convenience stores and mini-markets at reasonable prices.

The Axfood Group's business management tool, Compass, has been introduced at both Axfood Närlivs and Axfood Snabbgross. The aim is to promote participation and involvement in the companies' business. Compass has been well-received in all aspects of the business, and the challenge now is to further develop and adapt it to the respective units' needs. The key ratios used by Compass are true measures of how well Axfood Närlivs is succeeding both with its employees and the market.

Due to the recent debate over sugar, sales of sweets have been on the decline in recent years. This downward trend has now abated, and the category showed slight growth in 2006. However, health consciousness is a concept that is here to stay, and Axfood Närlivs' challenge is to be able to offer healthy alternatives even in the area of fast food.

Goals and strategies

In the service station customer segment, work continues on creating conditions to develop Axfood Närlivs' business in collaboration with its customers. Food Court, Axfood Närlivs' new fast food concept, is set to be implemented at Shell service stations, and this will require major resources from the organization.

In Axfood Närlivs' mini-market segment, the focus will be on establishing new stores under its own Handlar'n, Tempo and Direkten profiles. Axfood Närlivs aspires to be a market leader both in terms of volume and practices. In other sales, the focus will continue to be on having an attractive price profile and on creating simplicity and involvement in its relations with customers.

The logistics goals are clear – high delivery reliability and low costs.

Axfood Snabbgross is sticking to its long-term strategy – to create an integrated chain with focus on growth, chain operation and cost efficiency.

In all business areas, emphasis will be put on promoting participation and involvement, and with the Compass management tool, work will continue on further increasing this among all employees.

Axfood Närlivs makes it easy for its customers to do good business.

Axfood Närlivs at a glance

Business concept

Axfood Närlivs promotes involvement, knowledge and simplicity in its cooperation with customers and suppliers. Through the right product offering and market concepts, together we create conditions for profitability and growth.

Customer structure

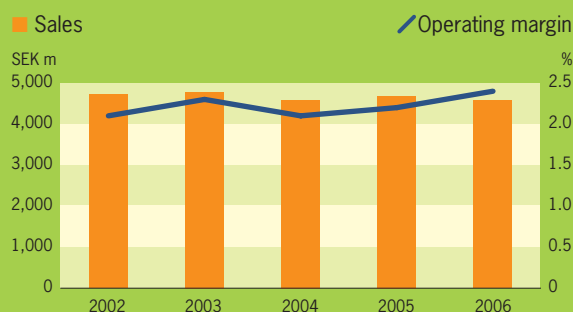
Axfood Närlivs has three dominant customer categories: semi-contract customers, convenience store/mini-market chains such as Handlar'n and Tempo, and small businesses and restaurants. The company offers distribution services to these customers via its Axfood Närlivs business unit and cash and carry activities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

The future

The key strategies identified by Axfood Närlivs for the future are growth, a refined customer value proposition and cost efficiency. 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	2006	2005
Net sales	4,570	4,680
Distributed sales	3,798	3,814
Operating profit	108	103
Operating margin (%)	2.4	2.2
Tempo/Handlar'n, number of stores	378	381
Cash and carry outlets, number of stores	20	23
Average number of employees during the year	611	649



Figures for 2004–2006 reported according to IFRS. Goodwill amortization for 2002 and 2003 has been reversed.

Axfood – a continuously learning organization



Energized employees who take an active involvement in operations are a prerequisite for Axfood's success in pursuing its strategies and achieving profitable growth. Axfood therefore dedicates major resources to creating a continuously learning organization.

Axfood's employee philosophy is rooted in the core value statement *You are important*. This means that

Axfood's employees are willing, can and are encouraged to generate results together with their colleagues and customers.

During the year, Axfood's human resource activities were tied more closely to the Group's goals and strategies. Identifying who we are and what we stand for is highly instrumental in our success at selling more and having satisfied customers. The starting point for this work can be found in a set of core values that were adopted for the entire Group during the year: *The store is the stage*, *We dare*, *We know*, *Together we are strong*, and *You are important*. These core values will strengthen cooperation across company borders and help shape a uniform culture that makes us more successful.

Axfood Academy

The Axfood Academy is the Group's centre for management and employee training. Development activities are organized in three blocks: *Leadership development*, which also conveys shared values within the Group, *Basic training* and *Specialist training*.

Toward the goal of creating a continuously learning organization, the academy works with internal instructors who by virtue of their experience and active participation in operations are helping raise the level of competency of Axfood's employees. The GRID leadership model is a key feature in all leadership training.

During the year, several important activities were carried out. Managers at Dagab and Axfood Närlivs underwent training in health and communication, giving them better knowledge about the importance of maintaining contact with sick-listed employees and about how to identify work environment deficiencies at an early stage.

Twelve trainees completed an internal store manager trainee programme in the hopes of one day stepping into the role as a store manager. A new group, consisting of half women and half

men, started the programme during the autumn. To further meet its future need of store managers, Axfood also has its own accredited store manager training programme. Similarly, an accredited basic course for wholesale supervisors is currently being developed. Axfood has also developed training courses in perishables for store employees, which addresses subjects such as food safety, economics and customer benefit.

Leadership recruitment and succession

Strategic recruitment and leadership succession are crucial for being able to meet the competition in the retail food industry. Accordingly, in 2006 Axfood continued its work on identifying, recruiting and developing tomorrow's leaders. A work model for ensuring management succession within the Group has been developed.

Equal opportunity and diversity

Axfood continued with its equal opportunity and diversity initiatives during the year, which are a vital component of leadership recruitment and succession planning. Among other things, Axfood is making an effort to increase the share of women in senior positions and create a stronger coupling between the day-to-day operations in stores in accordance with the Group's equal opportunity targets.

Accordingly, Axfood has continued its work on developing planning and activity templates which provide better opportunities for follow-up. An analysis of the various conditions for women and men store managers has been completed.

The Axfood Group's five core values

The store is the stage – this is where we must be best. Every day is a new show in which we want to earn an ovation from the audience – our customers.

You are important – every employee in the Group has a role and is important.

We dare – we dare to make an extra effort for our customers.

We know – we know what we sell, what our customers want, what our revenues and costs consist of.

Together we are strong – we are a group of company-owned and proprietor-run stores. It is together with by sharing each other's experience and knowledge that we build success for the future.



How often do you shop at Willys?

Always! It's close to home. I buy a lot of fruit and vegetables from my home country, Colombia. They have good prices and good quality.

Margarita Moses

Employee Guide

During the year, Axfood published an employee guide on the Company's intranet. The guide serves as both an information resource for employees and an HR toolbox for managers.

Healthy workplace

Axfood strives to have competent and energized employees who feel good. In 2006 Axfood launched "*Maximize life*", a health initiative covering all employees throughout the Group.

Employees' exercise habits are monitored using the Compass management tool.

Systematic work environment initiatives

Axfood has developed a systematic work environment and safety initiative in order to identify risks as early as possible and to help create safe and sound workplaces. Axfood has succeeded in maintaining a relatively low level of sickness-related absenteeism for the industry. Promoting employee health also makes it easier to recruit and retain employees.

Employee statistics for Sweden

	2006	2005	2004
Work attendance, store chains, %	93.4	93.2	92.7
Work attendance, Dagab, %	93.0	93.4	93.0
Employee turnover rate, %	7.5	7.5	10.0
Average service time, years	10.5	9.9	9.2
Number of full-time employees	4,266	4,322	4,610
Number of part-time employees	3,342	3,410	3,554
Average number of employees	7,007	7,066	6,941
Number of men	3,164	3,200	3,223
Number of women	3,843	3,866	3,718

A number of activities were carried out during the year. Some 50 employees completed the Group's work environment training course. Willys has put special emphasis on delegation matters.

Dagab took a number of actions within the framework of its Health Project, including economic, psychosocial and legal advice, since rehabilitation efforts in the past have been hampered by employees' concerns for their personal economy or family situation. In addition, Dagab successfully boosted its employees' productivity by offering a nutritional breakfast every morning.

Follow-up

Compass

The Compass management tool is used at all stores throughout the Group as a model for monitoring four critical parameters for effective store operation: Customers, Finance, Operations and Employees.

Compass gives monthly signals to the employees about their respective operations, about which areas need to be prioritized and about the effects of changes that have been made.

Work with Compass is aimed at raising the minimum acceptable level at each store and creating more profitable and better stores, with more satisfied customers and employees.

Compass has helped stimulate employee involvement in the daily work and imparts a greater understanding of various store operations while encouraging dialogue. Greater employee involvement has been confirmed by the results of employee surveys as well as a questionnaire that was distributed to all store managers in 2006.

Mystery shoppers

During the year, Axfood continued to conduct "mystery shopper" visits at its own and proprietor-run stores. Such visits aim to improve store quality from a customer perspective. The results of the mystery shopper's store experience are measured according to such criteria as treatment by store staff, inspiration and cleanliness. An overwhelming majority of store managers, 88%, feel that such visits are helpful in identifying areas in need of improvement and in enhancing customer focus. A total of 3,800 mystery shopper visits were made in 2006.

Taking responsibility for improved customer benefit

Axfood is one of Sweden's largest retail food companies and has a significant presence in people's everyday lives. For Axfood, it is important to be a socially responsible company that its owners, customers and employees can trust. Taking responsibility means acting in accordance with the laws and regulations that exist and which regulate the Company's business. But it also means that Axfood respects international agreements and accords, and that the Company tries to exert influence in the real world in which it buys its products. Axfood has a number of policies which help employees make the right decisions in their daily work.

Axfood's corporate responsibility practices are based on seven main areas:

- Sound business ethics in procurement, business contacts and pricing
- Work with the product offering
- Constructive human resource policies with respect to salaries, codetermination, and safe and healthy work environments
- Internal oversight programmes at warehouses and in stores
- Quality assurance of private label products
- Ensuring compliance with UN and ILO conventions on child labour and human rights by Axfood's suppliers
- Minimizing environmental impact

Business ethics

Axfood is committed to conducting its business in accordance with generally accepted business practice and high standards of business ethics, and stresses the importance of always acting in accordance with the Company's principles. To ensure adherence to a uniform code of conduct among all Axfood employees, since 2004 Axfood has had a policy that lays out Axfood's position on bribery, corruption, and general collaboration within the industry. This policy is updated every year, and affected employees are required to certify in writing that they have understood the policy.

In 2006, 850 employees signed the policy.

Work with the product offering

Health and well-being

In pace with rising economic prosperity, health problems stemming from poor diet and eating habits are also on the rise. Health and well-being are central issues not only in Sweden, but in large parts of the Western world. In 2005 Axfood created a new position of product category director, who works solely on developing the Group's offering of healthy profile prod-

ucts, "green keyhole"-labelled products, organic and ethically labelled products, and a broad range of products for people with various food allergies and diabetes. At year-end 2006 Axfood's wholly owned store chains had access to the following types of products:

Product range

	Hemköp	Willys	Willys hemma
Number of "green keyhole"-labelled products	1,100	645	450
Sales as % of total	9	8	9
Number of organic products	260	97	49
Sales as % of total	0.93	0.42	0.68
Number of ethically labelled products	9	3	3
Sales as % of total	0.02	0.01	0.01
Number of hypoallergenic products	356	218	100

Ethical exclusions

In its wholly owned stores, Axfood has decided to refrain from selling products that we feel are in conflict with our values. This includes magazines with a pornographic content as well as so-called alcopop (cider and other fruit drinks with an alcohol content of more than 2.25%).

Internal oversight programmes in stores and warehouses

Companies are taking responsibility to an increasing extent for conducting their own oversight of various operating aspects in order to ensure their own compliance with regulatory requirements and their own quality standards. Internal oversight programmes are an important tool in following up areas that customers critique once they have made a purchase. Axfood conducts own internal controls in the following areas on a regular basis:

- Food safety
- Systematic fire prevention work

Food safety

Three factors must be met before customers can feel assured that the food they buy is safe: good hygiene, a secure cold storage chain and effective traceability. Axfood has programmes in place in both its retail and wholesale operations to ensure its customers' right to safe food. In 2005 and 2006, Axfood participated in a working group commissioned by the Swedish National Food Administration to draw up an industry-wide internal oversight programme for food safety. This programme

will be introduced at all Group-owned stores in 2007. In 2006, in an effort to maximize the quality of perishables sold to customers – the temperature in warehouses and transport lorries was reduced to the lowest possible level for products requiring refrigerated storage – even for products that normally only need to be stored at +8°C.

Alcohol, tobacco and betting

In Sweden it is against the law to sell tobacco and alcoholic beverages to persons under 18 years of age. Starting on 1 January 2007, the same applies for all types of betting, except for lottery tickets. Axfood requires that all checkout employees understand the rules that apply and also requires them to check IDs if the customer appears under 25 or younger. Employees must be 18 or older to be able to work at cash registers. In addition, Axfood participates in a nationwide spot-check project in which we measure stores' compliance with requesting IDs in accordance with the above-mentioned policy.

Quality assurance of private label products

	2006	2005
Product recalls from stores, private label products	32	18
Product recalls from stores, other	32	28
Share of private label product suppliers approved according to GFSI, Dec. 2006	78%	75%

Quality assurance of private label products

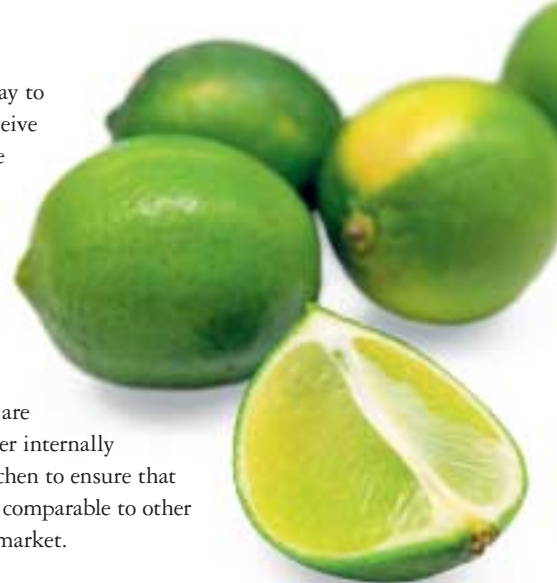
Axfood's private label products are a vital part of its work on offering the best possible customer benefit. Axfood has two quality levels for its private label products – mid-range (including the Willys and Hemköp brands), and budget (the Eldorado brand).

Regardless of whether it's a mid-range or budget product, food safety is a cornerstone on which no compromises can be made. Axfood's goal is that all suppliers of private label products will be certified according to any of the standards approved by the Global Food Safety Initiative and the new ISO 22000 standard. Suppliers that are not ready with their certification can request dispensation if they can present a realistic timetable for their certification. To ensure the ongoing work on food safety for private label products, each year Axfood's quality assurance inspectors conduct their own inspections in which microbiological and chemical analyses are performed on products based on the current risks for each individual product.

Prior to launch, each mid-range product is blind-tested by an external consumer panel comprising some 60 people,

and to make it all the way to store shelves, it must receive comparable marks to the market-leading product. Every other year the panel then tests the same product again to make sure that it is living up to the same standard of quality.

The budget products are tested in the same manner internally in Axfood's own test kitchen to ensure that they, as a minimum, are comparable to other budget products on the market.



Consumer contact

Customers who want to lodge a complaint, share views or ask questions regarding any of Axfood's private label products are encouraged to contact the Company's consumer affairs department, which is open ordinary weekdays from 8 a.m. to 4 p.m. Customers can also reach the consumer contact by e-mail or post. Matters reported to the consumer contact are an important source of information on how well Axfood's private label products live up to customers' expectations and serve as documentation for ongoing improvement work.

Measurements are conducted on a regular basis to find out how well Axfood's consumer affairs unit is at handling customers' questions and complaints. Customers who have lodged a complaint about a product are subsequently contacted to see what their views are of the Company and its private label products.

Human rights

Axfood's code of conduct stipulates that suppliers that produce goods for Axfood's stores must be in compliance with the UN's and ILO's conventions on human rights and rights of the child. With respect to its private label products, since 2004 Axfood has been conducting audits of randomly selected suppliers outside the EU. Together with local auditors, Axfood visits production facilities to find out how well the suppliers live up to the laws in their own countries with respect to workers' rights and working conditions, as well as to the above-mentioned conventions. The visits are based on SA 8000, the internationally recognized standard for social audits.

If any deviations are serious, Axfood returns a year later to make sure that the remarks have been rectified. This work has led to improvements – mainly regarding working environments

– at many companies visited. Not until there is a documented unwillingness to make changes will Axfood choose to terminate its cooperation with a supplier. In 2006 Axfood conducted four return visits and seven new audits. For further information on this work, visit www.axfood.se.

Minimizing environmental impact

Axfood works with environmental matters from a long-term perspective and prefers to keep issues closely related to the Group's stores. Environmental work is conducted on two levels – an overarching level in which the Company participates in discussions and monitors long-term developments, and a practical level at which we conduct and follow up concrete environmental measures. Examples of overarching issues are transports, packaging, the use of palm oil, genetic engineering and fishing.

In the day-to-day activities, there are three areas that Axfood monitors in an effort to reduce its environmental impact: transports, waste sorting and electricity consumption.

Transports

Axfood transports products under own management via the subsidiaries Dagab and Axfood Närlivs as well as through subcontracted freight companies. To minimize environmental impact, Dagab and Axfood Närlivs work continuously with various measures, including:

- Maximizing load capacities, i.e., making sure that lorries are always filled as much as possible

- Reducing fuel consumption by setting a maximum internal speed limit of 85 km/h
- Restricting use of diesel fuel to environmental grade 1

In 2005 Dagab signed a declaration of intent “for environmental and traffic safety in transports for the retail food industry” together with the National Traffic Safety Board. One concrete measure in line with this is that all new delivery vehicles purchased are equipped with alcohol ignition locks.

Total CO₂ emissions from Dagab's and Axfood Närlivs' own delivery vehicles for transports from warehouses to stores

Year	2006	2005 ¹⁾
Total CO ₂ , tonnes	11,088	10,882
CO ₂ kg/tonne products	27.32	27.40
CO ₂ kg/SEK m in sales	671.64	668.45
Number of own vehicles	153	149

¹⁾ Data for 2005 has been revised.

Waste sorting

All of Axfood's offices, stores and warehouses have waste sorting routines in place. The number of fractions varies, depending on the local conditions in the respective municipalities, but is never fewer than three: corrugated board & boxes, soft plastic, and combustible waste (including wood). Since 2002 all of Axfood's private label products have been labelled with sorting information. Moreover, Axfood stores are equipped to take care of returnable cans and bottles.



Why do you shop at Hemköp?

I visit Hemköp practically every weekend. Mainly for fish and shellfish. No big items. High quality and worth the price. I've shopped here for almost 20 years. Personal, pleasant service – many of the employees have been here a long time. There's a good turnover at the fish counter, so I know my fish is fresh. I have a cooler with me today and will be flying with my shellfish to Gotland on the 1 o'clock flight.

Sten Nyström

Sorted and recycled waste from stores and warehouses, tonnes

Year	2006	2005	2004
Corrugated board and boxes	17,104	17,738	18,059
Soft plastic	1,110	1,107	1,082
Combustible waste, incl. wood	18,402	16,412	13,144

Energy consumption

During the year, work continued on reducing energy consumption at Axfood's stores and warehouses. A review of a number of stores has shown that energy consumption can be reduced by modernizing equipment as well as through greater awareness and attention. Experiences from work carried out to date serve as a baseline when we build new stores or refurbish existing ones. Refrigeration/freezing is the single-largest source of energy

consumption, and a test has been started of using lids on freezer displays.

Electricity consumption by Group-owned stores and wholesale operations, MWh (definitive figures for both years)

	2006	2005
Retail units	250,096	255,400
Wholesale operations	46,379	47,597
Total	296,475	302,997
Number of stores	224	235
Electricity consumption KWh/sq.m		
Stores	632	639
Warehouses	221	224





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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 2006 financial year.

Operations

Axfood conducts food retail and wholesale trading operations in Sweden. Retail operations are conducted via the Willys and Hemköp chains, with 224 wholly owned stores. During the year a number of stores were established, acquired, sold or closed. The net decrease in the number of stores was 11. 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 whom 99% of distributed sales are made to Axfood-owned or collaborating stores, and Axfood Närlivs, whose customers consist primarily of mini-markets, service stations and other convenience stores. Axfood Närlivs also has 20 cash and carry outlets in its subsidiary Axfood Snabbgross.

Ownership structure

Axfood is listed on the OMX Nordic Exchange, Large Cap list. The principal owner is Axel Johnson AB, with approximately 45% of the shares.

Important events

The agreement that Axfood signed on 7 September 2005 with the Finnish company SOK on the sale of Axfood's entire shareholding in Spar Finland Abp was completed on 12 January 2006. Axfood owned 69.3% of the shares and 75.2% of the votes in Spar Finland.

During the year, Axfood's board decided to merge Willys and Willys hemma. Combining Willys hemma with Willys will enable Axfood to save costs, strengthen integration and achieve other synergies.

Axfood signed a long-term cooperation agreement with SABA on fruit and vegetable purchasing. The new set-up will be in operation by April 2007 at the latest.

Axfood reached a settlement with the Vi retailers association, which had a favourable net profit impact of SEK 89 m.

During the year, the board of directors appointed Göran Ennerfelt as Chairman of Axfood AB. He succeeded Mats Jansson, who resigned from his position as Chairman and

company director. Per Uebel was appointed as President of Hemköpskedjan, Håkan Åkerström was appointed as President of Dagab, and Cecilia Gierdda was appointed as Head of Corporate Communications for Axfood AB.

A total of 2,116,150 shares were repurchased during the year.

Net sales

Consolidated net sales of the Axfood Group rose 2.6% to SEK 28,808 m (28,086). Sales in Sweden in own and collaborating stores (in the Hemköp chain), amounted to SEK 24,256 m (23,045), an increase of 5.3% compared with the preceding year. Sales for Axfood's wholly owned stores in Sweden rose 4.0% during the year, with a 1.0% rise in like-for-like sales.

Earnings

Operating profit was SEK 1,204 m (1,040). The operating margin was 3.9% (3.7%), excluding compensation from the Vi retailers' association. After net financial items, totalling SEK -21 m (-14), profit for the year was SEK 1,183 m (1,026). After taxes of SEK -331 m (-297), profit for the year was SEK 852 m (682). Profit for the preceding year included a loss of SEK -47 m for discontinued operations (Spar Finland). Of profit for the preceding year, the majority owner's share was SEK 687 m and the minority owner's share was SEK -5 m.

Condensed income statement

	2006	2005
Net sales, SEK m	28,808	28,086
Operating profit, SEK m	1,204	1,040
Operating margin, % ¹⁾	3.9	3.7
Profit after financial items, SEK m	1,183	1,026
Net profit for the year for continuing operations, SEK m	852	729
Earnings per share, SEK	16.03	12.59
Earnings per share after dilution, SEK	16.03	12.58
Earnings per share for continuing operations, SEK	16.03	13.37
Earnings per share after dilution for continuing operations, SEK	16.03	13.35

¹⁾ Operating margin for the full year 2006, excluding compensation of SEK 89 m from the settlement with the Vi retailers association.

Future outlook

Axfood's goal for 2007 is to achieve an operating profit that is level with 2006, excluding the compensation from the settlement with Vi.

Capital expenditures

Capital expenditures for the year totalled SEK 587 m (1,036). Of these, SEK – m (352) pertained to acquisitions of stores in Sweden and SEK 587 m (576) to investments in non-current assets in the wholesaling operations, IT and in the store network in Sweden. Capital expenditures a year earlier included SEK 108 m pertaining to Spar Finland.

Financial position

Cash and cash equivalents held by the Group amounted to SEK 369 m (639) at 31 December 2006. On the 2005 balance sheet, Spar Finland was reported as a discontinued operation, and thus cash and cash equivalents of SEK 85 m pertaining to that operation is included in the balance sheet item "Assets held for sale". Cash flow from operating activities amounted to SEK 1,160 m (1,170). After net expenditures of SEK -321 m (-850), amortization of debt, new borrowing and payment of the dividend, together totalling SEK -1,194 m (-579), cash flow for the year was SEK -355 m (-259).

Interest-bearing assets, including cash and cash equivalents, decreased by SEK 233 m to SEK 406 m (639), and interest-bearing liabilities and provisions increased by SEK 53 m to SEK 467 m (414).

Interest-bearing liabilities include SEK 350 m (347) in provisions for pensions. The interest-bearing net receivable decreased by SEK 286 m and became a net debt of SEK -61 m (225).

The equity ratio was 39.8% (38.9%), and the debt-equity ratio, net, was 0.03 (2005: net debt-equity ratio of -0.02) (multiple).

Parent Company

Other operating revenue for the Parent Company amounted to SEK 253 m (99) during the year. After selling and administrative expenses of SEK 211 m (178) and net financial items of SEK 2 m (-9), profit after financial items was SEK 44 m (-88). Capital expenditures totalled SEK 1 m (33). Cash and cash equivalents held by the Parent Company totalled SEK 1 m (358).

Interest-bearing external assets amounted to SEK 38 m (358) at the end of the year. Interest-bearing net debt increased by SEK 139 m and was SEK 744 m (605) at the year-end.

Share repurchases

In March 2005, Axfood's Annual General Meeting (AGM) resolved to authorize the Board to repurchase up to 2,000,000 of the Company's own shares, on one or more occasions during the time up to the next AGM. In February 2006, Axfood's board decided to initiate share repurchases within the scope of the above mandate, continuing up until the 2006 AGM. A total of 476,400 shares were repurchased at a quota value of SEK 2.4 m, against payment of SEK 95 m.

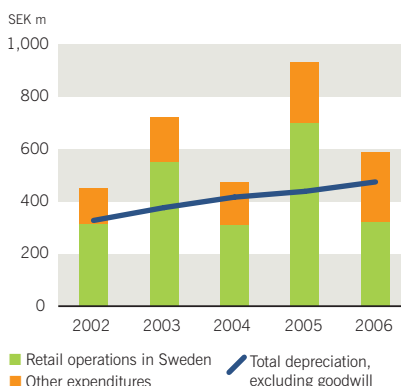
At the 2006 AGM in March 2006, it was resolved to authorize the Board to decide on repurchases of up to 4,000,000 of the Company's own shares – through purchases on the Stockholm Stock Exchange – on one or more occasions during the time up to the next AGM. The AGM also authorized the Board to, in connection with the financing of company acquisitions, transfer treasury shares on the stock exchange or in some other way.

Consolidated net sales ¹⁾



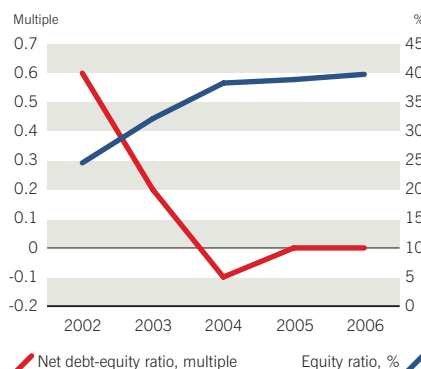
¹⁾ Data adjusted for sales by Spar Finland.

Capital expenditures ¹⁾



¹⁾ Data adjusted for capital expenditures and depreciation attributable to Spar Finland.

Net debt-equity ratio and equity ratio ¹⁾



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

In March 2006, Axfood's board decided to initiate share repurchases under the new 4,000,000 share mandate, up until the 2007 AGM. A total of 1,639,750 shares were repurchased at a quota value of SEK 8.2 m, against payment of SEK 335 m.

The aim of both repurchase programmes was to adapt the Company's capital structure to its current operations.

As per 31 December 2006, Axfood had 2,116,150 treasury shares, and the total quota value of the acquired shares was SEK 10.6 m, against payment of SEK 430 m. No treasury shares were transferred during the year.

Risks, uncertainty factors and risk control

Axfood is in an entirely different competitive situation today than when the Company was established in 2000. All players in the retail food market are under fierce competitive pressure, driven by a saturated market, among other things. Ahead of 2007 there is a risk for higher prices from suppliers due to higher raw material and transport costs, at the same time that price pressure from competitors and market establishment are expected to continue. For a further discussion on other risks and uncertainty factors, see the Risks section on page 44.

Financial instruments and risk management

Axfood uses forward exchange contracts to hedge its transaction exposure in foreign currencies. As per 31 December 2006, outstanding contracts amounted to SEK 124 m (157). A more in-depth discussion of financial risks and risk management can be found in the Risks section on page 43.

Employees

In 2006 Axfood had an average of 7,007 full-time employees, broken down into 45% men and 55% women. Approximately 75% of the employees work in stores and approximately 18% in the wholesale operations.

Axfood has a Group-wide equal opportunity policy. According to this policy, all companies within the Group are to draw up equal opportunity plans as support in the local equal opportunity work. Axfood's equal opportunity policy lays down a number of examples that companies should take into consideration in their equal opportunity work, such as mixed workplaces with both women and men, equal pay for the same work regardless of gender, equal training and competence development opportunities for both men and women, and a requirement that the companies' work environments and work conditions are adapted to allow both women and men to work at all workplaces.

Axfood conducts systematic work environment activities as a natural part of the Group's operations. This work is conducted as a cooperative effort between employers, employees and the

employee unions. Work environments at Axfood shall meet all existing legal requirements. In addition to this, Axfood strives to offer its employees a sound, stimulating and safe work environment that is conducive to personal development.

To ensure uniform handling in human resources issues, Axfood has an electronic employee guide that serves as an information source for all employees, and a toolbox to help managers and leaders in their handling of personnel matters.

Axfood has collectively bargained agreements with the Salaried Employees Union (HTF) and the Retail Workers Union.

Convertibles

The convertible debenture that was issued in January 2001 was concluded during the year after 52,450 of the 52,550 convertibles that were outstanding on 31 December 2005 were converted to shares, corresponding to a dilution of 0.1%. The remaining 100 convertibles were redeemed.

Composition and work of the Board of Directors

Axfood's board initially consisted of eight AGM-elected directors plus three employee representatives with one alternate. As from November 2006, the Board had seven members after Mats Jansson left the Board at his own request. The members of the Board are presented on pages 78–79. According to its work plan, the Board shall have at least five meetings a year. In 2006 the Board met eight times, of which one was the statutory meeting. At each meeting in connection with a quarterly report, 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 – to what extent the Company's organization is structured so as to ensure satisfactory control of bookkeeping, cash management and the Company's financial position.

The Board has no audit committee. However, at least once a year the Board meets with the Company's auditors 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. The Compensation Committee reports to the Board. This committee shall consist of a minimum of three and a maximum of five persons, with the Chairman of the Board serving as committee chair. The current members of the Compensation Committee are Göran Ennerfelt, Antonia Ax:son Johnson and Marcus Storch. Axfood's CEO, Anders Strålmán, is a co-opted member of the committee.

Axfood's main owners have appointed a nominating committee for the period up until the next Annual General Meeting. The Nominating Committee is responsible for making recommendations to the Annual General Meeting on 8 March 2007 on the number of directors serving on the Company's board and the composition of the Board of Directors. The members of the Nominating Committee are Hans Dalborg (committee chair), Antonia Ax:son Johnson, Stefan Roos, Joakim Spetz and Jonas Hillhammar. 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 for its own operations.

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 2006, 80% of the ammonia used as a cooling agent was replaced by a system using calcium chloride.

Axfood's environmental work is conducted on two levels – an overarching level in which Axfood participates in discussions and monitors long-term developments, and a practical level at which the Company conducts and follows up concrete environmental measures. Examples of overarching issues are transports and packaging. In the day-to-day activities, there are three areas that Axfood monitors in an effort to reduce its environmental impact: transports, waste sorting and electricity consumption.

Business ethics and product liability

For Axfood it is important to be a responsible company that owners, customers and employees can trust. Toward this end, Axfood has adopted a number of policies that govern such areas as business ethics, a code of conduct, ethical guidelines and food safety.

With respect to the Company's earnings and financial position in general, reference is made to the following income statements, balance sheet and accompanying notes.



Income statement

Amounts in SEK m	Note	Group		Parent Company	
		2006	2005	2006	2005
Net sales	2, 5	28,808	28,086	–	–
Cost of goods sold	6	-24,760	-24,172	–	–
Gross profit		4,048	3,914	–	–
Selling expenses		-1,890	-1,879	-2	-3
Administrative expenses		-1,217	-1,158	-198	-175
Share of profit in associated companies	22	1	4	–	–
Other operating income	7	299	180	253	99
Other operating expense		-37	-21	-11	0
Operating profit/loss	2, 5, 6, 7, 8, 9, 10, 11, 12, 19, 32	1,204	1,040	42	-79
Result from participations in Group companies	13	–	–	–	-11
Interest income and similar profit/loss items		7	11	10	7
Interest expense and similar profit/loss items		-28	-25	-8	-5
Profit after financial items	14, 32	1,183	1,026	44	-88
Appropriations	15	–	–	0	665
Profit before tax		1,183	1,026	44	577
Current tax	16	-328	-576	-8	-176
Deferred tax	16	-3	279	-3	5
Profit for the year from continuing operations		852	729	33	406
Loss for the year from discontinued operation	4	–	-47	–	–
Net profit for the year		852	682	33	406
Of which, majority owner's share		852	687	–	–
Of which, minority owner's share		–	-5	–	–
Earnings per share, SEK	33	16.03	12.59	–	–
Earnings per share after dilution, SEK		16.03	12.58	–	–
Earnings per share for continuing operations, SEK		16.03	13.37	–	–
Earnings per share after dilution for continuing operations, SEK		16.03	13.35	–	–
Operating profit for continuing operations includes depreciation/amortization of	10	474	438	8	3

Comments on the income statement and balance sheet

Starting on 1 September 2005, Spar Finland is reported separately as a discontinued operation (see note 4, Discontinued operations). The consolidated income statement pertains to continuing operations. Profit after tax from Spar Finland is reported on a separate line in the consolidated income statement. The comments below pertain to continuing operations.

In the 2005 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. No new discontinued operations arose during the year. Starting with the fourth quarter of 2006, Willys hemma is included in Willys. Full-year figures for Willys include Willys hemma.

Income statement

Consolidated net sales amounted to SEK 28,808 m (28,086), an increase of 2.6% compared with 2005. For Axfood's wholly owned retail operations, sales increased by 4.0%, with a 1.0% rise in like-for-like sales. Sales for Willys rose 8.5%, to SEK 15,115 m (13,926), with a 1.3% rise in like-for-like sales. Hemköp's sales decreased by 6.0%, to SEK 5,829 m (6,198), with a 0.2% decrease in like-for-like sales. The Group's gross margin increased from 13.9% to 14.1%.

Operating profit was SEK 1,204 m (1,040). Other operating income included SEK 89 m in compensation from the settlement with the Vi retailers association. Profit in 2005 was charged with SEK 2 m in structural costs. Operating profit includes depreciation of SEK 474 m (438). Excluding the compensation from Vi, the operating margin was 3.9% (3.7%).

Net financial items deteriorated during the year from SEK -14 m to SEK -21 m, mainly due to an increase in short-term liabilities to credit institutions during the first half of 2006. The tax charge was SEK 331 m (297), corresponding to a tax rate of 28.0% (28.9%). Profit for 2005 was charged with SEK 9 m in tax pertaining to tax allocation reserves. Profit for the year after tax was SEK 852 m (682). Minority share in profit year was SEK - m (-5).

	2006	2005	2004	2003	2002
Earnings per share after dilution, SEK	16.03	13.35	14.42	12.62	11.51

Figures for 2004–2006 pertain to continuing operations and are reported according to IFRS. Figures for 2002 and 2003 pertain to total operations.

Balance sheet

The Group's non-current assets increased during the year by SEK 75 m, from SEK 2,847 m to SEK 2,922 m. Non-current assets consist primarily of goodwill, totalling SEK 1,131 m (1,131), and machinery and equipment, totalling SEK 1,412 m (1,430). Of total goodwill, SEK 824 m (845) consists of consolidated acquisition goodwill, of which SEK - m (22) pertains to Spar Finland. Total capital expenditures in tangible and intangible non-current assets in operations amounted to SEK 587 m (630). Of these, SEK 587 m (576) pertained to investments in Sweden and SEK - m (54) investments in Spar Finland. In the preceding year, assets were acquired in Sweden for SEK 352 m and in Spar Finland for SEK 54 m. No operations were acquired in 2006. Of total capital expenditures during the year, SEK 102 m (71) pertained to investments in IT development.

	2006	2005	2004	2003	2002
Capital expenditures/depreciation	1.24	2.12	1.13	1.45	1.11

Figures for 2004–2006 pertain to continuing operations and are reported according to IFRS. Figures for 2002 and 2003 pertain to total operations.

Of current assets, inventories make up the single largest item, totalling SEK 1,473 m (1,598). Inventories consist of finished retail goods – slightly less than 60% (50%) – and wholesale goods – slightly more than 40% (50%). Inventories along with trade accounts receivable make up approximately 60% of current assets (60%).

Shareholders' equity amounted to SEK 2,420 m (2,944), a net decrease of SEK 524 m. During the year, SEK 811 m (590) was distributed to the Company's shareholders. Share repurchases amounted to SEK 430 m (-). The minority owner's share of shareholders' equity at the start of the year, SEK 119 m, has decreased in connection with the sale of Spar Finland.

Provisions for pensions and similar obligations pertain primarily to the FPG/PRI system. Interest-bearing liabilities excluding interest-bearing pension provisions have increased from SEK 67 m to SEK 117 m. The interest-bearing net receivable as per 31 December 2005 was SEK 225 m. In 2006 the interest-bearing net receivable became an interest-bearing net debt of SEK 61 m as per 31 December 2006. The decrease is mainly due to a high dividend and to share repurchases.

Balance sheet

Amounts in SEK m	Note	Group		Parent Company	
		31/12/2006	31/12/2005	31/12/2006	31/12/2005
ASSETS					
Non-current assets					
Intangible assets	17				
Goodwill		1,131	1,131	–	–
Other intangible assets		236	159	–	–
		1,367	1,290	–	–
Tangible assets	18, 20				
Land and buildings		3	9	–	6
Equipment, tools and fixtures		1,412	1,430	28	35
Construction in progress		51	48	–	–
		1,466	1,487	28	41
Financial assets	23, 28				
Participations in Group companies	21	–	–	3,015	3,285
Participations in associated companies	22	3	3	–	–
Other long-term securities holdings	23, 28	19	19	3	3
Other non-current receivables	24	33	10	24	–
		55	32	3,042	3,288
Deferred tax assets	16	34	38	9	12
Total non-current assets		2,922	2,847	3,079	3,341
Current assets					
Inventories					
Finished products and goods for resale		1,473	1,598	–	–
		1,473	1,598	–	–
Current receivables	28				
Accounts receivable – trade		514	486	–	–
Receivables from Group companies		–	–	1,781	2,213
Current tax assets		82	88	–	–
Other current receivables	24	85	109	18	5
Prepaid expenses and accrued income	25	630	613	10	13
		1,311	1,296	1,809	2,231
Cash and cash equivalents	28, 29				
Cash and bank balances		369	639	1	358
		369	639	1	358
Assets held for sale	4	–	1,189	–	–
Total current assets		3,153	4,722	1,810	2,589
TOTAL ASSETS		6,075	7,569	4,889	5,930

Amounts in SEK m	Note	Group		Parent Company	
		31/12/2006	31/12/2005	31/12/2006	31/12/2005
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	26, 32				
				Restricted shareholders' equity	
Share capital		273	273	273	273
Other capital contribution		496	492	–	–
Statutory reserve		–	–	–	1,699
				273	1,972
				Unrestricted shareholders' equity	
Accumulated translation differences		–	20	–	–
Hedging reserve		-2	-2	–	–
Share premium reserve		–	–	4	–
Retained earnings		801	1,355	2,914	1,281
Profit for the year		852	687	33	406
				2,951	1,687
Majority owner's share of shareholders' equity		2,420	2,825	–	–
Minority owner's share of shareholders' equity		–	119	–	–
Total shareholders' equity		2,420	2,944	3,224	3,659
Untaxed reserves	15	–	–	9	9
Non-current liabilities	20, 28, 29				
Provision for pensions and other similar obligations	27	350	347	25	23
Other liabilities to credit institutions		–	7	–	–
Other interest-bearing liabilities		35	29	–	–
Deferred tax liability	16	157	157	–	–
Other non-current liabilities		–	–	6	5
		542	540	31	28
Current liabilities	28, 29				
Liabilities to credit institutions		58	3	58	–
Other interest-bearing liabilities	20	24	28	–	4
Accounts payable – trade		1,753	1,782	5	14
Liabilities to Group companies		–	–	1,417	1,794
Liabilities to associated companies		0	0	–	–
Current tax liability		78	442	75	390
Other current liabilities		76	85	2	2
Accrued expenses and deferred income	19, 30	1,124	983	68	30
		3,113	3,323	1,625	2,234
Liabilities tied to assets held for sale	4	–	762	–	–
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		6,075	7,569	4,889	5,930
CONTINGENT ASSETS, PLEDGED ASSETS AND CONTINGENT LIABILITIES					
	31				
Pledged assets		2	3	–	–
Contingent liabilities		29	28	364	377

Cash flow statement

Amounts in SEK m	Note	Group 2006	2005	Parent Company 2006	2005
Operating activities					
Profit/loss after financial items		1,183	978	44	-87
Depreciation/amortization charged against profit		458	467	8	3
Adjustments for non-cash items		52	42	6	27
Paid tax		-684	-241	-621	-182
Cash flow from operating activities before changes in working capital		1,009	1,246	-563	-239
Cash flow from changes in working capital					
Change in inventories		133	-34	-	-
Change in current receivables		-8	-49	181	-537
Change in current liabilities		26	7	-444	233
Cash flow from operating activities		1,160	1,170	-826	-543
Investing activities					
Acquisitions of intangible assets		-102	-71	-	-
Acquisitions of tangible assets		-464	-535	-1	-34
Acquisitions of operations	3	-	-323	-18	-
Earnings from associated companies		-	4	-	-
Sales of operations	4	236	8	313	46
Sales of tangible assets		7	54	6	0
Change in other financial assets		2	13	-	-
Cash flow from investing activities		-321	-850	300	12
Financing activities					
Share repurchases		-430	-	-430	-
Newly raised loans		47	43	58	-
Amortization of debt		-	-32	-	-
Dividend		-811	-590	-811	-586
Group contributions received/rendered, shareholder contribution		-	-	1,352	894
Cash flow from financing activities		-1,194	-579	169	308
CASH FLOW FOR THE YEAR		-355	-259	-357	-223
Cash and cash equivalents at start of year		724	977	358	581
Translation difference, cash and cash equivalents		-	6	-	-
Cash and cash equivalents at year-end		369	724	1	358
Of which, cash flow from discontinued operation					
Cash flow from operating activities		-	24	-	-
Cash flow from investing activities		-	-118	-	-
Cash flow from financing activities		-	53	-	-
Cash flow for the year from discontinued operation		-	-41	-	-

Comments on cash flow and shareholders' equity

The cash flow statement for 2005 was prepared for the total operations including discontinued operations. In association with the cash flow statement, cash flow from the discontinued operation was broken down into cash flow from operating activities, cash flow from investing activities, and cash flow from financing activities. No discontinued operations are reported for 2006.

Cash flow from operating activities

Cash flow from operating activities before changes in working capital decreased by SEK 237 m, to SEK 1,009 m (1,246), and consisted mainly of the net amount of purchases and sales of retail food products. Excluding SEK -684 m (-241) in paid tax, cash flow from operating activities before changes in working capital amounted to SEK 206 m. The higher tax payment in 2006 is mainly attributable to a dissolution of all of the Group's tax allocation reserves in 2005. The tax effect of this dissolution was SEK 284 m. Reversed depreciation has been adjusted for the remaining portion of leased assets, totalling SEK 16 m (20). Adjustment for non-cash items amounted to SEK 52 m (42) and pertained mainly to capital gains, impairment charges, disposals and structural costs. Interest received during the year amounted to SEK 7 m (19), and interest paid amounted to SEK 12 m (11).

Capital expenditures and divestments

The Group's total capital expenditures amounted to SEK 587 m (928 excluding Spar Finland) and pertained primarily to investments of SEK 485 m (509) in machinery and equipment. Investments in operations amounted to SEK – m (352). Investments in IT development amounted to SEK 102 m (71). Of total capital expenditures, SEK 566 m (929) affected the Group's cash flow. In cash flow, capital expenditures have been adjusted in the amount of SEK -21 m (-25) for finance leases.

The sale of Spar Finland affected the Group's cash flow positively during the year in the amount of SEK 228 m. Cash flow was affected in the amount of SEK 8 m (8) from the sale of business assets and liabilities. The Parent Company's cash flow was affected in the amount of SEK 313 m by the sale of Spar Finland.

Financing activities

The Group's change in interest-bearing liabilities affected cash flow in the amount of SEK 47 m (11). During the year SEK 47 m (43) in new

loans were raised. Ongoing financing was handled during the year with cash flow from operating activities. The dividend amounted to SEK 811 m (590), corresponding to SEK 15.00 (11.00) per share. For the Parent Company, the dividend includes SEK – m (3) in dividends received from subsidiaries. Share repurchases affected cash flow in the amount of SEK -430 m (-).

Comments on shareholders' equity

The Group's shareholders' equity amounted to SEK 2,420 m (2,944) at year-end. The return on shareholders' equity was 32.5% (25.1%).

The holding in Spar Finland was sold on 12 January 2006. The sale affected shareholders' equity in the amount of SEK -119 m with respect to the minority owner's share and SEK -20 m with respect to the accumulated translation differences. The result from the sale of Spar Finland did not affect 2006 earnings. After this sale, Axfood has no operations outside Sweden.

The Annual General Meeting on 9 March 2006 authorized the Board to make decisions on share repurchases during the period extending until the next Annual General Meeting. In 2006 a total of 2,116,150 shares were repurchased for a combined value of SEK 430 m. During the period 1 January–12 February 2007, no shares were repurchased.

In January 2001 a convertible debenture of SEK 73 m was issued to the employees. The conversion price was SEK 73, and conversion could take place during the period 21 January 2005–20 March 2006. At the start of 2006, 52,550 convertibles were outstanding. Of these, 52,450 have been converted to shares and the remaining 100 were redeemed. The conversions have increased the Group's and Parent Company's shareholders' equity by SEK 3.6 m (69.6), of which SEK 0.2 m (4.8) represented an increase in share capital and SEK 3.4 m (64.8) an increase in other contributed capital in the Group and the Parent Company's share premium reserve. Issue costs amounted to SEK 0 m (0). At year-end 2006 there were no outstanding convertible debentures.

The Board of Directors has proposed a dividend of SEK 20.00 (15.00) for 2006. Based 52,467,678 shares, the dividend will amount to SEK 1,049,353,560.

Change in interest-bearing net receivable/debt for the Group

Amounts in SEK m	31/12/2005	Cash flow	Change in loans	Adjustment for discontinued operation	Other changes	31/12/2006
Cash and cash equivalents	639	-355		85		369
Non-current interest-bearing receivables	0		24			24
Current interest-bearing receivables	0		13			13
Non-current interest-bearing liabilities	-36				1	-35
Current interest-bearing liabilities	-31		-47		-4	-82
Interest-bearing pensions	-347				-3	-350
Interest-bearing net receivable/debt	225	-355	-10	85	-6	-61

Summary of changes in shareholders' equity

Group

Amounts in SEK m	Share capital	Other capital contributions	Accumulated translation differences	Hedging reserve	Retained earnings	Majority owner's share	Minority owner's share	Total shareholders' equity
Opening shareholders' equity 2005	268	427	5	–	1,944	2,644	119	2,763
Change of accounting principle, IAS 39	–	–	–	0	–	0	–	0
Fair value of currency forward 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 shareholder' equity 2005	273	492	20	-2	2,042	2,825	119	2,944
Fair value of currency forward contracts	–	–	–	0	–	0	–	0
Exchange rate difference in sold operations	–	–	-20	–	–	-20	–	-20
Minority in sold operations	–	–	–	–	–	–	-119	-119
Total changes in net worth reported directly against shareholders' equity ¹⁾	–	–	-20	0	–	-20	-119	-139
Profit for the year	–	–	–	–	852	852	–	852
Total changes in net worth ¹⁾	–	–	-20	0	852	832	-119	713
Shareholder dividend	–	–	–	–	-811	-811	–	-811
Redemption of convertible debentures	0	4	–	–	–	4	–	4
Share repurchases	–	–	–	–	-430	-430	–	-430
Closing shareholders' equity 2006	273	496	–	-2	1,653	2,420	–	2,420

Parent Company

Amounts in SEK m	Restricted shareholders' equity			Unrestricted shareholders' equity		Total shareholders' equity
	Share capital	Share premium reserve	Statutory reserve	Share premium reserve	Retained earnings	Total
Opening shareholders' equity 2005	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	–
Loss for the year	–	–	–	–	406	406
Closing shareholders' equity 2005	273	–	1,699	–	1,687	3,659
Shareholder dividend	–	–	–	–	-811	-811
Redemption of convertible debentures	0	–	–	4	–	4
Share repurchases	–	–	–	–	-430	-430
Group contribution	–	–	–	–	1,068	1,068
Tax effect of Group contribution	–	–	–	–	-299	-299
Reduction of statutory reserve	–	–	-1,699	–	1,699	–
Profit for the year	–	–	–	–	33	33
Closing shareholders' equity 2006	273	–	–	4	2,947	3,224

¹⁾ Excluding transactions with the Company's owners. The share capital as per 31 December 2006 consisted of SEK 272,919,140 distributed among 54,583,828 shares. The Board of Directors proposes a dividend of SEK 20 per share, of which SEK 12 pertains to the ordinary dividend and SEK 8 an extra dividend.

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/Executive Vice President and 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 2006 the average remaining contract term was 498 days (598).

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 2006, the refinancing risk reserve amounted to SEK 693 m (1,008). The finance department is responsible for monitoring and overseeing the refinancing risk reserve.

The Axfood Group's investment policy aims to ensure the Axfood Group's ability to pay in the short and long term. In addition, the investment policy is designed to reduce the Group's external borrowing as much as possible by coordinating the management of surplus liquidity within the Group and achieving the best possible balance of financial income and expense. Investments may only be made in instruments with low credit risk and high liquidity, i.e., investments that can be converted to cash and cash equivalents at any given point in time. Approved instruments are account balances, deposits and investments in short-term debt instruments 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 interest-bearing assets is to be regulated by investing cash and cash equivalents in such a way that maturity dates for fixed rates of interest and investments match the Axfood Group's known outflows and/or debt amortization. The goal is that no fixed-income investments shall be sold prior to their maturity date.

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 2006 the average term of fixed interest was 30 days (291), 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 institutions 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 on the balance sheet after deducting provisions for possible loan losses. Added to these provisions are provisions for possible losses on guarantee commitments made by Axfood. These pertain mainly to guarantees for bank financing for Hemköp franchisees. Axfood charges a going-rate commission for issuing these guarantees. Outstanding guarantee commitments amount to SEK 18 m (18) and are 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 100% of orders made are to be hedged at the time the order is placed. In addition, 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

Approved hedge instruments are spot contracts, forward exchange contracts and currency swap contracts. In 2006 hedges were taken out only through spot contracts and forward exchange contracts.

Business risks

Competition

The competition in the retail food market shows no sign of letting up; on the contrary, it can be expected to further intensify in 2007. One reason for this is a continued high rate of establishment among the major competitors, combined with sustained strong downward pressure on consumer prices. In addition, there is also a risk for higher prices from suppliers due to higher raw material and transport costs.

Axfood will continue to grow, however, growth is not an end in itself and must take place while maintaining profitability.

A central issue in all new store establishment activities conducted by Axfood is that each store establishment is 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 policy regarding store establishment and business hours. One problem, however, is that the authorities who grant permits do not always take into account the competitive situation in local markets. One latent threat 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 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 for an average of 3 years. As per 31 December 2006, the Group's lease obligations amounted to approximately SEK 3.5 bn.

Operating risks

Axfood's safety analysis work has identified a total loss, such as resulting from a 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 and that the centralized IT structure is also a risk factor for the Group. Therefore, considerable emphasis is put on 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. 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 a highly 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 how to best handle an evacuation, where the primary focus is on employee and customer safety.

In 2006 work was begun on revising the Group's crisis management plan and accompanying communication plan.

Insurance

Axfood has Group-wide insurance solutions. Insurance protection covers, among other things, property, product liability, business interruption, transports, and directors' and executives' liability. Through these joint solutions, Axfood has been able to lower its insurance costs from year to year. One contributing reason for this is that the cost of insurance deductibles is charged to operations when a claim has been incurred. This has contributed to higher awareness and improved claims experience from year to year, which in turn has resulted in considerably lower premiums.

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. Currently there are no entirely closed money handling systems available on the market, however, Axfood is closely monitoring developments in this area.

Shrinkage

Continuous work is being carried out in stores on shrinkage. This includes defining how much of shrinkage consists of the scrapping of outdated products, own consumption and actual theft. 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. In autumn 2006 a special training project on shrinkage was carried out at Willys hemma to further increase the awareness of work leaders and employees

about the importance of identifying and eliminating risks for shrinkage in all aspects of goods-handling. The training course was offered to operational management as well as store managers and store employees. Work on reducing shrinkage is also included as a parameter in the Compass management tool.

Environmental risks

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 2006, 80% of the ammonia used as a cooling agent was replaced by a system employing calcium chloride. During the year, a cold storage facility in Örebro was closed, and operations were moved to an existing facility in Gothenburg.

Axfood works on a continuous basis with environmental matters from a long-term perspective.



Notes

1. Accounting principles

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS/IAS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC/SIC), as approved by the EU Commission for application within the EU. In addition, Swedish Financial Accounting Standards Council (SFASC) recommendation RR 30:05 Complementary Reporting Rules for Groups, is used.

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 12 February 2007. The consolidated income statement and balance sheet, and the Parent Company income statement and balance sheet, are subject to adoption by the Annual General Meeting on 8 March 2007.

Changed accounting principles 2006

Starting on 1 January 2006, the Group applies the Amendment to IAS 19 Employee Benefits, the Amendment to IAS 21 Effects of Changes in Foreign Exchange Rates, the Amendment to IAS 39 Financial Instruments: Reporting and Measurement, and IFRS 6 Exploration for and Valuation of Mineral Resources. In addition to the amendments to said standards are three IFRIC interpretations: IFRIC 4, 5 and 6.

The IAS 19 amendments provide the option to report actuarial gains and losses either in shareholders' equity or in the income statement. According to the previous standards, actuarial gains and losses were reported only in the income statement. The IAS 19 amendments also entail an expanded disclosure requirement. Axfood has not changed its principle for reporting actuarial gains and losses, which means that these will continue to be reported in the income statement.

The IAS 21 amendments concern intra-group non-current receivables and liabilities which constitute part of a net investment in an independent foreign operation. The IAS 39 amendments concern the option to report financial instruments at fair value ("the fair value option"), intra-group hedges between subsidiaries in different countries ("intra-group cash flow hedge accounting), and reporting of financial guarantee contracts. The amendments to IAS 19, 21, 39 and IFRS 6, and IFRICs 4, 5

and 6, have no effect on the Axfood Group's income statement, balance sheet, cash flow statement or shareholders' equity.

Changed accounting principles 2007

Starting on 1 January 2007, Axfood applies IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements.

IFRS 7 entails no change in the reporting and valuation of financial instruments. However, certain disclosure requirements arise compared with previous requirements under IAS 32. Among other things, the current disclosure requirements have been improved with respect to exposures and the handling of risks associated with financial instruments. In view of IFRS 7, the disclosure requirements under IAS 1 have been amended. Among other things, descriptions must be provided of the capital base, external capital requirements and of the extent to which these have been met or not. In addition to IFRS 7 and the Amendment to IAS 1 are four IFRIC interpretations: IFRIC 7, 8, 9 and 10. IFRS 7, the Amendment to IAS 1 and IFRICs 7, 8, 9 and 10 have no effect on the Axfood Group's income statement, balance sheet, cash flow statement or shareholders' equity. Axfood has not prospectively applied the recommendations and interpretations that are to be applied as from 2007.

Conditions in 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 34.

The accounting principles presented below are applied consistently in the Company's published financial reports.

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. A controlling influence entails a direct or indirect right to formulate the company's financial and operative strategies in the aim of obtaining financial benefit.

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 an acquired subsidiary is based on a fair valuation of identified assets and liabilities taken over at the time of acquisition. In the event the cost of the shares in the subsidiary exceeds the fair value of acquired assets and liabilities as per the 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 assets and liabilities of foreign subsidiaries are translated to Swedish kronor at the exchange rate in effect on the balance sheet date.

The income statement is translated at the average rate for the year. Exchange rate differences that arise are transferred to shareholders' equity as translation differences.

Following the sale on 12 January 2006 of the holding in Spar Finland, neither Axfood AB nor any company in the Axfood Group owns any participations in foreign subsidiaries.

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 profit brought forward. 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 income statement. Unrealized gains that arise between 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.

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. Following the divestment of Spar Finland in 2006, a breakdown is provided only of business segments.

The following business segments are reported:

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

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.

Axfood 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.

Principles for internal pricing

For internal sales 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 supplier's general profit margin 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

Sales are reported net after VAT and discounts. Revenues from sales of products are reported in the income statement 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 an annual sales-based fee 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 income statement 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 grants and when it can be ascertained with certainty that the grants will be received. Paid-in grants are reported in the balance sheet as deferred income and are recognized during the period in which the costs that the grants are intended to cover are reported. In the income statement, government support is reported as a decrease of corresponding

costs. Axfood receives government grants mainly in the form of labour market policy measures.

Classification of current and non-current items

In the Axfood Group's accounting, assets and liabilities are broken down into current and non-current. Non-current 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 receivables and liabilities fall due for payment within one year from the balance sheet date.

Receivables and liabilities in foreign currency

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

Financial instruments

Financial instruments carried on 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.

A financial asset or liability is carried on 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 derecognized from the balance sheet when the rights to the agreement are realized, mature, or the company loses control over it. The same applies for a part of a financial asset. A financial liability is derecognized from the balance sheet when the obligation in the agreement is fulfilled or becomes extinguished 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. Financial instruments are initially stated at cost, corresponding to the instrument's fair value plus transaction costs, except for derivative instruments, for which transaction costs are expensed immediately.

On each reporting occasion, the Company evaluates whether there are objective indications that impairment must be recognized for a financial asset.

Loan receivables and trade accounts receivable

Loan receivables and trade accounts receivable are financial assets that are not derivatives, which have set payments or payments which can be set and are not quoted on an active market. Such assets are valued at amortized cost. 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.

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. Cash and cash equivalents are valued at amortized cost.

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

Trade accounts payable and other liabilities

Trade accounts payable are classified as other financial liabilities. Trade accounts payable have a short anticipated duration and are valued without discounting in their nominal amount. Liabilities are classified as other financial liabilities, which entails that they are stated at amortized cost in accordance with the effective interest method.

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 is 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.

Forward exchange contracts are 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 income statement, where it meets and matches the profit/loss effects from the hedged transaction.

Hedged liabilities in foreign currency are reported at the year-end exchange rate, and the hedge instrument is stated separately at fair value on the balance sheet.

Intangible 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 retrospectively, 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 no longer 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 income statement.

Other intangible 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 probable 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 assets

Amortization of intangible 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 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 assets

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

Leases are classified as finance or operating leases. Finance leases are carried as a non-current asset on 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 payments are reported as interest and amortization of the liability. In the case of operational leasing, the leasing payments are expensed over the term of the lease based on use.

Depreciation of tangible assets

Scheduled depreciation of tangible 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 the Group's assets, excluding inventories, assets held for sale and deferred tax assets, is tested on every balance sheet date to determine any need to recognize 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 to 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. Impairment losses are recognized in the income statement. Impairment of assets pertaining to a cash-generating unit is applied primarily to goodwill. Thereafter, a proportional write-down is made of other assets included in the unit.

The carrying amount of inventories, assets held for sale and deferred tax assets is tested in accordance with the respective standards.

For further information on cash-generating units and the carrying value of goodwill and other intangible 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 constructive obligation as a result of a past event and when it is probable 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 estimate 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 non-current liabilities.

Taxes

Taxes are reported in the income statement 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 probable that they will entail lower tax payments in the future.

Employee benefits

Short-term compensation

Short-term compensation paid to employees is calculated without discounting and is reported as an expense when the related services were performed. A provision for estimated variable compensation is reported when the Group has a legal or constructive obligation to make such payments due to the fact that the services in question have been received from the employees and the provision amount can be estimated in a reliable manner.

Post-employment compensation

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 retirement and future salary levels. Actuarial gains and losses arise either when an assumption changes or when the actual outcome deviates from underlying assumptions. The net value of actuarial gains and losses affects earnings to the extent these fall outside a corridor of 10%. The limit of the corridor is determined by the larger of the present value of the defined benefit obligation and the fair value of the plan assets. The net amount of the actuarial gains and losses that exceeds the corridor limit is apportioned over the employees' average remaining service period, beginning with the year after the current financial year. Calculations of defined benefit pension plans are performed by an independent external actuary.

When there is a difference between how the service 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 2006 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. See also Note 27.

Severance benefits

A provision is reported in connection with employee dismissals 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 cases where 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.

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 an 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 share premium 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 equity (to the share premium reserve for the Parent Company). The interest cost is reported in the income statement and is calculated in accordance with the effective interest method. At year-end 2006, the Axfood Group did not have any outstanding convertible debentures.

Contingent liabilities/financial guarantees

A contingent liability is reported when there is a possible obligation that stems from past events 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 probable that an outflow of resources will be required.

The Group's financial guarantee agreements consist mainly of guarantee commitments primarily to franchise stores. Financial guarantee agreements are reported initially at fair value, i.e., normally in the amount the issuer received in compensation for

issuing the guarantee. Upon subsequent valuation, the liability is dissolved and applied to income in the income statement as earned, to the extent it is not probable that the issuer will be forced to fulfil its payment liability pursuant to the guarantee. In such case, this amount is reported as a provision. Axfood charges fees to the stores for guarantee agreements on a continuing basis, which is why the guarantee agreements are not expenses until an outflow of resources is probable. The fees are in line with the going-rate in the market.

Share repurchases

Payment for share repurchases, including any transaction costs, is reported as a decrease of profit brought forward. Payment from the sale of treasury shares is reported as an increase in profit brought forward.

Parent Company accounting principles

The Parent Company complies with the Swedish Annual Accounts Act and SFASC recommendation RR 32:05 Reporting for Legal Entities. Application of RR 32 entails that the Parent Company, in the annual report for the legal entity, shall comply with all EU-approved IFRSs and pronouncements as far as possible within the framework of the Annual Accounts Act, the Pension Obligations Vesting Act ("Tryggandelagen"), and taking into account the connection between reporting and taxation. The differences between the Parent Company's and Group's accounting principles are described below.

Changed accounting principles

Starting on 1 January 2006, Axfood applies the stipulations in the Annual Accounts Act, Ch. 4, §14, para. a–e, on measurement of certain financial instruments at fair value and on hedge accounting. The new accounting principles for the Parent Company are in agreement with the corresponding accounting principles for the consolidated accounting. The new rules have no effect on the Parent Company's income statement, balance sheet, cash flow statement or shareholders' equity.

Subsidiaries and associated companies

Participations in subsidiaries are reported in the Parent Company in accordance with the purchase method. Income is reported only with respect to dividends received under the condition that they stem from profits earned after the time of acquisition. Dividends that exceed these earned profits are considered as a repayment of the investment and reduce the reported value of the participation.

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 concern 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 guarantees

The Parent Company applies the relief rule in RR 32:06.72, which entails that legal entities are not required to apply the rule in IAS 39 pertaining to the reporting of guarantee agreements for the benefit of subsidiaries and associated companies. In these cases, the rules of IAS 37, sections 14 and 36, are applied, which entail that financial guarantee agreements are to be reported as a provision in the balance sheet when Axfood has a legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. In addition, it must be possible to make a reliable estimate of the amount of the obligation.

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 state-

ments, 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 profits after deducting their current tax effect.

Mergers

During the year, ten 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 2007

Starting on 1 January 2007, the Parent Company applies no new accounting principles compared with 2006.

2. Segment reporting

Per business segment	Hemköp		Willys		Axfood Närliivs		Dagab	
	2006	2005	2006	2005	2006	2005	2006	2005
Earnings								
External net sales	5,829	6,198	15,115	13,926	4,570	4,680	3,127	3,097
Internal net sales							17,445	16,390
Net sales	5,829	6,198	15,115	13,926	4,570	4,680	20,572	19,487
Operating profit in associated companies	1	1						
Operating profit (EBIT) per business segment	79	30	558	506	108	103	226	272
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	1,108	1,245	2,061	2,099	665	620	3,089	3,249
Shares in associated companies	3	3						
Undistributed assets								
Total assets								
Liabilities	719	846	1,549	1,644	565	525	1,936	2,092
Undistributed liabilities								
Total liabilities								
Capital expenditures*	91	126	230	220	34	25	65	40
Depreciation/amortization	136	132	205	195	24	24	45	42
Significant costs not corresponding to outgoing payments	0	0	0	0	0	0	0	0

Per business segment	Other units		Eliminations		Total continuing operations		Discontinued operation		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Earnings										
External net sales	167	185			28,808	28,086		4,920	28,808	33,006
Internal net sales	780	663	-18,225	-17,053	0	0				
Net sales	947	848	-18,225	-17,053	28,808	28,086		4,920	28,808	33,006
Operating profit in associated companies		3			1	4		-2	1	2
Operating profit/loss (EBIT) per business segment	137	137			1,108	1,048		-49	1,108	999
Undistributed costs					96	-8			96	-8
Operating profit (EBIT)					1,204	1,040		-49	1,204	991
Undistributed net financial items					-21	-14			-21	-14
Tax cost for the year					-331	-297		2	-331	-295
Profit/loss for the year from continuing operations					852	729		-47	852	682
Loss for the year from discontinued operation						-47				
Net profit for the year					852	682			852	682
Of which, majority owner's share					852	687			852	687
Of which, minority owner's share						-5				-5
Other data										
Assets	6,658	7,597	-7,562	-8,456	6,019	6,354		1,219	6,019	7,573
Shares in associated companies					3	3		-39	3	-36
Undistributed assets					53	23		9	53	32
Total assets					6,075	6,380		1,189	6,075	7,569
Liabilities	2,769	3,387	-4,507	-5,202	3,031	3,292		762	3,031	4,054
Undistributed liabilities					624	571			624	571
Total liabilities					3,655	3,863		762	3,655	4,625
Capital expenditures*	167	164			587	575		55	587	630
Depreciation/amortization	64	45			474	438		49	474	487
Significant costs not corresponding to outgoing payments	0	0			0	0		51	0	51

Per geographic market	Net sales		Operating profit (EBIT)		Assets		Capital expenditures *	
	2006	2005	2006	2005	2006	2005	2006	2005
Sweden (continuing operations)	28,808	28,086	1,204	1,040	6,075	6,380	587	575
Finland (discontinued operation)	–	4,920	–	-49	–	1,189	–	55
Total	28,808	33,006	1,204	991	6,075	7,569	587	630

* Tangible and intangible assets.

3. Acquired operations

During the year, no operations were acquired by the Group. During the period 31 December 2006 to 12 February 2007, no operations were acquired by the Group.

Acquisitions in preceding year

During the preceding 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 acquisitions in 2005 amounted to SEK 352 m. The purchase price for acquired companies amounted to SEK 180 m, and for assets SEK 172 m. 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 assets were adjusted in the amount of SEK +1 m. Additional adjustments of reported values to fair value according to IFRS were not necessary.

No intangible assets other than goodwill were identified. The goodwill that Axfood 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 in 2005. For all acquisitions, Axfood's ownership stake after the acquisitions amounts 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 in 2005 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 assets	-18	-70	-88
Financial assets	9		9
Inventories	-40		-40
Accounts receivable – trade	-2		-2
Other current receivables	-12		-12
Cash and cash equivalents	-82	-1	-83
Non-current 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 and liabilities from operations were acquired in 2005:

	In continuing operations	In discontinued operation	Total
Goodwill	-132	-5	-137
Tangible assets	-40	–	-40
Total purchase price	-172	-5	-177
Impact of acquisition of assets and liabilities on cash and cash equivalents since the start of the year	-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 preceding year's change in consolidated goodwill in general, see Notes 4 and 17. No goodwill was acquired in 2006.

Parent Company

During the year, the Parent Company increased the value of participations in Group companies by SEK 18 m (–). The increase is attributable to intra-group restructuring.

4. Discontinued operations

Sale of Spar Finland

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 loss is reported on a separate line in the consolidated income statement. 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 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 condensed presentation of Spar Finland's income statement and balance sheet.

Income statement		
SEK m	2006	2005
Net sales	–	4,920
Cost of goods sold	–	-4,661
Gross profit	–	259
Selling expenses	–	-285
Administrative expenses	–	-26
Share of profit in associated companies	–	1
Other operating income	–	3
Other operating expense	–	-1
Operating loss	–	-49
Interest income and similar profit/loss items	–	7
Interest expense and similar profit/loss items	–	-7
Loss before tax	–	-49
Current tax	–	9
Deferred tax	–	-7
Net loss for the year	–	-47

Balance sheet		
SEK m	2006	2005
ASSETS		
Non-current assets		
Intangible assets		
Goodwill	–	73
Other intangible assets	–	14
	–	87
Tangible assets		
Land and buildings	–	311
Equipment, tools and fixtures	–	213
Construction in progress	–	1
	–	525
Financial assets		
Participations in associated companies	–	94
Other long-term securities holdings	–	2
Other non-current receivables	–	8
	–	104
Deferred tax assets	–	5
Total non-current assets	–	721
Current assets		
Inventories	–	110
Accounts receivable – trade	–	239
Current tax assets	–	9
Other current receivables	–	3
Prepaid expenses and accrued income	–	22
	–	383
Cash and cash equivalents	–	85
Total current assets	–	468
TOTAL ASSETS	–	1,189
LIABILITIES		
Majority owner's share of shareholders' equity	–	427
Minority owner's share of shareholders' equity	–	1
Total shareholders' equity	–	428
Non-current liabilities		
Provision for pensions and similar obligations	–	7
Liabilities to credit institutions	–	28
Other interest-bearing liabilities	–	68
Other non-current liabilities	–	31
	–	134
Current liabilities		
Liabilities to credit institutions	–	8
Other interest-bearing liabilities	–	136
Accounts payable – trade	–	17
Liabilities to associated companies	–	385
Other current liabilities	–	19
Accrued expenses and deferred income	–	62
	–	627
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	–	1,189

Other sold operations

During the year, nine store operations/bakeries were sold. In the preceding year, two stores were sold. As in the preceding year, divestments during the year pertained solely to the sale of operating assets and liabilities. These sales are not – neither singly nor together – of such magnitude that they need to be reported separately as discontinued operations in the income statement and balance sheet.

Impact on cash flow of divested/sold operations

Cash flow from sales of operations during the year is shown in the following table:

	Group
Consolidated values in the balance sheet of sold companies during the year, net as per the above	428
Less/plus:	
minority owner's share of equity	-120
accumulated foreign exchange differences	-20
unpaid transaction costs	25
Purchase price, including transaction costs	313
Cash and cash equivalents in sold companies	-85
Net cash flow from sales of companies	228
Cash flow from sales of business assets and liabilities	8
Total cash flow from sales of operations	236
	Parent Company
Purchase price	338
Less:	
transaction costs	-25
Total cash from sales of operations	313

All purchase prices for sales of operations during the year, both in the Group and Parent Company, have been settled.

5. Breakdown of income

Group	2006	2005
Net sales:		
Sales of products	28,590	27,860
Other	218	226
Total	28,808	28,086

6. Breakdown of expenses

Group	2006	2005
Cost of goods for resale	23,144	22,631
Payroll costs	3,018	2,994
Depreciation/amortization	474	438
Other	1,268	1,167
Total	27,904	27,230

7. Information on intra-group revenues and expenses

The Parent Company's revenues from subsidiaries amounted to SEK 153 m (94). The Parent Company's expenses from subsidiaries amounted to SEK 35 m (25). The Parent Company's sales to subsidiaries consisted mainly of compensation to cover shared costs for rents, central administration and shared systems. The Parent Company's compensation from subsidiaries consists mainly of compensation for system support.

8. Information on employees; compensation of directors, the CEO and other senior executives

Average number of employees ¹⁾	2006	Of whom, men	2005	Of whom, men
Parent Company				
Sweden	93	23	101	27
Subsidiaries				
Sweden	6,914	3,141	6,965	3,173
TOTAL, GROUP	7,007	3,164	7,066	3,200

¹⁾ A full-time employee is calculated on the basis of 1,800 hours.

Wages, salaries and other remuneration, and social security charges	2006			2005		
	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	51	30	14	54	34	15
Subsidiaries						
Sweden	2,047	792	99	1,992	837	173
TOTAL, GROUP	2,098	822	113	2,046	871	188

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

Gender breakdown, Group	Boards		Company management	
	2006	2005	2006	2005
Men	28	26	57	58
Women	5	5	7	6
Total	33	31	64	64

Gender breakdown, Parent Company	Board of Directors		Company management	
	2006	2005	2006	2005
Men	3	4	7	8
Women	4	4	2	1
Total	7	8	9	9

The share of sickness-related absence lasting for an uninterrupted period of 60 days or more is 65% (57%).

Sickness-related absence as % of total working time	Men		Women		Total	
	2006	2005	2006	2005	2006	2005
Parent Company						
< 29 years	2.06	0.98	2.14	1.25	2.12	1.16
30–49 years	0.68	1.59	5.26	3.08	4.42	2.82
> 50 years	0.71	0.32	7.32	7.21	5.01	4.64

Wages, salaries and other remuneration, broken down by company directors, etc., and other employees	2006			2005		
	Boards, presidents and vice presidents	Other employees		Boards, presidents and vice presidents	Other employees	
Parent Company						
Sweden	13 ¹⁾	38		18 ¹⁾	36	
Subsidiaries						
Sweden	18 ²⁾	2,029		12 ²⁾	1,980	
TOTAL, GROUP	31	2,067		30	2,016	

¹⁾ Of the year's costs, SEK 2 (2) pertains to boards, SEK 6 m (8) to presidents, and SEK 5 m (8) to vice presidents, of which, variable compensation to presidents SEK 2 m (1) and vice presidents 2 (1).

²⁾ Of which, variable compensation SEK 3 m (1).

Wages, salaries and other remuneration paid to senior executives, SEK 000	Base salary/directors' fees	Variable compensation	Other benefits	Pension cost	Other compensation	Total
2006						
Chairman of the Board ^{1, 2)}	425	–	–	–	–	425
Other board members ²⁾	1,524	–	–	–	–	1,524
CEO	4,242	85	334	1,343	–	6,004
Other senior executives ³⁾	11,226	883	463	5,043	2	17,617
Total	17,417	968	797	6,386	2	25,570

2005						
Chairman of the Board	392	–	–	–	–	392
Other board members	1,285	–	–	–	–	1,285
CEO Mats Jansson, through October 2005	6,748	507	99	3,279	–	10,633
CEO Anders Strålmán, from October 2005	700	–	49	223	–	972
Other senior executives ⁴⁾	13,958	1,999	641	7,827	5	24,430
Total	23,083	2,506	789	11,329	5	37,712

¹⁾ Mats Jansson, SEK 250,000 and Göran Ennerfelt, SEK 175,000.

²⁾ During 2006, 75% of directors' fees for 2006 and 25% of directors' fees for 2005 was paid out.

³⁾ The Axfood Group's executive management in 2006 (excluding the CEO): Lars Nilsson, Urban Dahl, Benny Hast, Louise Ring, Mats Sjödahl, Håkan Åkerström, Per Uebel and Cecilia Giertha.

⁴⁾ The Axfood Group's executive management in 2005 (excluding the CEO): Anders Strålmán (through October), Lars Nilsson, Urban Dahl, Thomas Strömer, Carl-Erik Möller, Benny Hast, Mats Sjödahl, Louise Ring and Anders Agerberg.

Comments, Note 8

Board of Directors

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 employee representatives do not receive any directors' fees. According to a decision by the 2006 Annual General Meeting, the annual fee payable to directors was set at SEK 2,100,000 (1,670,000), of which SEK 450,000 (400,000) is payable to the Chairman. Seventy-five per cent of the fee was paid out in 2006, and the remainder will be paid out after year-end.

CEO

Axfood's CEO, Anders Strålmán, received salary and other benefits in 2006 totalling SEK 4.7 m (0.7), including SEK 0.1 m (–) in variable compensation. The CEO's variable compensation is based on the performance and development of the business. The variable compensation can amount to a maximum of 70% of his yearly 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 2009 Annual General Meeting, provided he is still employed.

In addition, the CEO has a taxable housing and travel benefit, a car benefit and private healthcare insurance. The CEO is entitled to retirement pension from 65 years of age, and a right to provisions corresponding to 35% of his yearly cash salary. The provision as per 31 December 2006 amounted to SEK 1.6 m (0.2). 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

Other senior executives received salary and other benefits amounting to a total of SEK 12.6 m (16.6), including variable compensation of SEK 0.9 m (2.0). By other senior executives is meant the eight persons who together with the CEO form Axfood's executive management. See pages 80–81 for the composition of the executive management. 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 the executives' yearly salary. These executives have customary terms of employment and are entitled to salary during the period of notice plus severance pay corresponding to 18 months' salary, on account. 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 equivalent to 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, within the principles decided on by the Annual General Meeting.

9. Auditors' fees

	Group		Parent Company	
	2006	2005	2006	2005
KPMG				
Auditing fees	4	4	1	1
Fees for other consulting	1	1	0	0
Total	5	5	1	1

10. Depreciation and amortization

Scheduled depreciation broken down by function.

Group	Other intangible assets		Land and buildings		Equipment, tools and fixtures		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Cost of goods sold	5	4	–	0	330	332	335	336
Selling expenses	–	–	0	0	67	46	67	46
Administrative expenses	20	18	0	0	52	38	72	56
Total, continuing operations	25	22	0	0	449	416	474	438
Depreciation/amortization pertaining to discontinued operations	–	1	–	11	–	37	–	49
Total depreciation/amortization	25	23	0	11	449	453	474	487

The Parent Company's depreciation of SEK 8 m (3) pertains to equipment, tools and fixtures and is reported under administrative expenses.

11. Operating leases

Continuing operations	Group		Parent Company	
	2006	2005	2006	2005
Minimum lease payments during the financial year	889	880	22	10
Variable charges	47	32	–	–
Total lease payments during the financial year ¹⁾	936	912	22	10
Leasing income pertaining to sublet premises	139	140	19	–
Contracted future minimum lease payments				
Within one year	895	880	21	19
Between one and five years	2,060	1,950	90	86
Longer than five years	627	330	–	25
Total future lease payments	3,582	3,160	111	130

¹⁾ Of which, rents for premises SEK 916 m (870) for the Group and SEK 20 m (9) 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.

12. Related party transactions

The Axfood Group's transactions with related parties, aside from those covered by the consolidated accounting, consist of transactions with associated companies and with subsidiaries of the Axel Johnson Group. During the year purchases from associated companies amounted to SEK 3 m (4,861). In the preceding year, purchases from Tuko Logistics Oy (Spar Finland's partly owned wholesaling operation) amounted to SEK 4,860 m. Sales to associated companies totalled SEK 96 m (108) and consisted primarily of sales of goods. All prices are set at going rates in the market.

Axfood AB is 44.5%-owned (of the capital) 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. Purchases in 2006 from Servera amounted to SEK 137 m (116). Axfood's sales to Servera in 2006 amounted to SEK 40 m (33). As per 31 December 2006, the Axfood Group's current liabilities to Servera amounted to 9 (–), and current receivables totalled SEK 2 m (5).

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 78 m (121) in rents to Axfast AB. All rents have been set according to going rates in the market. As per 31 December 2006, the Axfood Group's current liabilities to Axfast AB amounted to SEK 14 m (19).

Associated companies' holdings of shares in Axfood AB amounted to a total of 300 shares as per 31 December 2006, corresponding to SEK 1,500 in share capital. In the preceding year, their total holding amounted to 1,500 shares, corresponding to SEK 7,500 in share capital.

13. Result from participations in Group companies

	Parent Company	
	2006	2005
Dividends received	–	3
Capital gain on sale of subsidiary	–	5
Write-downs	–	-19
Total	–	-11

14. Net financial items

	Group		Parent Company	
	2006	2005	2006	2005
Result from participations in Group companies	–	–	–	-11
Interest income ¹⁾	7	11	10	7
Other financial income	0	0	–	–
Total financial income	7	11	10	-4
Interest expense ²⁾	-27	-24	-7	-4
Other financial expenses	-1	-1	-1	-1
Total financial expenses	-28	-25	-8	-5
Net financial items	-21	-14	2	-9

¹⁾ Interest income in the Parent Company from Group companies amounted to SEK 6 m (1).

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

15. Appropriations and untaxed reserves

	Parent Company	
	2006	2005
Appropriations		
Change in tax allocation reserve	–	672
Change in accumulated excess depreciation	0	-7
Total	0	665
Untaxed reserves		
Accumulated excess depreciation	9	9
Total	9	9

16. Taxes

	Group		Parent Company	
	2006	2005	2006	2005
Current tax				
Current tax on profit for the year	-332	-572	-12	-172
Adjustment of current tax from previous years	4	-4	4	-4
	-328	-576	-8	-176

Deferred tax				
Deferred tax pertaining to temporary differences	1	279	1	5
Adjustment of deferred tax pertaining to previous years	-4	–	-4	–
	-3	279	-3	5

Total reported tax charge	-331	-297	-11	-171
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Group – reconciliation of applicable tax rate and effective tax rate				
	2006	%	2005	%
Reported profit before tax	1,183		1,026	
Tax according to applicable tax rate for Group	-331	-28	-287	-28
Tax effect of:				
Tax on tax allocation reserve	–		-9	-1
Other non-deductible expenses	-3	0	-3	0
Other tax-exempt revenues	3	0	2	0
Adjustments of current tax pertaining to previous years	0	0	–	
Adjustments of deferred tax pertaining to previous years	0	0	–	
Reported tax charge/effective tax rate	-331	-28	-297	-29

Current and deferred tax items reported directly against shareholders' equity	–		–	
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Parent Company – reconciliation of current tax rate and effective tax rate				
	2006	%	2005	%
Reported profit before tax	44		577	
Tax according to applicable tax rate for Parent Company	-12	-28	-162	-28
Tax effect of:				
Tax on tax allocation reserve	–		-5	-1
Other non-deductible expenses	-1	-2	-6	-1
Tax-exempt capital gains	–		2	0
Other tax-exempt revenues	2	5	–	
Reported tax charge/effective tax rate	-11	-25	-171	-30

Current and deferred tax items reported directly against shareholders' equity	-299		-378	
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	Group		Parent Company	
	2006	2005	2006	2005
Reported deferred tax assets and tax liabilities				
Intangible assets	-21	-11	–	–
Equipment, tools and fixtures	7	6	–	–
Other receivables	15	17	–	–
Tax-loss carryforward	1	1	–	–
Untaxed reserves	-127	-137	–	–
Provisions	1	3	9	12
Other liabilities	1	2	–	–
Total deferred tax asset (+)/deferred tax liability (–), net	-123	-119	9	12
Deferred tax asset	34	38	9	12
Deferred tax liability	-157	-157	–	–

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

Change in deferred tax in temporary differences and tax-loss carryforwards during the year, Group	Amount at start of year	Reported in income statement	Plus: from acquired operations	Amount at end of year
Intangible assets	-11	-10	–	-21
Equipment, tools and fixtures	6	1	–	7
Other receivables	17	-2	–	15
Tax-loss carryforward	1	–	–	1
Untaxed reserves	-137	11	-1	-127
Provisions	3	-2	–	1
Other liabilities	2	-1	–	1
Total	-119	-3	-1	-123

17. Intangible assets

Group	Goodwill		Intangible assets in progress		Other intangible assets	
	31/12/06	31/12/05	31/12/06	31/12/05	31/12/06	31/12/05
Opening cost	1,131	995	85	43	158	172
Investments	–	255	102	71	–	–
(of which, internally developed)	–	–	(-32)	(-24)	–	–
Sales and disposals	–	–	–	0	–	-1
Translation differences	–	5	–	0	–	2
Reclassifications	–	–	-10	-24	10	24
(of which, internally developed)	–	–	(-3)	(-11)	(3)	(11)
Assets reported as discontinued operation	–	-124	–	-5	–	-39
Closing accumulated cost	1,131	1,131	177	85	168	158
Opening amortization	–	–	–	–	-84	-91
Sales and disposals	–	–	–	–	–	1
Translation differences	–	–	–	–	–	-2
Amortization for the year	–	–	–	–	-25	-23
Assets reported as discontinued operation	–	–	–	–	–	31
Closing accumulated amortization	–	–	–	–	-109	-84
Opening impairment	–	–	–	–	–	–
Impairment for the year	–	-51	–	–	–	–
Impairment reported as discontinued operation	–	51	–	–	–	–
Closing accumulated impairment	–	–	–	–	–	–
Closing planned residual value	1,131	1,131	177	85	59	74

Goodwill

The Group's reported goodwill for continuing operations as per 31 December 2006 is broken down per segment as follows:

Hemköp	203
Willlys	371
Axfood Närlivs	40
Dagab	517
Total	1,131

Intangible assets in progress and other intangible assets

The Group's intangible assets in progress and other intangible assets consist exclusively of capitalized costs for IT development. 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 amortization period for reported intangible assets is five years. The useful life of all intangible assets except for goodwill is limited.

Amortization of other intangible assets is broken down in the income statement in accordance with Note 10.

Impairment testing of intangible assets

Estimations of the value of the Group's goodwill items and other intangible assets have been made based on the cash-generating units' benefit in use. 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 assets. The remaining useful life varies between four and seven 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 2007 for the respective units. Thereafter, the cash flows are based on assumed annual growth of 3%. The forecast cash flows have been discounted to present value using a discount rate of 5.9% after tax, which corresponds to a discount rate before tax of 14%-21%, depending on the length of the period in use. The discount rate corresponds to Axfood's estimated average cost of capital, i.e., the weighted sum of the required rate of return on equity and the cost of externally borrowed capital. The required rate of return on equity is based on an assumption of risk-free interest of 4%, a going-rate risk premium of 5%, and a beta coefficient of 0.41. The beta coefficient shows the relationship between the price of Axfood's shares and changes in a benchmark index. With a discounting factor of 5.9%, the benefit in use exceeds the reported value for all tested units. Thus there is no need to recognize impairment as per 31 December 2006.

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 2007 business plan that forms the basis for cash flow calculations, Company management has made an assumption on like-for-like price and volume development of +1.6%, which is based on estimates performed by Company management and external parties on the price and volume trend in Sweden for retail food products in Axfood's product offering. These estimates are 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.

18. Tangible assets

Group	Land and buildings ^{1) 2)}		Equipment, tools and fixtures		Construction in progress	
	31/12/06	31/12/05	31/12/06	31/12/05	31/12/06	31/12/05
Opening cost	13	355	3,612	3,708	48	19
Investments	–	4	433	519	52	74
Increases through acquisitions	–	70	–	90	–	–
Sales and disposals	-7	-18	-286	-220	–	–
Translation differences	–	14	–	23	–	-1
Reclassifications	–	–	49	40	-49	-43
Assets pertaining to discontinued operations	–	-412	–	-548	–	-1
Closing accumulated cost	6	13	3,808	3,612	51	48
Opening depreciation	-4	-95	-2,178	-2,160	–	–
Increases through acquisitions	–	–	–	-70	–	–
Sales and disposals	1	10	235	178	–	–
Translation differences	–	-4	–	-15	–	–
Impairment for the year	0	-11	-449	-453	–	–
Assets pertaining to discontinued operations	–	96	–	342	–	–
Closing accumulated depreciation	-3	-4	-2,392	-2,178	–	–
Opening impairment	–	–	-4	-4	–	–
Closing accumulated impairment	–	–	-4	-4	–	–
CLOSING PLANNED RESIDUAL VALUE	3	9	1,412	1,430	51	48

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

²⁾ The cost of land was SEK – m (4).

Parent Company	Land and buildings		Equipment, tools and fixtures	
	31/12/06	31/12/05	31/12/06	31/12/05
Opening cost	7	7	42	14
Investments	–	–	1	33
Investments by other Group companies	–	–	–	1
Sales and disposals	-7	–	-1	-6
Closing accumulated cost	–	7	42	42
Opening depreciation	-1	0	-7	-10
Investments by other Group companies	–	–	–	0
Sales and disposals	1	–	1	6
Depreciation for the year	0	-1	-8	-3
Closing accumulated depreciation	–	-1	-14	-7
CLOSING PLANNED RESIDUAL VALUE	–	6	28	35

19. Government support

Government grants in the form of labour market policy grants amounted to SEK 1 m (2) in the consolidated balance sheet (reported under prepaid income) and SEK 31 m (24) in the consolidated income statement, which have reduced payroll costs. No other unfulfilled conditions or contingent liabilities exist.

20. Finance leases

Group	Equipment, tools and fixtures	
	31/12/06	31/12/05
Opening cost	102	160
Increases through acquisitions	–	1
Investments	36	37
Sales and disposals	-31	-31
Less: discontinued operations	–	-65
Closing accumulated cost	107	102
Opening depreciation	-49	-57
Increases through acquisitions	–	-1
Sales and disposals	17	18
Depreciation for the year	-16	-20
Less: discontinued operations	–	11
Closing accumulated depreciation	-48	-49
CLOSING PLANNED RESIDUAL VALUE	59	53

Finance lease liabilities falling due for payment:	Minimum lease payments	Minimum lease payments
	2006	2005
Within one year	24	24
Between 1 and 5 years	35	29
After 5 years	–	–
Total current and long-term liability	59	53

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
Hemköpskedjan AB	556113-8826	Solna	100,000	100	226
Axfood Sverige AB	556004-7903	Solna	3,434,656	100	1,548
Willys AB	556163-2232	Gothenburg	1,000	100	198
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, Group companies					3,015

22. Participations in associated companies

Group	2006	2005
Accumulated cost		
Opening cost	0	131
Translation difference	–	6
Divestments	0	-4
Assets pertaining to discontinued operation	–	-133
Closing cost	0	0
Adjustments of shareholders' equity pertaining to investments in associated companies		
Opening carrying amount	3	-23
Share in profit before tax	1	4
Translation difference	–	-2
Dividend received	0	-2
Divestments and other changes	-1	-13
Assets pertaining to discontinued operation	–	39
Closing carrying amount	3	3
Total	3	3

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
Kvarnkullens Livs i Mellerud AB	556188-2985	Mellerud	250	25	0	0
Nya Vårgårda Matmarknad AB	556085-9653	Vårgårda	250	25	0	2
United Nordic Inc AB	556043-4606	Solna	250	25	0	0
Total					0	3

23. Financial 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, 1/1/2006	3,303	3	19	42	0
Acquisitions	18	–	–	–	–
Disposals/amortization	-288	-1	–	-1	–
Accrued income	–	–	–	24	24
Share in associated company profits, after tax	–	1	–	–	–
Dividends received	–	0	–	–	–
Closing accumulated cost	3,033	3	19	65	24
Opening impairment	-18	–	0	-32	–
Closing accumulated impairment	-18	–	0	-32	–
CLOSING RESIDUAL VALUE	3,015	3	19	33	24

24. Non-current and current receivables

	Group		Parent Company	
	31/12/06	31/12/05	31/12/06	31/12/05
Non-current non-interest-bearing receivables	9	10	–	–
Non-current interest-bearing receivables	24	–	24	–
Total other non-current receivables	33	10	24	–
Other non-interest-bearing receivables	72	109	4	5
Other interest-bearing receivables	13	–	14	–
Total other current receivables	85	109	18	5

25. Prepaid expenses and accrued income

	Group		Parent Company	
	31/12/06	31/12/05	31/12/06	31/12/05
Prepaid rents	234	231	5	6
Prepayment of leases	1	1	0	0
Accrued bonuses and similar	332	327	–	–
Accrued interest income	0	1	–	–
Delivered, uninvoiced	12	10	–	–
Other prepaid expenses	40	27	5	7
Other accrued income	11	16	–	–
Total	630	613	10	13

26. Share repurchases

SEK	No. shares	Quota value of repurchased shares	% of shares outstanding	Price paid
Shares repurchased up until 2006 AGM	476,400	2,382,000	0.9%	95,393,251
Shares repurchased after 2006 AGM through 31/12/2006	1,639,750	8,198,750	3.0%	334,472,497
Total	2,116,150	10,580,750	3.9%	429,865,748

At the Annual General Meeting in March 2005, the Board of Directors was granted authorization to repurchase up to 2,000,000 shares during the period extending until the next Annual General Meeting. At the Annual General Meeting in March 2006, the Board was granted a new mandate to repurchase up to 4,000,000 shares. The purpose of the repurchases was to adapt the Company's capital structure to its current operations. No treasury shares were transferred during the year.

27. Provision for pensions and similar obligations

Group	2006	2005
Defined benefit pension plans		
Present value of funded obligations	11	12
Present value of unfunded obligations	385	385
Total present value of obligations	396	397
Fair value of plan assets	-9	-11
Present value of net obligations	387	386
Unreported actuarial losses	-37	-39
Net liability on balance sheet	350	347
Amounts reported on balance sheet		
• provisions	350	347
• assets	–	–
Net liability on balance sheet	350	347

Of Axfood's defined benefit pension plans in Sweden, SEK 320 m (320) consist of obligations within the FPG/PRI system. Of these obligations, SEK 247 m (251) 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 separate funded pension plans, of which one is managed by the Axel Johnson pension foundation. Axfood is entitled to benefits from the foundation in maximum amounts corresponding to the pension obligation, which entails that the pension plan will not at any time give rise to a net asset on Axfood's balance sheet. The obligation is reported net and amounted to SEK 0 (0) on 31 December. The actual return on plan assets was SEK 0 m (1), which corresponded to the anticipated return. No fees were paid in to the foundation during the year. During the year, SEK 1 m (0) was received in compensation from the foundation.

Changes of the present value of defined benefit obligations	2006	2005
Obligations for defined benefit plans as per 1 January	397	385
Benefits paid	-21	-19
Current service cost	6	-1
Interest cost	16	16
Actuarial gains and losses	-2	24
Less: attributable to discontinued operation	–	-10
Early retirement agreements	0	2
Obligations for defined benefit plans as per 31 December	396	397

Costs reported in the income statement	2006	2005
<i>Defined benefit pension plans</i>		
Benefits earned during the year	7	-1
Interest cost	16	16
Actual return on plan assets	0	-1
Net actuarial gains/losses reported for the year	0	–
Total	23	14
<i>Defined contribution pension plans</i>		
Costs during the period ¹⁾	107	190
Total pension cost	130	204

¹⁾ Pension insurance contributions made during the year to Alecta for pension insurance under the ITP plan amounted to SEK 33 m (30). Alecta's surplus can be apportioned among the policyholders and/or the insureds. At year-end 2006, Alecta's surplus in the form of its collective funding ratio was 143.1% (128.5%). 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 computation assumptions, which is not compatible with IAS 19.

Pension costs are broken down per function in the income statement as follows:

	2006	2005
Cost of goods sold	61	91
Selling expenses	22	45
Administrative expenses	31	52
Interest cost	16	16
Total	130	204
<i>Change in net liability during the year</i>		
Net liability at start of year	347	358
Less: attributable to discontinued operation	–	-8
Reclassification	–	2
Compensation from pension foundation	1	0
Net expense in income statement	23	14
Pension disbursements	-21	-19
Net liability at end of year	350	347

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

	31/12/06	31/12/05
Discount rate	4.0%	4.0%
Future annual salary increases	3.0%	3.0%
Future annual pension increases	2.0%	2.0%
Employee turnover rate	3.8%	4.0%

Historical information	2006	2005	2004
Present value of defined benefit obligations	396	397	385
Fair value of plan assets	-9	-11	-12
Deficit in plan	387	386	373

An experience-based adjustment of plan liabilities in 2006 amounted to SEK -2 m.

The Group estimates that approximately SEK 20 m will be paid out from defined benefit plans in 2007.

Parent Company

The Parent Company's reported pension liability amounted to SEK 25 m (23) and pertains to obligations to the current and former CEOs. All pension obligations to the current and former CEOs are reported on the balance sheet. The Parent Company does not have any special, detachable assets linked to its pension obligations, which is why the entire present value is reported on the balance sheet. The change in the present value is shown below.

Reported capital value of pension obligations	2006	2005
Reported capital value on 1 January	23	20
Cost excluding interest cost	1	2
Interest costs	1	1
Reported capital value of pension obligations on 31 December	25	23

Of the Parent Company's reported pension liability, SEK 25 M (23) has credit insurance cover via FPG.

Pension costs	2006	2005
<i>Own undertakings</i>		
Liability revaluation of undertaking	1	2
Interest costs	1	1
Total	2	3
<i>Undertakings through insurance</i>		
Insurance premiums ¹⁾	11	13
Special employer's payroll tax on pension costs	3	3
Cost for credit insurance premiums	0	0
Total	14	16
Pension costs for the year	16	19

¹⁾ Of which, to Alecta pertaining to pension insurance according to the ITP plan, totalling SEK 3 m (3).

Assumptions for defined benefit obligations

The terms of the pension agreements entered into by the Parent Company entail that the value of the obligations is adjusted upward each year by an average of 3%.

28. Fair value of financial instruments

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

29. Non-current and current interest-bearing liabilities

	Group		Parent Company	
	31/12/06	31/12/05	31/12/06	31/12/05
Committed credit lines				
Long-term committed credit lines	200	200	200	200
Bank overdraft facilities	550	450	550	450
Total committed credit lines	750	650	750	650
Drawn long-term credit lines	–	–	–	–
Drawn bank overdraft facilities	-58	–	-58	–
Cash and bank balances	369	639	1	358
Total committed credit lines/refinancing risk reserve	1,061	1,289	693	1,008

	Group		Parent Company	
	31/12/06	31/12/05	31/12/06	31/12/05
Non-current interest-bearing liabilities ¹⁾				
Loans from credit institutions	–	7	–	–
Finance leases	35	29	–	–
Total other non-current interest-bearing liabilities	35	29	–	–
Provisions for pensions and similar obligations	350	347	–	–
Total non-current interest-bearing liabilities	385	383	–	–
Current interest-bearing liabilities				
Liabilities to credit institutions	58	3	58	–
Convertible debenture ²⁾	–	4	–	4
Finance leases	24	24	–	–
Total other current interest-bearing liabilities	24	28	–	4
Total current interest-bearing liabilities	82	31	58	4

¹⁾ Of non-current interest-bearing liabilities, SEK – m (1) 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 took place from 21 January 2005 – 20 March 2006, at the conversion price of SEK 73.

Group	31/12/06	Effective interest rate	31/12/05	Effective interest rate
Interest exposure, liabilities				
Maturity less than 1 year	82	3.80%	31	2.41%
Maturity later than 1 year but less than 5 years	35	4.02%	35	2.60%
Maturity later than 5 years	–	–	1	3.16%
Total interest-bearing liabilities	117	3.87%	67	2.46%
Parent Company	31/12/06	Effective interest rate	31/12/05	Effective interest rate
Interest exposure, liabilities				
Maturity less than 1 year	58	3.72%	4	1.32%
Total interest-bearing liabilities	58	3.72%	4	1.32%

30. Accrued expenses and deferred income

	Group		Parent Company	
	31/12/2006	31/12/2005	31/12/2006	31/12/2005
Payroll-related items	624	643	26	21
Restructuring measures	22	6	–	–
Accrued bonuses and similar	60	56	–	–
Accrued auditing costs	2	2	0	0
Accrued real estate costs	21	15	–	–
Accrued interest	–	0	–	0
Delivered, uninvoiced	181	119	–	–
Other accrued expenses	165	93	42	9
Other deferred income	49	49	–	–
Total	1,124	983	68	30

31. Contingent assets, pledged assets and contingent liabilities

	Group		Parent Company	
	31/12/2006	31/12/2005	31/12/2006	31/12/2005
Pledged assets				
Other pledged assets	2	3	–	–
Total	2	3	–	–

	Group		Parent Company	
	31/12/2006	31/12/2005	31/12/2006	31/12/2005
Contingent liabilities				
Guarantees for subsidiaries	–	–	362	374
Guarantees for others	18	18	2	3
FPG/PRI	7	7	–	–
Other contingent liabilities	4	3	–	–
Total	29	28	364	377

	Group		Parent Company	
	31/12/2006	31/12/2005	31/12/2006	31/12/2005
Pledged assets broken down by own provisions and liabilities				
Other pledged assets	2	3	–	–
Total	2	3	–	–
Total pledged assets for own provisions and liabilities	2	3	–	–

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

32. Exchange rate differences and currency exposure

	Group	
	31/12/2006	31/12/2005
Exchange rate differences reported in the income statement		
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	20	5
Change for the year	-20	15
Exchange rate differences at year-end	–	20

	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	102	102	102	9.05	–
USD	16	16	16	6.90	–
DKK	4	4	4	1.21	–
NOK	2	2	2	1.10	–
Total outstanding currency risk	124	124	124		–

Reported outcome for outstanding currency hedges	2006	2005
EUR	0	-1
USD	0	-1
Other	0	0
Total	0	-2

Transaction exposure

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

Currency	2006	%	2005	%
EUR	876	82.6	856	82.5
USD	104	9.8	95	9.1
DKK	51	4.8	53	5.1
NOK	27	2.6	31	3.0
GBP	1	0.1	2	0.2
CAD	1	0.1	1	0.1
Total	1,060	100.0	1,038	100.0

33. Earnings per share

SEK	Before dilution		After dilution	
	2006	2005	2006	2005
Earnings per share	16.03	12.59	16.03	12.58
Earnings per share from continuing operations	16.03	13.37	16.03	13.35
Earnings per share from discontinued operations	–	-0.78	–	-0.77
	2006		2005	
Net profit for the year after tax pertaining to equity holders of the parent	852		687	
Reversal of interest expense after tax pertaining to convertibles	–		0	
Adjusted net profit pertaining to equity holders of the parent	852		687	
Weighted average number of shares before dilution	53,162,625		54,531,378	
Additional shares upon full conversion	–		52,550	
Total weighted average number of shares after dilutive effect	53,162,625		54,583,928	

The convertible debenture that was issued in January 2001 was redeemed during the year through conversion of 52,450 and redemption of 100 of the 52,550 outstanding convertibles as per 31 December 2005.

34. 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 2007 of the underlying conditions for these assumptions and estimations could have a material 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.

Proposed disposition of the Company's profit

Registered number 556542-0824

The Board of Directors and President propose that the following retained profits, totalling SEK 2,951,285 thousand, be distributed as follows:

Shareholder dividend	
SEK 20.00 per share	
(52,467,678 x SEK 20.00), totalling	1,049,354
To be carried forward	1,901,931
SEK 000s	2,951,285

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 a comprehensive assessment of the Company's and Group's financial position entails that 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 funding needs, liquidity and position in general of the Company and the Group's operations.

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, were approved for publication by the Board of Directors on 12 February 2007. The Consolidated Income Statement and Balance Sheet, and the Parent Company Income Statement and Balance Sheet, will be subject to approval by the Annual General Meeting on 8 March 2007.

Stockholm, Sweden, 12 February 2007

Göran Ennerfelt
Chairman

Marcus Storch
Vice Chairman

Antonia Ax:son Johnson

Peggy Bruzelius

Maria Curman

Gunnar Söderling

Annika Åhnberg

Sven-Erik Brandt

Ulla-May Iwahr Rydén

Inger Sjöstrand

Anders Strålmán
President and CEO

Our audit report was submitted on 12 February 2007

Per Bergman
Authorized Public Accountant

Ola Forsberg
Authorized Public Accountant

Audit Report – translation

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 2006. The annual accounts and the consolidated accounts are presented in the printed version of this document on pages 32–68. 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, 12 February 2007

Per Bergman
Authorized Public Accountant

Ola Forsberg
Authorized Public Accountant

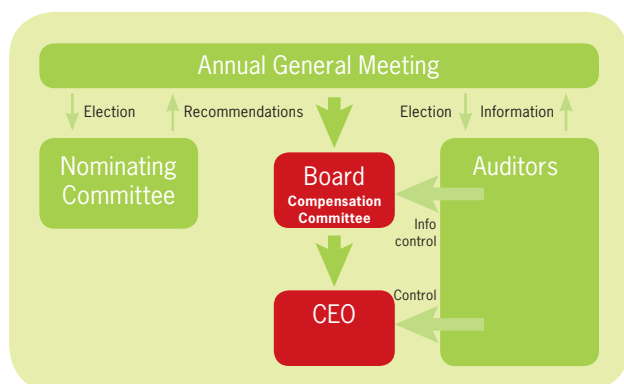
Corporate Governance Report for Axfood AB (publ) 2006

Registered number 556542-0824

Corporate governance at Axfood

Corporate governance at Axfood is designed to create conditions for the exercise of an active and responsible ownership role, to ensure the owners' opportunities to assert their interests vis-à-vis the Company's management, to clarify the delegation of roles and responsibilities between the Company's management and control bodies, and to ensure the highest possible degree of openness towards the Company's owners and the capital market.

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. Corporate governance at Axfood is organized as shown in the following model.



If a company that is subject to the Swedish Code of Corporate Governance 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:

- 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 satisfactory 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 the nominating committee's members must be made not later than six months prior to the Annual General Meeting (AGM). The 2006 AGM resolved in favour of a procedure in which Axfood's main owners, representing more than 40% 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.

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.

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 without conducting such business requiring regulatory approval as referred to in the Banking and Financing Operations Act (*Lagen (2004:297) om bank- och finansieringsrörelse*) 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.

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 the Chairman of the Board. The AGM's duties include, among other things, adopting the Company's balance sheets and income statements, deciding and appropriating 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 the auditors' fees. Further, the AGM 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.



2007 Annual General Meeting

The next Annual General Meeting of shareholders of Axfood AB will be held on 8 March 2007 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 and the Swedish Companies Act.

2006 Annual General Meeting

The Annual General Meeting of shareholders of Axfood AB was held on Thursday, 9 March 2006 in Stockholm.

The following resolutions were made:

■ Election of directors

Axfood's AGM resolved on 9 March 2006 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. Mats Jansson was elected as new Chairman, succeeding Göran Ennerfelt.

■ 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 15, including SEK 9 in ordinary dividend and SEK 6 in extra dividend. The record date was set at Tuesday, 14 March 2006. Dividends were expected to be sent out via VPC AB on Friday, 17 March 2006.

■ Principles for compensation and other terms of employment for the members of the executive management

The AGM resolved in accordance with the Board's proposed principles for compensation and other terms of employment for the members of the executive management. These principles entail that senior executives shall be offered a base salary that is in line with the going rate in the market as well as a variable salary component that is based on Axfood's earnings and sales targets as well as personal targets. The variable compensation for the CEO can amount to a maximum of 70% of his base salary, while for other members of the executive management it can amount to a maximum of 40%–55% of their base salary. Axfood's Compensation Committee sets the targets for the variable compensation component as well as the pension benefits for members of the executive management.

■ 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 repurchases of the Company's own shares, entailing the right for the Board to decide on purchases on the Stockholm Stock Exchange. The authorization pertains to purchases of up to 4,000,000 shares at a price per share that is within the registered price range on the Stockholm Stock Exchange at the time of purchase. In addition, 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 transfer 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.

■ Reduction of the Company's statutory reserve

The AGM resolved to reduce the Company's statutory reserve by SEK 1,699,004,932 from 1,699,004,932 to SEK 0, and that an amount corresponding to the reduction shall be transferred to unrestricted reserves at the AGM's disposal.

■ Amendments to the Articles of Association

The AGM resolved in favour of proposed amendments to the Articles of Association which were necessary for conforming to the adjustments in concepts made in the new Swedish Companies Act in 2006 and the Swedish Code of Corporate Governance.

Nominating Committee

The 2006 AGM resolved to adopt the guidelines proposed by the Board of Directors for appointment of a nominating committee. In brief, these entail that owners who together own shares corresponding to a minimum of 40% of all votes shall appoint a nominating committee with the purpose of, ahead of the Annual General Meeting, making recommendations on the number of directors, the composition of the Board and directors' fees, and on whether any special fee shall be paid for committee work. Further, the committee shall make recommendations on the Chairman of the Board and on a chairman to preside over the Annual General Meeting and, where applicable, on auditors and their fees. The members of the Nominating Committee shall be announced not later than in connection with the release of the third-quarter interim report. The Nominating Committee's recommendations shall be publicly announced in connection with the publication of the notice of the Annual General Meeting.

In connection with its assignment in general, the Nominating Committee shall fulfil the duties which, according to the Swedish Code of Corporate Governance, are incumbent upon the Company's nomination process, and at the request of the Committee, the Company shall provide personnel, such as a secretarial function for the Committee, to facilitate the Committee's work. Where needed, the Company shall also be able to bear reasonable costs for external consultants which are deemed by the Committee to be necessary for the Committee to fulfil its assignment.

Composition of Nominating Committee and number of meetings

Ahead of the 2007 AGM, Axfood AB's main owners in October 2006 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 8 March 2007.

The Nominating Committee has the following composition

Hans Dalborg, committee chair
Antonia Ax:son Johnson, Axel Johnson AB
Stefan Roos, SEB
Joakim Spetz, SHB
Jonas Hillhammar, Axfood's shareholders' association
Göran Ennerfelt, co-opted member

The Chairman of the Board of Axfood (as from 23 October 2006), Göran Ennerfelt, is a co-opted member of the Nominating Committee.

The Vice Chairman of the Board, Marcus Storch, presented an evaluation of the Board's work during the year to the Nominating Committee.

The Nominating Committee discussed this evaluation 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 2007 AGM, the Nominating Committee had one meeting. 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 2007 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 2006 Axfood's board initially had eight AGM-elected members without deputies, and three employee representatives with one deputy. The CEO is not an ordinary member of the Board, but participates at board meetings by making presentations. The members of the Board of Directors are presented on pages 78–79.

The Board constituted itself on 9 March 2006 and elected Marcus Storch as Vice Chairman until the next Annual General Meeting. Three of the AGM-elected directors are independent of Axfood. The company secretary has been Lars Nilsson, Axfood's chief financial officer. Other Axfood employees partici-

pate at board meetings by submitting reports. On 23 October 2006, Mats Jansson resigned from his position as Chairman of the Board, at which time the Board appointed Göran Ennerfelt as the new Chairman. On 11 November 2006, Mats Jansson left Axfood's board at his own request.

The Board's work is governed by a work plan that is adopted each year and stipulates the Board's internal division of duties, decision-making procedures within the Company, signatories, rules of order at board meetings, and the Chairman's duties. The Board's work is conducted according to a set procedure designed to ensure the Board's need of information and 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 deal with compensation matters more in-depth. 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 of 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 is to have at least four meetings per calendar year. In 2006 the Board had eight meetings, of which one was dedicated to strategic discussion and one dealt with the 2007 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.

Apart from continuing follow-up of results and competitor and market analyses, important matters discussed during the year included:

- concept follow-up
- share repurchases
- the appointment of new presidents of Hemköp and Dagab, and of a new head of Corporate Communications

Board of Directors

	Attendance	Independent/ non-independent ¹⁾	Compensation committee	Fee ²⁾ , SEK	Shareholding
Göran Ennerfelt, Chairman	7/8 of which 3 as Chairman	■	3/4 (chair)	318,750	10,000
Maria Curman	8/8	■		225,000	1,000
Antonia Ax:son Johnson	7/8	■	2/4	225,000	24,280,066
Assar Johansson	through meeting no. 4	■			0
Peggy Bruzelius	8/8	■		225,000	1,500
Inger Sjöstrand	8/8	■			0
Hans G. Johansson	through meeting no. 4	■			0
Marcus Storch	8/8	■	4/4	300,000	12,000
Annika Åhnberg	8/8	■		225,000	0
Gunnar Söderling	8/8	■		225,000	300
Mats Jansson	6/8 of which 5 as Chairman	■	3/4	256,250	n/a
Ulla-May Iwahr Rydén	from meeting no. 5	■			0
Sven-Erik Brandt	from meeting no. 5	■			0
Average duration	4 hrs.		2 hrs.		
Total				2,000,000	

■ = 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 the Company and its management as well as to the Company's major shareholders.

■ = Appointed by a union.

■ = Director is to be considered as non-independent with respect to 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. Apart from this, no director received any compensation other than directors' fee. The total directors' fee of SEK 2,000,000 is less than the directors' fee of SEK 2,100,000 decided by the Annual General Meeting, since Mats Jansson left the Board at his own request in November and thus did not receive any directors' fee for the time thereafter.

- the fruits and vegetables strategy
- the settlement with Vi
- internal control
- follow-up of investments
- customer satisfaction index (CSI)

Chairman of the Board

The 2006 Annual General Meeting elected Mats Jansson as Chairman of the Board. Following the 2006 AGM, the Board constituted itself and elected Marcus Storch as Vice Chairman. Göran Ennerfelt served as Chairman starting in October 2006. 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

In accordance with the Nominating Committee's recommendation, the Annual General Meeting resolved that directors' fees shall be set at SEK 2,100,000, of which SEK 450,000 pertains to the fee for the Chairman of the Board and SEK 300,000 pertains to the fee for the Vice Chairman, with the remainder to be apportioned among the other directors at the Board's discretion. No fee is paid to persons employed by a Group company or for committee work.

The Board's evaluation of its work

The Vice Chairman of the Board conducted in evaluation of the Board's work in 2006. This was conducted through individual talks between the Vice Chairman and each of the directors. The result of this evaluation was discussed at the board meeting in December. The evaluation forms the basis of the Nominating Committee's work.

Compensation Committee

The Board has appointed a compensation committee that deals with, decides on and makes recommendations on the salaries

of the CEO and other members of the executive management as well as on other terms of employment and incentive programmes. The Committee reports to the Board.

The members are

Göran Ennerfelt (committee chair)

Antonia Ax:son Johnson

Marcus Storch

Anders Strålman (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 four times in 2006 (see also the table on page 73).

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 book-keeping, 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

Auditors' fees (KPMG)¹⁾

SEK m	Group			Parent Company		
	2006	2005	2004	2006	2005	2004
Auditing fees	4	4	5	1	1	1
Consulting fees	1	1	2	0	0	2

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

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.

The Board's report on 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.

Axfood has elected to describe how its internal control is organized in the way proposed by the Confederation of Swedish Enterprise and FAR/SRS in their guide for the Swedish Code of Corporate Governance. Axfood's board has opted to integrate the Board's report on internal control in the corporate governance report and only to describe how it is organized without issuing any statement on how well it has worked and without submitting it to the auditors for their review. Neither the documented organization of internal control nor the content in the

respective areas is to be viewed as being static, but are continuously adapted to Axfood's operations and business environment.

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 in the 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 were identified and assigned priority in 2006. During the year, particular focus was dedicated to documentation of important process/routines and of control activities.

Description

Control environment

The control environment forms the base of internal control of the financial reporting. 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 risks in the operations 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 (Axekon), 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 2006 Axfood updated its risk analysis pertaining to the assessment of 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 take into account in order to ensure satisfactory internal control in the Group's financial reporting.

In the course of this review, Axfood identified a number of income statement and balance sheet items where there is an elevated risk for errors. The Company is working continuously on strengthening controls surrounding these risks, and in 2006 this was done in a number of areas.

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

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, non-current 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. To further strengthen this, in 2006 work was conducted in workshops in which the Group CFO worked together with all subsidiary CFOs on matters related to risk analyses and control activities.

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 open, fast and honest. Internal communication aims to ensure that every employee understands Axfood's values and business. To achieve the objective of having informed employees, active work is conducted internally in which information is communicated on a regular basis via the Group's intranet.

Follow-up

Axfood's finance functions are integrated through a joint finance and accounting system and joint accounting instructions. In addition, the Group's controllers work in close cooperation with subsidiary controllers with respect to book-closing work and reporting. Further, the Group has a central security function that works through the companies. Axfood has no internal audit function, since the functions described above fulfil this role.

However, Axfood 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 has ultimate responsibility 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's Executive Committee consists of nine persons. Of these, four are presidents of operating companies within the Group and five 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 operating companies. Other members are made up of various groupings from the Executive Committee. The companies hold board meetings at least four times a year.

CEO's salary and compensation

The 2006 Annual General Meeting set the principles for the salary and other terms of employment for members of the executive management. Axfood's CEO, Anders Strålman, shall receive a base salary that is in line with the going rate in the market plus a variable salary component. The CEO's variable compensation is based on the performance and development of the business. The variable compensation can amount to a maximum of 70% of annual salary. The CEO is entitled to

retirement pension from 65 year of age, and a right to provisions corresponding to 35% of his annual cash salary. The CEO has a housing benefit, car benefit and healthcare insurance. 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 – comprising eight members of Axfood's executive management – receive a base salary that is in line with the going rate in the market plus a variable salary component. Variable compensation is mostly based on the Group's performance and development, and partly on personal targets. Variable compensation can amount to a maximum of 55% of annual salary. 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 levels between 20 and 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, within the scope of the Annual General Meeting's decision. A specification of salaries and other compensation for the CEO, senior executives and the Board can be found in note 8, "Information on employees; compensation of directors and CEO".

Stock-related incentive programmes for Company management

As per 31 December 2006 there were no outstanding stock-related incentive programmes for members of the Company's management.

Compensation of CEO and senior executives, SEK m

Name	Year	Base salary	Variable compensation	Other benefits	Pension cost	Financial instruments	Other
Anders Strålman	2006	4.2	0.1	0.4	1.3	–	–
Anders Strålman, CEO from 1/11/2005	2005	0.7	–	0.1	0.2	–	–
Mats Jansson, CEO through 31/10/2005	2005	6.7	0.5	0.1	3.3	–	–
Executive Committee excl. CEO	2006	11.2	0.9	0.5	5.0	–	0
	2005	14.0	2.0	0.6	7.8	–	0



1. Göran Ennerfelt, b. 1940**CHAIRMAN**

Director since 2000 and Chairman since 2000 with an interruption during the period March–October 2006

OTHER ASSIGNMENTS:

President and CEO of Axel Johnson 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

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.), BA, Stockholm University, M.Sc. Econ., Stockholm School of Economics

PROFESSIONAL EXPERIENCE: President and CEO of Axel Johnson AB, Executive Vice President of Axel Johnson AB

COMMITTEE MEMBERSHIP: Compensation Committee and co-opted member of the Nominating Committee

Non-independent according to the Stockholm Stock Exchange Listing Agreement

2. Marcus Storch, b. 1942**VICE CHAIRMAN**

Director since 2000

OTHER ASSIGNMENTS:

CHAIRMAN of the Nobel Foundation and Mekonomen AB

VICE CHAIRMAN of Axel Johnson AB

DIRECTOR of NCC AB, DI Holding AB, AB Hannells Industrier, Nordstjernan AB, the Royal Swedish Academy of Science, the Royal Swedish Academy of Engineering Sciences, and Stockholmsbörsens börs-kommitté

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

Non-independent according to the Stockholm Stock Exchange Listing Agreement

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, the Royal Swedish Academy of

Engineering Sciences and Mekonomen AB
NUMBER OF SHARES: 24,280,066, via companies

EDUCATION: BA, Stockholm University and academic studies in the USA (Radcliffe College, Cambridge, Mass.)

PROFESSIONAL EXPERIENCE: Active in the family-owned company Axel Johnson Gruppen since the 1970s

COMMITTEE MEMBERSHIP: Compensation Committee and Nominating Committee
Non-independent according to the Stockholm Stock Exchange Listing Agreement

4. Peggy Bruzelius, b. 1949

Director since 2000

OTHER ASSIGNMENTS:

CHAIRMAN of Lancelot Asset Management

VICE CHAIRMAN of AB Electrolux

DIRECTOR of Axel Johnson AB, Scania AB, Ratos AB, Syngenta AB, the Stockholm School of Economics Association, Husqvarna 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

Non-independent according to the Stockholm Stock Exchange Listing Agreement

5. 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 (UK) 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
Independent according to the Stockholm Stock Exchange Listing Agreement

6. Gunnar Söderling, b. 1943

Director since 2003

OTHER ASSIGNMENTS:

DIRECTOR of Bioett AB

NUMBER OF SHARES: 300

EDUCATION: B.Sc., Lund University

PROFESSIONAL EXPERIENCE: Executive Vice President of Svenska Nestlé AB
Independent according to the Stockholm Stock Exchange Listing Agreement

7. Annika Åhnberg, b. 1949

Director since 2000

OTHER ASSIGNMENTS:

CHAIRMAN of the general department of the Royal Swedish Academy of Agriculture and Forestry

DIRECTOR of the Review Board for Radio and TV, HANDU AB, the Royal Swedish Academy of Agriculture and Forestry, and the Royal Swedish Academy of Engineering Sciences

NUMBER OF SHARES: 0

EDUCATION: Graduate of Social Studies, Department of Social Work, Stockholm University

PROFESSIONAL EXPERIENCE: Consultant in own firm, Tankeföda AB
Independent according to the Stockholm Stock Exchange Listing Agreement

8. Sven-Erik Brandt, b. 1947

Employee representative

Director since 2006

OTHER ASSIGNMENTS:

Employee representative on Dagab's board

NUMBER OF SHARES: 0

EDUCATION/PROFESSIONAL EXPERIENCE: Swedish Trade Union Confederation course on company board work, Dagab employee since 1976, former director of Axfood
Non-independent according to the Stockholm Stock Exchange Listing Agreement

9. Ulla-May Iwahr Rydén, b. 1951

Employee representative

Director since 2006

OTHER ASSIGNMENTS:

Employee representative on

Axfood Närlivs' board

NUMBER OF SHARES: 0

EDUCATION/PROFESSIONAL EXPERIENCE: Interior decorator, currently attending PTK's course on company board work as employee representative, interior designer at H&M, employee of Kiab since 1989 (acquired by Dagab in 1998)

Non-independent according to the Stockholm Stock Exchange Listing Agreement

10. Inger Sjöstrand, b. 1953

Employee representative

Director since 2003

OTHER ASSIGNMENTS:

CHAIRMAN of Handels Dalarna and ABF Södra Östra Dalarna

Employee representative on Hemköp's board

NUMBER OF SHARES: 0

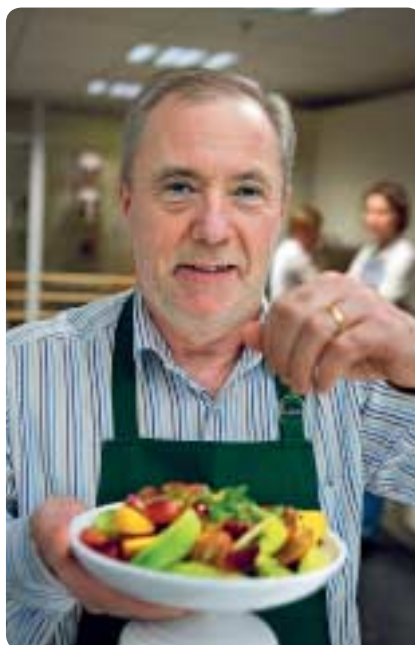
PROFESSIONAL EXPERIENCE: Hemköp employee since 1977
Non-independent according to the Stockholm Stock Exchange Listing Agreement



■ **Anders Strålman**, b. 1953
President and CEO, Axfood AB
Employed since 1993
NUMBER OF SHARES: 16,500 held privately and via companies
OTHER ASSIGNMENTS: Director of Bergendahls EI & Installation AB
EDUCATION: M.Sc. Econ., Gothenburg University
PROFESSIONAL EXPERIENCE: President of Willys, CFO and CEO of Billhalls, CEO and head of operations for Bergendahls EI & 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: 13,800
OTHER ASSIGNMENTS: Director of Barnevik & Wallin fond AB
EDUCATION: M.Sc. Econ., Linköping University
PROFESSIONAL EXPERIENCE: CFO of Fritidsreseguppen, 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 AB
Employed since 1985 (interruption 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, President of Dagab Syd
Member of Axfood's Executive Committee since 2000



■ **Benny Hast**, b. 1955
President of Axfood Närlivs AB
Employed since 1985*
NUMBER OF SHARES: 900
EDUCATION: M.Sc. Econ., Gothenburg University
PROFESSIONAL EXPERIENCE: CFO of Dagab, CFO of Axfood Närlivs
Member of Axfood's Executive Committee since 2004

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

All shareholdings as per 31 December 2006.



■ **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



■ **Mats Sjö Dahl**, b. 1961

Purchasing Director

Employed since 1994*

NUMBER OF SHARES: 2,507

EDUCATION: Degree in Market Economics, IHM

PROFESSIONAL EXPERIENCE: Business area head/Assistant Purchasing Director, Axfood AB; Purchasing Director, Willys AB, Chief Negotiator, Axfood AB; Purchasing Director, Willys AB

Member of Axfood's Executive Committee since 2005



■ **Håkan Åkerström**, b. 1968

President of Dagab AB

Employed since 2006

NUMBER OF SHARES: 0

EDUCATION: B.Sc. Eng., Institute of Technology at Linköping University

PROFESSIONAL EXPERIENCE: President of Storel AB, Director of Logistics and IT, AB Lindex; project leader and consultant for A.T. Kearney, Inexa AB and Andersen Consulting, among others

Member of Axfood's Executive Committee since 2006



■ **Per Uebel**, b. 1966

President of Hemköpskedjan AB

Employed since 2006

OTHER ASSIGNMENTS: Director of Poolia AB

NUMBER OF SHARES: 0

EDUCATION: B.Sc. Econ., Stockholm University

PROFESSIONAL EXPERIENCE: President of Ica Sverige AB; Director of Store Operations, ICA Handlarnas AB; Country Manager, Lindex Sweden/President Lindex Germany; Regional Manager, Coordinator of Establishment and Head of Merchandising, H&M Germany, Austria, Belgium and the Netherlands

Member of Axfood's Executive Committee since 2006



■ **Cecilia Giertha**, b. 1958

Head of Corporate Communications

Employed since 2006

OTHER ASSIGNMENTS: Director of AIK Fotboll AB

NUMBER OF SHARES: 0

EDUCATION: Information Technology, Gothenburg University

PROFESSIONAL EXPERIENCE: Press Manager, Svensk Handel; Press Manager and Communications Strategist, Telia AB; journalist, Dagens Nyheter, SVT and Stockholmstidningen

Member of Axfood's Executive Committee since 2006

Several-year overview

Amounts in SEK m	2006	2005 ^{*)}	2004 ^{*)}	2003	2002
Income statement					
Net sales ^{*)}	28,808	28,086	28,658	33,616	33,115
Capital gains/structural costs ^{*)}	89	-2	-15	132	37
Operating profit ^{*)}	1,204	1,040	1,126	1,034	1,023
Profit after financial items ^{*)}	1,183	1,026	1,096	971	919
Minority share	–	-5	4	-12	-14
Tax ^{*)}	-331	-297	-310	-275	-280
Profit for the year from continuing operations^{*)}	852	729	786	684	625
Profit/loss for the year from discontinued operations	–	-47	17	–	–
Net profit for the year	852	682	803	684	625
Balance sheet					
Intangible assets	1,367	1,290	1,119	1,076	1,098
Tangible assets	1,466	1,487	1,823	1,821	2,172
Financial assets	55	32	153	253	412
Other non-current assets	34	38	34	–	–
Inventories	1,473	1,598	1,634	1,599	1,631
Other current assets	1,311	1,296	1,480	1,680	1,598
Cash and cash equivalents	369	639	977	548	444
Assets held for sale	–	1,189	–	–	–
Assets	6,075	7,569	7,220	6,977	7,355
Shareholders' equity	2,420	2,825	2,644	2,127	1,693
Minority interests	–	119	119	122	119
Provisions	–	–	–	743	701
Interest-bearing liabilities	467	414	676	599	1,320
Non-interest-bearing liabilities	3,188	3,449	3,781	3,386	3,522
Liabilities tied to assets held for sale	–	762	–	–	–
Shareholders' equity and liabilities	6,075	7,569	7,220	6,977	7,355
Cash flow					
Cash flow from operating activities	1,160	1,170	1,462	1,026	1,104
Cash flow from investing activities	-321	-850	-422	-315	-192
Cash flow from financing activities	-1,194	-579	-610	-606	-873
Cash flow for the year from continuing operations	-355	-259	430	105	39
Of which, cash flow for the year from discontinued operation	–	-41	-16	–	–

Amounts in SEK m	2006	2005 ^{*)}	2004 ^{*)}	2003	2002
Key ratios					
Operating margin,					
excluding capital gains and structural costs, % ^{*)}	3.9	3.7	3.9	2.7	3.0
Margin after financial items, % ^{*)}	4.1	3.7	3.8	2.9	2.8
Equity ratio, %	39.8	38.9	38.3	32.2	24.6
Net debt-equity ratio, multiple	0.0	-0.0	-0.1	0.2	0.6
Debt-equity ratio, multiple	0.19	0.22	0.24	0.43	0.94
Capital employed	2,887	3,603	3,439	3,221	3,510
Return on capital employed, %	37.3	28.7	34.1	31.2	28.7
Return on shareholders' equity, %	32.5	25.1	32.6	35.8	43.1
Interest coverage, multiple	43.2	31.6	24.3	13.3	8.4
Capital expenditures, SEK m	587	1,036	537	660	455
Earnings per share, SEK ^{*)}	16.03	13.37	14.67	12.85	11.75
Earnings per share from discontinued operation, SEK ^{*)}	–	-0.78	0.25	–	–
Earnings per share after dilution, SEK ^{*)}	16.03	13.35	14.42	12.62	11.51
Earnings per share after dilution for discontinued operation, SEK ^{*)}	–	-0.77	0.24	–	–
Net asset value per share, SEK	46.12	51.81	49.35	39.76	31.81
Net asset value per share after dilution, SEK	46.12	51.76	48.44	38.97	31.09
Cash flow per share, SEK	-6.68	-4.75	8.03	1.97	0.73
Cash flow per share after dilution, SEK	-6.68	-4.74	7.88	1.93	0.72
Number of shares outstanding ¹⁾	52,467,678	54,531,378	53,577,828	53,497,028	53,229,028
Weighted average number of shares ¹⁾	53,162,625	54,531,378	53,567,009	53,248,074	53,229,028
Number of shares outstanding after dilution ¹⁾	52,467,678	54,583,928	54,583,928	54,585,054	54,459,993
Weighted average number of shares after dilution ¹⁾	53,162,625	54,583,928	54,573,109	54,336,100	54,459,993
Holdings of treasury shares	2,116,150	–	–	–	–
Average weighted holdings of treasury shares	1,415,979	–	–	–	–
Average number of employees during the year ^{*) 2)}	7,007	7,066	6,941	7,773	8,312
Dividend	20.00 ³⁾	15.00	11.00	5.50	5.00

^{*)} Figures for 2005 and 2006 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 income statement for 2005. Marked figures and key ratios pertain to continuing operations in 2004 and 2005. Other figures and key ratios pertain to the total operations (including Spar Finland), since according to IFRS 5, the balance sheet for the comparison year, 2004, is not to be recalculated.

¹⁾ The number of shares outstanding excluding holdings of treasury shares.

²⁾ Starting in 2004, a full-time employee is calculated on the basis of 1,800 hours. For 2002–2003, 1,600 hours were used.

³⁾ Proposed by the Board of Directors.

Definitions

Definitions

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

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.

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.

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

Dividend yield: Dividend per share divided by the year-end share price.

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

Earnings per share after dilution: Majority owner's share of net 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. The dilutive effect of convertibles consists of the number of shares that would be issued upon full conversion.

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.

Like-for-like sales: Like-for-like sales refer to store sales reported on the basis of an entire comparison period, i.e., both years.

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

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

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

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.

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

P/E multiple after dilution: Share price in relation to earnings per share after dilution.

P/E multiple before dilution: Share price in relation to earnings per share.

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 for the year as per the income statement as a percentage of the majority owner's share of average shareholders' equity. Average shareholders' equity is calculated as shareholders' equity at the start of the year plus shareholders' equity at the end of the year, divided by two.

Annual General Meeting and financial information

Annual General Meeting

The Annual General Meeting of the shareholders of Axfood AB (publ) will be held at 5 p.m. on Thursday, 8 March 2007, at the Grand Hotel in 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, 2 March 2007, 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, 2 March 2007, and notify the Company of their intention to participate in the Meeting not later than 4 p.m. on Friday, 2 March 2007. 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, 2 March 2007.

Proposed dividend

The Board of Directors proposes a dividend of SEK 12.00 per share (9.00). In addition, the Board proposes an extra dividend of SEK 8.00 per share (6.00), entailing a total dividend for 2006 of SEK 20.00 per share (15.00). The record date is Tuesday, 13 March 2007, and dividends are expected to be paid via VPC on Friday, 16 March 2007. The last day for trading in the Company's stock including the right to the dividend is Thursday, 8 March 2007.

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 2007

Interim report January–March, 18 April

Interim report January–June, 18 July

Interim report January–September, 17 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. Copies of this annual report will be sent to shareholders upon request.

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**Axfood AB**

SE-171 78 Solna
Visitors' address
Hemvärnsgatan 9
Tel +46-8-553 990 00
Fax +46-8-730 03 59
info@axfood.se
www.axfood.se

Axfood Sverige AB

SE-171 78 Solna
Visitors' address
Hemvärnsgatan 9
Tel +46-8-553 990 00
Fax +46-8-730 03 59
info@axfood.se

Axfood IT AB

SE-171 78 Solna
Visitors' address
Hemvärnsgatan 9
Tel +46-8-553 990 00
Fax +46-8-730 40 51
info@axfood.se

Axfood AB**Shared Service Center**

SE-551 93 Jönköping
Visitors' address
Birkagatan 40
Huskvarna
Tel +46-36-36 41 00
Fax +46-36-36 41 91
info@axfood.se

Hemköpskedjan AB

SE-171 78 Solna
Visitors' address
Hemvärnsgatan 9
Tel +46-8-553 999 00
Fax +46-8-730 30 37
info@hemkop.se
www.hemkop.se

Willys AB

SE-412 86 Gothenburg
Visitors' address
Falkenbergsgatan 3
Tel +46-31-733 31 00
Fax +46-31-733 31 80
info@axfood.se
www.willys.se

Dagab AB

SE-171 78 Solna
Visitors' address
Hemvärnsgatan 9
Tel +46-8-553 999 00
Fax +46-8-553 990 97
info@axfood.se

Axfood Närlivs AB

Box 1742
SE-701 17 Örebro
Visitors' address
Handelsgatan 5
Tel +46-19-603 03 50
Fax +46-19-603 03 06
info@narlivs.se
www.narlivs.se