

Axfood

Annual Report 2015



Increased
market share

Matmissionen –
reducing food
waste and social
exclusion

Profitability
target reached

7.2%
growth

Contents



WHEN YOU **GROW**
WE GROW
AS A COMPANY

Our strategy is about creating profitable growth through long-term commitment, customer focus and responsibility for the environment and sustainable development.



Consumers continue to feel that health is important and are increasingly choosing healthier food and organic products that offer value for money.

Axfood is a Swedish company governed by Swedish law. All monetary amounts stated herein are in Swedish kronor (SEK). Millions of kronor are abbreviated as SEK m, billions as SEK bn and thousands as KSEK. Figures in parentheses pertain to 2014, unless otherwise stated. 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.

This Annual Report is an English translation of the Swedish original. In the event of any discrepancies, the Swedish version shall govern.

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For information on the 2016 Annual General Meeting, see page 53.

About this annual report

The Annual Report describes Axfood's operations, financial results and position in 2015, and includes the Corporate Governance Report. Sustainability matters are integrated in the operations and in this annual report. A complete sustainability report produced in accordance with the Global Reporting Initiative's (GRI) guidelines, G4 Core, can be downloaded from axfood.se/en/sustainability.

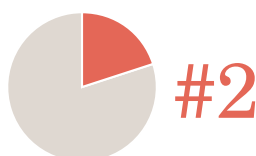
Axfood at a glance

Axfood works with passion for food and people. Our strength is developing and driving successful food concepts in the Swedish market. Through commitment and responsibility for the environment and sustainable development, we create profitable growth.

The Axfood Group includes the store chains Willys and Hemköp. Hemköp also includes proprietor-run stores, and Axfood Närlivs collaborates with the Tempo, Handlar'n and Direkten formats. In addition, Axfood Närlivs serves convenience retailers. B2B sales are conducted through the Axfood Snabbgross chain. Dagab is responsible for the Group's assortment development, purchasing and logistics.

In all, Axfood has 262 wholly owned stores and approximately 820 collaborating stores.

Axfood is number two in the Swedish food retail market, with a market share of approximately 20%.



50.1%

The principal owner is Axel Johnson AB, with 50.1% of the shares.

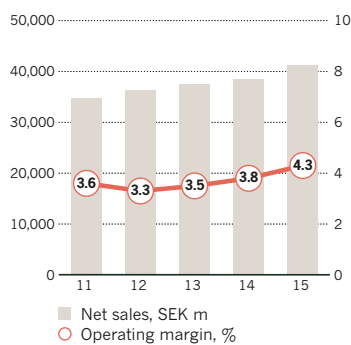


Key ratios

	2015	2014
Net sales, SEK m	41,247	38,484
Operating profit, SEK m	1,760	1,447
Operating margin, %	4.3	3.8
Profit after tax, SEK m	1,361	1,104
Earnings per share, SEK	6.48	5.22 ¹⁾
Equity ratio, %	43.0	41.9
Ordinary dividend per share, SEK	5.00 ²⁾	4.25 ¹⁾
Extra dividend per share, SEK	4.00 ²⁾	—
Average number of employees	8,803	8,481
Electricity consumption, kWh/sq.m. ³⁾	331.6	368.7
CO ₂ , kg/tonne goods ⁴⁾	16.9	20.0

¹⁾ During the second quarter Axfood carried out a 4:1 stock split. The number of shares after the split is 209,870,712. The comparison figures have been adjusted. ²⁾ Proposed by the Board of Directors. ³⁾ Pertains to Group-owned stores and warehouses. ⁴⁾ Pertains to total volume for transports from warehouses to stores with own delivery vehicles.

Net sales and operating margin



Total return, Axfood shares, 2011–2015, index



Willy's

Willy's is Sweden's leading discount grocery chain, offering a wide assortment at 194 stores. Willy's' business concept is to develop the discount grocery segment by offering not only Sweden's cheapest bag of groceries, but also the cheapest bag of organic groceries.

NET SALES



22,320 SEK m

OPERATING PROFIT



896 SEK m

Hemköp

Hemköp offers a wide assortment that gives customers value for money and a rich selection of fresh products. With 68 Group-owned stores and 111 franchise stores, Hemköp aims to inspire passion for food and make it easy for customers to find good meal solutions.



5,883 SEK m
Excl. franchise stores



221 SEK m



Närilivs

Axfood Närilivs is a leading wholesaler serving independent grocers and convenience retailers. Through 21 cash and carry stores, Axfood Snabbgross supplies restaurants, fast food vendors, cafés and pre-packed grocery suppliers.



2,730 SEK m
External
2,734 SEK m
Total



200 SEK m

dagab

Dagab is the Group's supply chain organization and is responsible for ensuring an efficient product flow, from assortment development and purchasing to warehousing and distribution. Warehousing is conducted at seven distribution centres.



10,269 SEK m
External
39,756 SEK m
Total



600 SEK m



CEO's message

Excellent sales growth led to achievement of profitability target

Axfood had excellent sales growth in 2015. All companies contributed to our good performance. Thanks to this sales growth, we achieved an operating margin in excess of 4%. Our successes in 2015 can be credited to our strategy and the strong commitment of all of Axfood's employees.

Matmissionen

As part of efforts to reduce food waste, during the year Axfood partnered with Stockholms Stadsmission to establish Matmissionen, the first social supermarket in the Nordic countries.

7.2%

sales growth for Axfood in 2015.

Long-term effort and commitment behind successes

Axfood's performance in 2015 was excellent, with all companies contributing to the positive development. While it is out in the stores where customers make their choices and drive sales, all of Axfood's supporting units play an important role in the value chain and contributed to the year's success. These successes were the result of a long-term effort in accordance with our strategy and the strong commitment of all our employees.

Quarter after quarter we grew more than the market and thereby gained market shares. As a result of our strong sales, we managed to report an operating margin that reached our long-term profitability target of 4%.

All companies contributed to the sales growth

Willys had favourable sales performance in 2015, both overall and especially on a like-for-like basis. The average spend and the number of customers continued to rise.

Hemköp grew its sales both in wholly owned and franchise stores. Through modernization, well run stores and attractive customer offerings, more customers have been drawn to Hemköp's stores.

Axfood Snabbgross, in the Axfood Närlivs business area, reported outstanding sales during the year owing to higher demand from café and restaurant customers.

Dagab's sales were affected mainly by high demand from the Group's stores. In addition, its strong earnings can be credited to greater efficiency in the logistics operations and favourable development for private label products.

Sustainability is profitable

Axfood was early in taking responsibility for being a driver of sustainable development in the areas that we can influence. As early as 2009 we took the decision to become climate-neutral by 2020. Thus in the most relevant environmental aspects, during the year we reduced our electricity consumption as well as our CO₂ emissions. We have a responsibility to make it easy for customers to make conscious and well informed choices. Apart from continued work with food waste, animal welfare, sustainable production processes and country of origin labelling, in 2016 we will be introducing the Product of Sweden label that the industry has now agreed on.

Our growth shows that it is profitable to invest in sustainable development. We are active in driving the industry in this direction, but it is also important that we have the right external environment and political policies that promote sustainability.





Market outlook

Indications point to a continuation of the Swedish economy's favourable development in 2016, driven by strong private consumption. With continued favourable growth and the right conditions in the labour market, we are happy to do our part to create more work opportunities that can be important entry jobs for many. We expect food inflation in 2016 to be in the range of 1%–2%.

Axfood going forward – continued profitable growth

We aim to continue managing our customers' and shareholders' trust, and to build further upon the year's success by focusing on profitable growth. We are maintaining our high pace of establishment and plan to open ten new stores in 2016 at the same time that we launch e-commerce to consumers in Stockholm and Gothenburg. Of course, we must make sure that e-commerce is sustainably profitable, but as with all newly established stores, online shopping will also need three to five years before we see profitability.

Our goal is to grow more than the market. With our growth ambitions we will consolidate our number two position in the market at the same time that we hold on to our target of a 4% operating margin.

Guidance

During 2016 we will continue to develop our companies and brands with great commitment at the same time that we take responsibility for the environment and sustainable development. We continue to focus on offering customers products that give them value for money and inspire passion for food. Capital expenditures are expected to total SEK 700–800 m in 2016 and will pertain mainly to investments in additional store openings, modernizations and e-commerce. Axfood expects operating profit for 2016 to exceed the outcome for 2015.

Our sales growth is proof of our success at offering customers products that give them value for money and inspire passion for food.



Finally, I want to extend a big thanks to all of the employees, customers and shareholders who have contributed to our success.

Stockholm, 4 February 2016

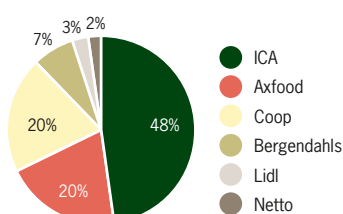
Anders Strålman,
President and CEO

Market and trends

Number two in the market – but the competition is fierce

Axfood is number two in Sweden's food retail market, with a market share of 20% – a position that has strengthened in recent years. Competition is fierce in the industry, and the number of stores is rising steadily. The three largest retailers together account for nearly 90% of the market. The foreign hard discount chains still account for only a limited market share.

Market shares, largest competitors in Sweden 2014¹⁾



¹⁾ Based on sales figures for 2014 for groceries, as data for 2015 was not available at the time of this report's publication.

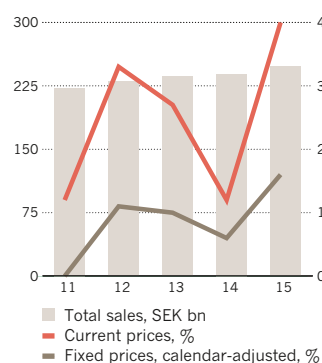
Source: Sales figures for ICA, Coop, Bergendahls, Lidl and Netto are from a compilation performed by the trade journal *Fri Köpenskap*. Axfood's data includes own estimates of sales for Tempo, Handlar'n and other collaborating stores as per December 2014.

Overall, the food retail trade is less sensitive to economic swings than other retail sectors. At the same time, the rate of growth is moderate. Population growth and inflation are the main driving forces. Achieving continued, stable growth requires attention to every detail in operations – from assortment, purchasing and logistics to the way we treat customers and their in-store experience.

During the past 50 years, groceries as a percentage of total household expenses have decreased from a third to an eighth, according to data from Statistics Sweden (SCB). At the same time, Swedes are spending more and more on retail food items. In ten years' time, the average grocery budget for people in Sweden has increased by approximately 25%. Since 2003, prices have risen by just under 2% per year.

Performance for the food retail trade, excluding alcoholic beverages, was positive in 2015, and growth amounted to 4.0% (1.2%), according to data from HUI Research. The price and calendar effect was 2.4% (0.6%), entailing an increase

Sales trend in the food retail market (excluding alcoholic beverages)



in sales volume by 1.6% (0.6%). Sales of food retail products in 2015 are estimated at approximately SEK 249 bn (239). The conditions in the market are being hampered by higher payroll taxes for young employees and uncertainty surrounding the outcome of the approaching round of national wage negotiations.

Segmentation in Sweden

Hard Discount	Discount	Hypermarkets		Traditional grocers		Service stations/ mini-markets
5%	12%	22%		46%	15%	
Items:	1,500–2,000	5,000–12,000	12,000–20,000	10,000–15 000	1,000–	
Price index:	— ¹⁾	90–100	96–103	100–108	110–130	
Location:	Residential and external	Residential and external	External	City centres, residential	Traffic- or residential-oriented	
Trademarks	Netto, Lidl	Willys, Willys Hemma	ICA Maxi, Stora Coop, City Gross	Hemköp, Coop, ICA Supermarket, ICA Kvantum	Tempo, Handlar'n, Direkten, ICA Nära, 7-Eleven, Pressbyrån, Bensinbolag, Lilla Coop	

Market share: Based on sales figures for groceries for 2014, since data for 2015 was not available at the time of this report's publication. Partly estimated values.

Price index: Based on results of Axfood's price surveys of Sweden's main store formats.

¹⁾ Accurate price comparison not possible due to too little comparability in assortment.

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

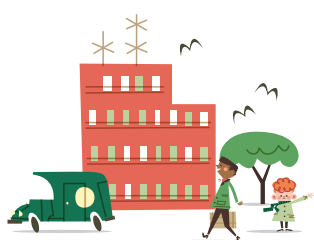
Five trends

driving development in the industry

- More people living in cities
- Digital services – a natural part of everyday life
- Health and lifestyle continue to be important
- Sustainability and social responsibility – a matter of course
- Food must provide value for money

The major societal trends of urbanization, digitalization and greater focus on sustainable lifestyles are driving development of the food retail industry. Axfood has defined five areas with particular impact on the industry. The Group's strategy aims to ensure that Axfood is a driver of development while meeting customers' expectations.

Trend 1. More people living in cities



More and more people in Sweden are moving to major cities and urban areas – for example, during the third quarter of 2015, Stockholm grew by 0.5%, at the same time that 90% of Sweden's municipalities are seeing their populations decrease.

Modern urbanites are typically young, active, and value services that simplify everyday life. They also expect to a high degree that the food they buy is produced with care for people, animals, and the environment. In major metropolitan areas, with highly developed mass transit systems and heavy vehicle traffic, people increasingly prefer to shop at stores close to home, instead of having to drive to the store.

Moreover, 70% of Swedish households consist of singles or couples, which also puts special demands on the assortment in stores.

According to HUI Research's annual publication Branschfakta, large stores lost market shares between 2012 and 2013. A greater number of stores in residential areas are drawing customers from outlying hypermarkets. The number of convenience stores has also increased as people increasingly avoid using their cars.

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70%

of Swedish households consist of singles or couples.

Axfood's response

Axfood is addressing urbanization in several ways, among other things by establishing stores in growth locations and offering a modern assortment that includes in-store prepared meals, a large selection of fruits and vegetables, and a high share of organic and source-labelled products. As part of its efforts to gain an understanding of what inspires urban customers, Axfood has become a part-owner of the Urban Deli format, which is a combination of restaurants, food market and specialty store.

Read more under Strategy – customers



Trend 2. Digital services – a natural part of everyday life



Digital services today are a natural part of everyday life for consumers. According to the Internet Foundation in Sweden, 77% of Swedes use smartphones and 59% use tablets. More and more everyday errands are performed online, and expectations for easy-to-use digital services that facilitate everyday life are rising.

Most sales in Sweden's food retail market are conducted in physical stores, and in 2015, e-commerce still accounted for only just over 1% of total sales volume. But grocery purchases online are growing steadily, and in 2015 online sales showed growth of 40%. In many European countries this trend has gone faster than in Sweden, mainly on account of the fact that Sweden is sparsely populated, and volume is critical for the success of online grocery shopping services.

Technical solutions that make it easier to shop are being developed at a rapid pace. A few

examples are self-scanning with smartphones, smoother online ordering functions, and apps that offer inspiration and shopping list suggestions. Development of mobile payment systems and self-service is accelerating and will make major advancements in the years immediately ahead.

Through "big data", i.e., the growth in opportunities to analyse massive amounts of data, the food retail trade can gain a better understanding of customers' needs and behaviours, which is creating opportunities both to make things easier for customers and optimize their shopping experience.

Meal solutions in the form of pre-packed grocery bags continue to develop strongly in Sweden. Apart from contributing to a simpler everyday life, the grocery packing companies are helping their customers vary their diets, find new recipes and eat more vegetarian.

Axfood's response

Axfood is taking part in the digital trend in many ways and is adapting its operations in step with new developments. For example, the Group is a market leader in digital payments and cardless customer programmes. Through the Group's digital customer programmes, some 2.6 million customers can receive increasingly personalized offerings, to the benefit of the customers and stores. For a couple of years Axfood Närlivs has had an app that features ordering and stock-keeping functions.

Axfood also supplies goods to several of the largest pre-packed grocery companies and offers an e-commerce solution to Axfood Närlivs' business customers. In 2016 a consumer e-commerce channel will be launched.

Read more under Strategy – growth



Trend 3. Health and lifestyle continue to be important



Food has been trendy for many years, and Axfood sees no signs of this abating. It is becoming increasingly important for conscious consumers to manifest their choice of lifestyle and affiliation through food. In addition, health and exercise continue to be symbols of high status.

Healthy, vegetarian, organic and protein-rich food are in high demand, as are fresh fruit and vegetables. For health reasons, many people are also avoiding gluten, lactose and sugar. Consumption of non-alcohol beverage alternatives and so-called raw foods is also on the rise, as is consumption of natural fats – like butter, and fat from seeds and nuts.

In addition, many customers want more information about source, quality and content in their quest to live more healthy lives.

Sales of organic products and vegetarian food are being driven by concerns for personal

health as well as for the environment and animals. While sales of organic products are being driven by consumer demand, food retailers are also bearing an impact on the trend by narrowing the price gap compared with conventionally produced products, increased marketing, and broader offerings. For the industry as a whole, sales of organic groceries increased by 40% (41%) in 2015, to 6.6% (4.9%) of total retail sales.

The trend of choosing more vegetarian food is strong. According to a survey conducted by the polling firm TNS Sifo in November 2015 on changed food habits among Swedish consumers, more than one in three respondents, or 36%, stated that they eat vegetarian food one or more times a week, and 22% plan to eat less meat in the coming year.

Axfood's response

In step with customers' desire to change their food habits, Axfood can contribute by offering both inspiration and advice, which creates opportunities to build relationships with customers. In 2015 Axfood's own Garant brand increased its organic product offering by 60 products and also launched a vegetarian product line. Hemköp introduced a sustainable store format. Parallel with this, all of the Group's chains continue to spotlight fruits and vegetables. In 2015 Axfood increased its sales of vegetarian alternatives by 24.8%.

Read more under Strategy – customers

Trend 4. Sustainability and responsibility – a matter of course



Taking responsibility for a sustainable society and ensuring that the products people eat are produced in a responsible manner are becoming increasingly important for customers in the food retail trade. Their expectations on the industry are growing every year.

Sustainability demands encompass, among other things, that the food retail trade takes responsibility for its suppliers' actions, strives for the lowest possible climate impact in all

parts of operations, source labels its products, contributes to better animal welfare and advocates for diversity.

Transparency in the entire production chain is a key factor in maintaining customers' trust in the future. For example, according to a survey conducted by TNS Sifo in May 2015, today seven out of ten people in Sweden indicate that they prefer to buy Swedish meat.

Axfood's response

Issues surrounding sustainable development are a key part of Axfood's strategy, and the Group's goal is to be best in the industry at sustainability. This strategy entails, among other things, that Axfood offers safe and environmentally adapted foods, continuously reduces the climate impact of transports, ensures good working conditions among its suppliers, and clearly labels the country of origin of products. The stakeholder dialogue that Axfood carried out in 2015 shows that these areas are also highly valued by the Group's stakeholders.

Read more under Strategy – sustainable development, and in Axfood's 2015 Sustainability Report





Svensgården,

HORNBORGA, VÄSTERGÖTLAND

Garant organic lowfat milk comes from dairy farms like this in the idyllic Horborga parish. The Svensgården farm is run by the Fällström family and produces roughly 120,000 litres of milk per year. The milk is processed at the Falköping dairy, where it is then distributed to Axfood's stores.

Trend 5. Food must provide value for money



Parallel with high expectations for pleasant store environments and a large offering of fresh products and organic foods, customers are very price-conscious. The fact that a store is perceived as offering value for money is ranked by many as the most important factor in their choice of store.

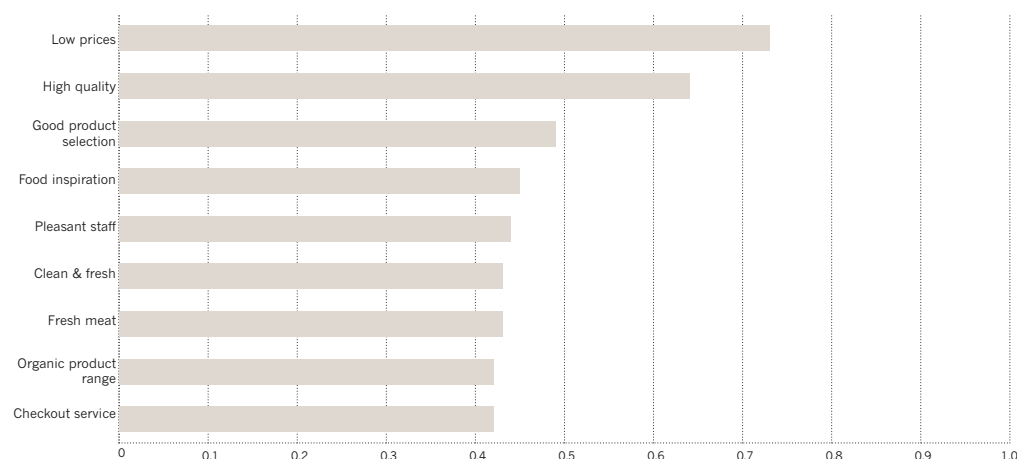
At the same time, it is not only price that determines what is perceived as offering value for money; according to Axfood's annual customer survey, aspects such as attentive service, attractive peripheral services, and a high-quality assortment also increase customers' perception of getting value for their money.

Axfood's response

For Axfood, food that offers value for money is an important part of business. The Group works continuously to offer attractive prices as well as pay attention to all details in its stores. Willys offers Sweden's cheapest bag of groceries. And according to customer surveys, Hemköp is perceived as a grocery store chain that is increasingly offering its customers value for money. The continuous and successful development of private label products is giving Axfood's chains good opportunities to offer an attractive assortment that gives customers value for their money.

Read more under Willys, Hemköp, and Private Label Products

Drivers of consumers' perceptions of value for money



Source: Consumer survey Nepa/Axfood 2015, 4,884 respondents.





Toften,

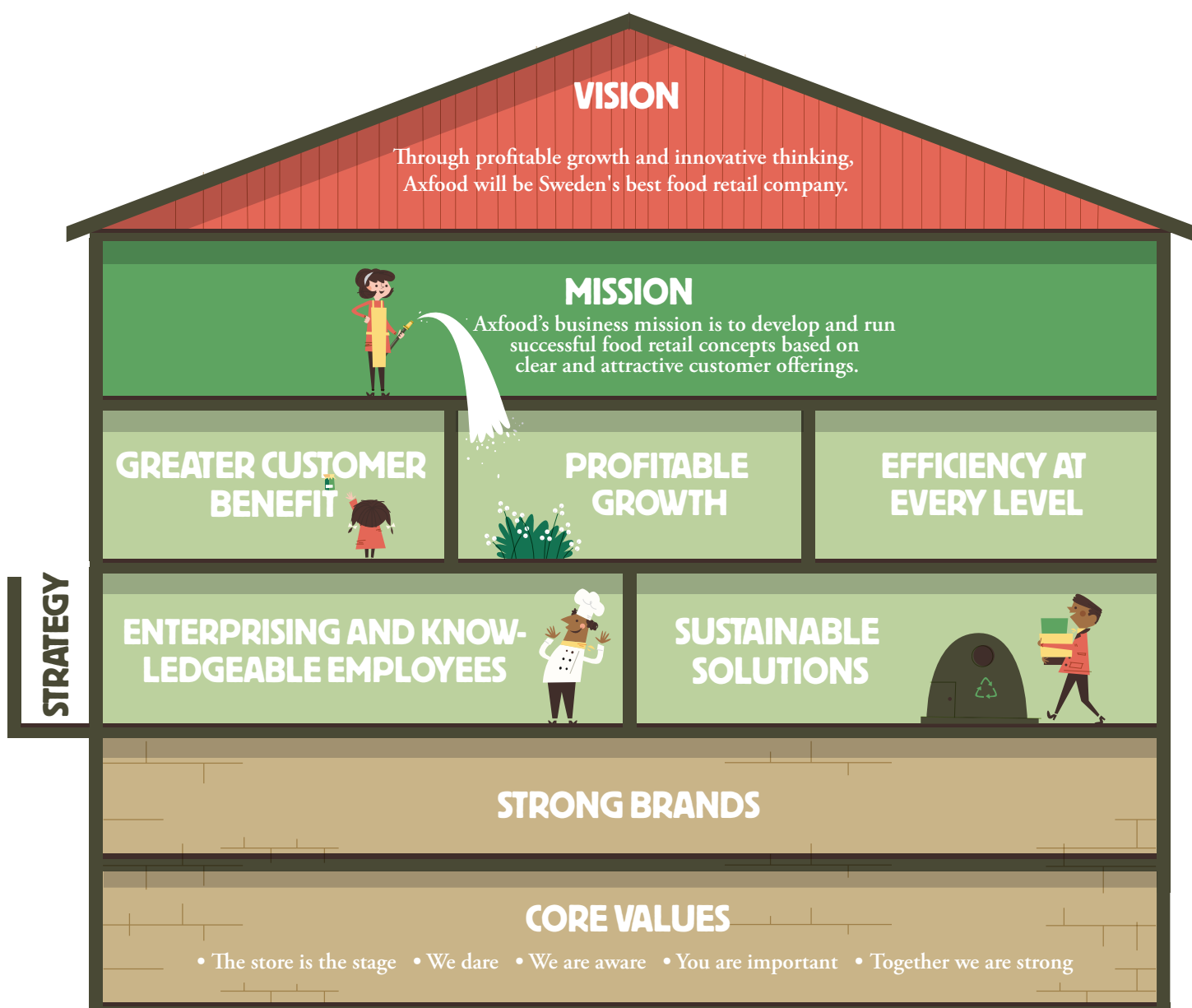
FALKENBERG, HALLAND

This harvest-ready spring wheat grows at the Toften farm about 10 km east of Falkenberg. After being milled to flour and baked under the care of the Berte Qvarn mill, it ends up as fragrant, organic baguettes in Axfood's stores.

Vision, mission and values

Axfood's success and development are built upon satisfied customers.

Axfood's strategy for profitable growth rests upon long-term perspective, customer focus and responsibility. By continuing to develop an attractive assortment, elevating the level of innovation and establishing stores at strategically important locations, Axfood is driving its development toward the vision of being Sweden's best food retail company.



Business model

Axfood's business model is built upon three processes. Every small detail in the process is important for the company's success. Hundreds of steps and decisions are taken along the way, from initial supplier contact to when a product ends up in the customer's cart. At every step, value is created for Axfood and its stakeholders.

1

Choice of suppliers, price negotiations, purchasing

Attention to detail begins with the assortment

2

Logistics

Striving for optimal operation

Axfood offers better prices and higher quality through its joint-Group assortment and purchasing function. Suppliers and the assortment are decided on and negotiated centrally for all of Axfood's stores. Each store thereafter has the opportunity to adapt its assortment to local demand.

Efficient logistics set the stage for favourable and profitable growth. Other centrally important areas include efficient use of energy and sustainable transports for reduced climate impact and better economy.

Value creation

Product/business development

- In terms of quality, Axfood's private label products should be just as good as well known brands, but have a lower price. They should also be healthier and more distinctive.
- In 2015 a large number of stores were modernized and made more attractive.
- A total of nine new stores were opened during the year, of which two in new cities for Axfood. The newly opened stores entailed the creation of 223 new jobs.

Purchasing

- Axfood has approximately 1,500 suppliers, of which 74% are companies registered in Sweden. 85% of sales consist of products sourced from these Swedish companies.
- Axfood's joint-Group assortment and purchasing function contributes to larger purchasing volumes, which allows Axfood to offer good prices and high quality. Certain products are purchased through purchasing organizations for even stronger negotiation strength.

Warehousing

- A total of 1,671 employees work at seven distribution centres.
- Approximately 75% of products go from suppliers to stores via Dagab, which results in good control and economies of scale.
- In 2015 Dagab handled approximately 2 billion products and turned over its inventory every 11th day.

Sustainability focus

- Emphasis on organic and healthy products that give customers value for their money.
- In 2015 Axfood broadened its private label assortment with 60 new organic products along with a new vegetarian concept.
- All private label products that contain meat, as well as the charcuterie and seafood categories, are essentially labelled with the country of origin.
- Packages for Axfood's private label products are to be environment-friendly and easy to recycle.

- Green electricity is used in all cases where the energy supply can be procured by Axfood.
- The purchasing process is governed by the Axfood Code of Conduct, which is based on national laws and internationally recognized conventions.
- At every step in the purchasing process, conscious choices are made based on responsibility, quality and price.

- Environmental impact will be decreased by improving energy efficiency, reducing energy consumption, replacing fossil energy sources with renewable forms of energy and through sorting of waste.
- The solar panel system at the freezer warehouse in Gothenburg provides 20% of the energy requirement during the summer months.
- Axfood's assortment is quality-assured both through internal and external controls.



Stores, customers and passion
for food

Giving customers freedom of choice and
create an inspiring shopping experience

Stakeholders
2015

Key aspects in creating inspiring stores include attentive customer service, an expansive selection of fresh products, an improved store layout, and a distinct sustainability profile. Customers' needs and preferences steer the product selection. Axfood strives to offer its customers a wide assortment of highly innovative products that give them value for their money, not least when it comes to its private label products.

Transport

- Delivery of products to stores is conducted using 135 own vehicles combined with external transport firms.
- Deliveries are made to some 7,000 stores and customers nationwide.

Stores/B2B customers

- Every week approximately 3 million customers visit a Willys or Hemköp store.
- Through Axfood's nationwide organization, efficient deliveries can be offered to all independent stores, including those in the countryside.
- Axfood has 262 stores in Sweden, from Trelleborg in the south to Kalix in the north, and 6,154 store employees. Approximately 35% of Axfood's employees are younger than 26 years old.

- Axfood's delivery trucks today are powered either by biodiesel or Evolution diesel (a blend of 40% renewable ingredients).
- With a new fleet management system, the ambition is to achieve further reductions in fuel consumption.
- Since 2009 CO₂ emissions have decreased by 15% per tonne of transported goods (base year 2009).

- In 2015 Axfood installed its first solar panel system at a grocery store.
- To reduce energy consumption, Axfood has installed energy monitoring systems in the Group's stores.
- By its own initiative Axfood began charging deposits for concentrated fruit juice bottles in the hopes of getting more suppliers to follow suit.
- Axfood strives to optimize resources and prevent food waste, among other things through better flow controls, smarter package design and by donating left over food.



Society

Social security costs
Pension costs
Income taxes
VAT
Alcohol tax
Withholding tax

SEK 2,528 m



Suppliers

Cost of
goods for resale

SEK 30,477 m



Employees

Salaries and
remuneration

SEK 3,417 m

Average number
of employees
8,803



Axfood

Total capital expenditures

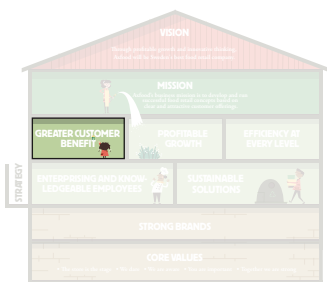
SEK 764 m



Shareholders

Dividend
(as proposed by the
Board of Directors)

SEK 1,889 m



Strategy – customers

The best shopping experience

Axfood strives to offer customers the best shopping experience for the respective formats' target groups and to continuously increase its customer orientation.

Customer strategy:

- Offer appealing stores with a wide assortment
- Increase innovativeness in key product categories
- Develop customer programmes and be a leader in the digital customer interface
- Improve local and regional customer offerings
- Make it easy for customers to make responsible choices



27%

of net sales consisted of private label products.

Priority activities 2016:

- Continue developing the global, organic, vegetarian and health-oriented product assortment
- Offer local products to a greater extent
- Introduce "Product of Sweden" label
- Increase the number of targeted offers in customer programmes

Offer appealing stores with a wide assortment

The core of the strategy to create the best shopping experience for customers is to have appealing stores with a wide assortment. Axfood aspires to offer well run, modern stores that customers enjoy and that make shopping a pleasure. In recent years both Hemköp and Willys have carried out extensive modernization programmes. Modernization and upgrading of stores are now being carried out successively to ensure that customers' expectations for a modern, inspiring grocery store are met.

The assortment is constantly being developed and adapted to customer demands. For example, customers at Axfood stores are showing a growing interest in vegetarian foods and organic alternatives at the same time that they are seeking high quality products that give them value for money. Both Willys and Hemköp today offer a growing selection of organic products.

Demand for organic food is being driven by environmental and health awareness as well as concerns about residual pesticides in foods. In

2015 organic products as a share of total sales amounted to 5.9%. Broken down by store format, this means that Willys' and Hemköp's targets of reaching 5% and 8% in organic sales in 2015, respectively, have been reached.

In addition, Axfood regularly excludes certain products from its assortment out of concern for the environment, people and animals – such as fish assigned a red light by WWF, foie gras, "gourmet" veal and products that are contrary to the company's values. Axfood gives preference to meat certified by KRAV, since it has the most far-reaching standards for animal welfare.

Private label assortment growing and evolving

The profitable focus on private label products will be further refined, and the product range is being broadened continuously. Sales of private label products increased by approximately one percentage point in 2015 to approximately 27% of total sales, which is above the Group's target of 25%.

The growing interest in health and sustainability is a central theme in Axfood's continuing efforts to further develop its offering of private



label products. Existing products are reviewed and new ones are being developed, such as vegetarian dishes and organic alternatives to meet consumer demand. Focus is also on products for consumers with special needs, such as lactose or gluten intolerance.

For some time essentially all private label products in the seafood, meat and charcuterie categories have been labelled with information on the country of origin for the main ingredient. Country of origin labelling has now been expanded in the categories dairy, cheese, dried and tinned legumes, rice, and frozen vegetables. In the future all products produced in Sweden will carry a "Product of Sweden" label, that the industry will launch in 2016. In order for a product to bear the Product of Sweden label, all steps in the production of meat, eggs and milk, including refining and packaging, must take place in Sweden.

For products containing meat, work is under way to establish an animal welfare certification for the meat ingredients. On top of this, work is being conducted to reduce the use of antibiotics in animal husbandry. The majority of private label products containing meat are produced by suppliers that are certified in all parts of the processing chain.

Increase innovativeness in key product categories

The level of innovation in the work on developing the assortment will be increased to meet customer demands for specific products. A wider assortment is needed today to meet customers' increasingly individual tastes and preferences. This is a matter not only of the different flavours offered by the various brands, but also of entirely new taste sensations.

To meet customers' demands for convenience, Axfood's stores are continuously developing and expanding their offering of meal solutions and prepared foods. Bread is another product category that is being developed to simplify customers' daily lives. More and more of Axfood's stores offer store-baked fresh bread.

The assortment must also be increasingly global and suited to customers' varying international preferences. This is important not least to adapt the assortment to the growing number of people in Sweden from different countries.

Fruit and vegetables is another priority product category that is obtaining an increasingly prominent position in stores, which is in line with customers' interest in eating healthy food. The poultry and seafood offerings are also evolving in pace with the growing health trend.

Develop customer programmes and be a leader in the digital customer interface

The store chains' customer programmes are continuously being developed, and the ambition is to be at the forefront in meeting customers through digital channels. A key part of the work on developing the customer programmes is to increase the number of targeted offers. By using knowledge about customers' usual purchases, offers can be made more individualized and relevant. Further information about the customer programmes is provided on page 30 (Willys) and 32 (Hemköp).

Improve local and regional customer offerings

To be the most attractive choice for every customer category, Axfood will also continue

Hemköp – really responsible

Adjacent to the Hemköp store in Torsplan and inside the Mall of Scandinavia, customers will find a slightly different grocery store format, featuring a carefully selected assortment of organic, Fairtrade Certified, gluten-free and lactose-free products. We call it our "really responsible" store format.

Hemköp has set the goal to be Sweden's most sustainable grocery store brand – an effort that has been in the works for many years. Locally grown, organic, sustainable initiatives and making conscious choices that save our planet for the future are examples of what we mean when we say something is really responsible.





to adapt and strengthen its offerings to local and regional demand – and embrace the offerings provided by regional producers. This entails, for example, offering products from local suppliers and displaying them in stores. It can also entail having a broad offering of prepared foods and heated food buffets in stores in markets where such in demand.

Make it easy for customers to make responsible choices

Axfood has high aspirations for sustainability, and this includes also having a dis-

tinct environmental and sustainability image among its customers. The chains strive not only to meet – but also to drive – demand for environmentally adapted, healthy and safe foods. Moreover, they strive to provide clear consumer information about product origin and content.

To further help customers find organic and healthy products that offer value for money, in 2015 Hemköp's sustainable store format was launched, featuring a carefully selected assortment of organic and vegetarian products as well as Fair-trade Certified products.

During the year Axfood Snabbgross took measures to be even clearer in its profile as the conscientious restaurant supplier. By actively informing customers about its sustainability work, such as through commu-

nication activities at stores, Axfood Snabbgross is helping its customers make easy choices.

Examples of decisions that Axfood has taken in recent years include selling only organic bananas at Hemköp, assuring that all Garant tea and coffee is sourced from Rainforest Alliance certified plantations, making sure that all seafood has a green light from WWF by 2020, and ensuring that Garant dried products such as rice and pasta are certified according to IP (integrated production), Global Gap, or equivalent standards.

According to the materiality analysis that Axfood conducted in 2015, customers feel that the three most important sustainability issues are: pesticides and chemicals, animal welfare, and country of origin and traceability. Read more in Axfood's 2015 Sustainability Report.



First to charge deposits for concentrated fruit juice bottles

In 2015, on its own initiative, Axfood began charging deposits on Premier-brand concentrated fruit juice bottles.

It is currently obligatory in Sweden to charge a deposit for PET bottles and aluminium cans with ready-to-drink soft drinks and beer. However, the same does not apply for bottles and cans containing concentrated fruit juice or milk, for example. The national deposit system is an effective way of achieving a high level of recycling and is good for the environment as well as for reducing litter.

Axfood was the first in Sweden to introduce deposits for concentrated fruit juice bottles, and the hopes are that more fruit juice producers will follow suit. The deposit is SEK 1.

Private label products

Garant – symbol of high quality

Garant offers products with a level of quality that is at least as high as the leading name brands in the respective product categories, but at a lower price. The Garant brand, which has previously won awards for its packaging design, achieved acclaim in 2015 for the high quality of its products. The brand won several best taste tests during the year – some of these products are presented on page 37.

Demand for organic and vegetarian products remains high, and the Garant organic product range was expanded during the year by 60 items, to 210 products. During the year Garant also launched an entirely new line of frozen vegetarian products.

The dialogue with consumers in digital channels continues, and during the year #KäraGarant was introduced – a new

series of illustrations that highlight fun, praising and sometimes even negative comments expressed via social media. The illustrations and replies to entries are published on the Garant Instagram account in an effort to encourage a valuable dialogue with consumers.

The Garant website has some 19,000 visitors per month, its Facebook page has over 22,000 fans, and the Garant Instagram account has some 3,500 followers.

Brand surveys conducted during the year showed how Garant has established itself as a brand that represents price value, but also inspiration and environmental awareness.

Eldorado – continued modernization

Eldorado is Axfood's private label with a distinctive low price profile. In 2015 a review was conducted of the assortment

better suit customer demand for discount products. The packaging design for Eldorado products has been successively modernized, and in 2016 all products under the brand will have obtained a newer packaging design.

Fixa – steady improvements in cleaning products




Under the Fixa brand Axfood offers kitchen supplies and cleaning products as well as laundry detergent and other household cleaning products. The Fixa product range was expanded during the year with new products, including laundry detergent, fabric softener, dishwasher tablets, cleaning products and food wrap.

PRIVATE LABELS AND THEIR FOCUS

Brand	Segment	No. of products
	 MID-RANGE food products. Quality at least as good as the market leader, but at a lower price for consumers.	935 products
	 VALUE-ADDED products that meet criteria for organic certification by KRAV and/or EU organic labelling.	210 products
	 VALUE-ADDED body care, laundry and household cleaning products, all of which are ecolabelled, perfume-free, asthma and allergy-labelled, and climate-compensated.	15 products
ELDORADO	 DISCOUNT food and nonfood products.	770 products
fixa	 MID-RANGE nonfood products and household cleaning supplies.	340 products

The description above pertains to private labels owned by Axfood. Examples of private labels owned by purchasing organizations that Axfood is a member of are European Marketing Distribution's Premier, Powerking, Monte Castello and Omega brands, and the United Nordic brand Smart.

Category definitions in the food retail trade:

-  **DISCOUNT** – simpler quality and considerably lower price than the market leader in the respective product categories.
-  **MID-RANGE** – quality at least comparable with the market leader in the respective product categories, at a lower price.
-  **VALUE-ADDED** – products that include some form of value-added, e.g. organic, premium quality or hypoallergenic.

Thorough process leads to high quality products

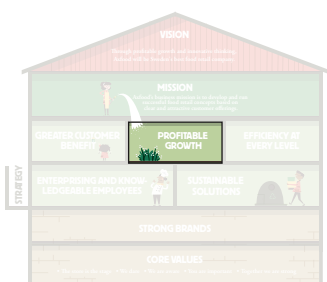
- 1 Axfood decides to add a new private label product to its assortment.
- 2 An invitation to submit tenders is sent to a number of suppliers with a request for documentation in accordance with Axfood's purchasing guidelines. Product samples are also submitted to Axfood.
- 3 The product samples are tested, and three to four suppliers are selected and requested to return with new product samples that have been modified according to Axfood's preferences.
- 4 The product samples are tested again, after which – for mid-range and value-added products – the products are rated by an external consumer panel of 60 persons.
- 5 Final negotiations are held on purchasing terms, and an agreement is drawn up laying out the purchasing terms as well as the terms for compliance with Axfood's Code of Conduct, including social responsibility aspects.
- 6 The products are delivered to Dagab, which then distributes them to stores.



Havabygget, ÖRKELLJUNGA, SKÅNE

Garant eggs from free range hens are laid by hens that are allowed to roam freely and peck for food at the Havabygget farm in Skåne, southern Sweden. Since 2014 Swedegg and its approximately 14,000 hens at the Havabygget farm have been supplying Axfood stores with eggs.





Strategy – growth

Number two with growth ambitions

Axfood aims to increase its market share. Through continued growth Axfood will consolidate its position as the number two player in Sweden's food retail market, in both Group-owned and proprietor-run stores.

Growth strategy:

- Drive organic growth
- Ambitious pace of establishment
- Grow in digital business
- Develop service offering

Drive organic growth

Axfood aims to increase sales through development of the chains and stores, and by offering competitive prices.

Both Hemköp and Willys have carried out extensive modernization programmes at their stores in recent years. The newly refurbished stores not only offer an environment in which customers enjoy shopping; they also contribute to more efficient store operation. Less extensive modernizations are now being carried out on a continuous basis, and proprietor-run stores are also upgrading to a greater extent.

The new business system is enabling more efficient handling of goods across the value chain which, in addition to enhancing profitability, is driving sales through better availability and greater flexibility.

Ambitious pace of establishment

New store establishment is a vital prerequisite for growth. The Group is pursuing an ambitious pace of growth, with an average of five to ten new, wholly owned stores opening in metropolitan areas and regional growth areas per year. Both Hemköp and Willys are successively opening additional stores in growing municipalities and in residential areas or locations with easy access. For Hemköp, growth areas and neighbourhood locations are of central focus, while Willys is searching to a greater extent for store locations at easy-to-access shopping centres with a sufficiently large population base.

Axfood Snabbgross has a unique number of stores for its niche – 21 in all – and its ambition is to continue expanding. Its stores will also be modernized with a view to contributing to greater food inspiration.

Nine entirely new stores were established in the Group in 2015: three Hemköp stores, five Willys and one Axfood Snabbgross.

Axfood also has plans to establish more proprietor-run Hemköp stores under the 91/9 model and is searching for business partners. The model is a financing solution that enables store managers to buy their store and is a way for Axfood to encourage entrepreneurship. Axfood retains a majority stake in the store during the initial years of the agreement. After two years the store manager can buy the store from Axfood and then own 99% of the company. The various ownership forms

serve to strengthen and drive the chain forward. In 2015 one store was converted under the 91/9 model.

Grow in digital business

Digitalization affects all parts of the retail food industry, not least customers' interest in being able to shop via digital channels.

Axfood has long offered e-commerce to business customers and has prioritized development of digital solutions for its wholesale business. On the consumer side, in 2015 Axfood created a digital platform for online shopping at Willys and Hemköp. Launch of the service will take place in 2016 and will include both customer pick-up and home delivery of orders. The concept will be rolled out initially in Stockholm and Gothenburg, and will be limited to larger cities with potential to develop the necessary volumes.

Axfood continues to develop its well developed collaborations with Sweden's leading pre-packed grocery companies and e-commerce players, which include both complete meal concepts and regular grocery orders.

Develop service offering

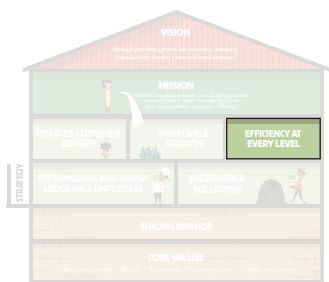
Through continued development of in-store service counters with services such as cafés, betting and post, opportunities are created to attract more potential customers.



In 2015, every week Axfood supplied products and packed grocery bags for several thousand customers of the market's leading providers of pre-packed grocery bags, Linas matkasse and Middagsfrid.

Priority activities 2016:

- Launch e-commerce for consumers in Stockholm and Gothenburg
- Establish ten new stores
- Continue modernizations, primarily of Hemköp stores
- Offer more stores under the 91/9 model



Strategy – profitability

Efficiency and cost control

Axfood will be the most profitable company in the Swedish food retail market.

Profitability strategy:

- Improve effectiveness of assortment
- Increase efficiency in logistics and at stores
- Good cost control

Improve effectiveness of assortment

Axfood strives to have a profitable assortment that consumers find attractive. Achieving this requires a well thought-out, efficient and long-term approach.

Knowledge and volume purchases contribute to lower purchasing prices for the Group. Having an effective assortment is also a matter of offering a well balanced selection in a given product category.

Through coordinated purchasing, membership in the leading purchasing organizations European Marketing Distribution and United Nordic, and great knowledge about various types of product categories, Axfood is a strong negotiating partner with a focus on low purchasing prices. In addition, the successful focus on private label products enables the Group's chains to offer competitive prices and create the most profitable assortment as possible.

Increase efficiency in logistics and at stores

Axfood's logistics are becoming increasingly efficient, with a focus on opportunities, sales and simplification. All logistics operations are now coordinated within the Group via Dagab. Dagab offers large-scale as well as flexible, customer-unique solutions that draw from coordination benefits, see pages 36–37.

The aim is to increase percentage of purchases that stores make via Dagab, and a number of measures are being taken on a regular basis to contribute to this. A higher percentage of purchases leads to larger volumes, which contributes to economies of scale in supplier negoti-

ations, more efficiently packed transports, and better delivery reliability towards stores.

Delivery reliability is one of the logistics operation's most important key performance indicators. In 2015 it was 96.9%, which is in line with the Group's target value.

Product handling is being continuously improved across the value chain. Among other things, greater use of Autoorder is leading to a more efficient ordering process and less food waste. Parallel with this, new solutions are being developed for adapted order flows and to deliver products the entire path to store shelves.

In stores as well, continuous development is being conducted of work methods, routines, premises and equipment in an effort to enhance the Group's profit. Priority activities include improving staff planning and product placement, and improving the efficiency of checkout lanes.

Good cost control

Maintaining good cost control is an important part of Axfood's profitability strategy. Axfood's new business system creates conditions for improved management and good control of the entire Group's value chain. Management via the business system is being fine tuned on a continuous basis.

Axfood currently has a highly efficient organization, and work on efficiency improvements will continue. The Group continues to focus on centralizing and streamlining administration, establishing cost effective IT administration, and lowering its costs for indirect material and services.

Priority activities 2016:

- Further increase use of Autoorder
- Improve product and staff planning at stores
- Improve administrative efficiency
- Increase the number of private label organic and vegetarian products

Better for customers with Autoorder for campaign items

The Axfood Group's stores regularly offer campaign items at discounted prices. Promotional campaigns are decided on centrally by the chains, and the stores decide themselves several weeks in advance how large they want their order to be.

To streamline order handling, Axfood now relies on Autoorder (a system for automatically generated orders) for promotional campaigns as well. This means that every store receives an

order recommendation for the discounted goods. The recommended order is then executed unless the individual store actively goes in the system and changes the order size.

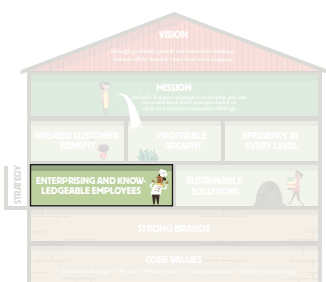
This promotional campaign routine has considerably improved delivery reliability and thereby reduced the risk of stores being without the discounted items, which customers have anticipated being able to buy during the campaign.





Tjulsta farm, ENKÖPING, UPPLAND

Every year Axfood buys KRAV-certified organic pork from suppliers of some 5,000 pigs that have been able to move about freely, graze, poke around and roll in mud. Some of them come from Tjulsta farm, which has approximately 80 sows whose piglets (approximately 2,000) are raised for slaughter.



Strategy – employees and organization

Proud and committed employees

Axfood wants proud and committed employees and grocers who work in concert in a cost-effective organization.

Employee strategy:

- Attract, retain and develop employees
- Distinguished by values-based leadership, employee-ship and a distinctive Axfood culture
- Be a customer-centric organization with strong entrepreneurial spirit
- Ensure purposeful, user-friendly, cost-effective and secure HR processes

118

employees have completed Axfood's store manager trainee programme since the start, which celebrated its 10th year in 2015. Most of the participants are still employed within the Group. Eighty-five per cent of them are in managerial roles today.

Attract, retain and develop employees

An optimum mix of competencies and perspectives provides a diversity of approaches that can help develop Axfood's customer offering.

Diversity and equal opportunity

Axfood's employees reflect the diversity of the Group's customers, and everyone should have the same opportunities to develop.

The Group works actively with these issues through measures ranging from obligatory recruitment training for managers to offering a global product selection in stores. Axfood's goal is that 20% of all managers will have an international background by 2020 and that there will be an even balance between men and women in management positions. In 2015 19% of Axfood's employees came from an international background, and of Axfood's managers, 30% were women. The main driving force for achieving greater diversity is the Group's work with culture, attitudes and prejudices.

In 2015 Axfood worked to improve its internal training with a focus on better accessibility for employees with low reading skills or dyslexia.

Clearly map out competencies and career paths

At Axfood there are many places where employees can make a difference. The strength lies more in the collective body of employees rather

than a chosen elite. Axfood offers equal opportunity by ensuring diversity in its processes. The HR department strives to clearly map out career paths, and employees take active responsibility for their own personal development. Particular focus during the year was dedicated to clarifying competency profiles and the connection between training initiatives, roles, and possible career paths.

Succession planning

To achieve the Group's ambition of achieving a high share of internal recruitment and the overall diversity goals, Axfood works actively with succession planning and talent management. Every manager in the Group is responsible for identifying potential managers regardless of gender and supporting their development towards taking greater responsibility within the Group. Every year the Group's managers make a systematic compilation of names of potential successors and make sure that every employee has a development plan.

Employer brand

Axfood's employer brand is an area of priority focus, and the brand is growing stronger, among other things through initiatives to promote diversity and internal mobility, collaboration with colleges and universities, dialogue in



Training for everyone

At Axfood all employees are to have the same opportunities for training. Text-book-intensive training can present a major obstacle to people with low reading skills. In 2015 Axfood therefore took steps to improve its training courses with a focus on improving accessibility for people with low reading skills or dyslexia.

Courses and training material have been revised, and suitable aids have been developed. In addition, during the year all employees in Axfood's HR department completed training designed to give them greater knowledge about reading and writing difficulties, about how to make a text more accessible, and about what teaching aids are available.

BRIEF FACTS

- Dyslexia is classified as a functional disability.
- Twenty-five per cent of people in Sweden have very low or low reading skills.
- Modern tablets and smartphones have a speech synthesis function that can help people with low reading skill.

social media and clarity surrounding Axfood's sustainability work.

In 2015 the number of applications filed with Axfood doubled compared with 2014. In addition, the share of internal applicants per position increased by 30%. This indicates that measures to increase knowledge about Axfood as an attractive employer and map out career paths within the Group have been fruitful.

Through the one-year youth trainee programme Ung i Axfood ("Young at Axfood"), which was started in 2015, the Group has taken an initiative to address youth unemployment. The aim of the programme is to spark young people's interest in retailing, recruit talented people and raise the level of competence in the retail trade.

Values-based leadership, employeeship and a distinctive Axfood culture

Axfood has five core values that guide how the employees are to act, both towards each other and others. The core values make it easier to make the right decisions and set priorities in daily work. Through knowledge-sharing, training and dialogue within the Group, Axfood's core values are put into practice.

Apart from through the core values, the desired leadership qualities are laid out in a Group-wide leadership profile, which is used as

a benchmark in recruitment, development and evaluations.

Employee surveys are conducted every other year, with the next survey scheduled for 2016. The Group's goal is to achieve an Employee Satisfaction Index (ESI) score of at least 90. The benchmark for the industry is 84, which can be compared with the score of 91 attained in the most recent survey at Axfood. Axfood also measures the share of proud employees and ambassadors. In this area the Group has attained a score that is three times higher than the benchmark – 23 compared with the benchmark score of 7.

Customer-centric organization with strong entrepreneurial spirit

To ensure it maintains a customer-centric organization with a strong entrepreneurial spirit, every year Axfood conducts a large number of training activities, which also convey Axfood's core values.

Axfood Academy is the Group's centre for training and trainee programmes. The academy develops initiatives that strengthen the customer offering and provides training for all employees as well as development programmes for managers within the Group.

In 2015 a total of 1,633 employees participated in 3,464 training days via Axfood Academy. A total of 22 instructor-led courses were



Every year at Axfood's management forum, Golden Apple awards are presented to the employees in the respective areas who have lived up to Axfood's core values.

Axfood's core values:

- The store is the stage
- We dare
- We are aware
- You are important
- Together we are strong



Priority activities 2016:

- Introduce a whistleblower system
- Continue work with succession planning
- Offer internships for youths and people with a multicultural background
- Strengthen Axfood's reputation as an attractive employer
- Focus on reducing absences due to illness
- Recruit participants to a new Group trainee programme (to be carried out in 2017)



completed on 111 separate occasions. In addition, more than 40,000 e-learning courses were held.

During the year a number of new training courses were introduced, including one on staff planning for profitable store operations and one focusing on fundamentals of store finances.

Purposeful, user-friendly, cost-effective and secure HR processes

Purposeful, user-friendly, cost-effective and secure HR processes help prevent ill-health and reduce absences due to illness. They also contribute to the Group's effectiveness and reputation as an attractive employer.

A number of initiatives were taken during the year to reduce absences due to illness. New training courses on rehabilitation and on psychosocial illness were created, and cooperation with company health services was improved. A new, Group-wide policy on work environment

and health was established, and illness statistics and follow-up data for managers were improved.

New HR system

In 2015 Axfood was first in Sweden to adopt a comprehensive solution for a new and digitally based HR system – SAP SuccessFactors.

Through this solution, 13,000 employees are included in a cloud-based system that is based on self-service and is adapted to how employees work in stores, warehouses and offices in Axfood's various companies. Digitalization of HR processes makes Axfood's work with human resources more efficient and flexible while enabling Axfood to brand itself as an engaged and attractive employer.

Through standardized recruitment services, assurances are gained that all candidates obtain constructive feedback and are handled in the same, respectful manner.

Details on sustainability work are presented in Axfood's 2015 Sustainability Report

Axfood's ambition is to be a leader in sustainability and to be at the forefront of new work methods and technical solutions. Sustainability issues are integrated in the daily work and represent a central focus of the Group's strategy.

The Group's sustainability programme is reported in detail in the 2015 Sustainability Report. The report also lays out priorities and the results of measurements of impor-

tant key ratios. The Sustainability Report also presents the results of the materiality analysis that the Company performed in 2015 and describes Axfood's view of the interaction between its stakeholder groups: customers, employees, environmental interests, suppliers, society and owners. The issues that these stakeholders consider to be the most important provide guidance in Axfood's sustainability work.

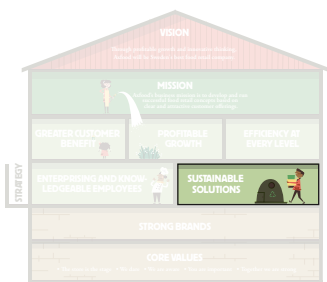




Hvanstrup farm

HIMMERLAND, DENMARK

The fertile fields of Himmerland, Denmark, are the growing grounds for some of the approximately 100,000 tonnes of potatoes that are used to make the more than 180,000 bags of cream cheese & wild garlic potato chips that Axfood sells every year. The chips are made with tender care by Svenska Lantchips outside Södertälje, which also makes other flavour variants of Garant chips.



Strategy – sustainable development

Best in the industry

Axfood has a clear goal for sustainability – to be the best in the industry and to have the reputation as such. This requires a long-term, systematic undertaking and that activities are followed up, evaluated and developed.

Sustainability strategy:

- Be at the forefront at reducing climate impact
- Ensure good control of the supply chain
- Be an active and responsible societal actor



Axfood will be climate-neutral by 2020

Be at the forefront at reducing climate impact

Reducing the climate impact of operations is a central part of Axfood's strategy for sustainable development. The Group strives to work actively with proven measures and to be a forerunner in testing new, technical solutions in its own operations. The most relevant environmental aspects are energy consumption, transports and material flows. Environmental work is conducted systematically and contributes to continuous improvements. The overarching goal for the Group's climate impact is to be climate-neutral by 2020 and to reduce the Group's own climate impact by 75%. From 2009 through 2014 Axfood reduced its climate impact by 52%. The change is being slowed by the fact that a few stores cannot use Axfood's central electricity contracts for green electricity, since they are locked in to joint electricity agreements with shopping centres, for example. The outcome for 2015 is dependent on the residual mix, for which data is published later in 2016.

Energy consumption

Axfood's stores today have electricity monitoring systems designed to systematically measure and monitor electricity use. Measures are conducted on a continuous basis to reduce energy consumption, and in connection with refurbishment and new construction of stores, energy efficiency is a top priority.

The Group's target was to reduce its energy consumption by 25% per square metre in the Group's premises by 2015 compared with 2009. While this goal was not reached, Axfood succeeded in reducing energy consumption by 15.4%. The increase in sales as well as a higher share of fresh products had a negative effect on electricity consumption.

Transports

Every day large volumes of goods are transported in Axfood's operations, requiring detailed transport planning.

The climate impact of transports is decreased with the help of route planning, capacity utilization, driver training in eco-driving and the use of renewable fuels. In addition, Axfood strives to reduce the number of trips by offering

alternative meeting forms, such as digital meeting platforms.

Dagab lowered the CO₂ emissions from its own fleet by 15.4% per tonne of delivered goods in 2015.

Material flows

To increase material recycling, all stores, warehouses and offices sort many different fractions. All warehouses and Group-owned stores work extensively with sorting as part of efforts to improve their profitability by selling waste fractions for material recycling.

Good control of the supply chain

Social responsibility is partly a matter of promoting good conditions for the people who produce or in some other way work with the products that the Group sells as well as performing controls to ensure that suppliers meet Axfood's requirements for care for people, animals and the environment.

Social responsibility

Axfood sets high standards for its suppliers and performs extensive controls in countries with high sustainability risks. Among other things, suppliers must demonstrate that they are working systematically to adhere to Axfood's Code of Conduct.

In 2015 the Group sharpened its routines for assessing suppliers. All new suppliers from countries with high sustainability risks are to be graded according to their risk level and be approved by Axfood. In connection with purchases of private label products in high-risk countries or in high-risk categories, supplier evaluations based on sustainability aspects are performed early in the selection process.

Through its participation in the Business Social Compliance Initiative (BSCI), Axfood is stepping up its efforts to bring about improved conditions among suppliers. In 2015 a total of 48 social audits were performed – both under own management and through BSCI. During the year a number of suppliers in risk countries participated in BSCI's or other training programmes in the areas of human rights, working conditions and sustainability. Axfood has set a goal to ensure that its suppliers improve their

compliance with BSCI's requirements for working conditions, by 2016 at the latest.

Country of origin labelling

The foundation for responsible work with products involves having control over their origin. Moreover, customers are demanding to know. For this reason, all of Axfood's private label products are to include information on the packaging about the origin of the main ingredient or main meat ingredient, where applicable. All of Axfood's private label products essentially meet this requirement in the meat, seafood and charcuterie categories as well as in a large number of other categories. Country of origin labelling is being improved successively.

Sustainable production of soy and palm oil

Axfood is contributing to more sustainable production of palm oil and soy. Soy certificates are bought both for the soy used in products and for the soy used indirectly in animal feed. Starting in 2015, certificates are bought for all soy that is used directly or indirectly in Axfood's private label products.

With respect to palm oil, Axfood has taken steps to substitute it with other vegetable oils or to purchase certificates for the volume of palm oil that is used in the Group's private label products. In addition, in cases where palm oil is used, Axfood's goal is to ensure that the oil is sustainability certified. During the year, this goal was achieved for all Garant products.

Active and responsible societal actor

Together with non-profit organizations and other business actors, Axfood is working long-term with issues related to the environment, health, victims of exploitation and food.

As a co-founder of the Haga Initiative climate network, the Group is advocating for reduced carbon emissions by industry, highlighting the climate issue and influencing politicians.

Through its membership in the retail trade organization Svensk Dagligvaruhandel, Axfood

advocates for issues that involve the entire food retail industry, such as standards and guidelines on how EU regulations should be implemented in Sweden.

Axfood's grocery chains also have long-standing partnerships with a number of non-profit organizations, and through active participation in UNICEF's Corporate Network for Children's Rights, the Group is contributing to the implementation of children's rights principles for companies.

In addition, Axfood is engaged in a long-term dialogue with various stakeholder organizations on sustainability issues, including the Swedish Society for Nature Conservation (SSNC), WWF, Greenpeace, Fair Trade Center, the Swedish Consumers Association, Animal Welfare Sweden and Animal Rights Sweden.

In the area of charity work Axfood has long-standing relationships with, among others, Save the Children, SOS Children's Villages and SSNC.

During the year, Hemköp initiated or actively participated together with charity organizations in numerous relief campaigns for EU migrants and financially disadvantaged people in Sweden. Axfood also took initiatives during the year to create better conditions for immigrants recently arriving in Sweden. Willys, Hemköp, Axfood Närlivs and Dagab will be offering jobs or internships to at least 100 newly arrived refugees in the coming three years.

Charity instead of waste

During the year, the "Charity instead of waste" project was implemented, which entails, among other things, structuring the Group's cooperation with charity organizations that take care of food waste from the Group's stores.

In December, in partnership with Stockholm Stadsmission, Axfood opened the Nordic countries' first social supermarket. The store's mission is to reduce unnecessary food waste and at the same time give financially disadvantaged people an opportunity to buy groceries at a very low price.



Priority activities 2016:

- Demand lower use of pesticides
- Implement new strategies for ensuring living wages and combating corruption among suppliers
- Intensify work on energy efficiency
- Reduce food waste, both within Axfood and among consumers
- Continue work with country of origin labelling of food products
- Institute stricter requirements for animal welfare
- Focus on solar panel systems on store roofs
- Offer jobs or internships to newly arrived immigrants

Matmissionen opens for business – first social supermarket in the Nordic countries

In 2015, in partnership with Stockholm Stadsmission, Axfood established Matmissionen, the first social supermarket in the Nordic countries. The store is located in Stockholm and is owned and run by Stockholm Stadsmission. Axfood serves in a supporting role by providing groceries, financing and knowledge.

The store is open to the general public, but financially disadvantaged people can apply for membership and

thereby pay a third of normal store prices. Matmissionen also offers an opportunity to people who have found themselves excluded from the labour market to obtain on-the-job training.

All products sold in the store are donated by food retail companies and the food industry – products that for various reasons cannot be sold in ordinary grocery stores. Through this measure, Matmissionen is contributing to Axfood's climate work by lowering

the environmental impact associated with reduced food waste from stores. The store's goal is to take care of more than 200 tonnes of left over food in 2016.

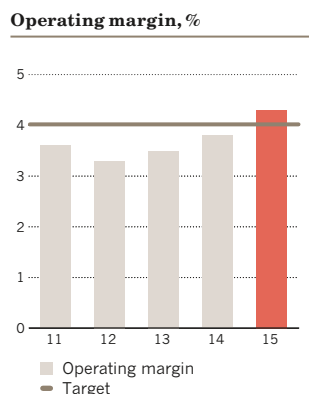
Social supermarkets have been operating for several years in other European countries and have become a highly appreciated social contribution.



Targets and target achievement

Strategic targets

Financial targets



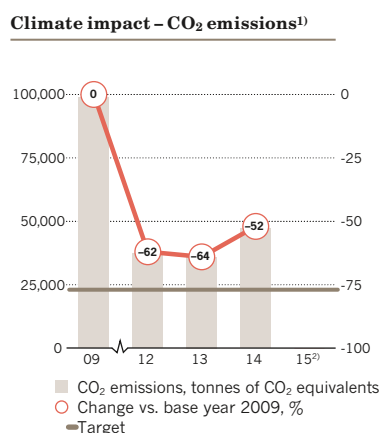
Target:

Long-term operating margin of 4%.

Outcome:

In 2015 the long-term target was reached, with an operating margin of 4.3%.

Environmental targets



Target:

Axfood shall be climate-neutral by 2020. The climate impact from its own operations will decrease by 75% by 2020 (base year: 2009).

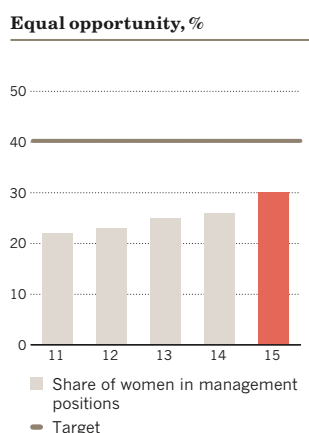
Outcome:

From 2009 through 2015 Axfood decreased its climate impact by 52%.

¹⁾ Through better data collection, historical figures have been adjusted compared with the year-end climate data from the Haga Initiative.

²⁾ The outcome for 2015 is dependent on the residual mix, which will be published later in 2016.

Employee targets



Target:

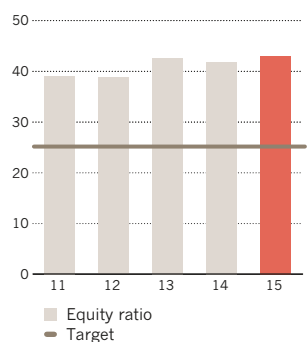
Axfood shall achieve an even gender balance in management positions over the long-term, i.e., men and women will be represented within a range of 40%–60%.

Outcome:

Axfood is achieving its long-term target at the mid-management level; among other management positions, the outcome is below the target level.

Axfood's strategic targets are built upon profitable growth, active work with environmental issues, and committed employees who reflect the diversity of society at large.

Equity ratio, %



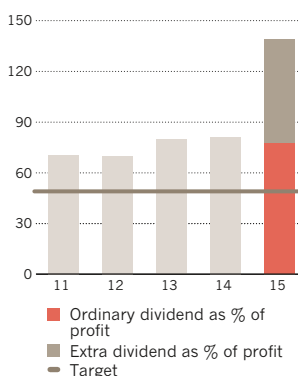
Target:

The equity ratio shall amount to at least 25% during all quarters.

Outcome:

The equity ratio in 2015 was 43.0%, and the target was achieved during every quarter.

Dividend in relation to profit, %



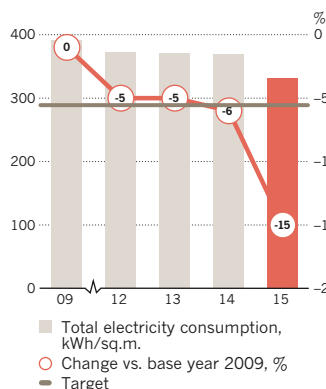
Target:

Axfood's dividend policy lays out the goal that the shareholder dividend shall be at least 50% of profit after tax.

Outcome:

The Board of Directors proposes an ordinary dividend of SEK 5.00 per share (4.25), corresponding to 77% of profit after tax. In addition, the Board proposes an extra dividend of SEK 4.00 (-). The total dividend would thus correspond to 139% of profit after tax.

Electricity consumption



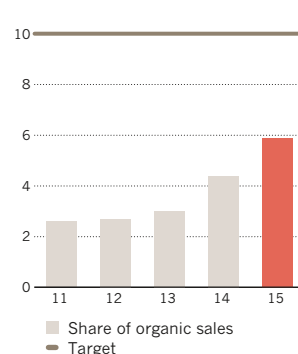
Target:

Axfood shall reduce its energy consumption by 25% per square meter by 2015 (base year: 2009).

Outcome:

Axfood lowered its energy use by 15.4%. It thus fell short of the 25% target, mainly on account of higher sales and a higher share of fresh products.

Share of organic sales, %



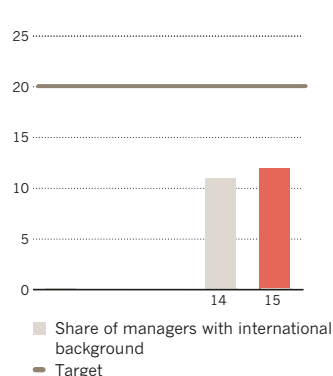
Target:

Organic products as a share of net sales shall amount to 10% by 2020.

Outcome:

Organic products accounted for 5.9% of net sales in 2015. Organic products accounted for 8.1% of total for Hemköp and 5.2% for Willys.

Diversity³⁾, %



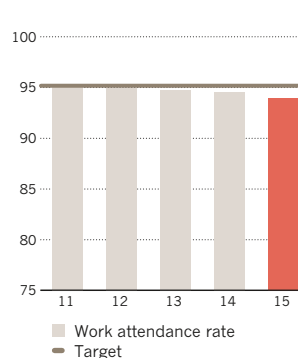
Target:

By 2020 at the latest, 20% of Axfood's managers shall have an international background.

Outcome:

In 2015, 12% of Axfood's managers and 19% of employees came from an international background. More than 30 languages are spoken within the Group.

Work attendance rate, %



Target:

The work attendance rate among Axfood's employees shall be at least 95%.

Outcome:

In 2015 the work attendance rate was 94%.

³⁾ Data pertains to measurement at the start of the year



Willys

Strong sales and successful development of the assortment and stores

2015 was a very strong year for Willys. Sales grew 6.4% – owing both to a larger spend by loyal customers and to a stream of new customers to its stores. Operating profit improved by 3.0%. The chain continued to gain market shares despite fierce competition in the market.

WILLYS

Business concept

Willys takes the role as challenger in the market and strives to set the trend in the discount food retail segment by offering “Sweden’s cheapest bag of groceries”, with a wide and varied assortment.

Vision

To be Sweden’s most highly recommended grocery store chain. We will achieve this by giving our customers the most attentive service in the market and a positive shopping experience.

Customer structure

Willys is the grocery store for price-savvy shoppers. With a wide assortment and rich offering of fresh products, Willys seeks to meet its customers’ basic grocery needs – plus a little more. Large households and families with children are Willys’ priority customer categories.

Store facts

- Willys is Sweden’s leading discount chain, with 194 wholly owned stores, of which:
 - 144 Willys
 - 50 Willys Hemma
- Willys stores can be found nationwide.
- Store retail area:
 - Willys stores are 1,100–4,700 sq. m. and carry approximately 9,000 items
 - Willys Hemma stores are 300–1,200 sq. m. and carry some 5,000 items.

Nine stores opened for business during the year. Of these, five were newly established units and four were existing stores that moved to new premises. At year-end 2015 the chain comprised a total of 144 Willys and 50 Willys Hemma stores.

Willys’ ambition is to continue growing throughout Sweden, with the goal to be where the customers are. This means that stores will be established in cities with high growth – such as in major metropolitan areas and the Mälardalen region – and in medium-sized cities with a sufficiently large customer base. Store locations will be at or nearby shopping centres, motorways, mass transit or residential areas.

In addition to low prices and an attractive assortment, Willys’ modern stores are a key factor behind the sales growth. Following the extensive modernization work carried out in recent years, Willys stores are both a pleasure to shop in and easy to navigate.

An assortment for everyone – including organic products

Striking the right balance in the assortment is a key success factor for Willys. By offering a well balanced selection of popular products in all categories, Willys makes it easy for customers to shop. Fruits and vegetables continue to be a central part of the assortment, and during the year major efforts were also focused on meats – the meat departments were remodelled and the assortment was further developed.

Willys also has a high level of ambition regarding organic products. By making organic products an option also for price conscious shoppers, Willys focusing heavily on offering organic everyday foods at attractive prices. The goal is to offer organic alternatives for the same price as the corresponding, conventionally produced products. More than 100 new organic products were added to the chain’s assortment in 2015, entailing an offering of some 600 organic products at the start of 2016. The focus is on broad volume products, such as pasta, meatballs, sandwich meats and bread under the motto “organic for everyone”.

In Sweden, sales of organic products grew 40.2% in 2015, while the corresponding increase for Willys was 44.1%. While sales of organic products at Willys are still slightly below that industry average of 6.6%, the portion of organic product sales at Willys continues to grow and reached 5.2% in 2015.

Effective management and economies of scale

Being able to offer low prices requires having low costs. This requires daily follow-up and a consistent, long-term effort on matters large and small. Because all Willys stores are Group-owned, they can have a uniform store concept, work methods and policies, which creates an efficient organization.





Organic doesn't have to be more expensive

Interest in organic food is growing rapidly. Many shoppers still shy away from organic products because of their price. Willys wants to change that.

In 2015 the chain launched an initiative to offer attractively priced organic everyday foods. The goal is to offer organic alternatives at the same price as the corresponding, conventionally produced products. By focusing on common everyday products, making volume purchases and having fewer middlemen, Willys has been able to launch a number of new, organic alternatives – at prices that in many cases are at the same level as their conventionally produced counterparts. More than 100 new, organic products were added to the chain's assortment in 2015.

Willys+ increasingly customer-adapted

The Willys+ customer programme enjoyed continued success, which contributed to higher sales. The programme increased to 1.8 million customers at year-end 2015. Willys+ customers' share of total sales increased during the year. The customer programme is being continuously developed and offers increasingly customer-adapted offerings that are tailored according to what the individual customers usually buy.

Support to refugee children embraced by customers

Willys' partnerships with the Swedish Society for Nature Conservation (SSNC) and Save the Children continued during the year.

All Willys stores meet the standards posed by one of the toughest environmental certifications in the Swedish market, SSNC's "Good environmental choice". This certifies that the stores offer a wide assortment of organic products, avoid particularly environmentally hazardous products, and work with energy efficiency and waste sorting.

At most Willys stores customers can donate their bottle and can deposit money to Save the Children by pressing a "donate" button on recycling machines. Since 2009 approximately SEK 14 m has been collected in this way from recycling machines at Willys stores. In September, October and December 2015 Willys matched every krona donated via the "donate" buttons and earmarked it for support of Save the Children's work with refugee children. This led to a 40% spike in customer donations compared with an ordinary month. In all, customers donated approximately SEK 2.9 m in 2015, and Willys contributed an additional SEK 900,000

after matching customers' donations in September, October and December.

Willys has also decided to expand its cooperation with charity organizations at the local level by donating products that can no longer be sold and would otherwise have been discarded.

Future challenges and priorities 2016

Willys' challenge going forward is to continue growing sales in the face of tough competition. The chain's expansion continues, and the plan is to open more new stores in 2016. At existing stores, focus will be on assortment development, among other things. The digital offering will be strengthened in

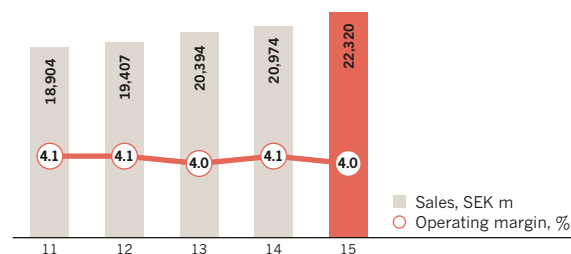
2016, in part through more customer-adapted offerings via the Willys+ customer programme, and in part through the launch of an e-commerce offering in selected cities. The e-commerce venture will be evaluated on a regular basis in 2016.

The strategy is to continue to offer Sweden's cheapest bag of groceries. In addition, it is strategically important to develop an effective assortment with a large selection of fresh and organic products, create a positive in-store experience, offer attentive customer service, and have a clear profile as a sustainable and responsible grocery store chain.

1.8

million Willys+ customers.

Sales and operating margin



Key ratios

SEK m	2015	2014
Net sales	22,320	20,974
Like-for-like sales growth, %	4.4	0.3
Operating profit	896	870
Operating margin, %	4.0	4.1
Number of Group-owned stores	194	191
Average number of employees	4,464	4,255
Private label share, %	29.1	28.2



Hemköp

Record sales and earnings

Hemköp's successes continued in 2015. The chain set new records for both sales and earnings. Customers and employees take pleasure in the modern, appealing stores at the same time that they are gaining an ever stronger reputation for their assortment that gives customers value for their money. The vision to be customers' favourite neighbourhood grocery store was realized at a growing number of locations in 2015.

Hemköp

Business concept

"The personal food store", which in a simple yet painstaking manner provides inspiring food ideas to active families in their day-to-day lives as well as on special occasions.

Vision

Customers' favourite neighbourhood grocery store.

Mission

We create passion for food every day.

Customer structure

Due to the location of Hemköp's stores in urban and residential settings, customers shop more frequently. Hemköp customers are looking for inspiration and a wide assortment that offers value for money, with a rich offering of fresh products. They are active people who enjoy good food and are conscious about their health and the environment.

Store facts

- Hemköp's stores are centrally located in city centres and residential areas.
- Hemköp stores are 400–4,000 sq. m. of retail area.
- Hemköp stores carry approximately 10,000–12,000 items.
- At year-end the Hemköp chain comprised 179 stores, of which 68 were Group-owned.

Sales at Hemköp's stores grew 6.8% in 2015, with a 12.2% rise in operating profit. Performance was strong nationwide. The store modernizations carried out in recent years have generated results as more and more customers discover that the stores are easy to shop at, and that they offer a high quality assortment that gives them value for their money. At year-end Hemköp had approximately 0.8 million customers enrolled in its bonus programme.

Sales of private label products continued to grow, and product development was very successful, especially for Garant. Among Hemköp's customers at urban locations, single and couple households are overrepresented. Many such customers are interested in organic and vegetarian foods. The selection of Garant vegetarian products that have been recently developed has therefore been very well-received at Hemköp's stores. Sales of organic products as a share of Hemköp's total sales was 8.1%, which

is higher than the industry average of 6.6% in Sweden.

Different ownership forms are a strength

Hemköp's annual customer survey indicates that customers are growing increasingly confident in their perception that Hemköp offers value for money, which is a key factor behind more visits and bigger spends. The year's survey also showed an increase in overall customer satisfaction. Customers particularly appreciate Hemköp's staff, assortment and store locations.

At year-end 2015 the Hemköp chain comprised 68 Group-owned and 111 proprietor-run stores. The different forms of ownership strengthen and drive the chain forward. During the year one store changed ownership according to the 91/9 model, which is a financing solution that makes it possible for store managers to buy their store. Under the model, the store manager acquires an initial 9% share

Hemköp open for business in Sweden's largest mall

On 12 November the Mall of Scandinavia outside Stockholm celebrated its grand opening. The mall offers the best in fashion, sports, home furnishings, technology – and food. In conjunction with this, Hemköp opened a new, 2,300 sq. m. store.

Hemköp Mall of Scandinavia is a food store above and beyond the ordinary. The assortment rests on a platform of basic everyday groceries along with the best seasonal products, at attractive prices. The staffed counters include experienced chefs, pantry cooks, bakers and enthusiastic foodies. Particularly strong emphasis has

been placed on offering an enticing warm food buffet to meet demand for appetizing lunches for the many people who work at the mall and the adjacent Arenastaden. The store also has an extensive catering service for general foodservice needs as well as more festive celebrations.

What is unique for the Hemköp store in the Mall of Scandinavia is an entirely new department for beauty care products and one for Hemköp's sustainable assortment, which is a select offering primarily of organic, vegetarian and Fair Trade Certified products.

Earmarked support for EU migrants and refugee children

Half of all refugees around the Mediterranean are children. Hemköp therefore chose to earmark the money donated by customers via the stores' bottle and can deposit machines to the SOS Children's Villages disaster relief fund – and at the same time doubled the amount donated during September and October. A total of SEK 1.1 m was collected during the year, of which SEK 0.5 m in September and October. Of these Hemköp donated SEK 0.25 m.

One new initiative in 2015 involved a project with SOS Children's Villages

and Stockholms Stadsmission supported by Hemköp and its customers, which seeks to give EU migrants of Romanian descent and their children the long-term support needed for parents and their children to be reunited in Romania. The goal is to find a transnational model that will support and strengthen this group of people who are at risk and enable parents to stay with their children in Romania.

In 2015, for the eighth year in a row, Hemköp provided support to SOS Children's Villages and their work with

at-risk children in Ukraine. WWF is another charitable organization that Hemköp provides support to.



of ownership with an option to acquire up to 99% of the company. At the start of 2016 the first store operating under this model was fully converted, entailing that Axfood now owns only 1%.

Seven Group-owned stores were modernized in 2015, and a growing number of proprietor-run stores are now choosing to upgrade in order to boost sales. Modern stores help Hemköp live up to customers' demands for an inspiring environment that breathes passion for food. Store modernizations also create favourable conditions for more sustainable business through improved energy efficiency, and sorting and recycling stations.

Première for Hemköp's sustainable store at Torsplan

Three new stores opened during the year: in the Mall of Scandinavia outside Stockholm, in Skövde, and in Kävlinge. At Tors-

plan the first Hemköp sustainable store also opened for business in May.

Hemköp's sustainable store is a unique format featuring a carefully selected assortment of organic, vegetarian and Fair Trade Certified products, among other things. The new Hemköp store in the Mall of Scandinavia also has a sustainable department, making it easier for customers to find attractively priced organic and healthy products.

Future challenges and priorities 2016

Hemköp will continue to strengthen and distinguish its position as a modern, sustainable grocery chain that offers customers value for their money and follow through on its pledge to be a leader in customer service. Operations will be developed with great care in the years immediately ahead. It is important to ensure good execution all the way out to the con-

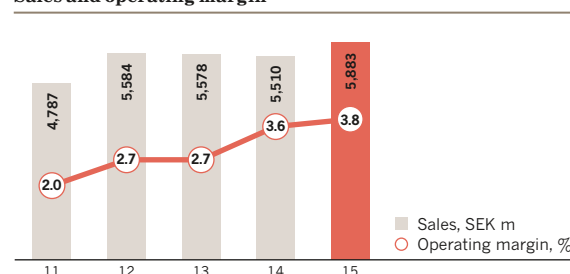
sumers and to prioritize processes that lead to a way of working that is long-term sustainable. A carefully executed strategy will ensure continued growth in market share for the chain. New Hemköp stores will be opened in 2016.

Modernization, adaptation of the assortment, customer relationships and good cost control remain in focus.

Hemköp's ambition is to distinguish its brand as embodying the highest level of sustainability in the food retail sector; establishment of the socially responsible store format is one step in this direction. Additional initiatives will be taken to strengthen the chain's sustainability profile. In 2016 Hemköp's digital initiative will be intensified. Hemköp will be launching e-commerce solutions in selected locations and will further develop the personalized offerings and targeted activities offered by its customer programme.



Sales and operating margin



Key ratios

SEK m	2015	2014
Net sales	5,883	5,510
Like-for-like sales growth, %	5.0	2.3
Operating profit	221	197
Operating margin, %	3.8	3.6
Number of Group-owned stores	68	68
Average number of employees	1,745	1,683
Private label share, %	21.4	20.3



Axfood Närlivs

Strong performance – focus on customers and assortment

Axfood Närlivs reported greater sales and strong earnings for 2015. Sales grew 8.4%, and operating profit totalled SEK 200 m. Axfood Snabbgross performed especially well. What all units in Axfood Närlivs shared in common was that the year was characterized by a greater focus on market and assortment development.

Axfood Närlivs is organized in three business areas:

- **Axfood Närlivs Retail** serves independent grocers working under the Tempo and Handlar'n market formats.
- **Axfood Närlivs Convenience Retail** serves large convenience store chains, such as service stations, 7-Eleven and Pressbyrån, and independent convenience retailers and the Direkten market format.
- **Axfood Snabbgross** is a subsidiary with 21 cash and carry stores, serving primarily restaurants, fast food vendors and cafés, and the leading suppliers of pre-packed grocery bags.

In 2015 Axfood's logistics operations were transferred to Dagab, resulting in a refinement of Axfood Närlivs' mission. The business area's focus is now on being a more distinct market company.

RETAIL AND CONVENIENCE RETAIL – STRONG YEAR FOR WELL KNOWN CHAINS

Axfood Närlivs sells to all of the country's leading service station companies (including Statoil, OKQ8, Preem, Shell and EMAB), convenience retail chains (7-Eleven and Pressbyrån), the Tempo, Handlar'n and Direkten market formats, and independent convenience retailers.

Owing to its size and extensive industry experience, Axfood Närlivs can adapt its solutions to the unique conditions and needs of its various customers regarding assortment, product supply and other services.

Axfood Närlivs has offered e-commerce solutions to its customers for several years, and in 2015 it further developed its platform to include card payment. The share of orders placed through technical solutions increased during the year and now amounts to nearly 90% of sales.

Retail and convenience retail segments in both the countryside and cities

The market trend for service station stores and convenience retail chains was favourable in 2015. The agreements with Reitangruppen, which owns the 7-Eleven and Pressbyrån chains in Sweden, and EMAB were renewed and will continue for another five and three years, respectively.

The Tempo, Handlar'n and Direkten mini-market chains also showed favourable performance. During the year, focus was on strengthening and more clearly profiling the consumer offerings for Axfood Närlivs' retail customers.

The future outlook is favourable, especially for mini-markets operating in large cities. Grocers in smaller towns in the countryside operate under a different set of conditions, but are often the only store in town. Axfood feels it is important that countryside markets continue to have prospects to operate, as many are part of the lifeblood of local communities. Thanks to Axfood's nationwide organization, efficient deliveries can be made to all stores, even in the countryside.



Business concept

We make it easy for our customers to do good business.

Customer structure

Customers consist of retailers working under Axfood Närlivs' own market formats, nationwide and contract customers, and unprofiled customers in the convenience retail segment. The market formats are targeted at some 700 independent grocers and consist of Tempo, Handlar'n and Direkten. Convenience retailers consist of service stations, convenience stores and small, independent businesses such as newsstands and tobacco/betting shops.

Today's Tempo

"Today's Tempo" was launched at the Tempo Tallboda store in Linköping. All aspects of the store were overhauled and changed to better meet the market and customers. The result was a new, modern store format with smart solutions and appealing store communication. The ambition is that other Tempo stores will embrace the concept, strengthen their profiles and grow their sales.





The Tempo format expanded by eight stores during the year, while Handlar'n had an unchanged number of stores. Direkten grew by ten stores. In all, more than 700 stores were operating in these market formats at year-end 2015.

Future challenges and priorities 2016

During 2016 focus will continue to be on maintaining an attractive, effective and sustainable assortment that caters to distinct customer needs in the grocery and convenience retail segments. Achieving diversity in leading positions in the business area will continue to be prioritized. To ensure sustainable product supply, Axfood Närlivs and its major customers will be conducting a review of the frequency of deliveries, among other things.

SNABBGROSS – STRONG IMPROVEMENT ACROSS THE BOARD

Axfood Snabbgross performed very well during the year, in part due to favourable market conditions, but also to increasingly efficient work processes, successful assortment development, effective campaigns and close dialogue with customers. Axfood Snabbgross continued to gain market shares.

Staff, stores and fresh products

Axfood Snabbgross' success factors include its accessibility, with 21 stores, e-commerce, its staff and their close customer interaction, and its large offering of fresh products. A number of new stores will open in the coming years. In 2015

a new store was opened in Gärdet – Stockholm's third Snabbgross. One store was re-established in Borlänge, and the store in Västerås was refurbished.

Axfood Snabbgross' store employees are a key competitive strength. Achieving diversity in gender and international background has high priority. Both of these aspects are taken into account in recruitment.

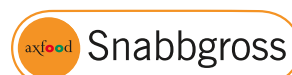
The conscientious restaurant wholesaler

During the year, Axfood Snabbgross worked actively on informing its customers about the company's efforts to be a conscientious restaurant supplier. Communication in stores about sustainability and social responsibility initiatives has increased. Examples of such initiatives include the decision to not sell red-listed seafood, continuous energy monitoring for the lowest possible electricity consumption, waste sorting and measures to reduce emissions from transports. The profile as the conscientious restaurant supplier is important from both the customer and employee perspectives.

Future challenges and priorities 2016

Digital services are being continuously developed, and in 2016 Axfood Snabbgross will be upgrading its e-commerce business platform. The goal is to gradually increase the share of e-commerce.

In 2016 Axfood Snabbgross plans to open new stores as well as modernize or re-establish one to two stores.



Business concept

Axfood Snabbgross aspires to be Sweden's best restaurant wholesaler by offering personal service, accessibility and quality at the best price.

Vision

The customer's natural choice, every day.

Mission

The best service and offering in the business through proud and committed employees.

+8.4%

increase in net sales in 2015.

Key ratios

SEK m	2015	2014
Net sales	2,734	2,522
Operating profit	200	138
Operating margin, %	7.3	5.5
Group-owned stores, number	21	20
Average number of employees	451	434



Dagab

Strong year with increasingly efficient operations

Dagab is responsible for ensuring that Axfood's assortment, purchasing and logistics work optimally for the Group's chains and external business customers. 2015 was a strong year owing to large volumes, high efficiency and good cost control. Sales rose 13.7% during the year, and the operating margin was 1.5%.

Vision

We will develop Axfood's market position from a long-term perspective.

Business concept

Dagab supports the chains' success by providing the right assortment, the right purchase price, and optimal logistics solutions.

Customer structure

Dagab's customers consist of the store chains within the Axfood Group as well as their retail and business customers.



Effective assortment

The assortment is one of Axfood's key competitive advantages. Dagab is responsible for establishing an effective assortment for the chains' varying needs. The starting point for this work is always to meet the end customers' demands and strengthen Axfood's market position.

By coordinating purchases of the Group's product volumes, Dagab is a strong negotiator, which helps strengthen the chains' competitiveness. During the year Dagab's work methods continued to be developed with the goal of being able to further reduce purchasing prices over time.

Private label and organic products on the rise

Axfood continues to increase its private label share. The aim is to be able to offer consumers a large and varied assortment of products that have the same good quality as well known brands, but at a lower price. Axfood's private label assortment consists of quality products that offer value for money and accounted for roughly 27% of the Group's total sales in 2015. Axfood's private labels include Garant, Eldorado and Fixa, among others.

Demand for organic products is growing at an ever-faster pace, and organic products accounted for 5.9% of Axfood's total sales in 2015. However, owing to limited supply from growers and other producers, all food retailers

are currently facing a challenge to meet this demand. In 2015 Axfood introduced 60 new organic products.

Growing number of products via Dagab's warehouses

Dagab is striving to increase the percentage of purchases made via the Group's own warehouses. A step in this direction was taken in early 2015 when Dagab took over distribution of beverages from breweries. Through a higher purchasing percentage, delivery vehicles can attain higher capacity utilization and more efficient transports, resulting in lower environmental impact. In addition, fewer product deliveries simplify work for store employees. In the end this strengthens Axfood's competitiveness.

Logistics solutions for varying needs

Dagab is contributing to growth in store sales and profitability through need-based logistics solutions. The task is to create both large-scale and flexible customer-unique solutions designed to meet the chains' varying needs and at the same time draw coordination benefits.

One of the logistics operation's most important key performance indicators is delivery reliability, which was 96.9% for the year and thereby in line with Dagab's target. During the year Dagab's warehouses achieved their highest productivity ever.



In 2015 Axfood gathered its assortment, purchasing and logistics operations into a single company, Axfood Sverige, in its effort to build a modern supply chain company. During the year Axfood Sverige's name was changed to Dagab.

Future challenges and priorities 2016

Dagab's overarching mission is to contribute to the chains' success by providing the right assortment, the right purchasing price, and optimal logistics solutions. By succeeding at this Dagab helps strengthen Axfood's market position.

The challenges going forward include continued fine tuning of operations and developing new technical solutions for delivering goods all the way to store shelves. Offering an effective assortment that meets the end customers' needs is critical.

In 2016 Dagab will continue to develop private label products and carry out further efficiency improvements in transports.

+13.7%

increase in net sales in 2015.

Key ratios

SEK m	2015	2014
Net sales	39,756	34,951
Distributed sales	25,995	22,147
Operating profit	600	403
Operating margin, %	1.5	1.2
Average number of employees	1,809	1,798
Delivery reliability, %	96.6	95.9

Garant is best!

Garant has not only award-winning packaging designs, but more importantly, very high-quality products. The brand was named Best in Test in a number of different comparisons conducted in 2015, including:

- Garant scallops earned a top score in a test conducted by food magazine Allt om Mat and an extra plus because they are MSC-certified and thereby sustainably harvested.
- Garant béarnaise sauce was named Best in Test in comparisons performed by the magazines Allas and ICA-kuriren of ready-made refrigerated béarnaise sauces.
- In a taste test of halloumi performed by WiseGuide, Garant was named the winner. The magazine Allers also named Garant as the winner in its taste test.
- When the consumer magazine Råd & Rön tested basmati rice, both the conventional and organic basmati rice variants from Garant received the best scores of all.
- In a taste test of five different brands of oat drink performed by the Swedish news tabloid Expressen's Mitt Kök panel, Garant was voted best with a score of 8.5 out of 10.
- The new Brioche hamburger buns from Garant, baked in France, received a full score in a taste test conducted by the food magazine Allt om Mat.



Efficiency at every level is a central component of Axfood's strategy

The Group works continuously at improving efficiency in the supply chain – from assortment and purchasing to warehousing and distribution.

It all begins in Dagab's purchasing department. This is where an attractive assortment is created, and also where Axfood's successful development of private label products takes place. The product assortment is one of Axfood's most important cornerstones – supporting the foundation for satisfied customers. Negotiating decisions centrally creates the best conditions for our chains. All supplier agreements are negotiated centrally by Dagab.

Dagab is also the hub in Axfood's logistics flow and serves as a partner to Willys, Hemköp and Axfood Närlivs.

Axfood's purchasing and logistics model is being improved continuously in the aim of

increasing inventory turnover, improving distribution and creating more efficient order flows and transports.



Investment case

1 Historically favourable total return

During the last five years the total return has been 192%. The dividend policy is to distribute at least 50% of profit after tax.

Total return, Axfood 2011–2015, index



2 Strong positions and good brands

Through its brands Axfood is number two in Sweden's food retail market.

Willys is Sweden's leading discount grocery chain, with 194 wholly owned stores. Willys offers Sweden's cheapest bag of groceries and is leading the way in developing the discount segment with a wide and varied assortment. Hemköp and Axfood Närlivs (with Axfood Snabbgross) also have strong positions in their respective segments.

Axfood's largest private label, Garant, has a strong position in the market, with strong brand awareness that is associated with wholesome, good food. Private label products as a share of net sales amounted to 27%.



20%
Market share

3 Strategy for creating growth

Through its focus on profitable growth, Axfood has the opportunity to achieve favourable growth in value over time. In 2016 Axfood plans to establish ten new stores and launch e-commerce in its urban markets, and will continue to invest in other digital ventures. The company works continuously on efficiency improvement and keeping costs down, and on maintaining an operating margin of 4%.



4 Stable industry

The food retail market is relative insensitive to fluctuations in the economy, with stable growth that is driven primarily by population growth and inflation. Moreover, Axfood has stable operations and a strong financial position with solid key ratios and good cash flow, a high equity ratio, and a low level of debt.



Annual Report 2015

CFO's message

Our growth in net sales of 7.2% to SEK 41 bn in 2015 was driven primarily by greater sales in existing stores, but also by the establishment of nine new stores. Higher sales together with higher efficiency and good cost control resulted in an operating margin of 4.3%. During the year we thereby reached our long-term profitability target of a 4% operating margin.

During 2015 our capital expenditures totalled SEK 764 m, of which SEK 425 m pertained to investments in stores.

We have continued to run our business in a capital-efficient manner, which can be seen in our 31.8% return on equity and an equity ratio of 43.0%. At year-end we had major financial flexibility, with nearly SEK 2 bn in cash and cash equivalents and a net debt receivable.

To make a one-time adjustment of the capital structure, the Board of Directors proposes an extra dividend of SEK 4 per share, on top of an ordinary dividend of SEK 5 per share, corresponding to a dividend ratio of 139%.

Stockholm, 4 February 2016

Karin Hygrell-Jonsson
Chief Financial Officer



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Administration report

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

The Board of Directors and President of Axfood Aktiebolag (publ), with domicile in Stockholm, Sweden, herewith submit the annual report and consolidated accounts for the 2015 financial year.

Operations

Axfood conducts food retail and wholesale business in Sweden. Retail business is conducted through the Willys and Hemköp chains, with a total of 262 Group-owned stores at year-end (259). During the year a number of stores were established, acquired, sold or closed. Store conversions are also conducted between Axfood's various store formats.

In 2015 ten stores were established or acquired and seven stores were closed or sold.

In addition to Group-owned stores, Axfood collaborates with a large number of proprietor-run stores that are tied to Axfood through agreements, including stores in the Hemköp chain as well as stores operating under the Handlar'n, Tempo and Direkten formats. In all, Axfood collaborates with approximately 820 proprietor-run stores.

Dagab is responsible for Axfood's assortment, purchasing and logistics, and approximately 75% of sales are made to Group-owned stores. Axfood Närlivs conducts wholesaling to mini-markets, service stations and other convenience retailers. Axfood Närlivs also operates 21 cash and carry stores via Axfood Snabbgross.

The assortment that Axfood offers its customers also includes private label products. The largest private label is Garant. In addition to a lower price level than brand-name products, the success of Axfood's own brands can be credited to high quality and innovative products. Private label products as a share of net sales increased to 26.8% (25.9%) in 2015.

Market

Retail food sales in Sweden (excluding alcoholic beverages) showed a continued positive development in 2015, with an increase that was higher than in the preceding year. Measured in current prices, sales rose 4.0% (1.2%), according to Statistics Sweden and HUI Research. The price and calendar effect was 2.4% (0.6%), entailing a 1.6% (0.6%) rise in sales volume for the food retail sector. Total grocery sales in 2015 are estimated at approximately SEK 249 bn (239).

Important events 2015

Q1

- Effective 1 January 2015 Axfood coordinated the Group's Assortment and Purchasing function with the logistics functions to form a single business area. At the start of the year the business area was called Axfood Sverige, which changed its name during the third quarter to Dagab.
- The 2015 Annual General Meeting resolved in favour of a 4:1 stock split. Following the split, Axfood has just under 210 million shares outstanding.



Q2

- Axfood launched a pilot project focusing on a consumer e-commerce solution.
- Hemköp opened a sustainable store format that caters to customers' growing interest in organic and healthy foods.
- Axfood supported the Swedish food retail industry's joint action plan to help alleviate the country's dairy crisis.
- Axfood Närlivs and EMAB AB signed a new cooperation agreement for the supply of newsstand and food retail products to EMAB's service station stores (Gulf & Frendo).
- Axfood Närlivs and Reitan Convenience Sweden AB signed a new cooperation agreement for the supply of newsstand and food retail products to Reitan's format stores (Pressbyrån, 7-Eleven and Shell 7-Eleven på väg).

Q3

- Axfood decided during a three-month period to pay SEK 1 extra per litre of milk to Swedish dairy farmers.
- Axfood was first in Sweden to charge deposits on plastic concentrated fruit juice bottles.
- Willys took a further step towards more energy-efficient and environment-friendly stores by installing a solar panel system on the rooftop of the Willys stores in Länna.



Q4

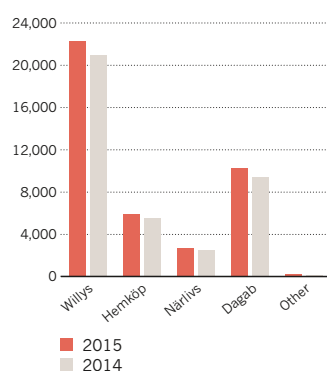
- Axfood signed a new framework agreement with Samhall for store cleaning services. The agreement is one of Samhall's largest and entails that nearly 1,300 of the company's employees will work with Axfood's store operations.
- In December, the social supermarket Matmissionen opened as part of Axfood's effort to combat food waste and help financially disadvantaged people. The store was established with Axfood's support and is owned and run by Stockholms Stadsmission.



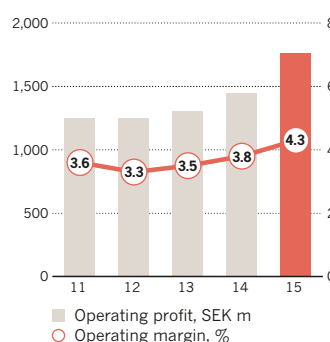
Statement of profit or loss and other comprehensive income, Group

Amounts in SEK m	Note	2015	2014
Net sales	2, 5	41,247	38,484
Cost of goods sold	6	-35,352	-33,164
Gross profit		5,895	5,320
Selling expenses		-2,515	-2,386
Administrative expenses		-1,970	-1,816
Share of profit in associated companies and joint ventures	22	-7	-4
Other operating income	5	372	371
Other operating expense		-15	-38
Operating profit	2	1,760	1,447
Interest income and similar profit/loss items	13	6	7
Interest expense and similar profit/loss items	13	-17	-24
Net financial items		-11	-17
Profit before tax		1,749	1,430
Current tax	15	-297	-246
Deferred tax	15	-91	-80
Net profit for the year		1,361	1,104
Other comprehensive income			
<i>Items that cannot be reclassified to profit or loss for the period</i>			
Revaluation of defined benefit pension plans	27	8	-64
Tax attributable to items that cannot be reclassified to profit or loss for the period	27	-2	14
<i>Items that have been reclassified or can be reclassified to profit or loss for the period</i>			
Translation differences during the year upon translation of foreign operations	32	0	1
Change in fair value of forward contracts	32	-5	3
Change in fair value of available-for-sale financial assets	28	3	-
Tax attributable to items that have been reclassified or can be reclassified to profit or loss for the period		0	-1
Other comprehensive income for the year		4	-47
Comprehensive income for the year		1,365	1,057
Profit for the year attributable to:			
Owners of the parent		1,361	1,095
Non-controlling interests		0	9
Profit for the year		1,361	1,104
Comprehensive income for the year attributable to:			
Owners of the parent		1,365	1,048
Non-controlling interests		0	9
Comprehensive income for the year		1,365	1,057
Earnings per share before and after dilution, SEK ¹⁾	16	6.48	5.22
Operating profit includes depreciation/amortization of	10	696	693

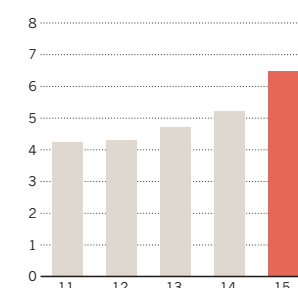
Consolidated net sales per segment, SEK m



Consolidated operating profit and operating margin



Earnings per share,¹⁾ SEK



¹⁾ During the second quarter Axfood carried out 4:1 stock split. The number of shares outstanding after the split is 209,870,712. Comparison figures have been adjusted.

Net sales and operating profit

Group

Consolidated net sales totalled SEK 41,247 m (38,484), an increase of 7.2% (2.6%) compared with 2014.

Net sales for the Group consist to 75% (75%) of store sales and 25% (24%) of external wholesale volume and store compensation. Retail sales for Group-owned stores rose 6.5% for the year (2.0%), with a 4.5% rise (0.7%) in like-for-like sales. A breakdown of sales per chain is shown in the table below.

The Group's gross margin was 14.3% (13.8%). Operating profit totalled SEK 1,760 m (1,447), corresponding to an operating margin of 4.3% (3.8%). Operating profit included SEK 696 m (693) in depreciation and amortization. Earnings for the preceding year included a repayment of SEK 46 m in Fora insurance premiums from previous years.

Willys

Sales for Willys grew 6.4% (2.8%) to SEK 22,320 m (20,974), with a 4.4% rise (0.3%) in like-for-like sales.

Five new Willys stores opened during the year. Two Willys stores were refurbished in 2015. The total number of stores was 194 (191), of which 144 (139) were Willys and 50 (52) were Willys Hemma.

The Willys+ customer programme continued to record success. Membership increased to 1.8 million (1.6), with 70% (63%) of sales at Willys stores going via Willys+.

Operating profit for Willys was SEK 896 m (870), corresponding to an operating margin of 4.0% (4.1%).

Hemköp

Sales for Hemköp grew 6.8% (–1.2%) to SEK 5,883 m (5,510), with a 5.0% rise (2.3%) in like-for-like sales.

Store sales including Hemköp franchises totalled SEK 12,005 m (11,443), an increase of 4.9% (–0.3%) compared with the preceding year. Performance was strong nationwide.

The number of stores at year-end was 179 (179), of which 111 (111) are proprietor-run. During the year, seven Group-owned stores were modernized.

Operating profit for Hemköp was SEK 221 m (197), corresponding to an operating margin of 3.8% (3.6%).

Store sales, Group-owned and franchises

2015	SEK m	%	Like-for-like stores, %
Willys total	22,320	6.4	4.4
Hemköp	5,794	6.8	5.0
Hemköp franchises	6,211	3.2	4.0
Hemköp total	12,005	4.9	4.4
Total	34,325	5.9	4.4

Axfood Närlivs

Axfood Närlivs' sales rose 8.4% to SEK 2,734 m (2,522). During 2015 new cooperation agreements were signed with EMAB and Reitan Convenience for the supply of newsstand and food retail products.

Axfood Snabbgross continued to gain market shares and is showing very strong development. Business benefited from continued favourable growth for the restaurant and café sector. Axfood Snabbgross opened an additional store in 2015, and the total number of stores at year-end was 21 (20).

Operating profit was SEK 200 m (138), corresponding to an operating margin of 7.3% (5.5%).

Dagab

Starting in 2015 Dagab includes both the Group's logistics functions and the assortment and purchasing function. At the start of the year the business area was called Axfood Sverige, which changed its name during the third quarter to Dagab.

Total sales for Dagab grew 13.7% to SEK 39,756 m (34,951). External sales amounted to SEK 10,269 m (9,442). During the year improvements were made in both delivery reliability and productivity. Operating profit strengthened to SEK 600 m (403), corresponding to an operating margin of 1.5% (1.2%).

Net financial items

Net financial items improved by SEK 6 m during the year, from SEK –17 m to SEK –11 m. Interest-bearing liabilities decreased by SEK 81 m during the year, from SEK 585 m to SEK 504 m which, together with lower interest rates, resulted in lower interest costs by SEK 7 m. Interest income was SEK 1 m lower than in the preceding year.

Tax, profit for the year and earnings per share

The tax expense was SEK 388 m (326), corresponding to an effective tax rate of 22.2% (22.8%). Profit for the year after tax was SEK 1,361 m (1,104), or SEK 6.48 per share (5.22).

Seasonal variations

Axfood's sales are affected to some degree by seasonal variations. Sales increase in the quarter in which Easter falls, which is either the first or second quarter. Sales also increase ahead of Midsummer during the second quarter, as well as ahead of major holiday season during the fourth quarter.

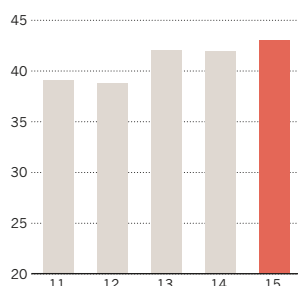
Research and development

Axfood does not conduct any research activities, but does conduct some development of IT solutions within its own operations.

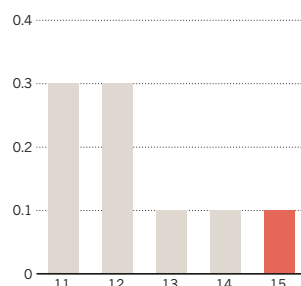
Statement of financial position, Group

Amounts in SEK m	Note	31/12/2015	31/12/2014
ASSETS			
Non-current assets			
<i>Intangible assets</i>	17		
Goodwill		1,860	1,819
Other intangible assets		668	717
		2,528	2,536
<i>Property, plant and equipment</i>	18, 20		
Land and buildings		54	54
Equipment, tools and fixtures		1,751	1,761
Construction in progress		125	79
		1,930	1,894
<i>Financial assets</i>	23, 28		
Participations in associated companies and joint ventures	22	22	29
Other long-term securities holdings	23, 28	51	28
Other non-current receivables	24	22	23
		95	80
Deferred tax assets	15	60	54
Total non-current assets		4,613	4,564
Current assets			
<i>Inventories</i>			
Finished products and goods for resale		2,035	2,100
		2,035	2,100
<i>Current receivables</i>	28		
Current tax assets	25	852	859
Other current receivables	24	101	119
Prepaid expenses and accrued income	26	1,003	941
		1,956	1,919
<i>Cash and cash equivalents</i>	28		
Cash and bank balances		1,933	1,109
		1,933	1,109
Total current assets		5,924	5,128
TOTAL ASSETS		10,537	9,692

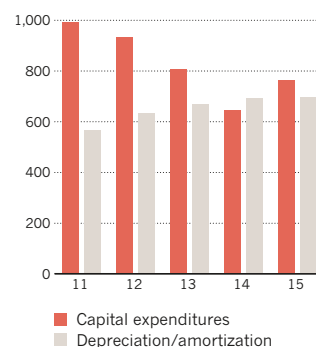
Equity ratio, %



Debt-equity ratio, multiple



Capital expenditures/depreciation & amortization, SEK m



Amounts in SEK m	Note	31/12/2015	31/12/2014
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	32		
Share capital		262	262
Other capital contributions		496	496
Reserves		7	9
Profit brought forward		3,765	3,262
		4,530	4,029
Non-controlling interests		1	36
		4,531	4,065
Non-current liabilities	20, 28, 29		
Provisions for pensions and similar obligations	27	428	448
Other interest-bearing liabilities		36	40
Deferred tax liability	15	569	470
Other non-current liabilities		30	33
		1,063	991
Current liabilities	28, 29		
Liabilities to credit institutions		–	21
Other interest-bearing liabilities		40	76
Accounts payable – trade		2,782	2,558
Current tax liabilities		41	14
Other current liabilities		199	147
Accrued expenses and deferred income	19, 30	1,881	1,820
		4,943	4,636
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		10,537	9,692
CONTINGENT ASSETS, PLEDGED ASSETS AND CONTINGENT LIABILITIES	31		
Pledged assets		0	32
Contingent liabilities		14	22

Financial position

Non-current assets

The Group's non-current assets increased during the year by SEK 49 m, from SEK 4,564 m to SEK 4,613 m. Non-current assets consist primarily of goodwill, SEK 1,860 m (1,819), and machinery and equipment, SEK 1,751 m (1,761). Of total goodwill, SEK 1,325 m (1,325) consists of consolidated acquisition goodwill.

Capital expenditures

Total capital expenditures by the Group amounted to SEK 764 m (643). Of these SEK 44 m (22) pertained to investments in businesses, SEK 425 m (342) to investments in retail operations, SEK 65 m (70) to investments in wholesale operations and SEK 93 m (35) to investments in IT development.

During 2015, two stores and four in-store service counters were acquired. Both stores were converted to Hemköp. The combined consideration paid for the acquisitions in 2015 amounted to SEK 84 m (20). The consideration was paid in cash, and no amounts remain to be paid for previous years' acquisitions. Axfood's share of ownership in the acquired stores is 100% after the acquisitions. No acquisitions were made after the balance sheet date. For further information about acquisitions, see Note 3.

Working capital

Of current assets, inventories make up the single largest item, SEK 2,035 m (2,100). Inventories consist of finished goods in the retail operations, 53% (50%), and wholesale operations, 47% (50%). Trade payables make up the single largest item in current liabilities, totalling SEK 2,782 m (2,558).

Shareholders' equity and liabilities

Shareholders' equity amounted to SEK 4,531 m (4,065), including non-controlling interests of SEK 1 m (36), which is a net increase of SEK 466 m.

During the year SEK 892 m (787) was distributed to the company's shareholders.

Provisions for pensions and similar obligations pertain mainly to liabilities in the FPG/PRI system. Interest-bearing liabilities including interest-bearing pension provisions decreased from SEK 585 m to SEK 504 m. The interest-bearing net debt receivable increased from SEK 524 m on 31 December 2014 to SEK 1,449 m on 31 December 2015.

The equity ratio was 43.0% (41.9%), and the net debt receivable ratio was 0.3 (0.1).

Change in interest-bearing net debt receivable for the Group

	31/12/2014	Cash flow	Change in loans	Other changes	31/12/2015
Cash and cash equivalents	1,109	824			1,933
Non-current interest-bearing receivables	–			20	20
Non-current interest-bearing liabilities	–40			4	–36
Current interest-bearing receivables	–97		21	36	–40
Interest-bearing pensions	–448			20	–428
Interest-bearing net debt receivable	524	824	21	80	1,449

Statement of cash flows, Group

Amounts in SEK m	Note	2015	2014
Operating activities			
Operating profit		1,760	1,447
Depreciation/amortization charged against profit		671	668
Interest paid		-5	-7
Interest received		6	7
Adjustments for non-cash items		-24	35
Paid tax		-270	-217
Cash flow from operating activities before changes in working capital		2,138	1,933
Cash flow from changes in working capital			
Change in inventories		67	-196
Change in current receivables		-42	-38
Change in current liabilities		332	330
Cash flow from operating activities		2,495	2,029
Investing activities			
Acquisitions of intangible assets		-93	-62
Acquisitions of property, plant and equipment		-581	-498
Acquisitions of businesses	3	-89	-20
Sales of businesses	4	7	3
Sales of property, plant and equipment		25	17
Change in other financial assets		-20	-22
Cash flow from investing activities		-751	-582
Financing activities			
New loans raised		-	0
Amortization of debt		-21	-1
Shareholder dividend		-899	-794
Cash flow from financing activities		-920	-795
CASH FLOW FOR THE YEAR		824	652
Cash and cash equivalents at start of year		1,109	457
Cash and cash equivalents at year-end		1,933	1,109

Adjustments for non-cash items amounted to SEK -24 m (35), net, and pertained mainly to provisions for pensions, impairment losses and disposals.

Group cash flow from operating activities

The Group's cash flow from operating activities before changes in working capital increased by SEK 205 m to SEK 2,138 m (1,933) and consists mainly of the net sum of purchases and sales of food retail items. Excluding paid tax of SEK -270 m (-217), cash flow from operating activities before changes in working capital increased by SEK 258 m (243). Reversed depreciation and amortization has been adjusted with the portion that pertains to leased assets, totalling SEK 25 m (25). Adjustment for non-cash items amounted to SEK -24 m, net (35), and pertains to provisions for pensions, impairment losses and obsolescence. Interest received during the year totalled SEK 6 m (7), and interest paid totalled SEK 5 m (7).

Investments and divestments

The Group's total investments amounted to SEK 764 m (643) and pertained mainly to investments in machinery and equipment, totalling SEK 407 m (392). Investments in businesses totalled SEK 84 m (20). Investments in IT development totalled SEK 93 m (35). Of total investments, SEK 783 m (602) affected the Group's cash flow. Investments have been adjusted by SEK -46 m (-39) in cash flow pertaining to finance leases.

Financing activities

The Group's change in interest-bearing liabilities affected cash flow by SEK -21 m (-1). During the year, new loans were raised in the amount of SEK - m (0), and previously raised loans were amortized in the amount of SEK 21 m (1). The dividend paid to the owners of the Parent Company totalled SEK 892 m (787), corresponding to SEK 4.25 per share (3.75), based on the current number of shares outstanding, 209,870,712.

Statement of changes in equity, Group

Amounts in SEK m	Equity attributable to owners of the parent							Total	Non-controlling interests	Total shareholders' equity
	Share capital	Other capital contributions	Translation reserve	Fair value reserve	Hedging reserve	IAS 19 pensions ¹⁾	Profit brought forward			
Opening shareholders' equity 2014	262	496	0	7	-1	-62	3,066	3,768	34	3,802
Comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	1,095	1,095	9	1,104
Other comprehensive income for the year	-	-	1	-	2	-50	-	-47	-	-47
Comprehensive income for the year	-	-	1	-	2	-50	1,095	1,048	9	1,057
Shareholder dividend	-	-	-	-	-	-	-787	-787	-7	-794
Closing shareholders' equity 2014	262	496	1	7	1	-112	3,374	4,029	36	4,065
Opening shareholders' equity 2015	262	496	1	7	1	-112	3,374	4,029	36	4,065
Comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	1,361	1,361	0	1,361
Other comprehensive income for the year	-	-	0	2	-4	6	-	4	-	4
Comprehensive income for the year	-	-	0	2	-4	6	1,361	1,365	0	1,365
Shareholder dividend	-	-	-	-	-	-	-892	-892	-7	-899
Acquisition of non-controlling interest	-	-	-	-	-	-	28	28	-28	-
Closing shareholders' equity 2015	262	496	1	9	-3	-106	3,871	4,530	1	4,531

¹⁾ This item is part of profit brought forward in the statement of financial position.

Shareholders' equity

Shareholders' equity in the Group, which is defined as total, reported shareholders' equity, amounted to SEK 4,531 m (4,065) at year-end, including non-controlling interests of SEK 1 m (36). Profit for the year attributable to non-controlling interests amounted to SEK 0 m (9).

The equity ratio was 43.0% (41.9%) at year-end 2015.

Return on equity was 31.8% (28.1%).

Share capital

The share capital as per 31 December 2015 amounted to SEK 262,338,390 (262,338,390). After a 4:1 stock split during the year, the share capital is distributed among 209,870,712 shares (52,467,678). The Company has only one class of stock, with equal voting power and equal entitlement to the Company's profits and equity.

There are no limitations regarding how many votes each shareholder may exercise at general meetings of shareholders. The share quota value is SEK 1.25 (5.00).

Translation reserve

The translation reserve includes all exchange rate differences that arise upon translation of financial statements of foreign operations that have prepared their financial statements in another currency than the presentation currency for the Group's financial statements. The Parent Company and Group present their financial statements in Swedish kronor (SEK). The change in the translation reserve was SEK 0 m (1).

Fair value reserve

The fair value reserve includes the accumulated net change in the fair value of available-for-sale financial assets until such time the asset is eliminated from the statement of financial position. The change in the fair value reserve pertains to the change in the fair value of available-for-sale financial assets, totalling SEK 3 m (-), and deferred tax, totalling SEK -1 m (-).

Hedging reserve

The hedging reserve includes the effective portion of the accumulated net change in the fair value of cash flow hedge instruments attributable to hedge transactions that have not yet been carried out. The change in the hedging reserve pertains to the change in the fair value of forward contracts, totalling SEK -5 m (3), and deferred tax, totalling SEK 1 m (-1). A compilation of the change in value of the hedging reserve during the year is provided in Note 32.

Capital management

According to Axfood's finance policy, the foundation of the Axfood Group's financial strategy is to create sound financial conditions for the Group's operations and development. Of major importance is that the Group's target equity ratio of a minimum level of 25% is maintained at any point in time, so that the Group's refinancing risk does not jeopardize the Group's current or planned operations.

Axfood does not have any externally assigned capital requirement. During the year, no changes were made in the Group's principles for capital management.

Axfood shares on the stock market and ownership structure

Axfood's shares were introduced on the stock market in 1997 and have been traded since 2006 on Nasdaq Stockholm's Large Cap list. Since February 2012 the shares have been included in the Consumer Services sector classification. Based on the last price paid on 30 December 2015, which was SEK 146.80, Axfood's market capitalization was SEK 30,809 m (24,476).

Share performance 2015

Axfood's share price rose 25.9% in 2015, while the Consumer Services index gained 1.3% and the Nasdaq Stockholm composite index rose by 6.6%. The total return for Axfood's shares including reinvested dividends was 30.5%. The highest closing price quoted during the year was SEK 165.70, on 2 December, and the lowest closing price was SEK 110.68 on 26 March.

Trading volume

In 2015 a total of 92.6 million Axfood shares were traded in all marketplaces, with average daily trading volume of 370,497 shares. Trading on Nasdaq Stockholm accounted for 49% (54%) of total trading volume in Axfood shares.

In 2015 the average turnover rate for shares listed on Nasdaq Stockholm increased to 72%, compared with 66% in 2014. During the year, the average turnover rate for Axfood shares on Nasdaq Stockholm increased to 30%, compared with 23% in 2014. The total average turnover rate for Axfood shares in 2015, based on trading in all marketplaces, was 44% (45%).

Ownership structure

The number of shareholders increased in 2015 and was 19,888 at year-end (16,191). The principal owner is Axel Johnson AB, with ownership of 50.1% of the shares (votes and capital). Reitangruppen AS owned 15.6% of the shares in Axfood at year-end. No other shareholder owns – directly or indirectly – more than 10% of the shares in Axfood (votes and capital). Axel Johnson's and Reitangruppen's shareholdings were unchanged in 2015. Axfood AB does not own any treasury shares.

Of Axfood's share capital, 69.3% (72.0%) is owned by Swedish investors and 30.7% (28.0%) is owned by foreign investors. Swedish ownership is dominated by private individuals and companies, with 60.8% (60.3%) of the capital, while mutual funds own 4.8% (6.9%) and institutions 3.7% (4.8%).

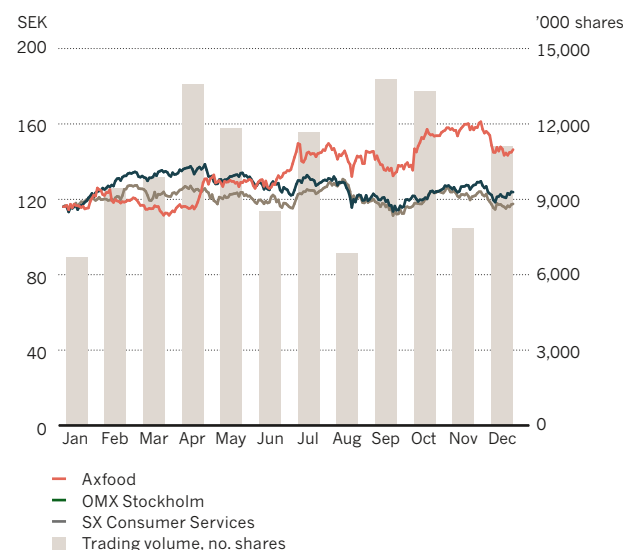
Norway, the USA and the UK continue to account for the largest share of foreign ownership.

Dividend

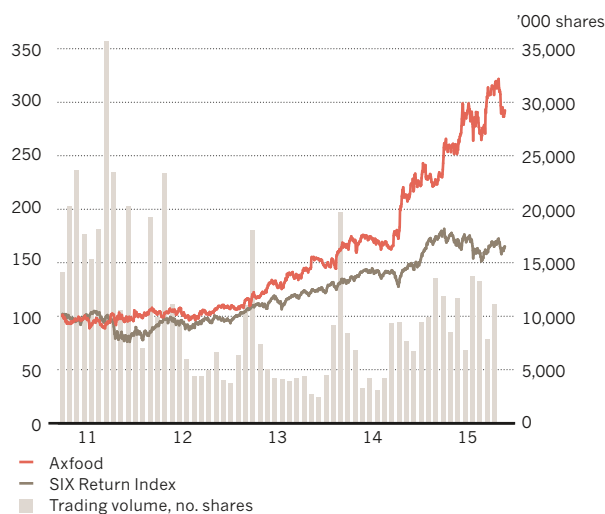
The Board of Directors has set a dividend policy that entails that at least 50% of profit after tax is to be paid out in dividends. For the 2015 financial year the Board has proposed an ordinary dividend of SEK 5.00 per share and an extra dividend of SEK 4.00 per share, corresponding to 138.8% of profit after tax. Based on 209,870,712 shares, the dividend will amount to SEK 1,889 m. Based on the last price paid on 30 December 2015 (SEK 146.80), the proposed dividend represents a dividend yield of 6.1%.

During the last five years, the ordinary dividend has averaged 75.3% of profit after tax. In addition to the ordinary dividend, the Group has paid extra dividends on three occasions, for the 2004, 2005 and 2006 financial years.

Axfood share price and trading volume, 2015



Axfood shares, total return 2011–2015, index



During the second quarter of 2015 Axfood carried out 4:1 stock split. The number of shares outstanding after the split is 209,870,712. Comparison figures have been adjusted.

Ownership structure, 31 December 2015

Size class	No. share-holders	Share-holders, %	No. of shares	Share of votes and capital, %
1 – 500	13,062	65.7	2,186,494	1.0
501 – 1,000	3,060	14.4	2,423,345	1.2
1,001 – 5,000	2,839	14.3	6,474,336	3.1
5,001 – 10,000	413	2.1	3,001,407	1.4
10,001 – 15,000	108	0.5	1,307,448	0.6
15,001 – 20,000	79	0.4	1,427,245	0.7
20,001 –	327	1.6	193,050,437	92.0
Total	19,888	100.0	209,870,712	100.0

Ten largest shareholders at 31 December 2015

Name	No. of shares	Share of capital and votes, %
Ax:son Johnson family and companies	105,080,264	50.1
Reitangruppen AS	32,743,268	15.6
SEB Investment Management	4,929,122	2.3
Norges Bank	2,819,238	1.3
Swedbank Robur funds	1,960,951	0.9
Göran Sax family and companies	1,839,796	0.9
JP Morgan Chase NA	1,267,454	0.6
Oslo Pensjonsforsikring AS	1,008,400	0.5
State Street Bank & Trust	994,140	0.5
Försäkringsaktiebolaget Avanza Pension	991,757	0.5
Total	153,634,390	73.2
Others	56,236,322	26.8
Total	209,870,712	100.0

Per-share data, SEK

	2015	2014 ¹⁾	2013 ¹⁾	2012 ¹⁾	2011 ¹⁾
Ordinary dividend	5.00 ²⁾	4.25	3.75	3.00	3.00
Extra dividend	4.00 ²⁾	–	–	–	–
Dividend as % of net profit	138.8 ²⁾	81.4	79.8	69.8	70.6
Number of shares outstanding	209,870,712	52,467,678	52,467,678	52,467,678	52,467,678
Share price at year-end	146.80	116.63	80.68	61.25	63.40
Market cap at year-end, SEK m	30,809	24,476	16,931	12,855	13,306
Highest/lowest price paid	165.70/110.68	121.45/78.50	84.40/61.38	64.43/54.75	63.58/52.98
Dividend yield, %	6.1 ²⁾	3.6	4.6	4.9	4.7
Earnings per share	6.48	5.22	4.70	4.30	4.25
Shareholders' equity per share	21.58	19.20	17.96	16.19	15.43
P/E multiple	22.6	22.3	17.2	14.2	14.9
Turnover rate, %	30	23	21	51	102
Number of shareholders	19,888	16,191	15,701	15,363	14,247

¹⁾ During the second quarter of 2015 Axfood carried out 4:1 stock split. In accordance with the split, the comparison figures have been adjusted.
The number of shares outstanding before the split was 52,467,678.

²⁾ Proposed by the Board of Directors.

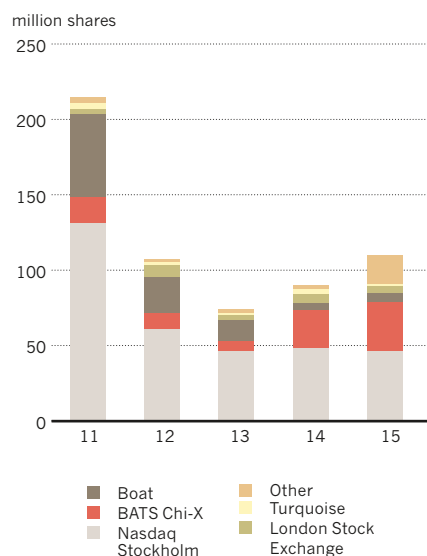
Analysts who continuously monitor Axfood

Company	Name
ABG Sundal Collier	Andreas Lundberg
Carnegie Investment Bank	Niklas Ekman
Kepler Cheuvreux	Fredrik Ivarsson
Den Danske Bank	Anders Hansson
Handelsbanken Capital Markets	Erik Sandstedt
Nordea	Stellan Hellström
SEB Enskilda	Olof Larshammar
Swedbank Markets	Christian Anderson Blink

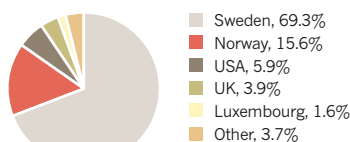
Financial calendar 2016

Report	Date
Interim report January–March	20 April 2016
Half-year interim report January–June	15 July 2016
Interim report January–September	20 October 2016

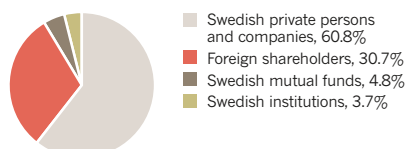
Trading volume for Axfood shares on all marketplaces, 2011–2015



Geographical distribution of shareholders



Breakdown of ownership



Share data

ALL TIME HIGH 2/12/2015

165.70 SEK

TRADING BLOCK

1 share

LISTING

**Nasdaq Stockholm
Large Cap list**

ABBREVIATION

AXFO

SECTOR CLASSIFICATION

Consumer Services

ISIN-CODE

SE0006993770



Employees

Axfood had an average of 8,803 full-time employees in 2015 (8,481), of whom 54% were women (54%) and 46% were men (46%). The share of employees who work in the retail operations was 74% (74%), while the share who work in the logistics operations was 22% (20%).

Axfood's employees are to reflect the diversity of the Group's customers, and all shall have the same opportunities for development. Axfood's goal is that 20% of managers will have an international background by 2020. In 2015, 19% of Axfood's employees, and 12% of the Group's managers, came from an international background. During the year, Axfood worked on improving its training by focusing on better accessibility for persons with low reading skills or dyslexia.

Equal opportunity is part of the Group's diversity work. Axfood's long-term target is to achieve an even gender balance in management positions. Today the Group meets this target at the mid-management level, while in other senior positions the target has almost been reached.

In 2015 the share of women in management positions was 30% (26%), and the share of store managers who are women was 29% (29%). The Group's management training programmes have an even gender balance.

The work attendance rate decreased by 0.6 percentage point to 94% in 2015 and thereby fell short of the 95% target. Several initiatives were taken to increase work attendance,

54% **46%**
women men

such as a new training course on psychosocial ill-health and rehabilitation.

Depending on what business they are engaged in, Axfood AB and its subsidiaries that conduct business activities are bound by at least one of the four nationwide collective agreements that have been concluded for the retail trade, the wholesale trade, food workers or salaried employees. The Commercial Employees Union is the union counterpart for the first two of these, the Swedish Food Workers Union is the union counterpart for the third category, and Unionen and Akademikerförbunden are the union counterparties for salaried employees. All employees are covered by collective bargaining agreements, which regulate pay and terms of employment, such as notice periods. The agreements typically also emphasize the importance of performance reviews for identifying needs for competence-raising measures.

With respect to guidelines for compensation and other terms of employment for the President and other senior executives, see the Corporate Governance Report on page 60.

Environmental impact and sustainable development

Axfood does not conduct any operations requiring a permit in accordance with the Environmental Code. However, the Company has a reporting obligation for a small amount of refrigerant that is used in certain refrigeration systems in the logistics operations.

Axfood's operations are affected by environmental policy decisions as well as by environmental opinion and consumer demand. New environmental policy decisions may result in higher taxes or new regulations, for example. The Company therefore monitors developments in this area and prioritizes climate and environmental aspects.

The Executive Committee and Head of Environment and Social Responsibility are responsible for overarching goals, sustainability strategies and actions, and monitoring. The individual companies and divisions have operational responsibility for their own sustainability work. They each appoint a head of sustainability for quality aspects of products, and all companies and larger departments also have a sustainability coordinator.

Sustainability programme

Axfood works systematically for continuous improvement in the areas identified as having the greatest environmental impact: energy consumption, transports and material flows. The Company analyses the value chain to identify which initiatives have the greatest impact, and carries on a continuous dialogue with various stakeholders.

Going forward, this work is organized within the sustainability programme, which is the Group's key governance tool for developing operations from a sustainability perspective. The programme describes goals and key performance indicators for follow-up. Every year the programme is updated to reflect progress in the work, and new goals are formulated. Among the overall goals can be mentioned sustainable products and more sustainable production, lower environmental impacts from transports and travel, lower energy consumption and improvements in animal welfare. Results are achieved through long-term work on both large and small measures.

Energy consumption

Axfood's goal for 2015 was to reduce electricity consumption by 25% per square metre (base year 2009). At the same time, demand for fresh and refrigerated products is rising, which is increasing the need for refrigeration. Focus on energy efficiency is therefore great in connection with the refurbishment and new construction of stores. Since the base year 2009, Axfood has reduced its electricity consumption by 15.4%. Warehouses and cold storage warehouses are the single largest consumers of energy in the Group. In addition to the solar panel system that is in operation at the freezer warehouse in Gothenburg, a solar panel system was installed at the first store in 2015.

CO₂ emissions

Dagab, which handles the Group's own transports, is working to minimize the environmental impact of transports through route planning, capacity utilization, driver training in eco-driving, and by switching over to more environment-friendly fuels. The trucks in Axfood's own delivery fleet are powered by Evolution diesel, which is a 40% blend of pine oil, resulting in lower carbon emissions than ordinary diesel. The exception is the nine trucks powered by RME biodiesel, and two trucks that since 2014 are being run on liquid petroleum gas in a test programme in cooperation with Volvo. During 2015, certain trucks also tested HVO biofuel, a synthetic form of diesel produced from waste animal fats and vegetable oils. The plan is to switch over to HVO as far as possible. During 2015 Axfood reduced its CO₂ emissions per tonne of goods by 15.4%.

Selected environmental targets

KEY RATIOS	2015	2014
Change in own environmental impact (base year 2009), % ¹⁾	n.a.	-52
Electricity consumption, kWh/sq. m. (Group-owned stores and warehouses)	331.6	368.7
CO ₂ , kg/tonne goods (own trucks from warehouses to stores)	16.9	20.0

¹⁾ Outcome for 2015 is dependent on the residual mix, which will be published later in 2016.

15.4%

was the reduction of CO₂ emissions per tonne of goods in 2015.

The trucks in Axfood's own delivery fleet are powered by Evolution diesel, resulting in lower CO₂ emissions than traditional diesel fuel.





Business ethics and product responsibility

Axfood aspires to be a partner in its suppliers' sustainability work and to promote generally accepted business practice and high ethical standards. The Axfood Group's Code of Conduct lays out the requirements and expectations that Axfood has on its suppliers.

During the year, Axfood sharpened its routines for assessing suppliers. For purchases of private label products in high-risk countries or in high-risk categories, supplier assessments that take sustainability aspects into account are conducted early in the selection process. Through its participation in the Business Social Compliance Initiative (BSCI), Axfood is stepping up its efforts to bring about improved conditions among suppliers. In 2015 a total of 48 social audits were performed.

Axfood also adheres to a set of ethical guidelines that are updated every year, and pertinent employees certify in writing that they have read the guidelines. In 2015, 1,010 (1,040) employees signed such a certification. The decrease is attributable to reorganization.

Axfood's customers are showing a more avid interest in local products and organic alternatives at the same time that they want safe foods that give them value for money. During the year, work was focused on expanding the offering of organic products and on making it easier for consumers to make conscious and well informed choices in stores, among other things through continued expansion of country of origin labelling. All private label products essentially meet the country of origin labelling principle for their main ingredients in the meat, seafood and charcuterie product categories. Sales of organic products as a share of total sales grew by 43% during the year, to 5.9%. At year-end, the assortment included 1,616 organic items (1,254). Demand for vegetarian products also grew significantly during the year, albeit from low levels.

Axfood's goal is that all important risk crops, including soy, will be certified and thereby contribute to sustainable production. Starting in 2015, Axfood buys soy certificates corresponding to 100% of the soy used in its products. For products containing palm oil, sustainability certificates are also purchased for the corresponding volume.

During the year, Axfood also adopted more stringent standards with respect to animal welfare. For example, new demands were established for suppliers to reduce their use of antibiotics.

100%

of soy used in products is compensated through sustainability certificates.

Events after the balance sheet date

No significant events have taken place after the balance sheet date.

Future outlook

In 2016 Axfood will continue to develop the Group with great commitment at the same time that we take responsibility for the environment and sustainable development. Axfood will continue to offer customers products that give them value for their money and inspire passion for food. Capital expenditures are expected to total SEK 700–800 m in 2016. Axfood expects operating profit for 2016 to exceed the outcome for 2015.



Annual General Meeting 2016

The Annual General Meeting (AGM) of Axfood AB (publ) will be held at 5 p.m. (CET) on Wednesday, 16 March 2016, at Clarion Hotel Sign, Stockholm. Registration will open at 4 p.m.

Notification

Shareholders who wish to attend the AGM must notify the Company of their intention not later than 4 p.m. (CET) on Thursday, 10 March 2016, at the following address:

Axfood AGM
c/o Euroclear Sweden
Box 7841, SE-103 98 Stockholm

Notification may also be made to the Company by phone, +46-8-402 90 51, between 9 a.m. and 4 p.m. (CET), or on Axfood's website: axfood.se. Notification must include the shareholder's name, address, personal identity number/corporate identity number, phone number (daytime), the number of shares held and the number of assistants attending (maximum of two). If participating by proxy, a proxy form must be sent to the Company, in original (along with any authorization documents, such as company certificates of registration), and be in Axfood's possession before the AGM.

Participation at the AGM

To be entitled to participate at the AGM, shareholders must be recorded in the register of shareholders maintained by Euroclear Sweden AB not later than Thursday, 10 March 2016, and notify the Company of their intention to participate at the AGM not later than 4 p.m. (CET) on Thursday, 10 March 2016.

Shareholders whose shares are registered in the name of a nominee must, in order to be able to participate in the AGM, temporarily register their shares in their own names with

Euroclear Sweden AB. Such shareholders must inform their nominee of such registration well in advance of Thursday, 10 March 2016.

Recommendations for decision at the 2016 AGM

The Board of Directors proposes an ordinary dividend of SEK 5.00 per share (4.25) for 2015 and an extra dividend of SEK 4.00 per share (-), corresponding to a total dividend of SEK 1,889 m (892), based on the number of shares outstanding at year-end 2015.

Notice of AGM

Notice of the AGM is made by letter to the shareholders as well as through advertisement in the Official Swedish Gazette (Post- och Inrikes Tidningar) and publication on the Company's website.

Documents that will be presented at the AGM will be available on the Company's website at least three weeks prior to the meeting and on the day of the meeting.

Calendar – 2016 AGM

- | | |
|------------|---|
| • 10 March | Record date for 2016 AGM |
| • 10 March | Last day to notify to attend the 2016 AGM |
| • 16 March | Final day of trading in Axfood shares including the right to the dividend |
| • 16 March | 4 p.m., doors open to AGM |
| • 16 March | 5 p.m., 2016 AGM is called to order |
| • 18 March | Record date for payment of dividends |
| • 23 March | Payment date for dividends |

Income statement and balance sheet, Parent Company

INCOME STATEMENT

Amounts in SEK m	Note	2015	2014
Selling expenses		-1	-2
Administrative expenses	7, 8	-291	-318
Other operating income	7	205	177
Operating result		-87	-143
Profit from participations in Group companies	13	1	6
Interest income and similar profit/loss items	13	5	13
Interest expense and similar profit/loss items	13	-3	-4
Result after financial items		-84	-128
Appropriations	14	1,358	1,189
Profit before tax		1,274	1,061
Current tax	15	-282	-234
Deferred tax	15	0	-1
Profit for the year		992	826

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

BALANCE SHEET

Amounts in SEK m	Note	31/12/2015	31/12/2014
ASSETS			
Property, plant and equipment			
Equipment, tools and fixtures	18	30	38
		30	38
Financial assets	23, 28		
Participations in Group companies	21, 23	3,136	3,136
Other long-term securities holdings	28	3	3
Deferred tax assets	15	5	5
Other non-current receivables	24	3	3
		3,147	3,147
Total non-current assets		3,177	3,185
Current assets			
Current receivables	28		
Accounts receivable – trade		7	0
Receivables from Group companies		2,681	2,409
Other current receivables	24	-	1
Prepaid expenses and accrued income	26	8	11
		2,696	2,421
Cash and cash equivalents	28		
Cash and bank balances		1,489	760
Total current assets		4,185	3,181
TOTAL ASSETS		7,362	6,366

Parent Company

Other operating income for the Parent Company amounted to SEK 205 m (177) for the year. After selling and administrative expenses of SEK -292 m (-320) and net financial items totalling SEK 3 m (15), profit totalled SEK -84 million (-128). Appropriations totalled SEK 1,358 m (1,189). Of appropriations, SEK 1,785 m (1,548) pertains to Group contributions received and rendered.

Capital expenditures totalled SEK 7 m (17). Cash and cash equivalents held by the Parent Company totalled SEK 1,489 m (760). At year-

BALANCE SHEET, cont.

Amounts in SEK m	Note	31/12/2015	31/12/2014
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted shareholders' equity			
Share capital		262	262
Revaluation reserve		25	25
		287	287
Unrestricted shareholders' equity			
Profit brought forward		2,615	2,681
Profit for the year		992	826
		3,607	3,507
Total shareholders' equity		3,894	3,794
Untaxed reserves	14	1,653	1,226
Provisions			
Provisions for pensions and similar obligations	27, 29	20	22
Non-current liabilities	28, 29		
Other non-current liabilities		1	1
Current liabilities	28, 29		
Accounts payable – trade		11	12
Liabilities to Group companies		1,648	1,218
Current tax liability		85	55
Other current liabilities		5	2
Accrued expenses and deferred income	19, 30	45	36
		1,794	1,323
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		7,362	6,366
CONTINGENT ASSETS, PLEDGED ASSETS AND CONTINGENT LIABILITIES	31		
Contingent liabilities		313	312

end the Parent Company had no interest-bearing receivables outside the Group. The interest-bearing net receivable of SEK 377 m at the start of the year grew to SEK 716 m at year-end.

The Board of Directors proposes an ordinary dividend for 2015 of SEK 5 per share and an extra dividend of SEK 4 per share. Based on 209,870,712 shares, the total dividend will amount to SEK 1,889 m.

Cash flow statement and shareholders' equity, Parent Company

CASH FLOW STATEMENT

Amounts in SEK m	2015	2014
Operating activities		
Result before financial items	-87	-143
Interest paid	-3	-4
Interest received	5	13
Dividend from participations in Group companies	1	356
Depreciation/amortization charged against result	10	10
Adjustments for non-cash items	6	10
Paid tax	-252	-172
Cash flow from operating activities before changes in working capital	-320	70
Cash flow from changes in working capital		
Change in current receivables	-51	53
Change in current liabilities	446	-108
Cash flow from operating activities	75	15
Investing activities		
Acquisitions of property, plant and equipment	-2	-16
Acquisitions of subsidiaries	0	-10
Divestments of subsidiaries	-	130
Cash flow from investing activities	-2	104
Financing activities		
Shareholder dividend	-892	-787
Group contribution received	1,581	1,323
Group contribution rendered	-33	-9
Cash flow from financing activities	656	527
CASH FLOW FOR THE YEAR	729	646
Cash and cash equivalents at start of year	760	114
Cash and cash equivalents at year-end	1,489	760

SHAREHOLDERS' EQUITY

Amounts in SEK m	Restricted share-holders' equity		Unrestricted share-holders' equity	Total share-holders' equity
	Share capital	Revaluation reserve	Profit brought forward	Total
Opening shareholders' equity 2014	262	25	3,468	3,755
Profit for the year	-	-	826	826
Shareholder dividend	-	-	-787	-787
Closing shareholders' equity 2014	262	25	3,507	3,794
Profit for the year	-	-	992	992
Shareholder dividend	-	-	-892	-892
Closing shareholders' equity 2015	262	25	3,607	3,894

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

Risks and risk management

Like all business activities, Axfood's business is exposed to risks. By risks is meant defective handling or events or decisions outside of the Company's control that could lead to business interruption, damage or loss with substantial impact for the entire Group. How risks are managed is of fundamental significance for the Company's success.

To prevent risks or mitigate their effects and loss, processes are continuously implemented to identify and manage risks in all parts of the Group. In this work, operational as well as strategic and financial risks are assessed from probability and consequence perspectives. New store establishment and acquisitions are preceded by very thorough market analyses of the competition as well as demographics, where every investment calculation stretches over several years. In addition, issues in the external operating environment are analysed from ethical, social and environmental aspects, among other things.

Effective systems for incident reporting are in place in all parts of the Group. Through these, Axfood can gain a quick overview and thereby determine how operational risks are to be prioritized and managed effectively and systematically.

This system also allows Axfood to maintain control over claim costs that are uninsured or below insurable levels. Axfood has Group-wide insurance, which is reviewed yearly by an independent, external party. Insurance protection covers, among other things, property, business interruption, product liability, transports, and liability for directors and senior executives. Owing in large part to active loss prevention work, Axfood has been able to lower its insurance costs in recent years.

Axfood has a Group-wide crisis management and communication plan, which the Company's crisis management team conducts drills on at regular intervals. The plan is designed to ensure preparedness in the event of a crisis and that the right measures are taken on the right occasion by the designated key functions. The goal is to minimize acute loss in a situation in which normal routines are inadequate. In a prolonged crisis, the crisis management work would shift into continuity planning, where for example the time that operations are forced to a standstill is limited to a minimum. Axfood works actively with follow-up of continuity plans.

Operational and strategic risks

Business risks

Fire

Fire is one of the most serious business risks that the Company must manage, especially regarding fire in a central warehouse, which would result in property loss and business interruption losses. The Group's systematic fire safety work puts great emphasis on an effective fire safety organization and internal controls. The priority of fire safety work conducted at the Group's stores is on how best to handle an evacuation, where the primary focus is on employee and customer safety.

IT structure

There is a keen awareness in the Company that centralization elevates the Group's risk and vulnerability. This also applies to the centralized IT structure. Major emphasis is therefore put on preventive work and the surrounding organization, as well as on planning for operational continuity in case of unforeseen events. In the event of a major IT disruption, IT operations are safeguarded through duplicate resources and geographic spread of risk at the same time that Axfood continuously reviews what can be done to minimize the risks.

Regular risk analyses are performed of operations using Axfood's own risk gradation analysis tool.

Suppliers

A bankruptcy or serious fire at a critical supplier could result in disruptions in product flows. Therefore, alternative solutions are reviewed on a regular basis at the same time that major demands are put on fire safety and the financial stability of critical counterparties.

Labour market conflicts

Labour market conflicts, such as a strike or lockout in any area of the business, could disrupt operations. However, in Sweden this is less common than in many other European countries. Sweden's labour market parties generally strive for stability in the workplace and multi-year contracts. In addition, contracts are usually coordinated centrally, which limits the risk for protracted conflicts.

How Axfood handles factors such as competition and shrinkage can impact the Company's earnings. However, these should not be regarded as operational risks, but rather as a part of doing business.

Liability and trust risks

Axfood is one of the leading food retailers in Sweden, and therefore its ability to meet stakeholders' expectations for quality, transparency, compliance with laws and standards as well as social and ethical norms is decisive for earning customers' trust. Examples of issues the Group must deal with daily include food safety, hygiene, the cold chain and product liability for products that could cause property damage or personal injury. Should a serious defect be discovered in any of these areas, a major risk would arise for financial loss as well as damage to the brand, which could also have an impact on Axfood's market capitalization. Axfood works actively with these issues, among other ways through extensive internal control programmes at stores and quality assurance of the Group's private

Financial risk management at Axfood is described in more detail on pages 58–59. In the Corporate Governance Report, on pages 60–75, a detailed description is provided of the Company's internal control and risk assessment, which are intended to prevent errors in the financial statements. Preventive work for mitigating liability risks, sustainability risks, and risks for violation of laws, rules and regulations, is described in Axfood's sustainability report.

label products. Such a control programme entails that stores conduct certain daily arrival controls and temperature controls at the departmental level. Clear routines are in place for handling e.g., unpackaged foods to ensure that food hygiene is maintained and to uphold the integrity of the cold chain.

Axfood conducts extensive quality and safety work particularly regarding its private label products, but also for other products in its assortment. Quality assurance is conducted at several levels before a supplier is approved. Axfood also makes recurring visits and/or conducts audits at suppliers to discuss product knowledge and product development, and looks into and follows up any defects where applicable.

A more detailed description of Axfood's work with quality assurance and food safety can be found in Axfood's sustainability report, which is available at axfood.se.

Sustainability risks

Environmental policy decisions as well as changes in supply and demand and environmental opinion could affect Axfood, not least in the form of higher taxes or compelling investments. The Company therefore monitors developments in this area and prioritizes climate and environmental aspects in all parts of its operations in order to be proactive in its ability to comply with new rules and requirements. Axfood's sustainability report includes a description of how Axfood's work with environmental and company liability is conducted.

Axfood does not conduct any operations requiring a permit in accordance with the Environmental Code. However, the Company has a reporting obligation for a small amount of refrigerant that is used in certain refrigeration systems in the wholesale operations.

Operational and strategic risks	RISK LEVEL		Risk management	Insured ¹⁾
	Likelihood	Consequence		
Business risks				
– Fire				
A major fire in a central warehouse is the greatest business risk.	<div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div></div>	Major emphasis is put on preventive work, an effective fire safety organization and internal control.	✓
– IT				
Centralization of the IT structure increases vulnerability and the risk for major operational disruptions.	<div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div></div>	Major emphasis is put on preventive work and continuity planning. Duplicate resources and geographic spread of risk are intended to safeguard operations in the event of a major IT disruption. Axfood has decided to take out cyber insurance to minimize any costs in the event of a major disruption.	✓
– Supplier risks				
Bankruptcy or extensive fire at a critical supplier.	<div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div></div>	Alternative solutions are evaluated on a regular basis. Major demands are therefore put on fire safety and financial stability.	✓
– Labour market conflicts				
A strike or lockout in any part of the business could cause operational disruptions.	<div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div></div>	Coordination and dialogue in industry organizations. Usually long contract periods, which reduces the risk for conflicts.	✓
Liability risks				
Serious defects in food safety, hygiene, the cold chain and product liability could cause financial loss as well as harm to the brand.	<div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div></div>	Preventive work through internal controls, food safety inspections and inspections aimed at ensuring quality standards.	✓
Sustainability risks				
Environmental policy decisions and major changes in supply and demand could give rise to new taxes or compelling investments.	<div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div></div>	Developments are monitored closely. Climate and environmental aspects are taken into account in operations in order to be able to proactively comply with new requirements.	n.a.
Violations of laws, rules and regulations				
Criminal actions or neglect could seriously harm the Company's reputation and result in sanctions or fines.	<div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div></div>	For risk prevention purposes, Axfood has established a number of policies and a well-working system of internal control	✓
Legislation and political decisions				
New laws and political decisions could pose limitations to business or give rise to new, stricter requirements.	<div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div></div>	Through business intelligence and active presence in trade organizations, Axfood has the opportunity to act and influence.	n.a.
Risk for errors in financial reporting				
A detailed description of the Group's work with internal control is provided in the Corporate Governance Report.	<div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div></div>		n.a.

Likelihood – ■ low ■ medium ■ high
Consequence – ■ low ■ medium ■ high

¹⁾ Fully or in part.

Violations of laws, rules and regulations

For Axfood it is of great importance to comply with laws and other rules and regulations as well as to conduct business in accordance with generally accepted business practice. Violations or negligence in these areas could harm the Company's reputation and result in sanctions as well as fines. For risk prevention purposes, Axfood has therefore established a number of policies, a well-working system of internal control, and an ethical approach at all levels. The Axfood Code of Conduct is described in more detail in Axfood's sustainability report.

Legislation and political decisions

A decision to halt new establishment of large stores – which has happened in several Nordic and European countries – poses a latent threat to Axfood. A similar decision in Sweden could affect new store establishment, but currently this is judged to be unlikely. In general, decisions on what measures shall be taken are made well in advance of implementation of new rules and regulations. See also the heading Sustainability risks.

Risks for errors in financial reporting

Axfood continuously updates its risk analysis regarding the gradation of risks that could lead to errors in its financial reporting. Each year Axfood's board of directors decides which risks are essential to take into consideration in order to ensure satisfactory internal control over the Company's financial reporting. A more detailed description of Axfood's work on internal control is included in the Corporate Governance Report.

Financial risks

The Axfood Group is exposed to financial risks, which are described under the respective type of risk below. No offsetting of financial assets and financial liabilities has taken place.

Axfood has a Group-wide finance policy that regulates the delegation of responsibility on financial matters between the Board, the CEO/CFO, the central finance department and other Group companies.

The Group's external financial management is centralized in the central finance department of the Parent Company, Axfood AB. The Group's finance department reports monthly to the CFO with a follow-up of the finance policy. The same report is also presented to the Board four times a year.

This report also includes a follow-up of financing and liquidity risk, interest rate risk, currency exposure and credit risks.

Financing and liquidity risk

Responsibility for the Group's procurement in central financing matters rests with the finance department. The Group's external financing from credit institutions (mainly banks) is conducted by the Parent Company, while subsidiaries finance their operations through the central Group account systems.

To limit the risk and the potential financial loss associated with the Axfood Group's inability 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 and an operating reserve, in accordance with the finance policy. The refinancing risk reserve shall amount to a minimum of SEK 300 m (300) and may be used during individual weeks in the event of short-term movements in liquidity. On 31 December 2015 the refinancing risk reserve amounted to SEK 1,811 m (1,519). Responsibility for monitoring and overseeing the refinancing risk reserve rests with the finance department.

The finance department works with moving 12-month liquidity forecasts covering all of the Group's units. These forecasts are used to manage liquidity risk and are updated on a monthly basis.

Granted credit lines are to have a minimum average remaining contract term of 12 months. Apart from granted, short-term overdraft facilities of SEK 220 m (250), the Group had no long-term granted credit facilities as per 31 December 2015. The average remaining contract term was 1,095 days as per 31 December 2014. Information on granted and drawn credit lines, as well as maturity dates for utilized credits, is provided in Note 29.

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 highly liquid instruments with low credit risk, i.e., investments that can be converted to cash and cash equivalents at any given point in time. Approved instruments include account balances, deposits, and investments in short-term debt instruments with approved counterparties.

The Axfood Group shall only cooperate with counterparties that are judged capable of meeting their obligations to the Group. The banks and financial institutions that the Group cooperates with shall have high creditworthiness in order to be

Operational and strategic risks	RISK LEVEL		Risk management
	Likelihood	Consequence	
Financing and liquidity risk			
The risk of Axfood at any given time not being able to finance the Group's operations.	<div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div></div>	The Group has access to the debt market, for both short- and long-term loans as well as loan promises issued by Swedish banks.
Interest rate risk			
Interest rate risk pertains to the risk of negative impact on the Group's cash flow and profit caused by changes in market interest rates.	<div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div></div>	Interest rate risk is limited by maintaining terms of fixed interest of normally 12 months.
Currency risk			
The risk of exchange rate movements having a negative impact on the Group's financial outcome.	<div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div></div>	Axfood's policy is to hedge 100% of orders placed in foreign currency.
Credit risk			
Potential losses on trade accounts receivable and guarantee commitments made by Axfood.	<div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div></div>	Axfood's customers are subject to credit checks on a regular basis. By coordinating its credit monitoring activities, among other things, Axfood ensures that its credit losses will be kept at a low level.

Likelihood – ■ low ■ medium ■ high
Consequence – ■ low ■ medium ■ high

able to support the Group long-term. Limits per counterparty are set yearly.

Axfood regularly monitors its capital structure on the basis primarily of the equity ratio. The target for the Group is to have an equity ratio of at least 25% at any given time and to distribute a minimum of 50% of profit after tax for the year to the shareholders.

Market risk

Market risk is the risk of the fair value or future cash flows from a financial instrument varying due to changes in market prices. The Axfood Group's market risks are broken down into interest rate risk, currency risk and credit risk, which are described below. 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

The Axfood Group's interest rate risk associated with interest-bearing assets is to be managed by investing cash and cash equivalents in such a way that maturity dates for investments with fixed rates of interest match the Axfood Group's known outflows and/or amortization of principal. The goal is that no fixed-income investments shall be sold prior to maturity. As per 31 December 2015 the Axfood Group had no restricted interest-bearing liabilities.

Interest rate risk and cash flow 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 a need for long-term borrowing. For commercial and administrative reasons, the finance department may also act within the framework of a limited deviation mandate. In terms of amount, this deviation mandate is set at SEK 2 m for a one percentage point parallel shift in the yield curve. As per 31 December 2015 the Axfood Group had no long-term borrowing from credit institutions, and in the same way as the preceding year, the deviation mandate was not exercised. Thus at the end of the reporting period, there was no amount that would affect earnings and shareholders' equity in the event of a one percentage point change in the interest rate.

Sensitivity analysis for interest rate risk

The effect on interest income and interest expense during the coming 12-month period of a one percentage point increase or decrease in interest rates amounts to SEK – m (0.2), taking into account the interest-bearing liabilities – excluding pension liabilities and finance leases – that do not carry fixed rates of interest and which were held at the end of the reporting period. The corresponding effect of interest income on interest-bearing assets is SEK 15.6 m (7.9).

As per the end of the reporting period, a one percentage point change in interest rates would not entail any change in the fair value of financial assets and liabilities.

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 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, and
- 25% of the exposure within 12 months.

Approved hedge instruments are spot contracts, forward exchange contracts and currency swap contracts. In 2015 hedges were taken out using these instruments. As per 31 December 2015, all outstanding currency forward contracts, with a nominal value of SEK 322 m (366), were restated to fair value. A compilation of outstanding forward contracts is provided in Note 32.

The Parent Company did not have any exchange rate exposure during the year.

Sensitivity analysis regarding currency risk 2015

Currency	SEK m	10% change in exchange rate vs. SEK, SEK m
EUR	3,054	305.4
USD	174	17.4
DKK	15	1.5
NOK	5	0.5
GBP	7	0.7
Total	3,255	325.5

The sensitivity analysis above shows a hypothetical impact on cash flow and profit before tax, and before taking currency hedges into account. Currency hedges are always taken out no later than at the time orders are placed, and the hedge rate is always coupled to the respective orders. Based on this value, the price in stores is then determined for the respective products. For further information regarding exchange rate differences and exposures, see Note 32.

Credit risks

In the Axfood Group, credit risks and credit losses are mainly attributable to trade receivables, although some risks are coupled to a few minor guarantee commitments. The Group has drawn up a credit policy that stipulates how customer credits are to be handled. The credit policy stipulates, among other things, the conditions for credit assessment, credit monitoring, and for the handling of demands for payment and insolvency. The Group's customers undergo a credit check, whereby information about the customers' financial position is obtained from various credit reporting agencies. In addition, limits are set individually per customer, and security is obtained, such as bank guarantees and chattel mortgages. Through coordination of credit monitoring and its handling of security within the Group, Axfood ensures that its risk exposure and thus its credit losses are kept at a commercially acceptable level.

Financial assets are reported in the statement of financial position after deducting provisions for possible credit losses. Added to these provisions are provisions for estimated 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 2 m (4) 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 external environment. For further information on trade receivables, see Note 25. The Parent Company did not have any external credit risks at year-end.

Corporate Governance Report 2015

Axfood's corporate governance aims to achieve sustainable value creation for the shareholders through effective risk control and a sound company culture. Good corporate governance ensures effective decision-making and increases Axfood's potential to capitalize on new business opportunities. This is done by creating conditions for an active and responsible ownership role, a clear division of roles and responsibilities between management and control bodies, and transparency towards the Company's owners and the capital market.



Chairman's message

It is the Board's duty, with continuity and long-term perspective, to ensure Axfood's development and a favourable, sustainable return for the shareholders. Success at this requires that we have a clear understanding of long-term trends in our business environment, but also the flexibility and preparedness to adapt to unforeseen challenges as they emerge.

Long-term decisions have created favourable conditions

The conditions that Axfood has today are based on long-term decisions that the Board took a number of years ago. Among other things, we chose to develop our own brands, introduce an effective and modern business system, accelerate the pace of expansion, and modernize our stores. We have also – as the core of our long-term work – held on to our decision to focus the business solely on food. Today we have good conditions to offer a high-quality food experience that gives customers value for their money – on their terms.

It is then up to us, in our daily operations, to ensure that we earn the customers' trust. It is also the countless decisions that we make every day that lead to efficient operations and well run stores, and which lead to the core of our business – our interaction with customers. The successes that we have seen in recent years are the result of the value-added created by all of Axfood's employees, which in turn results in more satisfied customers.

Flexibility to change

The Board's role builds upon having a good idea about developments in our business environment and the expectations that Axfood's stakeholders have. We see that sustainability is and will continue to be highly important. This applies both for Axfood – to be a driver in the industry towards more sustainable business – and its customers – who we can facilitate by meeting their ever-greater demands for climate-smarter foods and helping to reduce food waste. E-commerce in food retailing is still in its infancy in Sweden, but it is experiencing dynamic growth. Digital investments are important for Axfood in its ability to offer alternatives to the traditional customer interface in stores.

Understanding long-term trends is decisive, but at the same time we must have the capacity to adapt to new challenges and opportunities. The many refugees who have come to Sweden is an example of such an unforeseen change. In October Axfood pledged to employ, in the near future, at least 100 newly arrived immigrants within the Group. Apart from being potential customers and employees, these newcomers can provide inspiration to expand our global product offering. Moreover, grocery stores can serve as a hub for integration in Sweden, as they offer a natural meeting place.

Challenges and opportunities will always arise that cannot be foreseen. For Axfood to stay at the forefront, we must be vigilant and ensure a high level of flexibility in the organization, in order to be able to act swiftly.

Good governance

For me, having the right conditions is part of what constitutes good governance. Moreover, a company needs a clearly defined division of responsibility and good order and structure in its internal systems, like Axfood has.

Through risk management, good control and monitoring of business, the company's operations can be conducted in such a way that the owners can trust that their capital is being managed soundly. Moreover, with stable rules and governing bodies, continuity and long-term perspective are created that are not dependent on specific individuals or situations.

Axfood today is sharper than ever before. Which means that we have the strength to meet ever-tougher competition. We know even better what is expected of us going forward and pay attention to every detail to continue developing with and for our stakeholders and customers.

Fredrik Persson
Chairman of the Board



Governing bodies, rules and regulations

Axfood is a Swedish, public stock corporation with registered number 556542-0824. The Company has its domicile in Stockholm and is listed on Nasdaq Stockholm. This Corporate Governance Report is part of the Company's Administration Report and is reviewed by the Company's auditors. The auditors' review is included in the Audit Report on page 97.

Corporate governance at Axfood rests on a foundation of both external and internal governance instruments.

External governance instruments

The external governance instruments that make up the framework for Axfood's corporate governance activities include the Swedish Companies Act, the Swedish Annual Accounts Act, other relevant laws, Nasdaq Stockholm AB's rules for issuers and the Swedish Corporate Governance Code (bolagsstyrning.se).

Internal governance instruments

The Articles of Association adopted by the Annual General Meeting (AGM) is the most important internal governance instrument, followed by the Board's work plan and the Board's instruction for the CEO. The Board has also adopted numerous policies, guidelines and instructions that contain binding rules for all of the Group's operations. All policies are revised yearly. In addition, the Company works actively with its core values as strategic governance instruments for all employees in the Group.

Swedish Corporate Governance Code

Axfood applies the Swedish Corporate Governance Code ("the Code"), with departures from the Code on the following two points

Departure from the Code (rule 2.4):

According to the Code, a board member shall not serve as chair on a company's nominating committee.

Explanation:

Caroline Berg, who serves as chair of the Nominating Committee, is also a director on Axfood's board, which is natural in view of the Company's ownership structure.

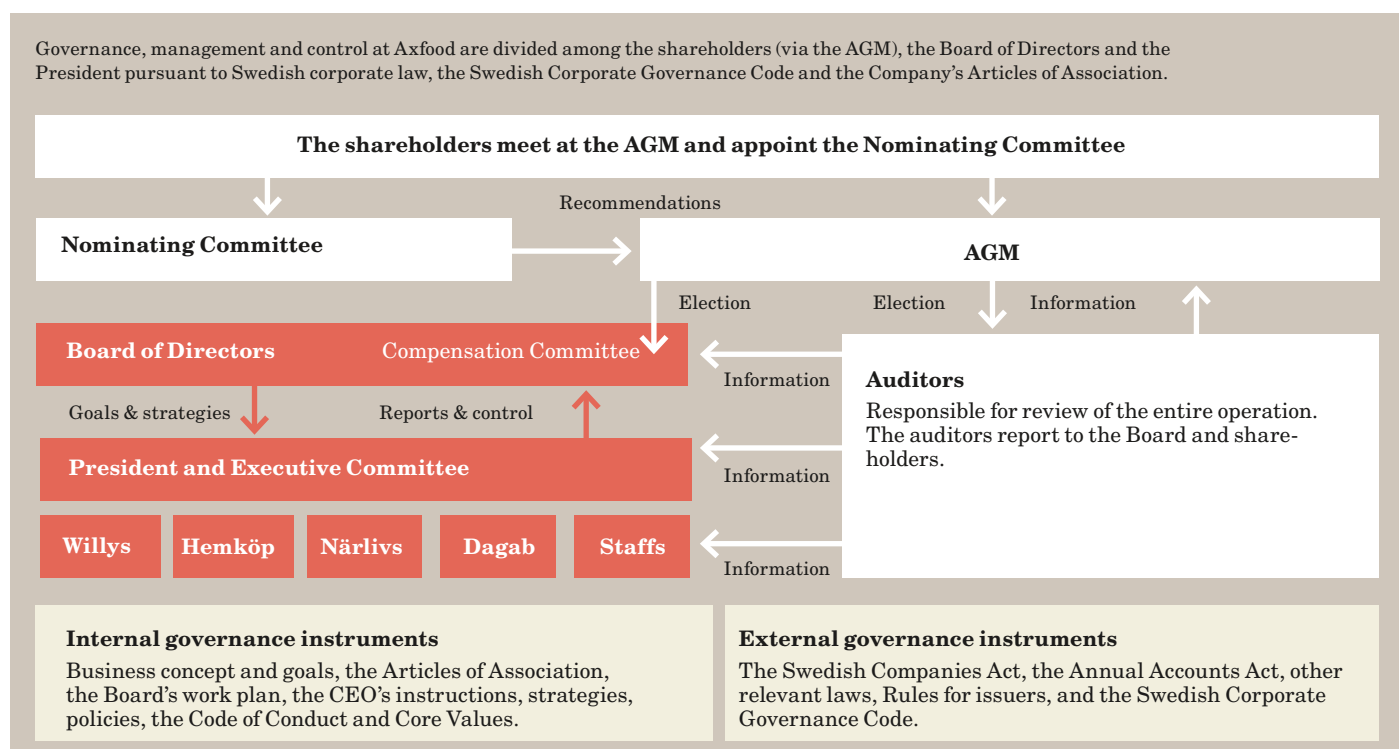
Departure from the Code (rule 2.5):

According to the Code, the composition of the nominating committee shall be publicly announced well in advance of, but not later than six months prior to, the AGM.

Explanation:

The Nominating Committee's composition is based on shareholder statistics as per 31 August and is publicly announced in connection with publication of the third quarter interim report in October. Since Axfood's AGM is held relatively early in the year (in March), announcement of the Nominating Committee is made approximately five months before the AGM. This is considered by the AGM to be sufficient time for the Nominating Committee to perform its duties.

Governance model



Sustainability governance at Axfood

Axfood's sustainability work is an integral part of the Company's business model and governance. This work rests on the foundation of Axfood's core values and Code of Conduct as well as the Company's sustainability programme. Axfood's sustainability work is conducted mainly in accordance with ISO 14001. Reporting is done in accordance with the Global Reporting Initiative (GRI) guidelines, G4 core.

Axfood works with sustainability matters in a business-driven manner and integrates them in all aspects of operations. Responsibility for overarching strategies, goals and actions, and follow-up rests with the Executive Commit-

tee and Head of Environment and Social Responsibility. The Board monitors this work via reports from the Head of Environment and Social Responsibility. To ensure that this work is conducted in an integrated fashion, it is important that the individual companies and divisions in the Axfood Group have operational responsibility for their own sustainability work. Sustainability coordinators have been appointed in all companies and are coordinated at the Group level by the Head of Environment and Social Responsibility. Read more about Axfood's sustainability work as well as the 2015 Sustainability Report at axfood.se.

Shareholders

Axfood's shares have been listed on the Stockholm Stock Exchange since 1997 and have been traded since October 2006 on Nasdaq Stockholm's Large Cap list. The Company has 209,870,712 shares outstanding following a 4:1 stock split in 2015.

All shares have equal voting power and equal entitlement to the Company's profit and equity. The largest single owner since the Company's stock market introduction has been Axel Johnson AB.

There are no stipulations in Axfood AB's Articles of Association or in any of Axfood AB's subsidiaries' articles of association that limit a shareholder's right to transfer shares, except for in the so-called 91/9 companies within Hemköp, in which Axfood owns 91% of the shares. In the event of a sale of the 9% of the shares, Axfood has a pre-emption right. Axfood AB has not entered into any agreements that could be affected by a possible takeover bid. The same applies for Axfood AB's subsidiaries.

AGM

General meetings of shareholders are the highest decision-making body of a stock corporation, where the shareholders exercise their right to decide on the company's affairs.

No limits are stipulated in the Company's Articles of Association or – to the Company's knowledge – in shareholder agreements regarding shareholders' rights.

Nominating Committee

The Nominating Committee is tasked with making recommendations to the AGM on the number of directors, the Board's composition and on directors' fees, including any special fees that may be payable for committee work. The Nominating Committee is also tasked with submitting recommendations for the person to be elected as Chairman of the Board, a chairman to preside over the AGM and, where applicable, for election of auditors and their fees. As part of this work the Nominating Committee shall draw from the annual evaluation of the Board's work during the

year, which is presented by the Chairman of the Board. The evaluation of the Board's work, together with the requirements in the Code and the company-specific requirements made within Axfood, form the basis of the Nominating Committee's work.

The Nominating Committee's recommendations for board members, directors' fees and election of auditors are presented in the notice of the AGM. A reasoned statement explaining the Nominating Committee's recommendations on the Board's composition is posted on Axfood's website in connection with issuance of the AGM notice. All shareholders have the right to submit nominations of board members to the Nominating Committee. Nominations are to be submitted to the Nominating Committee chair by e-mail at the address valberedning@axfood.se.

According to the Code, a nominating committee shall have at least three members, and the majority of these shall be independent in relation to the company and its executive management. Axfood's Nominating Committee consists of five members.

Board of Directors

The Articles of Association prescribe that Axfood's board of directors shall consist of a minimum of three and maximum of ten AGM-elected ordinary directors with a maximum of two deputies. The Board shall be composed of members who possess a well-balanced mix of expertise that is vital for directing Axfood's strategic work in a responsible and successful manner. Examples of such expertise include knowledge about the retail industry, corporate governance, compliance, finance, financial analysis and compensation matters. Previous board experience is another important area of expertise.

The Board's work

Each year the Board adopts a written work plan that lays out the Board's responsibilities and regulates the Board's and directors' internal division of duties and the decision-making process within the Board. The Board's meeting schedule, summonses to board meetings, agendas and minutes of board meetings, and the Board's work with accounting and auditing matters are also

209,870,712 shares after stock split in 2015



regulated in this work plan. The work plan also regulates how the Board is to receive information and documentation as a basis for its work so as to be able to make well-grounded decisions.

Axfood's board holds a statutory meeting immediately after the AGM. Thereafter the Board is to have at least four meetings per calendar year. Each of the regular board meetings follows a set agenda that is stipulated in the Board's work plan and includes such points as the CEO's report, financial reports, investments and strategic matters. Prior to the board meetings, the directors received written material covering the items of business to be dealt with at each meeting.

Compensation Committee

The Board has chosen to appoint a compensation committee from among its members to deal with compensation matters more in-depth.

The Compensation Committee is tasked with discussing, deciding and making recommendations on salaries, other terms of employment and incentive programmes for members of the Executive Committee. However, for the CEO, the Board as a whole sets the level of compensation and other terms of employment. The Compensation Committee reports and makes recommendations to the Board. At the start of each year the Committee sets the targets for variable compensation for the members of the Executive Committee. The Compensation Committee also sets the retirement benefits for the members of the Executive Committee.

Audit Committee

Axfood's board has opted to serve in its entirety as an audit committee. This is an option under the Companies Act, as long as no board member is employed by the Company and at least one board member is independent in relation to the Company and its management as well as major shareholders. This entails in practice that the Board in its entirety works with and has responsibility for ensuring the quality of the Company's and Group's financial reporting. These matters are a standing item on the Board's agenda and involve, for example, working together with the Executive Committee and the auditors to monitor and evaluate the handling of complicated accounting and valuation matters.

The Board meets regularly with the Company's auditors to stay informed about the focus and scope of the audit, gain insight into the Group's risks, and to establish guidelines for any other services than the audit that the Group may procure from the Company's auditor. The Board also monitors the Group's work with internal control.

Auditors

The auditors are appointed by the AGM based on a recommendation by the Nominating Committee and are elected for a term of two years.

When requesting additional services from the auditing firm aside from its auditing assignment, such services are provided only to an extent that is compatible with the rules of the Auditors Act and FAR's professional ethics rules regarding auditors' impartiality and independence.

Executive Committee

The Executive Committee is made up of Axfood's President and CEO, and an additional ten executives or subsidiary presidents. The Executive Committee holds monthly meetings to address ongoing matters and discussions, and gathers for a longer strategy meeting once a year.

The store establishment and financing committee that is tied to the Executive Committee meets once a month to address application-related and decision matters concerning store investments, sales of stores, new leases and renewals of existing leases.

A yearly business plan is drafted first by the subsidiaries and thereafter by the Executive Committee during the last four months of the year and is presented to the Board at the end of the year. The work on the business plan thereby involves employees from several levels within the Group. The business plan is revised prior to the start of each quarter with new forecasts and is thereby a dynamic planning document. The companies within the Axfood Group are governed through internal boards, with Axfood's CEO Anders Strålmán serving as chairman. The other directors on the boards of subsidiaries are various representatives from the Executive Committee. The companies have board meetings at least four times a year.

Year in review

Shareholders

The number of shareholders at year-end was 19,888 (16,191). At year-end, ownership by Axel Johnson AB, the single largest shareholder, was unchanged at 50.1%. The second largest shareholder was Reitangruppen AS, whose holding at year-end was unchanged at 15.6% of the shares and votes. Private persons and closely held companies held 60.8% (60.3%) of the shares at year-end, and foreign shareholders held 30.7% (28.0%).

Axfood AB does not hold any treasury shares.

Axfood's employees do not own shares in which the voting rights for such shares cannot be exercised directly (for example, through a pension foundation). No incentive programmes exist for Axfood employees that affect Axfood's share structure.

In 2015 Axfood carried out a 4:1 stock split, increasing the number of shares from 52,467,678 to 209,870,712. For further information about Axfood's shares, see pages 48–49.

AGM 2015

Axfood's AGM was held in Stockholm on 18 March 2015. A total of 355 shareholders and representatives were in attendance,

representing 40,599,976 shares, corresponding to 77.4% of the shares and votes in the Company.

Nominating Committee ahead of the 2016 AGM

According to the principles for appointment of the Nominating Committee that were adopted by the 2015 AGM, the owner with the largest number of shares and votes shall, together with the three next largest shareholders, appoint the Nominating Committee.

The largest owners represented on the Nominating Committee as per 31 August 2015 were Axel Johnson AB, Reitangruppen AS, Swedbank Robur funds and SEB funds. All of these are considered to be independent in relation to the Company and the Executive Committee. The Nominating Committee ahead of the 2016 AGM held four meetings. No fees were paid for work on the Nominating Committee. The composition of the Nominating Committee is shown in the table below.

Board of Directors

In 2015 Axfood's board consisted of seven AGM-elected directors

Resolutions at 2015 AGM

The AGM made the following resolutions, among others:

- In accordance with the Board's proposal, to pay a dividend of SEK 17 per share (15) for the 2014 financial year.
- That the Board shall consist of seven members without deputies (unchanged).
- That directors' fees shall be payable in a combined amount of SEK 2,595,000, in accordance with the Nominating Committee's recommendation. The directors' fees were raised by SEK 10,000 per director and are apportioned as follows:
 - SEK 560,000 for the Chairman
 - SEK 410,000 for the Vice Chairman
 - SEK 325,000 for each of the other directors elected by a general meeting of shareholders
 - No fees are payable for committee work.
- Election of the Chairman of the Board and board members in accordance with the Nominating Committee's recommendation:
 - Re-election of Fredrik Persson as Chairman of the Board
 - Re-election of board members Antonia Ax:son Johnson, Caroline Berg, Peggy Bruzelius, Lars Olofsson and Odd Reitan, and new election of Ann Carlsson.
- To adopt guidelines for appointment of the Nominating Committee, in accordance with the Board's recommenda-

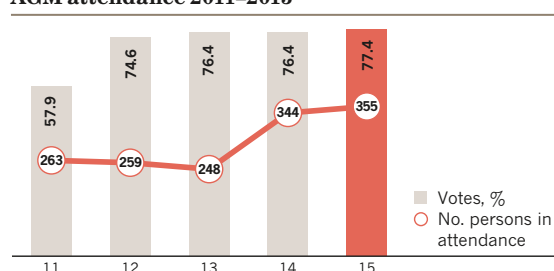
tion. These guidelines are unchanged compared with previous years and entail that:

- The owner who, based on ownership statistics from Euroclear Sweden AB on 31 August, has the most shares and votes shall, after consulting with the three next largest shareholders, appoint a nominating committee consisting of five persons.
- If a material change takes place in the ownership structure after the Nominating Committee has been constituted, then the composition of the Nominating Committee shall also be changed.
- The Board is responsible for convening the Nominating Committee.
- To adopt guidelines for employees' purchases of shares in subsidiaries, which were unchanged.

The auditing firm KPMG, which was previously elected as auditor for a term extending through the end of the 2016 AGM, notified the Company about a new chief auditor, George Pettersson.

The complete minutes of the AGM are available on axfood.se.

AGM attendance 2011–2015



Composition of Nominating Committee

Name	Representing	Share of votes as per 31/8/2015, %
Caroline Berg	Axel Johnson AB, Chair	50.1
Magnus Reitan	Reitangruppen AS	15.6
Johan Strandberg	SEB funds	2.7
Johas Hillhammar	Axfood's Shareholder Association	1.7 ¹⁾
Tomas Hedberg	Swedbank Robur funds	1.0

¹⁾ Share of ownership according to the proxies held by the Shareholder Association at the 2015 AGM.

and no deputies. This is the same number of board members since 2009. Each of these directors has essential expertise, and their experience amply covers the areas considered to be important for the Company. Three directors and three deputies are appointed by the employees. Axfood's CEO, Anders Strålmán, is not a member of the Board, but participates at board meetings in a reporting role. Karin Hygrell-Jonsson, Axfood's Chief Financial Officer, serves as company secretary.

The Board's composition is shown in the table below. A more detailed presentation of the board members is provided on pages 72–73.

Ahead of the 2015 AGM, board member Annika Åhnberg, who has served as a director since 2000, declined re-election. In accordance with the Nominating Committee's recommendation, as a result of this Ann Carlsson was elected as a new director. Ann Carlsson (b. 1966) has a degree in human resources from Stockholm University. She is currently President and CEO of Apoteket AB (publ) and has a depth and breadth of experience in the Swedish food retail industry, including numerous executive positions at ICA, where she served as a director of various business areas and was business manager for ICA Kvantum and ICA Nära. Ann Carlsson is independent in relation to both the Company and the Executive Committee, and in relation to major shareholders of Axfood.

At the statutory board meeting on 18 March 2015, Lars Olofsson was elected as Vice Chairman of the Board.

Directors' independence

The Swedish Corporate Governance Code stipulates that the majority of the AGM-elected directors shall be independent in relation to the Company and the Company's management. At least two of these shall also be independent in relation to the Company's major shareholders. Axfood's board has been judged to meet the requirements for directors' independence, as all of the AGM-elected directors are independent in relation to the Company and the Executive Committee. Two of the directors, Peggy Bruzelius and Ann Carlsson, are also considered to have met the requirement for independence in relation to the Company's major shareholders.

Five directors have been judged as being non-independent in relation to the Company's major shareholders. During part of the year, Fredrik Persson served as President and CEO of Axfood's largest shareholder, Axel Johnson AB, and has therefore not been found to be independent in relation to the Company's major shareholders. Caroline Berg, Antonia Ax:son Johnson and Lars Olofsson, who currently serve as Chairman and directors on Axel Johnson AB's board, respectively, have not been found to be independent in relation to the Company's major shareholders. Odd Reitan is Chairman of the Board of Reitangruppen AS,

which is Axfood's second-largest shareholder, and has therefore not been found to be independent in relation to the Company's major shareholders.

The Board's work

The Board held eight meetings in 2015, including the statutory meeting, which was held directly after the AGM. The CEO's status report is a standing agenda item at every board meeting, as is a follow-up report on earnings performance. Store investments and establishment matters are also items of business at every board meeting. Every quarter the Company's interim reports are reviewed – in February, April, July and October. The board meeting in February covered the year-end book-closing and annual report, reports from the auditors, the Compensation Committee and Nominating Committee, and matters of business ahead of the AGM.

In April the Board adopted the work plans for the Board and for the Compensation Committee. In addition, the Board revised and adopted policies that are important governance instruments within the Axfood Group, including the credit and finance policy, the investment policy, and the communication policy (including IR).

At the board meeting in June, strategic issues were discussed. In addition to follow-up and evaluation of the strategy for 2015, the Board also discussed customer and growth strategies, e-commerce, profitability, communication and acquisitions.

During the autumn the Board adopted the business plan that had been drawn up during the year by the subsidiaries and the Executive Committee. Other important business-related matters included efficiency improvements, digital business, acquisitions and organizational changes.

The Board also addressed the report from the auditors and reviewed the Company's internal control and compliance, and conducted its annual evaluation of the Board with a subsequent report to the Nominating Committee. All of these matters are closely tied to Axfood's goals and strategies.

The Board's work during the year is illustrated on page 67.

Compensation Committee

The members of the Compensation Committee as from 18 March 2015 were Fredrik Persson (committee chair), Caroline Berg and Lars Olofsson. Axfood's CEO, Anders Strålmán, is a co-opted member of the Compensation Committee.

During the year, the committee dealt with terms and outcomes regarding variable compensation for senior executives of the Group, as well as proposed principles for variable compensation.

The Compensation Committee held one meeting in 2015. No fees have been paid to committee members for their work on the Committee.

Composition of the Board of Directors

Name	Year elected	Independent	Total fee, SEK	Compensation Committee	Attendance	
					Board meetings	Committee meetings
Fredrik Persson (Chairman)	2008	No	560,000	Yes	8/8	1/1
Lars Olofsson (Vice Chairman)	2013	No	410,000	Yes	7/8	1/1
Antonia Ax:son Johnson	2000	No	325,000	–	5/8	–
Caroline Berg	2014	No	325,000	Yes	8/8	1/1
Peggy Bruzelius	2000	Yes	325,000	–	8/8	–
Ann Carlsson ¹⁾	2015	Yes	325,000	–	7/8	–
Odd Reitan	2009	No	325,000	–	6/8	–
Ulla-May Iwar-Ryden (Employee representative)	–	–	–	–	8/8	–
Michael Sjören (Employee representative)	–	–	–	–	6/8	–
Inger Sjöstrand (Employee representative)	–	–	–	–	6/8	–
Total			2,595,000			

¹⁾ Ann Carlsson has been a board member since the 2015 AGM.



Board meetings
in 2015

Evaluation of the Board's work

Fredrik Persson, Chairman of the Board, is responsible for the evaluation of the Board's work and for presenting this evaluation to the Nominating Committee. The aim of the evaluation is to gain insight into the directors' views on how the board work is conducted and on which measures can be taken to improve the effectiveness of the Board's work. This evaluation therefore serves as important documentation for the Nominating Committee's work ahead of the AGM.

In 2015 the Chairman conducted an electronic questionnaire survey for all of the board members and also received verbal comments. The survey focused on the directors' views of the effectiveness of the Board's work and on the Board's engagement, expertise and ability to act. The results of this evaluation were thereafter reported to both the Board and the Nominating Committee in December 2015.

The focus of the evaluation in 2015 differed from evaluations conducted in previous years, as several questions could not be compared with previous evaluations. The result of the evaluation was that the board work maintains a high standard. Examples of areas that were judged to work very well during the year included the interaction with both the Chairman and the CEO, and assurance that the financial targets are followed up in a proficient manner. An example of an area that received high marks but has room for improvement was the matter of giving key employees sufficient time to make presentations at board meetings.

Auditors

At the 2014 AGM, KPMG AB was elected as auditor for a term extending until the 2016 AGM. George Pettersson, Authorized Public Accountant, is chief auditor.

Executive Committee

Axfood's Executive Committee in 2015 was made up of Axfood's President and CEO along with the presidents of four operating companies, five heads of staff and one Executive Vice President. A presentation of the members of the Executive Committee is provided on pages 74–75.

Guidelines for compensation of members of the Executive Committee

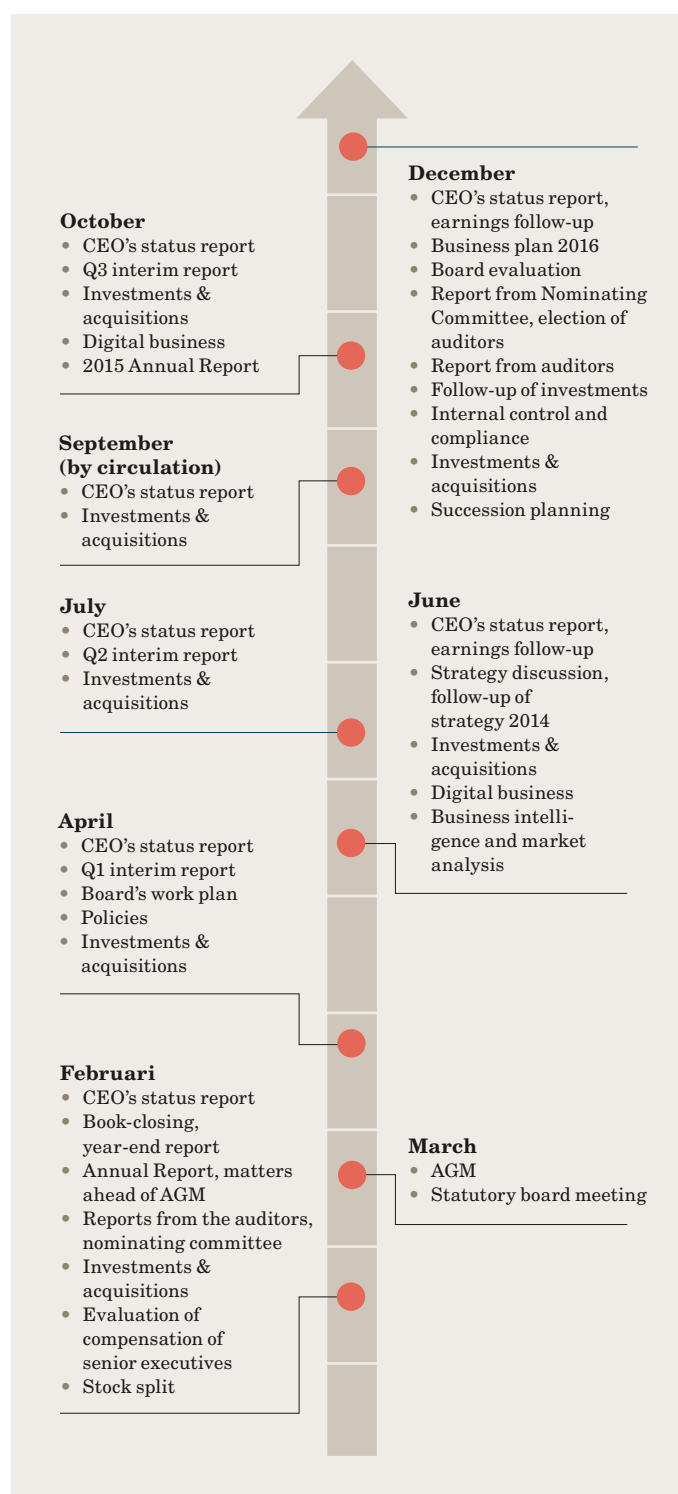
The guidelines for compensation and other terms of employment for the CEO and other senior executives (the Executive Committee) were adopted by the AGM on 18 March 2015. The guidelines are the same as those that have applied since 2010.

The main principles for compensation and other terms of employment for the members of the Executive Committee entail that Axfood shall offer its senior executives compensation that is inline with the going rate in the market. Recommendations for compensation are to be proposed by a special compensation committee within the Board. For the CEO, the Board in its entirety is to set the level of compensation and other terms of employment. The criteria for setting compensation levels shall be based on the importance of the work duties and on the executive's expertise, experience and performance.

Auditors' fees 2013–2015 (KPMG AB)

SEK m	Group			Parent Company		
	2015	2014	2013	2015	2014	2013
Auditing fees	4	4	4	1	1	1
Consulting fees	3	1	1	2	0	0
Total	7	5	5	3	1	1

The Board's work in 2015



Auditor

George Pettersson, Authorized Public Accountant, is the client contact for Axfood at KPMG and auditor in charge. In addition to his assignment for Axfood, he is the chief auditor for Addtech, Handelsbanken, Kungsliden, Lagercrantz Group, Nobia, Sandvik and Skanska.



Total executive compensation consists of the following five components:

- Fixed base salary
- Short-term variable compensation
- Long-term variable compensation
- Retirement benefits
- Other benefits and severance terms

Fixed base salary

The members of the Executive Committee shall be paid a base salary in the form of a fixed, cash monthly salary that is attractive compared with the going rate in the market. This fixed base salary constitutes compensation for a committed work contribution at a high professional level that creates value-added for Axfood's customers, owners and employees.

Variable compensation

In addition to their base salary, the members of the Executive Committee shall be offered short-term and long-term variable compensation. Variable compensation is based on the achievement of Axfood's targets for:

- earnings,
- sales growth, and
- personal objectives for the financial year.

Short-term variable compensation shall be paid in the form of annual, variable compensation. The goals for the outcome levels are set by the Compensation Committee at the start of the year (for the CEO, by the Board in its entirety). Long-term variable compensation shall support long-term objectives of the Executive Committee's decision-making. The combined variable compensation (the sum of short- and long-term compensation) has a cap as follows:

- 70% of base salary paid out during the year for the CEO
- 40%–55% of base salary paid out during the year for the other members of the Executive Committee.

The sum of variable compensation for the CEO and the other members of the Executive Committee can amount to a maximum of approximately SEK 17 m. If the Executive Committee is expanded, the level of variable compensation may exceed this amount. No variable salary is paid out in the event an executive gives notice prior to payment of the compensation.

Share-based incentive programmes

There are no outstanding share-based incentive programmes for members of the Executive Committee.

Retirement benefits

Axfood applies a retirement age of 65 for all members of the Executive Committee. The Board's compensation committee submits recommendations to the Board for determination of the CEO's retirement benefits and sets the retirement benefits for the other

members of the Executive Committee. For the CEO and one other member of the Executive Committee, each year a provision is made and funding is secured through insurance premiums, respectively, in an amount equivalent to 35% of their annual base salary. For the other members of the Executive Committee, the basic retirement benefit consists of the so-called ITP plan. However, for one member of the Executive Committee, this component is satisfied with a solution corresponding to ITP 1. As a supplement to this is a defined contribution pension corresponding to 25% of salary amounts between 30 and 50 times the Base Amount, which is funded through insurance. Older retirement agreements are adapted as far as possible to the plan outlined above.

Other benefits and severance pay

A maximum notice period of 12 months applies for members of the Executive Committee. In addition, severance pay corresponding to a maximum of 12 months' salary may be payable. For the CEO and all other members of the Executive Committee, deduction shall be made for other earned income during the time termination salary or severance pay is received. The notice period for members of the Executive Committee, by their own initiative, is six months.

The members of Axfood's Executive Committee receive – in addition to liability insurance – customary benefits for persons in corresponding positions, such as a company car benefit and health insurance, and in certain cases also a travel benefit and housing benefit.

Information on previously decided compensation

Previous AGM adopted guidelines for compensation and other terms of employment for members of the Executive Committee for the time up until the 2016 AGM. In short these guidelines entail that, in addition to base salary, variable salary would be payable that was tied to Axfood's targets for earnings and sales growth as well as the achievement of personal objectives. In accordance with adopted principles, a certain portion of this variable compensation has been withheld until the 2016 AGM. However, the amounts have been expensed in the respective financial years. Previously decided variable compensation that fell due for payment after the 2015 AGM has been paid out. Variable compensation that has not fallen due for payment amounted to SEK 4.7 m (5.3) as per 31 December 2015. The guidelines adopted by the 2015 AGM have been adhered to, and all previously decided compensation that has not yet been paid out is within the framework described above.

The Board's proposal for new guidelines for compensation of members of the Executive Committee

Ahead of the 2016 AGM, no changes are proposed in the principles for compensation and other terms of employment for members of the Executive Committee.

Salary and compensation for the CEO and other senior executives

KSEK	Year	Base salary	Variable compensation	Other benefits	Other compensation	Pension cost	Total
CEO	2015	6,177	2,515	353	–	2,636	11,681
	2014	5,885	3,793	347	–	2,578	12,603
Executive Committee, others	2015	22,755	11,250	1,079	54	8,306	43,444
	2014	22,620	7,509	1,420	67	8,356	39,972
Total	2015	28,932	13,765	1,432	54	10,942	55,125
	2014	28,505	11,302	1,767	67	10,934	52,575

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 so as to ensure satisfactory control of the bookkeeping, treasury management and of the Company's financial conditions in general. The Swedish Corporate Governance Code ("the Code") emphasizes this and prescribes that the Board is responsible for internal control. This report is prepared in accordance with the Annual Accounts Act and the Code. The report has been reviewed by the Company's auditor.

Axfood has elected to describe how its internal control is organized in the manner recommended by the Confederation of Swedish Enterprise and FAR in their guide to the Swedish Corporate Governance Code. This description is limited to internal control over financial reporting in accordance with the Swedish Corporate Governance Code, point 7.4. Neither the documented organization of internal control nor the content in the respective areas is to be viewed as being static; rather, these are continuously adapted to Axfood's operations and external environment.

Axfood's Chief Financial Officer has ultimate responsibility for ensuring that monitoring and work with Axfood's internal control are conducted in accordance with the method decided on by the Board. A steering committee under the direction of the CFO leads the Group's work with internal control over financial reporting. This steering committee reports its conclusions to the Board on a regular basis. Major emphasis is put on adapting the work with internal control to changes in Axfood's business.

Axfood's internal control structure is based on the COSO model, whose framework has been applied to Axfood's business and conditions. According to the COSO model, a review and assessment are performed in the areas of the control environment, risk assessment, control activities, information and communication, and monitoring activities. Based on this review, certain development areas are identified and assigned priority in the ongoing internal control activities.

Control environment

The control environment is the foundation of internal control over financial reporting. An important part of the control environment entails ensuring that decision-making channels, authorizations and responsibilities 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 rules of procedure for its work and the work of its committees. An important part of the Board's work involves drawing up and approving various fundamental policies, guidelines and frameworks. These include the Board's work plan, the CEO's instruction, the investment policy, the finance and credit policy, and the communication policy.

In addition to these, Axfood applies other policies and guidelines, such as the Group's decision-making process, the information security policy, the Code of Conduct, ethical guidelines, the employee manual, the sustainability programme and the internal dishonesty policy. The aim of these policies is to create a foundation for good internal control and to achieve and maintain a high standard of ethics in the Group.

In addition, the Board has ensured that the organizational structure lays out clear roles, responsibility and processes that promote the effective management of risks in the business and enable goal achievement. As part of the responsibility structure, the Board evaluates business performance and results using a specially designed report package covering outcomes, forecasts, business plans, strategic plans, monitoring of financial risks and analyses of important key performance indicators.

As part of the work on strengthening internal control, Axfood has chosen to compile governing documents in an electronic financial manual (Axekon), which is accessible for all employees within the Group. The financial manual provides an overview of



existing policies, rules and routines that affect the content and quality of financial reporting. Axekon also includes links to other areas, such as security/insurance, HR/personnel and IT.

Work during the year

In 2015, an annual revision was performed of Axekon documents. All document owners have verified that published or linked documents are current. A comparison was also performed of Axfood's existing policies and guidelines against set requirements. In addition, an evaluation was conducted of compliance with rules and regulations, routines and policies.

Risk assessment

Axfood continuously updates its risk analysis pertaining to the assessment of risks that could lead to errors in financial reporting. As a result of its annual review, the Board makes decisions on which risks are essential to take into account in order to ensure satisfactory internal control over financial reporting.

In the course of its risk reviews, Axfood identifies numerous items in the financial statements, as well as administrative flows and processes, where there is an elevated risk for errors. Risks are addressed, assessed and reported by Axfood centrally in cooperation with the Group companies. In addition, risks are addressed in special forums, such as in questions raised by Axfood's establishment and financing committee in connection with store establishment and acquisitions.

Work during the year

Risk reviews conducted in 2015 identified the following areas, among others: updates of the functionality of the SAP business system that affect financial reporting, a new HR system, and reorganization within the accounting functions. The Company has worked continuously to address these risks in an effort to strengthen internal control. In addition, the work with internal control continued with focus on the structure of authorizations, roles and limitations in the combination of roles, both with respect to operational roles and IT roles.

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 over financial reporting. At Axfood these control structures consist of an organization with clear roles that enable the effective and suitable delegation of responsibility from an internal control perspective as well as specific control activities that are designed to discover or prevent risks for errors in the reporting 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, accounting, consolidation/reporting, and master data.

Internal control process

December

- Report on internal control to the Board: background and follow-up of preceding year, focus of current year, recommended focus areas next year

October

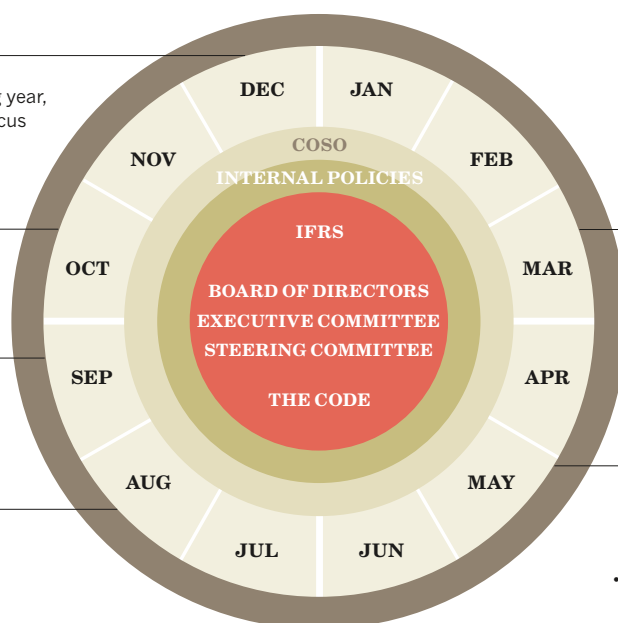
- Follow-up of reporting

September

- Reports from subsidiaries

August

- Auditors' review and audit, audit of administration



March

- Steering committee meets and discusses which areas in addition to the ordinary ones should be the focus of special review during the year

May

- Review of risks/risk management with process owners
- Review of risks/risk management with respective financial managers
- Internal control meetings with subsidiaries
- Possible revision of control environment, with new instructions

Examples of control activities in these processes are spot checks, reconciliations and reviews of undertakings.

Process reviews are conducted with heads of processes, Axfood's Shared Services Centre (SSC), and also of individual companies at the subsidiary level.

Work during the year

During 2015 focus continued to be on reviews of new and existing flows coupled to the financial reporting. New controls were identified and tested. For example, in inventory flows, coordination was conducted of invoice matching, which led to improved internal control.

Information and communication

Axfood's governance documents in the form of policies, guidelines and manuals, to the extent they pertain to financial reporting, are conveyed primarily via the Group's intranet and the Group's financial manual. The financial manual is posted on the Group's intranet and is updated on a continuous basis based on changes in external requirements and changes in Axfood's business that require clarification and instructions. Communication also takes place in connection with monthly book-closing meetings attended by all subsidiary financial managers. The Group CFO works on a continuing basis with the financial managers of all subsidiaries on matters related to risk analyses and control activities. Joint reviews are also conducted of the continuous updates that are made of the financial manual.

For communication with internal and external parties, Axfood adheres to a communication policy that stipulates guidelines for how 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. 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. Within the framework of internal control activities, Axfood works continuously on improving information security.

Monitoring activities

Axfood's finance functions are integrated through a joint finance and accounting system and joint accounting instructions. The Board and Executive Committee receive information on a regular basis about the Group's results of operations, financial position and business development. The internal control work provides support to the Board and management in assessing and reviewing critical risk areas in the financial reporting, so that they can thereafter decide which efforts and follow-up initiatives to employ in selected areas.

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 monitoring is decided on by the Board, which also conducts a yearly evaluation of the need of a separate internal audit function.

Stockholm, 4 February 2016
The Board of Directors of Axfood AB



Further information can be found at axfood.se

- Articles of Association
- Code of Conduct
- Information from previous AGMs, starting in 2001 (notices, minutes, resolutions, CEO's addresses)
- Information on the Nominating Committee
- Information on principles for compensation of senior executives
- The Board's evaluation of guidelines for variable compensation programmes
- Reports on variable compensation systems
- Corporate governance reports starting in 2005
- Information ahead of the 2016 AGM

Board of Directors

1. **Fredrik Persson**, *Chairman* since 2009, Director since 2008. *Chairman*: Svensk Handel AB *Vice Chairman*: ICC Sverige *Director*: Aktiebolaget Electrolux, Lancelot Holding AB and the Confederation of Swedish Enterprise *Education*: B. Sc. Econ., Stockholm School of Economics, studies at Wharton School, USA *Professional experience*: President and CEO of Axel Johnson AB; Head of Analysis at Aros Securities; various position with ABB Financial Services. *Committee membership*: Compensation Committee *Current shareholding in Axfood*: 4,800 shares *Independent in relation to the Company and the Executive Committee. Non-independent in relation to major shareholders of the Company*
2. **Lars Olofsson**, Director since 2013, Vice Chairman since 2014 *Chairman*: TCC Global N.V. *Director*: Axel Johnson AB, Bata Shoes and Compass Ltd *Education*: B. Sc. Econ., Lund University, studies at IMD in Switzerland *Professional experience*: President and Chairman of the Board of Carrefour S.A., Vice President of Nestlé S.A. *Committee membership*: Compensation Committee *Current shareholding in Axfood*: 8,000 shares *Independent in relation to the Company and the Executive Committee. Non-independent in relation to major shareholders of the Company*
3. **Antonia Ax:son Johnson**, Director since 2000 *Chairman*: Axel Johnson Holding AB and the Axel and Margaret Ax:son Johnson Foundation *Vice Chairman*: Nordstjernan AB *Director*: Axel Johnson AB, Axel Johnson Inc., AxFast AB, Axfoundation, the Axel and Margaret Ax:son Johnson Foundation for Public Service, and others *Education*: B.A., Stockholm University, Honorary Doctor of Engineering *Professional experience*: Active in the family-owned company Axel Johnson Gruppen since the 1970s *Current shareholding in Axfood*: 105,080,264 shares *Independent in relation to the Company and the Executive Committee. Non-independent in relation to major shareholders of the Company*
4. **Caroline Berg**, Director since 2014 *Chairman*: Axel Johnson AB, the Erik and Göran Ennerfelt Foundation for International Studies for Young Swedes *Director*: Mekonomen Aktiebolag, Axstores AB, AxFast AB and the Stockholm School of Economics Advisory Board *Education*: 1987–1991 Middlebury College, Vermont, USA, BA Media/Communications and Psychology *Professional experience*: Active in the family-owned Axel Johnson Group since 2005, most recently as Vice President, Human Resources and Communication at Axel Johnson Aktiebolag and member of the management team, 2006–2014 *Committee membership*: Compensation Committee *Current shareholding in Axfood*: 15,840 shares *Independent in relation to the Company and the Executive Committee. Non-independent in relation to major shareholders of the Company*
5. **Peggy Bruzelius**, Director since 2000 *Chairman*: Lancelot Holding AB *Director*: Akzo Nobel N.V., Diageo plc, Livförsäkringsaktiebolaget Skandia (publ), Lundin Petroleum AB and the Royal Swedish Academy of Engineering Sciences (IVA) *Education*: MBA, Stockholm School of Economics, Honorary Doctor of Economics *Professional experience*: President and CEO of ABB Financial Services *Current shareholding in Axfood*: 6,000 shares *Independent in relation to the Company and the Executive Committee, and to major shareholders of the Company*
6. **Odd Reitan**, Director since 2009 CEO of Reitangruppen AS *Chairman*: Reitangruppen AS, Reitan Handel AS, Rema 1000 AS, Reitan Eiendom AS, Reitan Convenience AS and Uno X-gruppen AS *Director*: Mid-Norway Chamber of Commerce and Industry *Education*: Varehandelsens høyskole *Professional experience*: Started own store in 1972 and senior executive of own companies *Current shareholding in Axfood*: 32,743,268 shares *Independent in relation to the Company and the Executive Committee. Non-independent in relation to major shareholders of the Company*
7. **Ann Carlsson**, Director since 2015 CEO of Apoteket AB *Director*: Svensk Handels and SNS Centre for Business and Policy Studies *Education*: Human Resources, Stockholm University *Professional experience*: Various executive positions with ICA, including director of various business areas and business manager for ICA Kvantum and ICA Nära *Current shareholding in Axfood*: 2,000 shares *Independent in relation to the Company and the Executive Committee, and to major shareholders of the Company*
8. **Ulla-May Iwahr Rydén**, Employee representative, Director since 2006 *Other assignments*: Union representative on the board of directors of Axfood Närlivs AB and Dagab Inköp & Logistik AB *Education/professional experience*: PTK's course on company board work *Current shareholding in Axfood*: 0 *Non-independent in relation to the Company and the Executive Committee*
9. **Michael Sjören**, Employee representative, Director since 2010 *Other assignments*: Union representative on the board of directors of Axfood Närlivs AB and Dagab Inköp & Logistik AB *Education/professional experience*: Axfood Group employee since 1995 *Current shareholding in Axfood*: 0 *Non-independent in relation to the Company and the Executive Committee*
10. **Inger Sjöstrand**, Employee representative, Director since 2012 *Other assignments*: Chairman of ABF Södra Östra Dalarna, Union representative on Hemköpskedjan AB's board of directors *Professional experience*: Hemköp employee since 1977 *Current shareholding in Axfood*: 0 *Non-independent in relation to the Company and the Executive Committee*



Executive Committee

1. **Anders Strålmán**, President and CEO, Axfood AB *Axfood employee since:* 1993¹⁾ *Other assignments:* Chairman of Bergendahls El Holding AB, Svensk Dagligvaruhandel, Svensk Handel AB, Returpack Svenska AB and Rabbalshede Kraft AB *Education:* M.Sc. Econ., University of Gothenburg *Professional experience:* President of Willys AB, CFO and CEO of Billhalls AB; member of Axfood's Executive Committee since 2000 *Current shareholding in Axfood:* 66,000 shares
2. **Karin Hygrest-Jonsson**, Chief Financial Officer *Axfood employee since:* 1991¹⁾ *Other assignments:* Director of Bygghem Group AB (publ) *Education:* M.Sc. Econ., Stockholm School of Economics *Professional experience:* Head of Financial Control and Finance, Axfood AB; Head of Finance, Axel Johnson AB and Dagab AB; Manager Cash & Currency, SAS; banker, PKbanken. Member of Axfood's Executive Committee since 2007 *Current shareholding in Axfood:* 2,000 shares
3. **Anders Quist**, Head of Business Development *Axfood employee since:* 1995¹⁾ *Other assignments:* Director of GS1 Sweden AB and Validoo AB *Education:* Secondary School diploma, grocer training, diverse courses in retailing *Professional experience:* Vice President, Bilhalls; Vice President, Willys; Store Manager, Operations Manager, Grocer, Sales Manager, Dagab väst. Member of Axfood's Executive Committee since 2007 *Current shareholding in Axfood:* 6,000 shares
4. **Thomas Evertsson**, President, Willys AB *Axfood employee since:* 2008 *Education:* M.Sc. Econ., University of Gothenburg, School of Economics, Business and Law *Professional experience:* Hypermarket Manager, Head of Chain Operations, Coop Supermarkets; President, Coop Sverige AB; Vice President, Coop Norden AB. Member of Axfood's Executive Committee since 2008 *Current shareholding in Axfood:* 10,000 shares
5. **Hans Holmstedt**, Purchasing Director, Vice President Dagab Inköp & Logistik AB *Axfood employee since:* 2005 *Other assignments:* Director of Design Torget AB and LSL Svenskmärkning AB *Education:* Economics, EFL (Executive Foundation Lund); Personal Leadership, IHM Business School *Professional experience:* Business Area Manager Fruit & Vegetables, Axfood; Purchasing and Marketing Manager, Saba Fukt & Grönt; Purchaser Saba Fukt & Grönt and NAF International Valencia. Member of Axfood's Executive Committee since 2011 *Current shareholding in Axfood:* 400 shares
6. **Louise Ring**, Head of Human Resources *Axfood employee since:* 2003 *Other assignments:* Chairman of Diversity Charter, Member of the Program Committee for USBE's Master's Programs, member of the Equality Ombudsman's Committee *Education:* University studies in behavioural sciences, Umeå University; HR executive IFL at the Stockholm School of Economics *Professional experience:* CFO and HR manager, ICA Handlarnas AB; Store Manager, Head of Training, Organizational and Sales Matters, H&M. Member of Axfood's Executive Committee since 2005 *Current shareholding in Axfood:* 400 shares
7. **Nicholas Pettersson**, President, Dagab Inköp & Logistik AB *Axfood employee since:* 2004¹⁾ *Other assignments:* Chairman of Urban Deli Holding AB *Education:* M.Sc. Econ., Växjö University *Professional experience:* President, Axfood Närlivs; Business Area Head, Axfood Snabbgross; Supply Chain Manager, AB Svenska Shell; Business Analyst, Shell Detaljist AB. Member of Axfood's Executive Committee since 2009 *Current shareholding in Axfood:* 400 shares
8. **Jan Lindmark**, Head of IT *Axfood employee since:* 2001 *Education:* M.Sc. Econ., Stockholm University *Professional experience:* IT Director, Fritidsresor; IT Manager, Posten Brev; Consultant, Enator. Member of Axfood's Executive Committee since 2007 *Current shareholding in Axfood:* 3,400 shares
9. **Annika Elmebagen Lundqvist**, Head of Corporate Communications *Axfood employee since:* 2015 *Other assignments:* Director, Föreningen Carlssons skola *Education:* B.A., Uppsala University *Professional experience:* Strategic Communications Advisor, Tetra Pak Asia; Corporate Communications Director, Eniro AB; Vice President Communications, Telenor; Partner, Kreab; Senior Account Executive, PR, Microsoft North America; Consultant, JKL. Member of the Executive Committee since 2015 *Current shareholding in Axfood:* 0
10. **Eva Pettersson**, President, Axfood Närlivs AB *Axfood employee since:* 2004 *Other assignments:* Director, Svensk Servicehandel och Fastfood *Education:* M.Sc. Econ., Linköping University; studies at the University of East Anglia; management training at Novare *Professional experience:* Head of Business Development, Dagab; Systems Manager, Axfood IT; food retailing consultant, Accenture AB. Member of Axfood's Executive Committee since 2014 *Current shareholding in Axfood:* 0
11. **Thomas Gäreskog**, President, Hemköp AB *Axfood employee since:* 2010 *Education:* Secondary School diploma, business management training, leadership training *Professional experience:* Store manager, ICA; several positions of trust for ICA; Regional Manager, Hemköp; Sales Manager, Hemköp. Member of Axfood's Executive Committee since 2012 *Current shareholding in Axfood:* 0

All shareholdings reported as per 31 December 2015.

¹⁾ Pertains to employment with companies that are now part of the Axfood Group.



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Notes to the financial statements

1 Significant accounting policies

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the EU Commission for application within the EU. In addition, Swedish Financial Reporting Board recommendation RFR 1, Supplementary Reporting Rules for Groups, is applied.

The Parent Company applies the same accounting policies as the Group, except in the cases indicated below under the section "Parent Company accounting policies".

The Annual Report and consolidated financial statements were approved for publication by the Board of Directors on 4 February 2016. The Group's statement of profit or loss and other comprehensive income, and the Parent Company's income statement and balance sheet, are subject to adoption by the Annual General Meeting on 16 March 2016.

Conditions for preparation of the Parent Company's and Group's financial statements

Basis of measurement applied in preparation of the financial statements

Assets and liabilities are stated at historical cost, except for certain financial assets and liabilities, which are stated at fair value. Financial assets and liabilities stated at fair value consist of derivative instruments and available-for-sale financial assets.

Functional currency and presentation currency

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

Estimations and assumptions in the financial statements

In order to prepare the financial statements in accordance with IFRS, the Board and the Executive Committee 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 the Executive Committee in the application of IFRS that have a material impact on the financial statements, and estimations made that may entail material adjustments in subsequent years' financial statements, are described in more detail in Note 33.

Significant accounting policies applied

The accounting policies presented below are applied consistently in the Company's published financial statements, unless stated otherwise.

Changed accounting policies 2015

Following is a description of changed accounting policies that the Group applies as from 1 January 2015. Other IFRS changes that apply as from 2015 have not had any material impact on the Group's accounting. The Group applies since previously IFRIC 21 – Levies, which addresses the point in time at which an obligating event arises that requires recognition of a liability for a levy imposed by a government. IFRIC 21 has a very little effect on the Axfood Group's financial statements.

In addition to these changes are a number of other changes carried out in IFRS within the framework of the IASB's annual improvement project. None of these changes have had any effect on the consolidated financial statements.

Changed accounting policies 2016 and later

A number of new or amended IFRSs and interpretations take effect in 2016 and later, and have not been prospectively applied in the preparation of these financial statements. New IFRSs and interpretations or

amendments that are applicable starting in financial years after 2016 are not planned to be applied prospectively. To the extent that anticipated effects on the financial statements of the application of the following new or amended IFRSs and interpretations are not described below, Axfood has determined that they will not have any material effect on the consolidated accounting.

IFRS 15 Revenue from contracts with customers, the new revenue standard that takes effect in 2018, will affect Axfood's financial reporting through more detailed disclosure requirements. An analysis of how the financial statements will be affected will be performed in 2016 and forward. IFRS 9, which replaces IAS 39 Financial Instruments, will affect Axfood with respect to classification, but is not expected to have any effect in terms of value. The standard takes effect in 2018. IFRS 16 Leases, the new leasing standard that takes effect in 2019, will affect Axfood. An analysis of how the financial statements will be affected will be performed in 2016 and forward. Other new and amended IFRSs with future application are not expected to have any material effect on Axfood's financial statements.

Classification of current and non-current items

In the Axfood Group's accounting, assets and liabilities are classified as 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 end of the reporting period. Current receivables and liabilities fall due for payment within one year from the end of the reporting period.

Operating segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses and for which discrete financial information is available. Operating segments are reported in a manner that is in agreement with the internal reporting that is presented to the chief operating decision-maker at Axfood. The chief operating decision-maker has been identified as the Group's Executive Committee, which evaluates the results and allocates resources to the operating segments. For more information on operating segments, see Note 2, Operating segments.

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 control. Control exists if the Parent Company can affect the investee, is exposed to or has rights to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. When determining if control exists, potential voting stock is taken into account as well whether de facto control exists.

Axfood AB is a subsidiary of AxRetail AB, reg. no. 556039-2226, with domicile in Stockholm. AxRetail AB, in turn, is a wholly owned subsidiary of Axel Johnson Holding AB, reg. no. 556245-2549, with domicile in Stockholm, which prepares consolidated financial statements for the largest group.

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.

An acquisition of a subsidiary is regarded as a transaction in which the Group indirectly acquires the subsidiary's assets and takes over its liabilities. Through purchase price allocation (PPA) of the business acquisition, the fair value is determined of acquired identifiable assets and liabilities taken over on the acquisition date, as well as of any non-controlling interests. Transaction costs that arise are recognized directly in profit or loss for the year.

In business combinations in which the consideration paid, any non-controlling interests and the fair value of previously owned interests (for business combinations achieved in stages) exceed the fair value of separately reported acquired assets and liabilities taken over, the difference is reported as goodwill. When the difference is negative – a so-called bargain purchase – this is recognized directly in profit or loss for the year.

Consideration transferred in connection with the acquisition does not include payments that pertain to settlement of previous business relations. This type of settlement is recognized in profit or loss.

Contingent consideration/earn-out payments are measured at fair value at the date of the acquisition. In cases where the contingent consideration is classified as an equity instrument, no remeasurement is done, and settlement is done in equity. Other contingent consideration is remeasured at every reporting date, and the change is recognized in profit or loss for the year.

Acquisitions from non-controlling interests are reported as a transaction within equity, i.e., between the Parent Company's owners (within retained profits) and non-controlling interests. As a result, no goodwill arises in such transactions. The change in non-controlling interests is based on its proportional share of net assets.

In cases where the subsidiary's accounting policies are not compatible with the Group's, adjustments are made to the Group's accounting policies.

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

Subsidiaries' financial statements are included in the consolidated financial statements starting on the date of acquisition until the date that control ceases.

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

Associated companies

Companies in which Group companies have a significant influence but not control 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 arrangements 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/amortization, impairment charges and dissolution of any surplus and deficit values reported in connection with the acquisition is reported in consolidated profit. The equity method is applied starting at the point in time at which control arose and until the point in time that control ceases.

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 interest in the associated company.

Any difference at the time of acquisition between the cost of the holding and the acquirer's share of net fair value of the associated company's identifiable assets and liabilities is reported in accordance with the same principles that apply for acquisitions of subsidiaries. Contingent consideration/earn-out payments are measured at fair value at the date of acquisition. In cases where contingent consideration is classified as an equity instrument, no remeasurement is done, and settlement is done in equity. Other contingent consideration is remeasured at every reporting date, and the change is recognized in profit or loss for the year.

Joint ventures

For accounting purposes, joint ventures are companies in which the Group, through cooperation agreements with one or more parties, has

joint control whereby the Group has a right to the net assets instead of a direct right to assets and acceptance of liabilities. In the consolidated accounting, holdings in joint ventures are consolidated in accordance with the equity method. Only equity earned after the acquisition is recognized in the Group's equity. The equity method is applied from the point in time at which joint control was obtained and through the point in time at which joint control ceased. Unrealized gains that arise in connection with transactions with associated companies and joint ventures are eliminated to the extent that they correspond to the Group's share of equity in the company. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no need to recognize impairment.

Principles for internal pricing

For internal sales of goods between companies in the Axfood Group, prices are set on an arm's length basis. This means that internal customers are not treated differently 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 Committee.

Income

Sales are reported net after VAT and discounts. Income from sales of products is recognized in profit or loss when the material risks and rewards have been transferred to the buyer. Bonuses earned by customers on sales to customers with loyalty cards are expensed in pace with their earning and at the same time reduce net sales. Consolidated net sales pertain primarily to store sales. Approximately 0.2% of net sales consist of franchise fees from collaborating chain stores. Intra-Group sales are eliminated in the consolidated financial statements, as are intra-Group profits on goods that remain in inventory as per the end of the reporting period.

Franchise fees

Axfood has agreements with a number of independent grocers for cooperation under the Hemköp, Tempo and Handlar'n formats. 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 income (store fees) is recognized in profit or loss as it is 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.

Commission income

Axfood acts as an agent for a number of companies and receives commission income for services performed, such as betting/lottery transactions and administration of products, such as bus and train tickets. Commission income received is reported among other operating income.

Government support

Government support is reported when Axfood meets the conditions associated with grants and when it can be ascertained with certainty that the grants will be received. Paid-in grants are allocated systematically over time to profit in the same way and over the same periods as the costs that the grants are intended to compensate. Government support is recognized in profit or loss as a decrease in corresponding costs. Axfood receives government grants mainly in the form of labour market policy measures.

Insurance indemnification

Upon the theft or damage to any of the Group's assets, insurance indemnification may be received, normally less a set deductible. In cases of loss or damage to property, plant or equipment, claims for compensation from another party caused by such and the subsequent pur-

chase or restoration of a replacement asset are reported separately. The same applies for other costs that are not capitalized in the statement of financial position. Insurance indemnification is reported as other operating income, while deductibles are recognized in profit or loss as other administrative expense. Insurance indemnification that has been granted but not paid out as per the end of the reporting period is reported as a pending receivable.

Expenses

Operating expenses

By operating expenses is meant primarily cost of goods, payroll costs and rental costs.

Operating leases

Costs for operating leases are recognized in profit for the year on a linear basis over the period of the lease. Benefits received in connection with the signing of a contract are recognized in profit for the year as a reduction of leasing fees on a linear basis over the term of the lease. Variable fees are expensed in the periods in which they are incurred.

Finance leases

Minimum lease payments are allocated among interest expense and amortization of the outstanding liability. The interest expense is apportioned over the lease period so that every accounting period is charged with an amount that corresponds to a fixed interest rate for the liability during the respective periods.

Financial income and expenses

Financial income consists of interest income from financial investments, dividend income and gains on sales of available-for-sale financial assets. Interest income from financial instruments is reported using the effective interest method. Dividend income is reported when the right to receive the dividend has been determined. Gains from sales of financial instruments are reported when the risks and rewards associated with ownership of the instrument in question are transferred to the buyer and the Group no longer has control over the instrument.

Financial expenses consist of interest expenses on loans, pension liabilities, trade accounts payable and other financial expenses. Borrowing costs are recognized in profit or loss using the effective interest method, except to the extent that they are directly attributable to the purchase, construction or production of a qualified asset, when they are included in the asset's cost. Other financial expenses include bank fees.

Foreign exchange gains and losses are reported net.

Effective interest is the interest that discounts the estimated future cash flows during a financial instrument's expected term to the financial asset's or liability's net carrying amount.

Receivables and liabilities in foreign currency

Business-related receivables and liabilities in foreign currency are recalculated using the exchange rate in effect at the end of the reporting period, and exchange rate differences are recognized in operating profit. For reporting of forward exchange contracts used to hedge payments in foreign currency, see the heading Financial instruments.

Taxes

The Group's total taxes consist of current tax and deferred tax. Taxes are recognized in profit or loss for the year except for when the underlying transaction is recognized in other comprehensive income or reported against shareholders' equity, whereby the associated tax effect is recognized in other comprehensive income or shareholders' equity. Current tax is tax that is to be paid or received in the current year, based on the tax rates that have been decided on or essentially decided on as per the balance sheet date. 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. Valuation of deferred tax is based on how the temporary differences are expected to be recognized or settled and using the tax rates and tax rules that have been decided on or essentially decided on 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.

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.

Intangible assets

Goodwill

In connection with business combinations, goodwill is reported in the statement of financial position in cases where the consideration paid, any non-controlling interests and the fair value of previously owned interests (for business combinations achieved in stages) exceed the fair value of acquired identifiable 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. Goodwill is broken down into cash-generating units and is not amortized, but is instead tested annually for impairment, see the heading Impairment.

Other intangible assets

Other intangible assets pertain to development costs, trademarks, leaseholds and customer relationships.

Direct external and internal costs for software development for internal use are reported as an asset in the statement of financial position, 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, customer relationships and leaseholds reported in the statement of financial position are carried at cost less accumulated depreciation and any impairment.

Trademarks are carried at cost less any impairment charges and are tested at least once a year for impairment, see the heading Impairment.

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	10–20
Leaseholds ¹⁾	Remaining lease period
Customer relationships ²⁾	Length of customer relationship/agreement
Other intangible assets	20–33

¹⁾ Leaseholds currently have an amortization period of 6 years.

²⁾ Customer relationships have an amortization period of 1 year up to a maximum of 5 years.

- Goodwill and trademarks are not amortized, but are tested for impairment annually, or more frequently if factors indicate that the asset in question has decreased in value.
- Useful life is reassessed every year.

Property, plant and equipment

Property, plant and equipment are reported as an asset in the statement of financial position if it is likely that the Company will experience future economic benefit and the cost of the asset can be calculated in a reliable manner.

Property, plant and equipment are reported at cost after deducting accumulated amortization and any impairment. 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 property, plant and equipment consist of the difference between the sales price and the carrying amount 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. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. An operating lease is a lease other than a finance lease. Finance leases are reported as a non-current asset in the Group's statement of financial position and are initially stated at the lower of the leased asset's fair value or the present value of the min-

imum lease payments upon inception of the contract. The corresponding obligation to pay future leasing fees is reported as a current or non-current liability. The leased assets are depreciated over the respective asset's useful life, while the lease payments are reported as interest and amortization of the liability. In the case of operational leasing, the lease payments are expensed over the term of the lease based on use.

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment 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:

Equipment, tools, fixtures and fittings	10–33
Store equipment	15
Buildings	2.5–5
Land improvements	5

Useful life for improvement expenses for another party's property is based on the remaining lease period for the underlying lease and varies from 1–10 years.

Axfood applies component depreciation for some store equipment. 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 recognized in profit or loss and is replaced by the new sub-component's cost.

The depreciation methods used and the useful life of assets are reassessed at the end of each year.

Financial instruments

Financial instruments reported in the statement of financial position include – on the assets side – interest-bearing receivables, other receivables, trade accounts receivable, and cash and cash equivalents. Trade accounts payable and loan liabilities are reported on the liabilities side. Currency derivatives are reported either as an asset or liability, depending on whether the fair value is positive or negative.

Recognition of financial assets and liabilities

A financial asset or liability is reported in the statement of financial position when the Company becomes party to the instrument's contractual terms and conditions. A receivable is recognized when the Company has delivered a product or service and a contractual obligation exists for the counterparty to pay, even when an invoice has not yet been sent. Trade accounts receivable are recognized in the statement of financial position when an invoice has been sent. A liability is recognized when the counterparty has delivered a product or service and a contractual obligation to pay exists, even if an invoice has not yet been received. Trade accounts payable are recorded when an invoice has been received.

A financial asset is derecognized from the statement of financial position 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 statement of financial position 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 derivative instruments are reported on the transaction date.

Classification and valuation

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. A financial instrument is classified on the initial reporting occasion based on – among other things – the purpose for which the instrument was acquired. All financial assets and liabilities are classified in the following categories:

- Financial assets and liabilities carried at fair value through profit or loss. The option portion of convertible debentures is included in this category.
- Held-to-maturity investments. Axfood has no financial instruments classified in this category.
- Loan receivables and trade accounts receivable. Axfood's trade receivables, other receivables, and cash and cash equivalents are included in this category.

- Available-for-sale financial assets. This category consists of financial assets that are not classified in any other category, such as shares and participations in both listed and unlisted companies. Axfood's ownership of tenant-owner rights is included in this category.
- Financial liabilities carried at amortized cost. Axfood's trade accounts payable and borrowings are included in this category.

Loan receivables and trade receivables

Loan receivables and trade receivables are financial assets that are not derivatives, which have set payments or payments that can be set and are not quoted in an active market. Such assets are carried at amortized cost. On each reporting occasion, Axfood evaluates if there are objective indications that a loan receivable is in need of impairment. Loan receivables are assessed individually. Impairment of loan receivables is recognized among other operating expenses.

Trade receivables are reported in the amount at which they are expected to be received, less a deduction for doubtful debts, which are assessed individually. A provision for decreases in the value of trade accounts receivable is made when there is objective evidence that the Group will not receive all amounts that are due according to the original terms of the receivable. If, in connection with the quarterly review of undertakings, it is ascertained that a customer, due to insolvency, has not been able to pay a debt or is judged on good grounds to not be able to meet its liabilities within three months, a provision shall be made for the entire confirmed or possible loss. A provision for probable doubtful debts is made based on an individual assessment of each customer based on the customer's ability to pay, anticipated future risk and the value of collateral received. The anticipated duration of the trade account receivable is short, which is why the value is reported at nominal amount without discounting. When a trade receivable cannot be recovered, it is written off against a depreciation account for trade accounts receivable. Write-downs of trade accounts receivable are reported as a selling expense. Recoveries of amounts that have been previously written off reduce selling expenses in profit or loss.

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 carried 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.

Available-for-sale financial assets

The category "available-for-sale financial assets" includes financial assets that cannot be classified in any other category. Holdings of tenant-owner rights are reported here. Assets in this category are reported on a continuing basis at fair value with changes in value reported in other comprehensive income and the accumulated changes in value as a special component of shareholders' equity, however, not such changes in value that are due to impairment, interest on receivable instruments, dividend income and exchange rate differences on monetary items recognized in profit or loss. Upon the sale of the asset, the accumulated profit/loss that was previously recognized in other comprehensive income is recognized in profit or loss for the year. On each reporting occasion Axfood evaluates whether there is objective evidence that a financial asset is in need of impairment. Assets are assessed individually. Objective evidence consists of observable conditions that have occurred and which have a negative impact on the opportunity to recover the cost, as well as of material or prolonged decreases in the fair value of a financial investment that is classified as an available-for-sale financial asset. A need to recognize permanent impairment arises when the decrease in value exceeds 20% and when a decrease in value lasts at least nine months. Impairment of the asset is reported among other operating expenses.

Financial liabilities carried at amortized cost

Trade payables and loan liabilities are classified in the category "other financial liabilities". Trade payables have a short anticipated duration and are valued without discounting to their nominal amount. Loan 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 and are reported in accordance with the rules for cash flow hedging.

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 to 100% through forward exchange contracts. Axfood applies hedge accounting for contracted purchases. For all orders, 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. 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 at fair value in the statement of financial position. Since all forward exchange contracts are used for hedging purposes, changes in the fair value of forward exchange contracts are reported, via other comprehensive income, in the hedging reserve in shareholders' equity until the hedged flow is reported as inventory in the statement of financial position, under the condition that the hedge is effective. When delivering goods that have been hedged for currency risk through a cash flow hedge, a transfer is made of the accumulated change in value of hedge instruments from the hedge reserve to the delivered goods. The goods are thus valued at the hedged price. Both hedged inventory items and therewith attributable changes in value of hedge instruments are reported as cost of goods sold when the goods are sold or are used in some other way. The currency exposure that arises from delivery of a cash flow-hedged inventory to the date for settlement of the forward contracts is recognized continuously in profit or loss as other operating income or other operating expense. Changes in value of trade accounts payable are offset by changes in the value of forward contracts in profit or loss.

Inventories

Inventories are stated at the lower of cost or net sales value.

Cost consists of the purchase price less supplier discounts attributable to articles in stock. In addition to the purchase price, the cost also includes other costs for bringing the products to their current location and condition. Cost is calculated through application of the first-in first-out (FIFO) principle. Net sales value consists of the anticipated sales price in the continuing operations less selling costs.

Inventory includes only marketable products.

Impairment

The carrying amount of the Group's assets, excluding inventories and deferred tax assets, is tested at the end of each reporting period to determine any need to recognize impairment. The carrying amount is also tested when an indication of a decrease in value has been identified. IAS 36 Impairment of Assets is used to determine any need to recognize impairment. The need to recognize impairment of financial assets is tested using IAS 39 Financial Instruments: Recognition and Measurement (see the section Financial instruments). 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 asset is expected to generate are discounted using an interest rate that reflects the current market assessment of the time value of money and the cash-generating units' specific risks. This interest rate is believed to correspond 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 is recognized in profit or loss. 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 and deferred tax assets is tested in accordance with the respective standards.

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

Provisions

Provisions differ from other liabilities in that there is uncertainty surrounding the date of payment or the amount needed to settle the obligation. Provisions are reported in the statement of financial position 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 and that it is 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 statement of financial position under other current and non-current liabilities

Employee benefits

Short-term compensation

Short-term compensation paid to employees is calculated without discounting and is recognized as an expense when the related services were received. A provision for estimated bonus payments is recognized 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. Defined contribution pension plans are classified as plans in which Axfood's obligation is limited to the contributions that the Company has undertaken to pay. 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 at the end of the reporting period. The obligation is discounted to present value at the end of the reporting period, from which the fair value of any plan assets is deducted. Further, the calculations are affected by actuarial assumptions, such as longevity, 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. Revaluation effects are recognized in other comprehensive income. Calculations of defined benefit pension plans are performed by an independent external actuary.

The net interest expense/income on the defined benefit obligation/asset is recognized in profit for the year under net financial items. Net interest income is based on the interest that arises when discounting the net obligation, i.e., interest on the obligation, plan assets and interest on the effect of any asset limitations. Other components are recognized in operating profit.

The special employer's payroll tax constitutes part of the actuarial assumptions and is therefore reported as part of the net obligation/asset. The portion of the special employer's payroll tax that is calculated based on the Pension Obligations Vesting Act (Tryggandelagen) for legal entities is reported for purposes of simplification as an accrued expense instead of as part of the net obligation/asset.

The policyholder tax is reported on a continuous basis in profit or loss for the period that the tax pertains to and is thus not included in the calculation of the liability. For funded plans, the tax is charged on the return on plan assets and is reported in other comprehensive income. For unfunded or partially funded plans, the tax is charged against profit or loss for the year.

Alecta

Retirement pension and family pension obligations for employees in Sweden are funded partly through insurance with Alecta. According to pronouncement UFR 10 issued by the Swedish Financial Reporting Board (RFR), this is classified as a multi-employer defined benefit plan. For the 2015 financial year Axfood 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 funded through insurance with Alecta is therefore reported as a defined contribution plan. See also Note 27.

Termination pay

A provision is reported in connection with termination of employees only if the Company is demonstrably obligated to end an employee's

employment before the normal time or when compensation is paid as an offer to encourage voluntary departure. In cases where the Company gives notice to employees, a detailed plan is drawn up which includes, as a minimum, information on the workplace, positions and approximate number of employees as well as compensation for each employee category or position and the time of the plan's implementation. When compensation is paid as part of an offer to encourage voluntary departures, an expense and provision are booked if it is probable that the offer will be accepted and the number of employees who will accept the offer can be reliably estimated.

Contingent liabilities/financial guarantees

A contingent liability is reported when there is a possible obligation that stems from an event that has occurred and whose occurrence is confirmed only by one or more uncertain future events or when there is an obligation that is not reported as a liability or provision because it is not likely that an outflow of resources will be required.

The Group's financial guarantees consist mainly of guarantee commitments primarily to proprietor-run franchise stores. Financial guarantees are reported initially at fair value, i.e., normally the amount that the issuer has received as compensation for the issued guarantee. In the subsequent valuation, the liability is dissolved and recognized in profit or loss as earned, inasmuch as it is not likely that the issuer is forced to release its payment responsibility under the guarantee. In such case, this amount is reported as a provision. Axfood charges stores fees for guarantees that have been issued on a regular basis, which is why the guarantees have not been expensed until an outflow of resources is likely. The fees charged are in line with the going rate in the market.

Parent Company accounting policies

The Parent Company complies with the Swedish Annual Accounts Act and Swedish Financial Reporting Board recommendation RFR 2 – Reporting for Legal Entities. The Swedish Financial Reporting Board's pronouncements regarding listed companies are also applied. Application of RFR 2 entails that the Parent Company, in the annual report for the legal entity, shall comply with all EU-endorsed 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 recommendation indicates which exceptions from and amendments to IFRS are to be made. The differences between the Parent Company's and Group's accounting policies are described below.

Changed accounting policies 2015

Unless indicated otherwise, the Parent Company's accounting policies in 2015 have been changed in accordance with what applies for the Group.

Classification and presentation format

For the Parent Company, an income statement and a statement of comprehensive income are presented, whereas for the Group, these two financial statements together form the statement of profit or loss and other comprehensive income. In addition, for the Parent Company, the titles balance sheet and cash flow statement are used for the financial statements which in the Group are titled statement of financial position and statement of cash flows, respectively.

The Parent Company's income statement and balance sheet are presented in accordance with the format prescribed in the Annual Accounts Act, while the statement of comprehensive income, the statement of changes in equity and cash flow statement are based on IAS 1 Presentation of Financial Statements and IAS 7 Statement of Cash Flows. The differences in the Parent Company's income statement and balance sheet compared with the Group's financial statements consist mainly of the reporting of equity and the presentation of provisions as a separate heading on the balance sheet.

Subsidiaries and associated companies

Participations in subsidiaries and associated companies are reported in the Parent Company in accordance with the cost method. Contingent consideration is measured based on the probability that the payment will be made. Any changes in the provision/receivable is added to/reduces the reported cost. In the consolidated financial statements, contingent consideration is measured at fair value with changes in value recognized in profit or loss for the year.

Employee benefits/defined benefit pension plans

For calculations of defined benefit pension plans, the Parent Company adheres to the provisions of the Pension Obligations Vesting Act (Tryggandelagen) and the Financial Supervisory Authority's directions, since this is a prerequisite for 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 recognized in profit or loss as they are incurred.

Financial guarantees

The Parent Company applies the relief rule in RFR 2, 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, points 14 and 36, are applied, which entail that financial guarantee agreements are to be reported as a provision on 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 statements, however, untaxed reserves are broken down into deferred tax liability and shareholders' equity.

Group contributions and shareholder contributions

The Parent Company reports Group contributions received and rendered as appropriations, in accordance with the alternative rule. Shareholder contributions are reported directly in shareholders' equity of the receiving party and are capitalized in shares and participations of the rendering party, to the extent that there is no need to recognize impairment.

Mergers

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 companies at the values these had in the consolidated accounts. During the year, one merger took place within the Group; the merger was not with Axfood AB.

Changed accounting policies 2016 and later

Changes in the Annual Accounts Act will affect Axfood's accounting. Starting in 2016, capitalized, internally performed development costs are to be allocated to a development reserve, where the capitalized amount is transferred from unrestricted shareholders' equity to restricted shareholders' equity. For other changes, see the changed accounting policies for the Group above.

2 Operating segments

Axfood's operating segments have been determined based on the information considered by the Group's Executive Committee and which is used to evaluate the result of operations and allocate resources to the segments. The Group's operations are organized in the manner in which the Executive Committee follows up sales and operating profit per business area. Since the Executive Committee follows up the result of operations and decides on resource allocation based on these business areas, these make up the Group's operating segments.

External sales pertain almost exclusively to sales of products, and all sales take place in Sweden.

No significant impairment losses affected profit for the year in 2015 or 2014. No impairment losses were reversed in 2015 or 2014. No significant non-cash items other than depreciation/amortization were booked in 2015 and 2014.

Axfood's operating segments have been identified as follows:

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

Hemköp. Sales of food retail products with a broad assortment and high level of service.

Dagab. Axfood's supply chain organization, responsible for assortment development, purchasing and logistics. Approximately 75% of sales are to Group-owned stores.

Närlivs. Business-to-business sales with responsibility for market coverage of non-Group-owned stores in the grocery and convenience retail segment. Group-owned Snabbgross serves restaurants, food-service operators and cafés.

Joint-Group. Pertains to head office support functions, such as the Executive Committee, Finance/Accounting, Communications, Business Development, HR and IT.

No individual customer accounts for more than 10% of consolidated sales, and thus no major customer is considered to exist.

Per operating segment	Willys		Hemköp		Axfood Närlivs ²⁾		Dagab ²⁾		Joint-Group ²⁾		Eliminations		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Result of operations														
External net sales	22,320	20,974	5,883	5,510	2,730	2,519	10,269	9,442	45	39			41,247	38,484
Internal net sales					4	3	29,487	25,509	627	640	-30,118	-26,152	-	-
Net sales	22,320	20,974	5,883	5,510	2,734	2,522	39,756	34,951	672	679	-30,118	-26,152	41,247	38,484
Depreciation/amortization	-272	-262	-99	-100	-20	-26	-96	-94	-209	-211			-696	-693
Share of profit in associated companies					0	0	-7	-4					-7	-4
Operating profit	896	870	221	197	200	138	600	403	-157	-161			1,760	1,447
Financial items, net													-11	-17
Consolidated profit before tax													1,749	1,430
Other disclosures														
Investments in non-current assets ¹⁾	262	230	130	113	33	13	65	122	230	121			720	599

¹⁾ Tangible and intangible non-current assets.

²⁾ In 2014 coordination was conducted of Axfood's logistics functions. Axfood Närlivs' transport and warehouse functions have been transferred to Dagab. Effective 1 January 2015, Axfood's logistics operations, comprising Dagab and including Axfood's Assortment & Purchasing function, are reported as a separate segment in Dagab. This means that Axfood's entire wholesale volume is reported in Dagab. The Assortment & Purchasing function was previously reported under "Other". In connection with this change, the designation "Other" was changed to "Joint-Group", which includes joint-Group functions such as the Executive Committee, Accounting/Finance, HR and IT. Comparison figures have been adjusted.

3 Acquired operations

In 2015 two stores and four in-store service counters were acquired. Both stores were converted to Hemköp. In addition, 50% of HallMiba was acquired, and the ownership thereafter amounts to 100%.

Combined consideration paid for acquisitions in 2015 was SEK 84 m. Payment for the remaining 50% of HallMiba totalled SEK 35 m. Payment was made in cash, and no amounts remain to be paid for previous years' acquisitions. Acquisition-related expenses attributable to acquisitions for the year totalled SEK 0 m. Acquired assets and liabilities are carried at fair value in Axfood's statement of financial position.

The following assets and liabilities were acquired in 2015:

	Fair value reported in Group
Property, plant and equipment	3
Financial assets	0
Current assets	8
Other current liabilities	-3
Total identified net assets	8
Non-controlling interests	35
Goodwill	41
Purchase price	84
Cash and cash equivalents in acquired companies	0
Consideration paid for previous years' acquisitions	5
Impact of acquisitions of companies on cash and cash equivalents since the start of the year	89

Identified goodwill is entirely attributable to the synergies that will become available in connection with acquisitions. Additional adjustments of carrying amounts to fair value in accordance with IFRS have not been necessary. Acquired goodwill amounted to SEK 41 m in 2015. Axfood's share of ownership in stores and in-store service counters acquired in 2015 amounts to 100% after the acquisitions.

In the months following the acquisitions of operations, the acquired operations contributed SEK 2.3 m to consolidated profit after tax. The operations have combined annual sales of approximately SEK 203 m. If the acquisitions had been made as per 1 January 2015, the Group's income would have been approximately SEK 68 m higher, i.e., a total of approximately SEK 41,315 m. The profit/loss effect from 1 January 2015 until the date of acquisition is difficult to estimate since the stores were initially charged with one-time costs.

Acquisitions of non-controlling interests

In February 2015 the Company acquired an additional 50% in HallMiba AB for SEK 35 m. Payment was made in cash, increasing Axfood's ownership from 50% to 100%. The carrying amount of HallMiba in the consolidated financial statements was SEK 30 m at the time of the acquisition. The Group reports a decrease in non-controlling interests by SEK 28 m and an increase of retained profits by SEK 28 m.

3 Acquired operations, cont.

Effects of ownership changes in Hall Miba AB:

	2015
Holding at start of year	30
Effect of increased holding	35
Share in profit for the year	0
Holding at year-end	65

Events after the balance sheet date

No acquisitions have been made after the balance sheet date.

For information on the year's change in consolidated goodwill in general, see Note 17.

Acquisitions in preceding year

During the preceding year two stores and three in-store service counter were acquired. One store was converted to Hemköp in 2014, and one was converted to Willys in early 2015.

The combined consideration paid for acquisitions in 2014 was SEK 20 m. Payment was made in cash, and SEK 5 m remains to be paid for previous years' acquisitions. Acquisition-related expenses attributable to the year's acquisitions amounted to SEK 0 m. Acquired assets and liabilities are carried at fair value in Axfood's statement of financial position.

The following assets and liabilities were acquired in 2014

	Fair value reported in Group
Property, plant and equipment	3
Financial assets	0
Current assets	1
Other current liabilities	-3
Total identified net assets	1
Goodwill	19
Purchase price	20
Cash and cash equivalents in acquired companies	0
Consideration not yet paid	0
Impact of acquisitions of companies on cash and cash equivalents since the start of the year	20

Identified goodwill is entirely attributable to the synergies that became available in connection with acquisitions. Additional adjustments of carrying amounts to fair value in accordance with IFRS have not been necessary. Acquired goodwill amounted to SEK 19 m in 2014. Axfood's share of ownership in stores and in-store service counters amounts to 100% after the acquisitions, except for one Hemköp store, in which Axfood's ownership is 91%.

In the months following the acquisitions of operations, the acquired operations contributed SEK -1.0 m to consolidated profit after tax. The operations have combined annual sales of approximately SEK 31 m. If the acquisitions had been made as per 1 January 2014, the Group's income would have been approximately SEK 16 m higher, i.e., a total of approximately SEK 38,500 m. The profit/loss effect from 1 January 2014 until the date of acquisition is difficult to estimate since the stores were initially charged with one-time costs.

Parent Company

During the year, the Parent Company increased the value of its participations in Group companies by SEK 0 m (-470). The increase is attributable to intra-Group transactions.

4 Discontinued operations

Sold operations

Three store operations were sold during the year and pertained to a sale of operating assets and liabilities. The sales were not of such size that they needed to be reported separately as discontinued operations in the statement of comprehensive income.

Impact on cash flow of closed/sold operations

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

	Group	
	2015	2014
Cash flow from sales of operating assets and liabilities	7	3
Total cash flow from sales of operations	7	3

All consideration for the sales during the year has been settled.

Preceding year

One operation was sold during the preceding year. The sale was not of such size that it needed to be reported separately as a discontinued operation in the statement of comprehensive income.

The Parent Company sold all of its shares in PrisXtra AB in 2014. The transaction was conducted within the Axfood Group.

5 Breakdown of income

Group	2015	2014
Net sales:		
Sales of products	40,993	38,240
Other sales	254	244
Total net sales	41,247	38,484
Other operating income	372	371
Total	41,619	38,855

6 Breakdown of expenses

Group	2015	2014
Cost of goods for resale	30,477	28,183
Payroll costs	4,956	4,558
Depreciation/amortization	696	693
Other	3,723	3,970
Total	39,852	37,404

7 Information on intra-Group income and expenses

The Parent Company's income from Group companies amounted to SEK 183 m (169). The Parent Company's expenses from Group companies amounted to SEK 14 m (94). The Parent Company's sales to Group companies consist mainly of compensation to cover shared costs for rents, central administration and shared systems. The Parent Company's compensation to Group companies consists mainly of compensation for system support and rents. The decrease in costs compared with the preceding year is attributable to the reallocation of amortization of joint IT systems to other companies in the Group.

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

Average number of employees¹⁾

	2015	Of whom, men	2014	Of whom, men
Parent Company				
Average number of employees	141	42	103	22
Subsidiaries				
Average number of employees	8,662	3,966	8,378	3,891
TOTAL, GROUP	8,803	4,008	8,481	3,913

¹⁾ In calculating the number of hours worked per year per employee, 1,920 hours has been used (1,920).

8

Information on employees; compensation of directors, the President and other senior executives, cont.

Gender breakdown, Group, number

	Board of Directors		Other senior executives	
	2015	2014	2015	2014
Men	56	62	30	45
Women	17	17	14	12
Total	73	79	44	57

Gender breakdown, Parent Company, number

	Board of Directors		Other senior executives	
	2015	2014	2015	2014
Men	3	3	7	8
Women	4	4	4	3
Total	7	7	11	11

Wages, salaries and other remuneration, and social security charges

	2015			2014		
	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	99	52	21	70	35	14
Subsidiaries	3,318	1,204	240	3,136	1,066	225
TOTAL, GROUP	3,417	1,256	261	3,206	1,101	239

Salaries and other benefits paid to other senior executives, KSEK

2015	Base salary	Variable compensation	Other benefits	Pension cost	Other compensation	Total
President ¹⁾	6,177	2,515	353	2,636	–	11,681
Other senior executives, Parent Company ^{2, 3)}	22,755	11,250	1,079	8,306	54	43,444
Total	28,932	13,765	1,432	10,942	54	55,125
Other senior executives, subsidiaries	35,839	7,275	1,278	12,521	379	57,292
TOTAL, GROUP	64,771	21,040	2,710	23,463	433	112,417

2014

President ¹⁾	5,885	3,793	347	2,578	–	12,603
Other senior executives, Parent Company ^{3, 4)}	22,620	7,509	1,420	8,356	67	39,972
Total	28,505	11,302	1,767	10,934	67	52,575
Other senior executives, subsidiaries	48,220	7,090	2,058	16,571	411	74,350
TOTAL, GROUP	76,725	18,392	3,825	27,505	478	126,925

¹⁾ Anders Strålmán is President of the Parent Company.

²⁾ The Axfood Group's Executive Committee in 2015 (excluding the President) consisted of Karin Hygrel-Jonsson, Hans Holmstedt, Anders Quist, Louise Ring, Jan Lindmark, Nicholas Pettersson, Thomas Evertsson, Eva Pettersson, Annica Elmehagen Lundquist and Thomas Gäreskog.

³⁾ Of base salaries, variable compensation and other compensation paid out by the Parent Company, KSEK 20,618 (23,023) pertains to compensation that the senior executives received from other Group companies. Of the Parent Company's other benefits, KSEK 711 (1,117) pertains to compensation from other Group companies.

⁴⁾ The Axfood Group's Executive Committee in 2014 (excluding the President) consisted of Karin Hygrel-Jonsson, Hans Holmstedt, Anders Quist, Louise Ring, Jan Lindmark, Anders Agerberg, Thomas Evertsson, Nicholas Pettersson, Thomas Gäreskog, Eva Pettersson and Anne Rhenman Eklund.

Wages, salaries and other compensation, broken down by senior executives and other employees

	2015		2014	
	Boards, presidents and other senior executives	Other employees	Boards, presidents and other senior executives	Other employees
Parent Company ¹⁾	45	74	42	51
Subsidiaries	44	3,254	56	3,057
TOTAL, GROUP	89	3,328	98	3,108

¹⁾ Of the Parent Company's salaries and other compensation to senior executives, SEK 21 m (23) pertains to compensation from other Group companies.

Fees and other benefits paid to the Board of Directors, KSEK

	2015		2014	
	Directors' fees	Other compensation	Directors' fees	Other compensation
Parent Company				
Chairman of the Board ¹⁾	558	–	543	–
Vice Chairman of the Board ²⁾	407	–	393	–
Other board members:				
Antonia Ax:son Johnson	322	–	312	–
Caroline Berg	322	–	235	–
Peggy Bruzelius	322	–	312	–
Ann Carlsson ⁴⁾	245	–	–	–
Lars Olofsson	–	–	75	–
Odd Reitan	322	–	312	–
Annika Åhnberg ³⁾	79	–	312	–
Michael Sjören ⁵⁾	–	–	–	–
Ulla-May Iwahr Rydén ⁵⁾	–	–	–	–
Inger Sjöstrand ⁵⁾	–	–	–	–
Total	2,577	–	2,494	–

¹⁾ Fredrik Persson is Chairman of the Board.

²⁾ Marcus Storch served as Vice Chairman of the Board through the 2014 AGM. Lars Olofsson served as Vice Chairman for the time thereafter.

³⁾ Up until the 2015 AGM.

⁴⁾ As from the 2015 AGM.

⁵⁾ Employee representatives.

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. Employee representatives do not receive any directors' fees. According to a decision by the 2015 Annual General Meeting, the annual fee payable to directors was set at KSEK 2,595 (2,525), of which KSEK 560 (550) is payable to the Chairman. Seventy-five per cent of the fee was paid out in 2015, with the remainder being paid out after year-end. Expensed compensation paid to the board members is shown in the table.

President

Axfood's President, Anders Strålmán, received SEK 8.7 m (9.7) in contractual salary and other benefits in 2015, including SEK 2.5 m (3.8) in variable compensation. The President's variable compensation is based on the performance and development of the business. His 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 2017 Annual General Meeting, provided he is still employed.

In addition, the President has a taxable housing and travel benefit, a car benefit and private health insurance. The President is entitled to retirement pension from 65 years of age, and a right to pension provisions corresponding to 35% of his yearly cash salary. The provision as per 31 December 2015 amounted to SEK 16.7 m (14.4). In the event Axfood serves notice, the President is entitled to a 12-month notice period plus severance pay corresponding to 12 months' salary, on account. In the event the President gives notice, the notice period is six months.

Other senior executives

Salary and other benefits paid to other senior executives of the Parent Company amounted to SEK 34.0 m (30.1), including SEK 11.3 m (7.5) in variable compensation. By other senior executives is meant the ten persons who together with the President form the Axfood Group's Executive Committee. See pages 74–75 for the composition of the Executive Committee. Variable compensation is based mostly on the

Group's earnings and sales performance, and partly on personal targets. Variable compensation can amount to a maximum of 55% of the executives' yearly salary. Other senior executives have customary terms of employment and are entitled to salary during the notice period plus severance pay corresponding to 12 months' salary, on account. The notice period is between six and 12 months if the Company serves notice, and six months if the employee gives notice. The retirement age has been set at 65 years. The basic retirement benefit consists of the so-called ITP plan, however, one member of the Executive Committee on this part has a solution corresponding to ITP 1. In addition to this, the company pays defined contribution pension premiums corresponding to 25% of the executives' salary amounts between 30–50 times the Price Base Amount for persons, which is secured through insurance. The Board's compensation committee makes decisions on salary and other terms of employment for members of the Executive Committee (except for the President, for whom the Board in its entirety sets the level of compensation and other terms of employment), according to the principles decided on by the Annual General Meeting.

9 Auditors' fees

	Group		Parent Company	
	2015	2014	2015	2014
KPMG				
Auditing fees	4	4	1	1
Auditing activities in addition to the audit assignment	0	1	0	0
Tax consulting	0	0	0	0
Other services	3	0	2	0
Total	7	5	3	1

By auditing fees is meant fees for the statutory audit of the annual report and consolidated financial statements and bookkeeping, the Board of Directors' and President's administration, and other auditing activities performed in accordance with an agreement or contract.

10 Depreciation/amortization

Group	Other intangible assets		Land and buildings		Equipment, tools, fixtures and fittings		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Cost of goods sold	138	154	1	1	441	425	580	580
Selling expenses	0	0	0	–	41	41	41	41
Administrative expenses	4	3	0	1	71	68	75	72
Total depreciation/amortization	142	157	1	2	553	534	696	693

The Parent Company's depreciation of SEK 10 m (10) pertains to equipment, tools, fixtures and fittings and is reported under administrative expenses.

11 Operating leases

	Group		Parent Company	
	2015	2014	2015	2014
Minimum lease payments during the financial year	1,349	1,339	7	38
Variable charges	13	11	–	–
Total leasing costs during the financial year¹⁾	1,362	1,350	7	38
Leasing income pertaining to sublet premises	91	121	–	31
Contracted future minimum lease payments				
Within one year	1,246	1,283	7	28
Between one and five years	3,044	2,839	18	106
Longer than five years	1,263	412	10	98
Total future lease payments	5,553	4,534	35	232

¹⁾ Of which, rents for premises SEK 1,302 m (1,288) for the Group and SEK 6 m (37) for the Parent Company.

Axfood rents warehouse and store premises. Premises are rented from external parties, while premises are sublet mainly 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 joint ventures, and with subsidiaries within the Axel Johnson Group. All prices are set on an arm's length basis. During the year, purchases from associated companies and joint ventures totalled SEK 4 m (3). Sales to associated companies and joint ventures totalled SEK 2 m (2).

Axfood AB is 50.1%-owned by Axel Johnson AB.

Martin & Servera AB, a subsidiary of Axel Johnson AB, delivers products in the foodservice segment to Axfood companies. Purchases from Martin & Servera amounted to SEK 40 m (103) during the year. Axfood's sales to Martin & Servera during the year amounted to SEK 25 m (12). As per 31 December 2015, the Axfood Group's current liabilities to Martin & Servera amounted to SEK 6 m (6), and current receivables amounted to SEK 4 m (1). All prices are set on an arm's length basis.

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 56 m (51) in rents to AxFast AB. All rents have been set on an arm's length basis. As per 31 December 2015, the Axfood Group's current liabilities to AxFast AB amounted to SEK – m (–).

Axstores AB, a subsidiary in the Axel Johnson Group, runs department stores and specialty shops. The Axfood Group leases premises from Axstores, among other things. During the year, Axfood's profit was charged with SEK 29 m (29) in rents for premises. As per 31 December 2015, the Axfood Group's current liabilities to Axstores amounted to SEK 0 m (0).

Axfood's associated companies and joint ventures owned no shares in Axfood AB as per 31 December 2015.

13 Net financial items

	Group		Parent Company	
	2015	2014	2015	2014
Interest income from bank deposits	0	2	0	2
Interest income from non-impaired loan receivables and trade receivables ¹⁾	6	5	5	11
Interest income from impaired loan receivables and trade receivables	0	0	–	–
Exchange rate movements	0	0	0	0
Dividend from participations in Group companies ²⁾	–	–	1	6
Other financial income	0	0	0	0
Total financial income	6	7	6	19
Interest expenses on financial liabilities carried at amortized cost				
Borrowings (bank loans and bank lines of credit) ³⁾	0	–2	0	–1
Trade receivables and other current liabilities	–2	–3	0	0
Pension liability	–12	–15	0	0
Other financial expenses	–3	–4	–3	–3
Total financial expenses	–17	–24	–3	–4
Net financial items	–11	–17	3	15

¹⁾ Interest income in the Parent Company from Group companies amounted to SEK 5 m (11).

²⁾ In 2014 a dividend of SEK 356 m was received from Dagab AB, and at the same time the value of the shares was written down by SEK 350 m due to a reduction in the share capital.

³⁾ Interest expense in the Parent Company to Group companies amounted to SEK – m (–).

All interest income pertains to financial items that are not stated at fair value through profit or loss.

14 Appropriations and untaxed reserves

	Parent Company	
	2015	2014
Appropriations		
Group contribution received	1,805	1,581
Group contribution rendered	–20	–33
Provision to tax allocation reserve	–427	–355
Change in accumulated excess depreciation	0	–4
Total	1,358	1,189
Untaxed reserves		
Tax allocation reserves	1,648	1,222
Accumulated excess depreciation	5	4
Total	1,653	1,226

15 Taxes

	Group		Parent Company	
	2015	2014	2015	2014
Current tax				
Current tax on profit for the year	–297	–246	–282	–234
Adjustment of current tax from previous years	0	0	–	0
	–297	–246	–282	–234
Deferred tax				
Deferred tax pertaining to temporary differences	–91	–80	0	–1
	–91	–80	0	–1
Total reported tax charge	–388	–326	–282	–235

Group – reconciliation of applicable tax rate and effective tax rate

	2015	%	2014	%
Reported profit before tax	1,749		1,430	
Tax based on applicable tax rate for Parent Company	–385	–22.0	–315	–22.0
Tax effect of:				
Other non-deductible expenses	–9	–0.5	–14	–1.0
Other tax-exempt revenues	6	0.4	3	0.2
Adjustments of current tax pertaining to previous years	0	0.0	0	0.0
Adjustments of deferred tax pertaining to previous years	0	0.0	–	–
Reported tax charge/effective tax rate	–388	–22.1	–326	–22.8
Tax attributable to other comprehensive income	–2		13	

Parent Company – reconciliation of applicable tax rate and effective tax rate

	2015	%	2014	%
Reported profit before tax	1,274		1,061	
Tax based on applicable tax rate for Parent Company	–280	–22.0	–233	–22.0
Tax effect of:				
Other non-deductible expenses	–2	–0.2	–3	–0.3
Other tax-exempt revenues	0	0.0	1	0.1
Adjustments of deferred tax pertaining to previous years	0	0.0	0	0.0
Reported tax charge/effective tax rate	–282	–22.2	–235	–22.2
Current and deferred tax items reported directly against shareholders' equity	–		–	

15 Taxes, cont.

Reported deferred tax assets and tax liabilities

	Group		Parent Company	
	2015	2014	2015	2014
Intangible assets	-54	-54	-	-
Land and buildings	-1	-1	-	-
Equipment, tools, fixtures and fittings	6	2	-	-
Other receivables	7	6	-	-
Untaxed reserves	-501	-404	-	-
Provisions	31	32	5	5
Other liabilities	3	3	0	0
Total deferred tax asset (+)/ deferred tax liability (-), net	-509	-416	5	5
Deferred tax asset	60	54	5	5
Deferred tax liability	-569	-470	-	-

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

Tax attributable to other comprehensive income¹⁾

Group	2015			2014		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Translation differences	0	0	0	1	0	1
Cash flow hedges	-5	1	-4	3	-1	2
Available-for-sale financial assets	3	-1	2	-	-	-
Actuarial gains and losses	8	-2	6	-64	14	-50
Other comprehensive income	6	-2	4	-60	13	-47

¹⁾ The Parent Company has no taxes attributable to other comprehensive income.

Change in deferred tax in temporary differences during the year, Group

	Amount at start of year	Recognized in profit for the year	Recognized in other comprehensive income	Amount at end of year
Intangible assets	-54	0	-	-54
Land and buildings	-1	0	-	-1
Equipment, tools, fixtures and fittings	2	4	-	6
Other receivables	5	2	0	7
Untaxed reserves	-404	-97	-	-501
Provisions	33	0	-2	31
Other liabilities	3	0	-	3
Total	-416	-91	-2	-509

16 Earnings per share

Earnings per share were SEK 6.48 (5.22). Since Axfood does not have, nor has had any outstanding convertible or stock option programmes during the year, there is no dilutive effect on calculations of earnings per share. During the second quarter Axfood carried out a 4:1 stock

split. The number of shares outstanding after the split was 209,870,712 (52,467,678), and the average number of shares outstanding was 209,870,712 (52,467,678). The comparison figure for earnings per share has been adjusted.

17 Intangible assets

Group	Goodwill		Intangible assets in progress		Other intangible assets ¹⁾	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Opening cost	1,819	1,800	10	78	1,577	1,645
Investments	41	19	93	35	0	27
(of which, internally developed)	-	-	(15)	(7)	-	-
Disposals	-	-	-	-	-86	-198
Reclassifications	-	-	-33	-103	33	103
(of which, internally developed)	-	-	(-7)	(-53)	(7)	(53)
Closing accumulated cost	1,860	1,819	70	10	1,524	1,577
Opening amortization	-	-	-	-	-794	-823
Disposals	-	-	-	-	86	186
Amortization for the year	-	-	-	-	-142	-157
Closing accumulated amortization	-	-	-	-	-850	-794
Opening impairment	-	-	-	-	-76	-55
Impairment for the year	-	-	-	-	-	-21
Closing accumulated impairment²⁾	-	-	-	-	-76	-76
Closing planned residual value	1,860	1,819	70	10	598	707

¹⁾ Of other intangible assets, SEK 6 m (6) pertains to trademarks, SEK 22 m (27) to leaseholds, and SEK 3 m (12) to customer relationships.

²⁾ Pertains to brand impairment.

17 Intangible assets, cont.

Goodwill

The Group's reported goodwill as per 31/12/2015 is broken down per segment as follows:

	31/12/2015	31/12/2014
Hemköp	624	581
Willys	594	596
Axfood Närlivs	57	125
Dagab	585	517
Total	1,860	1,819

Intangible assets in progress and other intangible assets

The Group's intangible assets in progress consist exclusively of capitalized costs for IT development. Other intangible assets consist of IT development, trademarks, customer relationships and leaseholds. Of other intangible assets, closing planned residual value pertaining to IT development accounts for SEK 566 m (662). Capitalized IT costs are amortized on a straight-line basis according to the estimated useful life of the assets, which is five to ten years. The remaining amortization period for capitalized IT costs is five years (six).

In 2014 the remaining PrisXtra stores were converted to the Hemköp and Willys brands. As a consequence of this, an impairment loss of SEK 21 m was recognized for the PrisXtra brand in 2014, and the value of the brand is now SEK 0. PrisXtra has ceased to be its own segment in the reporting and has been reported as part of Hemköp since 1 January 2013.

The useful life of all intangible assets except for goodwill and trademarks is limited and is described in Note 1.

Amortization of other intangible assets is broken down in the statement of profit or loss and other comprehensive income in accordance with Note 10.

Impairment testing of intangible assets

Estimations of the value of the Group's goodwill items and other intangible assets are based exclusively on the cash-generating units' value in use. Value in use is based on the cash flows after tax that are esti-

mated to be generated during the remaining useful life of the units, with an assumption of perpetual useful life.

For the first year, the future cash flows that have been used in calculating the respective units' value in use are based on the business plan for 2016 for the respective units. Thereafter, the cash flows are based on assumed annual growth of 1.5% (1.5%). The forecast cash flows have been discounted to present value using a discount rate of 6.3% after tax (7.0%), which corresponds to a discount rate before tax of approximately 7.7% (8.7%).

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 3.0% (3.0%), a going-rate risk premium of 4.4% (4.7%), and a beta coefficient of 0.7 (0.9). The beta coefficient shows the relationship between the price of Axfood's shares and changes in a benchmark index. With a discounting factor of 6.3% (7.0%), value in use exceeds the carrying amount for all tested units. Thus there is no need to recognize impairment as per 31 December 2015.

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 2016 business plan, which forms the basis for cash flow calculations, the Executive Committee has made an assumption on price and volume growth of approximately 1% (1%), which is based on estimates performed both by the Executive Committee and external parties of the price and volume trend in Sweden for food retail products in Axfood's assortment. This estimate is based on previous years' experience and on the anticipated competitive situation in the industry. In the opinion of the Executive Committee, 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 carrying amount.

18 Property, plant and equipment

Group	Land and buildings ¹⁾		Equipment, tools, fixtures and fittings		Construction in progress	
	31/12/15	31/12/14	31/12/15	31/12/14	31/12/15	31/12/14
Opening cost	65	65	6,226	6,030	79	88
Investments	1	–	456	431	173	106
Increases through acquisitions	–	–	–	2	–	–
Sales and disposals	–	–	–313	–352	–	–
Reclassifications	–	–	127	115	–127	–115
Closing accumulated cost	66	65	6,496	6,226	125	79
Opening depreciation	–11	–9	–4,450	–4,243	–	–
Sales and disposals	–	–	273	327	–	–
Depreciation for the year	–1	–2	–553	–534	–	–
Closing accumulated depreciation	–12	–11	–4,730	–4,450	–	–
Opening impairment	–	–	–15	–15	–	–
Closing accumulated impairment	–	–	–15	–15	–	–
Closing planned residual value	54	54	1,751	1,761	125	79

¹⁾ The cost of land was SEK 10 m (10).

Parent Company	Equipment, tools, fixtures and fittings		Construction in progress	
	31/12/15	31/12/14	31/12/15	31/12/14
Opening cost	70	45	–	31
Investments	2	16	–	–
Sales and disposals	–1	–22	–	–
Reclassifications	–	31	–	–31
Closing accumulated cost	71	70	–	–
Opening depreciation	–32	–44	–	–
Sales and disposals	1	22	–	–
Depreciation for the year	–10	–10	–	–
Closing accumulated depreciation	–41	–32	–	–
Closing planned residual value	30	38	–	–

19 Government support

Government support in the form of labour market policy grants amounted to SEK 2 m (3) in the statement of financial position (reported under prepaid income) and SEK 50 m (50) in the statement of comprehensive income, which reduced payroll costs.

No other unfulfilled conditions or contingent liabilities exist.

20 Finance leases

Group	Equipment, tools, fixtures and fittings	
	31/12/15	31/12/14
Opening cost	127	127
Investments	46	39
Sales and disposals	-57	-39
Closing accumulated cost	116	127
Opening depreciation	-51	-49
Sales and disposals	36	23
Depreciation for the year	-25	-25
Closing accumulated depreciation	-40	-51
Closing planned residual value	76	76

Finance lease liabilities fall due for payment as follows:

2015	Future minimum lease payments	Interest	Present value of minimum lease payments
Within 1 year	40	0	40
Between 1 and 5 years	36	0	36
Total	76	0	76

2014	Future minimum lease payments	Interest	Present value of minimum lease payments
Within 1 year	42	1	41
Between 1 and 5 years	36	1	35
Total	78	2	76

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

2015 Parent Company	Reg. no.	Registered office	Number of shares	Share of capital, %	Book value
Willys AB	556163-2232	Göteborg	1,000	100	411
Hemköpskedjan AB	556113-8826	Stockholm	100,000	100	594
Dagab Inköp & Logistik AB	556004-7903	Stockholm	3,434,656	100	2,129
Axfood IT AB	556035-6163	Stockholm	1,000	100	2
Dagab AB	556070-3166	Stockholm	20,000	100	0
Axfood Närlivs AB	556742-7074	Stockholm	1,000	100	0
Total, Group companies					3,136

2014 Parent Company	Reg. no.	Registered office	Number of shares	Share of capital, %	Book value
Willys AB	556163-2232	Göteborg	1,000	100	414
Hemköpskedjan AB	556113-8826	Stockholm	100,000	100	591
Axfood Sverige AB	556004-7903	Stockholm	3,434,656	100	2,129
Axfood IT AB	556035-6163	Stockholm	1,000	100	2
Dagab AB	556070-3166	Stockholm	20,000	100	0
Total, Group companies					3,136

22 Participations in associated companies and joint ventures

Group	Associated companies		Joint Ventures	
	2015	2014	2015	2014
Opening cost	2	8	29	-
Acquisitions	-	-	-	22
Other changes	-	-6	-	7
Closing cost	2	2	29	29
Adjustments of shareholders' equity pertaining to investments in associated companies				
Opening carrying amount	2	2	-4	-
Share in profit after tax ¹⁾	0	0	-7	-4
Closing carrying amount	2	2	-11	-4
Total	4	4	18	25

¹⁾ Corresponds to comprehensive income.

2015 Associated companies Group	Reg. no.	Registered office	Number of shares	Share of capital/ votes, %	Book value	Share of capital
United Nordic Inc AB	556043-4606	Solna	250	25	0	0
Direktbutikerna Scandinavia AB	556535-8826	Stockholm	105,360	50	4	4
Total					4	4

2015 Joint Ventures Group	Reg. no.	Registered office	Number of shares	Share of capital/ votes, %	Book value	Share of capital
Urban Deli Holding AB	556958-4781	Stockholm	500	50	18	18
Total					18	18

2014 Associated companies Group	Reg. no.	Registered office	Number of shares	Share of capital/ votes, %	Book value	Share of capital
United Nordic Inc AB	556043-4606	Solna	250	25	0	0
Direktbutikerna Scandinavia AB	556535-8826	Stockholm	105,360	50	4	4
Total					4	4

2014 Joint Ventures Group	Reg. no.	Registered office	Number of shares	Share of capital/ votes, %	Book value	Share of capital
Urban Deli Holding AB	556958-4781	Stockholm	500	50	25	25
Total					25	25

Axfood has no unrecognized obligations in joint ventures. In addition, Axfood is not bound by any limitations to transfer dividends in joint ventures or associated companies. Nor are there any unrecognized losses. The financial year corresponds to the Axfood Group's financial year.

23 Financial assets

	Participations in Group companies, Parent Company	Participations in associated companies and joint ventures, Group	Other long-term securities holdings, Group	Other non-current receivables, Group
2015				
Opening cost	3,486	29	28	23
Acquisitions during the year	–	–	20	–
Measurement at fair value	–	–	3	–
Divestments/amortization	–	–	–	–1
Share in associated company profit after tax	–	–7	–	–
Closing accumulated book value	3,486	22	51	22
Opening accumulated impairment	–350	–	–	–
Closing accumulated impairment	–350	–	–	–
Closing accumulated book value	3,136	22	51	22
2014				
Opening cost	3,606	10	29	21
Acquisitions during the year	10	22	–	–
Additional receivables	–	–	–	1
Divestments/amortization	–130	–	–	–
Share in associated company profit after tax	–	–4	–	–
Reclassifications	–	1	–1	1
Closing accumulated cost	3,486	29	28	23
Impairment for the year	–350	–	–	–
Closing accumulated impairment	–350	–	–	–
Closing accumulated book value	3,136	29	28	23

24 Non-current and current receivables

	Group		Parent Company	
	31/12/15	31/12/14	31/12/15	31/12/14
Non-current noninterest-bearing receivables	22	23	3	3
Total other non-current receivables	22	23	3	3
Other noninterest-bearing receivables	101	119	–	1
Total other current receivables	101	119	–	1

25 Accounts receivable – trade

Accounts receivable – trade	31/12/15	31/12/14
Trade receivables, gross	868	877
Provision for impaired loans	–16	–18
Trade receivables, net	852	859

Provision account for loan losses	31/12/15	31/12/14
Provision at start of year	–18	–22
Provision/reversal for possible loan losses	1	3
Confirmed and recovered loan losses	1	1
Provision at year-end	–16	–18

Maturity analysis of trade receivables	31/12/15	31/12/14
Trade receivables not due	748	671
Trade receivables past due 0-30 days	90	142
Trade receivables past due >30-90 days	8	32
Trade receivables past due >90-180 days	3	5
Trade receivables past due >180-360 days	4	8
Trade receivables past due >360 days	15	19
Total	868	877

To limit the maximum credit risk associated with trade receivables, Axfood has accepted security which, as per the end of the reporting period, covers SEK 67 m (65) of outstanding trade receivables. Accepted security consists mainly of chattel mortgages, bank guarantees and guarantees. In 2015 a total of SEK 1 m (1) of accepted security was utilized to settle unpaid trade accounts receivable.

The credit quality of non-impaired receivables is judged to be good. For further information on financial risks, see pages 58–59.

26 Prepaid expenses and accrued income

	Group		Parent Company	
	31/12/15	31/12/14	31/12/15	31/12/14
Prepaid rents	316	298	0	7
Accrued bonuses and similar	552	482	–	–
Delivered, uninvoiced	3	0	–	–
Other prepaid expenses	110	143	7	4
Other accrued income	22	18	1	–
Total	1,003	941	8	11

27 Provisions for pensions and similar obligations

	Group	
Defined benefit pension plans, Group	2015	2014
Present value of funded obligations	10	10
Present value of unfunded obligations	427	447
Total present value of obligations	437	457
Fair value of plan assets	–9	–9
Present value of net obligations	428	448
Net liability in statement of financial position	428	448
Amounts reported in statement of financial position		
– provisions	428	448
– assets	–	–
Net liability in statement of financial position	428	448

Of Axfood's net liability for defined benefit pension plans in Sweden, SEK 396 m (414) consists of obligations within the FPG/PRI system. Of these obligations, SEK 396 m (414) are locked, which for Axfood's part entails that all new earning now takes 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.

Net liability also includes the Company's own defined benefit pension plans for the President and former presidents. These are unfunded plans and are reinsured with FPG/PRI and amount to SEK 19 m (20).

27 Provisions for pensions and similar obligations, cont.

In addition to unfunded pension plans, Axfood has an individually funded pension plan that 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 m (0) on 31 December 2015. The actual return on plan assets was SEK 0 m (0), which corresponded to the expected return.

No fees were paid in to the foundation during the year. During the year, SEK 0 m (0) was received in compensation from the foundation.

The defined benefit plans are exposed to actuarial risks such as longevity, and currency, interest rate and investment risks. All unfunded plans are reinsured with FPG/PRI. See also Note 33.

Changes in the present value of defined benefit obligations	2015	2014
Obligations for defined benefit plans as per 1 January	457	419
Benefits paid	-29	-29
Current service cost	3	2
Interest expense	12	15
Revaluations:		
Actuarial gains and losses, and changed financial assumptions	3	59
Experience-based adjustments	-9	-9
Obligations for defined benefit plans as per 31 December	437	457

The present value of obligations is distributed among the plans' members as follows:

- Active members 0.0% (0.0%)
- Persons on disability pensions 0.5% (0.6%)
- Owners of paid-up policies 35.3% (36.4%)
- Retirees 64.2% (63.0%)

Change in net liability during the year	2015	2014
Net liability at start of year	448	410
Compensation from pension foundation	0	0
Defined benefit direct pensions	1	1
Net expense in profit for the year	14	16
Pension disbursements	-29	-29
Actuarial gains/losses reported as a liability	-6	50
Net liability at year-end	428	448

Costs recognized in profit for the year, Group	2015	2014
<i>Defined benefit pension plans</i>		
Earned benefits	3	2
Interest expense	12	15
Actual return on plan assets	0	0
Total	15	17
<i>Defined contribution pension plans</i>		
Costs during the period ¹⁾	258	237
Total pension cost	273	254

¹⁾ Pension insurance premiums paid during the year to Alecta for pension insurance under the ITP plan amounted to SEK 77 m (69). Alecta's surplus can be apportioned among the policyholders and/or the insureds. As per 30 September 2015, Alecta's surplus in the form of its collective funding ratio was 148% (146%). 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. At the time of this annual report's publication, Alecta had not published its collective funding ratio as per December 2015.

Pension costs are broken down per function in profit for the year as follows (Group)	2015	2014
Cost of goods sold	148	140
Selling expenses	59	52
Administrative expenses	54	47
Interest expense	12	15
Total	273	254

Income and costs reported in other comprehensive income (Group)	2015	2014
<i>Defined benefit pension plans</i>		
Revaluations:		
Net actuarial gains/losses reported for the year	8	-64
Net income/costs reported in other comprehensive income	8	-64

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

	2015	2014
Discount rate	2.70%	2.75%
Future annual salary increases ¹⁾	0.00%	0.00%
Future annual pension increases	1.50%	1.50%
Employee attrition rate ¹⁾	0.00%	0.00%
Longevity assumption after 65 years		
– men	23 years	23 years
– women	25 years	25 years

¹⁾ Since the Axfood Group funds benefits through insurance with Alecta, this assumption is not used as from 2012.

Effects on future cash flows

The Group estimates that approximately SEK 24 m (29) will be paid towards defined benefit plans in 2016.

Sensitivity analysis

The following table presents possible changes in actuarial assumptions as per the accounting date, other assumptions unchanged, and how these would affect the defined benefit obligation. The calculation has been done according to the Project Unit Credit (PUC) method.

Group	Increase	Decrease
Discount rate (–/+ 0.5% change)	28	26
Inflation (+/– 0.5% change)	29	25
Longevity (+/– 1 year change)	16	16

Parent Company

The Parent Company's reported pension liability amounted to SEK 20 m (22) and pertains to obligations to the current and former presidents. All pension obligations to the current and former presidents are carried 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 carried on the balance sheet. The change in the capital value is shown below.

Reported capital value of pension obligations	2015	2014
Reported capital value on 1 January	22	25
Benefits paid out	-5	-5
Defined benefit direct pensions	0	0
Cost excluding interest expense	2	2
Interest expense	1	0
Reported capital value of pension obligations on 31 December	20	22

Of the Parent Company's reported pension liability, SEK 17 m (20) is covered by credit insurance via PRI.

Pension costs	2015	2014
<i>Own undertakings</i>		
Liability revaluation of undertakings	2	2
Interest expense	0	0
Total	2	2
<i>Undertakings through insurance</i>		
Insurance premiums ¹⁾	15	10
Special employer's payroll tax on pension contributions	4	2
Cost of credit insurance premiums	0	0
Total	19	12
Pension costs for the year	21	14

¹⁾ Of which, premiums paid to Alecta for pension insurance according to the ITP plan, totalling SEK 7 m (5).

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 approximately 0% (0%).

It is estimated that approximately SEK 0 m will be paid out in pensions by the Parent Company in 2016.

28 Financial assets and liabilities

The tables below provide disclosures on how fair value has been determined for the financial instruments that are measured at fair value in the statement of financial position.

The breakdown of how fair value is determined is done according to three levels:

Level 1: according to prices in an active market for the same instrument. Axfood has no financial instruments at this level.

Level 2: based on direct or indirect observable market data that is not included in level 1. Level 2 includes derivatives used in hedge accounting and available-for-sale financial assets, and financial assets at fair value through profit or loss.

Level 3: based on input data that is not observable in the market. Axfood has no financial instruments at this level.

	Derivatives used in hedge accounting	Initially measured at fair value	Trade and loan receivables	Available- for-sale financial assets	Other financial liabilities	Total carrying amount	Fair value	Non- financial assets and liabilities	Total, Statement of financial position
Group 2015									
Other long-term securities holdings		11	9	31		51	51		51
Other non-current receivables			22			22	22		22
Accounts receivable – trade			852			852	852		852
Cash and bank balances			1,933			1,933	1,933		1,933
Total financial assets	–	11	2,816	31	–	2,858	2,858	–	2,858
Other non-current interest-bearing liabilities					36	36	36		36
Other current interest-bearing liabilities					40	40	40		40
Other current liabilities	5					5	5	194	199
Accounts payable – trade					2,782	2,782	2,782		2,782
Total financial liabilities	5	–	–	–	2,858	2,863	2,863	194	3,057

	Derivatives used in hedge accounting	Trade and loan receivables	Available- for-sale financial assets	Other financial liabilities	Total carrying amount	Fair value	Non- financial assets and liabilities	Total, Statement of financial position
Group 2014								
Other long-term securities holdings			28		28	28		28
Other non-current receivables		23			23	23		23
Accounts receivable – trade		859			859	859		859
Other current receivables	6				6	6	113	119
Cash and bank balances		1,109			1,109	1,109		1,109
Total financial assets	6	1,991	28	–	2,025	2,025	113	2,138
Other non-current interest-bearing liabilities				40	40	40		40
Current liabilities to credit institutions				21	21	21		21
Other current interest-bearing liabilities				76	76	76		76
Accounts payable – trade				2,558	2,558	2,558		2,558
Total financial liabilities	–	–	–	2,695	2,695	2,695	–	2,695

	Trade and loan receivables	Available- for-sale financial assets	Other financial liabilities	Total carrying amount	Fair value	Non- financial assets and liabilities	Total, Balance sheet
Parent Company 2015							
Other long-term securities holdings		3		3	9		3
Other non-current receivables	3			3	3		3
Receivables from Group companies	875			875	875	1,806	2,681
Cash and bank balances	1,489			1,489	1,489		1,489
Total financial assets	2,367	3	–	2,370	2,376	1,806	4,176
Accounts payable – trade			11	11	11		11
Liabilities to Group companies			1,628	1,628	1,628	20	1,648
Total financial liabilities	–	–	1,639	1,639	1,639	20	1,659

	Trade and loan receivables	Available- for-sale financial assets	Other financial liabilities	Total carrying amount	Fair value	Non- financial assets and liabilities	Total, Balance sheet
Parent Company 2014							
Other long-term securities holdings		3		3	6		3
Other non-current receivables	3			3	3		3
Accounts receivable – trade	0			0	0		0
Receivables from Group companies	828			828	828	1,581	2,409
Cash and bank balances	760			760	760		760
Total financial assets	1,591	3	–	1,594	1,597	1,581	3,175
Accounts payable – trade			12	12	12		12
Liabilities to Group companies			1,185	1,185	1,185	33	1,218
Total financial liabilities	–	–	1,197	1,197	1,197	33	1,230

28 Financial assets and liabilities, cont.

Fair value of financial instruments

The carrying amount of interest-bearing assets and liabilities in the statement of financial position can deviate from their fair value due to changes in market interest rates, among other things. To determine the fair value of financial assets and liabilities, the market value has been used for assets and liabilities as far as possible. Axfood's holdings of tenant-owner rights are stated at market value (Level 2). The total carrying amount of tenant-owner rights included in the item "Other non-current securities holdings" is SEK 25 m (22). Financial assets initially measured at fair value through profit or loss consist of the option portion of convertible debentures, and amount to SEK 11 m (–) (Level 2). Interest-bearing financial assets and liabilities that are not derivative instruments are calculated based on future cash flows of principal amounts and interest, discounted to the current market interest rate while taking into account the risk-free interest rate and risk premium for Axfood at the end of the reporting period (the effective interest method – Level 2). In 2014 the item "Other current interest-bearing liabilities" included earn-out payments totalling SEK 35 m, which were valued in accordance with this. This liability was settled in 2015. Finance leases totalling SEK 76 m (76), of which SEK 36 m (35) are long-term, are valued using discounted cash flows (Level 2). For current financial assets and liabilities with variable interest rates, fair value is considered to be the same as the carrying amount. The carrying amount of trade accounts receivable, other receivables, cash and cash equivalents, trade accounts payable and other liabilities represent a reasonable approximation of fair value.

Interest rates used to determine fair value

Axfood uses the market interest rate in effect on 31 December plus a relevant interest rate spread to discount financial instruments. The interest rates used are provided below.

	2015	2014
Interest-bearing liabilities	0.25%	0.40%

29 Non-current and current interest-bearing liabilities

	Group		Parent Company	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Granted credit lines				
Long-term granted credit lines	–	500	–	500
Bank overdraft facilities	220	250	220	220
Total granted credit lines	220	750	220	720
Drawn bank overdraft facilities				
	–	–21	–	–
Total utilized credit lines	–	–21	–	–
Cash and bank balances	1,933	1,109	1,489	760
Total¹⁾	2,153	1,838	1,709	1,480

¹⁾ The Group's refinancing risk reserve, totalling SEK 1,811 m (1,519), consists of granted, unutilized credit facilities and lines of credit totalling SEK 220 m (729) and disposable funds in bank accounts totalling SEK 1,591 m (790).

29 Non-current and current interest-bearing liabilities, cont.

	Group		Parent Company	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Non-current interest-bearing liabilities²⁾				
Finance leases ³⁾	36	35	–	–
Other non-current interest-bearing liabilities	–	5	–	–
Total other non-current interest-bearing liabilities	36	40	–	–
Provisions for pensions and similar obligations	428	448	20	22
Total non-current interest-bearing liabilities	464	488	20	22
Current interest-bearing liabilities				
Liabilities to credit institutions	–	21	–	–
Finance leases ³⁾	40	41	–	–
Other current interest-bearing liabilities	–	35	–	–
Liabilities to Group companies ⁴⁾	–	–	1,628	1,185
Total other current interest-bearing liabilities	40	76	–	–
Total current interest-bearing liabilities	40	97	1,628	1,185

²⁾ Of non-current interest-bearing liabilities, SEK – m (–) have a term exceeding five years.

³⁾ A maturity analysis of finance leases is provided in Note 20.

⁴⁾ Reported on the Parent Company balance sheet as part of liabilities to Group companies.

	Group	Effective interest rate	31/12/2014	Effective interest rate
Interest exposure, liabilities				
Maturity less than 1 year	40	0.81%	97	1.52%
Maturity later than 1 year but less than 5 years	36	0.81%	40	1.13%
Total interest-bearing liabilities	76	0.81%	137	1.37%

The Parent Company had no interest-bearing liabilities as per 31/12/2015 and 31/12/2014.

For further information on financial risks, see pages 58–59.

30 Accrued expenses and deferred income

	Group		Parent Company	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Payroll-related items	1,051	970	43	31
Accrued bonuses and similar	82	88	–	–
Accrued real estate costs	63	47	–	–
Delivered, uninvoiced	370	438	–	–
Other accrued expenses	217	248	2	5
Other deferred income	98	29	–	–
Total	1,881	1,820	45	36

31 Contingent assets, pledged assets and contingent liabilities

	Group		Parent Company	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Pledged assets				
Chattel mortgages	–	32	–	–
Other pledged assets	0	0	–	–
Total	0	32	–	–

	Group		Parent Company	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Contingent liabilities				
Guarantees for subsidiaries	–	–	313	312
Guarantees for others	2	4	–	–
FPG/PRI	6	6	–	–
Other contingent liabilities	6	12	–	–
Total	14	22	313	312

All pledged assets pertain to own provisions and liabilities. 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 counter-bonds for bank guarantees that have been made for the Axfood Group.

For further information on financial risks, see pages 58–59.

32 Exchange rate differences and currency exposure

Exchange rate differences reported in operating profit amounted to SEK 0 m (0); exchange rate differences reported in financial items amounted to SEK 0 m (0).

Currency exposure as per 31/12/2015 is shown in the table below.

Currency	Estimated future net flow	Of which, contracted net flow	Amount hedged through forward exchange contracts	Estimated average forward rate	Outstanding currency risk
EUR	287	287	287	9.27	–
USD	33	33	33	8.52	–
DKK	2	2	2	1.24	–
GBP	0	0	0	12.84	–
Total outstanding currency risk	322	322	322	–	–

Maturity analysis of outstanding forward exchange contracts

Of outstanding forward exchange contracts on 31 December 2015, totalling SEK 322 m (366), contracts with a value of SEK 299 m (347) have a duration of up to 3 months and contracts with a value of SEK 23 m (19) have a maturity between 3 and 6 months.

Reported fair value of outstanding currency hedges	2015	2014
EUR	–4	4
USD	–1	2
Other	0	0
Total	–5	6

The reported values of total hedge reserves are presented in the summary pertaining to changes in shareholders' equity. The change in value of the hedging reserve during the year was SEK 5 m (24), and amounts transferred to inventories totalled SEK –14 m (–22). The ineffective portion of cash flow hedges that has been recognized in profit for the year amounts to SEK – m (–).

32 Exchange rate differences and currency exposure, cont.

Transaction exposure

The Group's transaction exposure during the respective full years is broken down into the following currencies:

Currency	2015	%	2014	%
EUR	3,054	93.8	2,594	92.9
USD	174	5.4	152	5.4
DKK	15	0.5	13	0.5
NOK	5	0.1	34	1.2
GBP	7	0.2	1	0
Total	3,255	100	2,794	100

For further information on financial risks, see pages 58–59.

33 Critical assessments and estimations

Impairment testing of goodwill

In calculating cash-generating units' recoverable value in connection with the Company's estimation of any need to recognize goodwill impairment, several assumptions have been made about future conditions and estimations of parameters. An account of these can be found in Note 17. As understood in the description in Note 17, changes in 2016 of the underlying conditions for these assumptions and estimations could have a material effect on the value of goodwill. However, the Executive Committee is of the opinion that reasonable, possible 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 is 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 return for long-term mortgage bonds with a term that corresponds to the Group's average remaining duration of its obligations, which in Axfood's case amounts to 14 years.

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

With respect to operational and financial risks, see the particular sections in the Administration report, pages 56–59.

Proposed disposition of the Company's profit

Reg. no. 556542-0824

The Board of Directors proposes that, of the retained profits of KSEK 3,606,587, SEK 5 per share be paid out in ordinary dividends, and SEK 4 per share be paid out in extra dividends.

Thus, retained profits will be distributed as follows:

	KSEK
Dividend	1,888,836
To be carried forward	1,717,751
	<hr/> 3,606,587

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 upon the Company's and Group's funding needs, liquidity and financial position in general.

The consolidated financial statements and Annual Report have been prepared in accordance with the International

Financial Reporting Standards referred to in European Parliament and Council of Europe Regulation (EC) No. 1606/2002 of 19 July 2002, on application of International Financial Reporting Standards and generally accepted accounting principles, and gives a fair overview of the Group's and Parent Company's financial position and results of operations.

The Administration Report for the Group and Parent Company gives a fair overview of the Group's and Parent Company's operations, financial position and results of operations, and describes significant risks and uncertainties that the Parent Company and companies included in the Group face.

The Annual Report and consolidated financial statements were, as stated above, approved for publication by the Board of Directors on 4 February 2016. The Group's statement of comprehensive income and statement of financial position, and the Parent Company's income statement and balance sheet, will be subject to approval by the Annual General Meeting on 16 March 2016.

Stockholm, Sweden, 4 February 2016

Fredrik Persson
Chairman of the Board
Director

Lars Olofsson
Vice Chairman of the
Board
Director

Antonia Ax:son Johnson
Director

Caroline Berg
Director

Peggy Bruzelius
Director

Ann Carlsson
Director

Odd Reitan
Director

Ulla-May Iwahr Rydén¹⁾

Michael Sjören¹⁾

Inger Sjöstrand¹⁾

Anders Strålmán
President and CEO

Our audit report was submitted on 4 February 2016
KPMG AB

George Pettersson
Authorized Public Accountant

¹⁾ Employee representative.

Auditor's report

To the annual meeting of the shareholders of Axfood AB (publ), corp. id. no. 556542-0824

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of Axfood AB (publ) for the year 2015. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 39–96.

Responsibilities of the Board of Directors and the President for the annual accounts and consolidated accounts

The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2015 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2015 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as

adopted by the EU, and the Annual Accounts Act. A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the statement of comprehensive income and statement of financial position for the group.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of Axfood AB (publ) for the year 2015.

Responsibilities of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the President are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the President is liable to the company. We also examined whether any member of the Board of Directors 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, 4 February 2016

KPMG AB
George Pettersson
Authorized Public Accountant

Several-year overview

Amounts in SEK m	2015	2014	2013	2012 ¹⁾	2011
Result of operations					
Net sales	41,247	38,484	37,522	36,306	34,795
Operating profit	1,760	1,447	1,302	1,200	1,250
Profit after financial items	1,749	1,430	1,278	1,162	1,214
Profit attributable to non-controlling interests	0	9	6	0	0
Tax	-388	-326	-285	-260	-323
Net profit for the year	1,361	1,104	993	902	891
Financial position					
Intangible assets	2,528	2,536	2,645	2,642	2,461
Property, plant and equipment	1,930	1,894	1,916	1,820	1,801
Financial assets	95	80	60	45	44
Other non-current assets	60	54	36	38	35
Inventories	2,035	2,100	1,906	1,932	1,916
Other current assets	1,956	1,919	1,909	1,822	1,704
Cash and cash equivalents	1,933	1,109	457	521	317
Assets	10,537	9,692	8,929	8,820	8,278
Shareholders' equity	4,530	4,029	3,768	3,398	3,237
Non-controlling interests	1	36	34	28	-
Interest-bearing liabilities and provisions	504	585	535	861	1,042
Noninterest-bearing liabilities	5,502	5,042	4,592	4,533	3,999
Shareholders' equity and liabilities	10,537	9,692	8,929	8,820	8,278
Cash flow					
Cash flow from operating activities	2,495	2,029	1,596	1,915	1,384
Cash flow from investing activities	-751	-582	-718	-816	-941
Cash flow from financing activities	-920	-795	-942	-895	-441
Cash flow for the year	824	652	-64	204	2

Amounts in SEK m	2015	2014	2013	2012 ¹⁾	2011
Key ratios					
Operating margin, excluding capital gains and structural costs, %	4.3	3.8	3.5	3.3	3.6
Margin after financial items, %	4.2	3.7	3.4	3.2	3.5
Equity ratio, %	43.0	41.9	42.6	38.8	39.1
Net debt-equity ratio (+)/net debt receivable ratio (-), multiple	-0.3	-0.1	0.0	0.1	0.2
Debt-equity ratio, multiple	0.1	0.1	0.1	0.3	0.3
Capital employed	5,035	4,650	4,337	4,288	4,279
Return on capital employed, %	36.5	32.4	30.3	28.2	31.0
Return on shareholders' equity, %	31.8	28.1	27.5	27.2	28.7
Interest coverage, multiple	103.9	60.6	43.6	26.8	29.9
Capital expenditures	764	643	806	932	993
Earnings per share, SEK ^{2, 3)}	6.48	5.22	4.70	4.30	4.25
Shareholders' equity per share, SEK ^{2, 3)}	21.58	19.20	17.96	16.19	15.43
Cash flow per share, SEK ³⁾	3.9	3.1	-0.3	1.0	0.0
Cash flow from operating activities per shares ³⁾	11.9	9.7	7.6	9.1	6.6
Number of shares outstanding ³⁾	209,870,712	52,467,678	52,467,678	52,467,678	52,467,678
Weighted average number of shares ³⁾	209,870,712	52,467,678	52,467,678	52,467,678	52,467,678
Average number of employees during the year ⁴⁾	8,803	8,481	8,285	8,021	7,062
Ordinary dividend, SEK/share ³⁾	5.00 ⁵⁾	4.25	3.75	3.00	3.00
Extra dividend, SEK/share	4.00 ⁵⁾	-	-	-	-

¹⁾ On account of new accounting policies as from 1 January 2013 regarding pension costs (IAS 19), the comparison figures for 2012 have been adjusted.

²⁾ Pertains to earnings/net asset value before and after dilution.

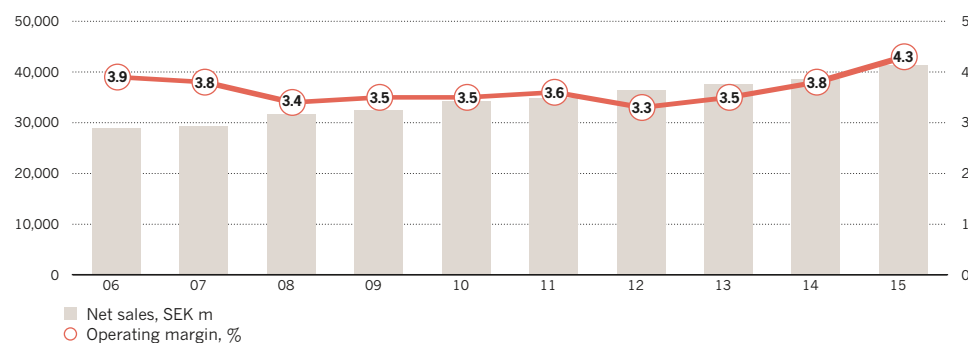
³⁾ In 2015 Axfood carried out a 4:1 stock split. The number of shares outstanding after the split is 209,870,712 (52,467,678). Comparison figures have been adjusted.

⁴⁾ In calculating the average number of employees, the normal number of hours worked is 1,920.

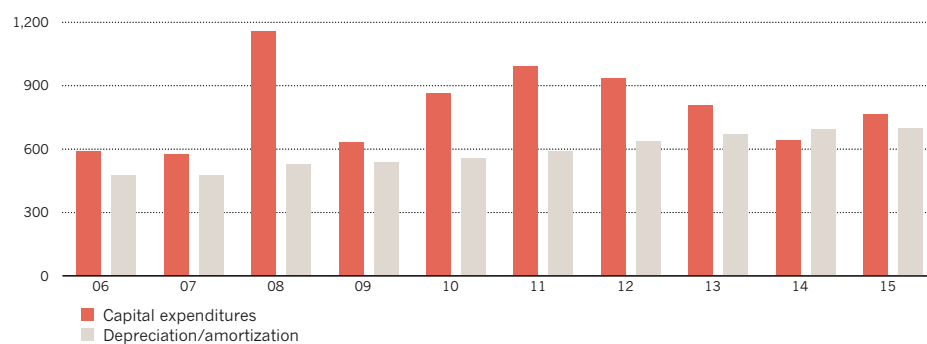
⁵⁾ Proposed by the Board of Directors.

Ten-year overview

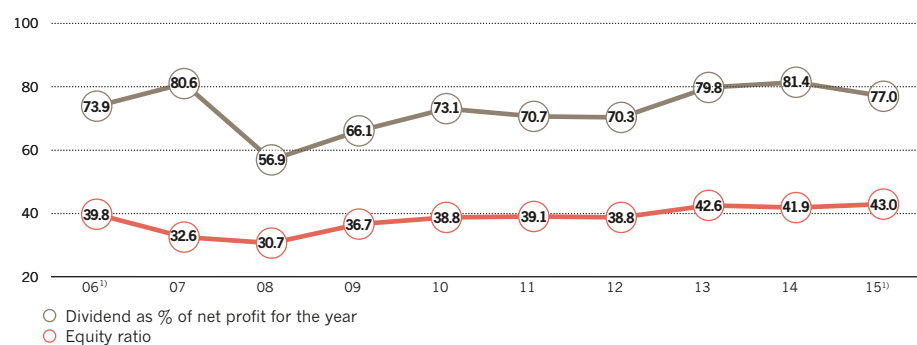
Axfood's net sales and operating margin



Capital expenditures and depreciation/amortization, SEK m



Dividend and equity ratio, %



¹⁾ Including the extra dividend, the total dividend was 123.1% of profit for the year in 2006 and 138.8% in 2015.

Definitions and glossary

DEFINITIONS

Average number of employees during the year: Total number of hours worked divided by the number of hours worked per year (1,920 hours).

Capital employed: Total assets less noninterest-bearing liabilities and noninterest-bearing provisions. Average capital employed is calculated as capital employed at the start of the year plus capital employed at the end of the year, divided by two.

Cash flow per share: Cash flow for the year divided by a weighted average number of shares outstanding.

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

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

Earnings per share: Share of net profit for the year attributable to owners of the parent divided by a weighted average number of shares outstanding.

Employee turnover rate: Number of employment positions ended divided by the total number of employees.

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

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

Inventory turnover rate: Cost of delivered products divided by average inventory value.

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

Net asset value per share: Shareholders' equity attributable to owners of the parent divided by the number of shares outstanding.

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

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

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

P/E multiple: 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: Share of net profit for the year attributable to owners of the parent as a percentage of the average equity attributable to owners of the parent. 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.

Share turnover rate: The number of shares traded during the year divided by the number of shares outstanding at year-end.

GLOSSARY

91/9 model: An agreement under which a store is majority-owned by Axfood during the initial years, and subsequently becomes 99%-owned by the store proprietor and 1% by Axfood.

Autoorder: An automated store restocking system.

BSCI: Business Social Compliance Initiative.

Delivery reliability: The share of delivered goods in relation to the share of ordered goods.

Distributed sales: Volume distributed from Group-owned warehouses.

E-learning: An interactive training program.

EMAB: EMAB is collaborative organization for independent service station stores, with approximately 400 members within the Shell, Statoil 123, Hydro, Bilisten and Preem service station chains.

Fairtrade Certified: Label for products that are made with the aim of improving the working and living conditions for

growers and employees in developing countries through certified fair trade practices. The label certifies that the product meets the criteria of the Fairtrade International organization.

GRI: Global Reporting Initiative

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.

MSC: Marine Stewardship Council.

Residual mix: Residual mix is the electricity mix a company may be supplied with if it does not make any active choice of the source of the electricity. Consists of a mix of fossil-based, renewable and nuclear powered electricity that remains after factoring out the electricity generated and supplied to customers that have made an active choice of the source of the electricity.

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