

Axfood

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Food with care

Few things in life affect everyone, but food is one. Regardless of whether Axfood's customers are gathering for a Sunday dinner or need to quickly get some food on the table after picking up the kids from day care, we know they want to feel secure about what their food contains and how it has been produced. This is why we are working to ensure that everyone has the opportunity to eat affordable, good and sustainable food – every day.

The Axfood family has joint warehouses, logistics, assortment development and private labels. With Dagab as the central purchasing organization, low prices can be achieved through large purchasing volumes. This enables us to differentiate and adapt our concepts to customers' preferences.

Axfood's clear embracing of its responsibility for sustainability gives security both to us and our customers. Axfood has insight and makes demands across the entire value chain.

Axfood's financial strength, too, lends security to investors and the organization. By being financially strong we can continue to grow and develop our concepts, and new acquisitions, such as mat.se, Eurocash and Apohem.

We aspire to be a positive force for change in society. By taking a stance, inspiring and daring, we are driving ourselves and the industry towards greater sustainability.

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About the Annual Report

The Group's sustainability issues are integrated in the operations and thereby in the Annual Report, inspired by the International Integrated Reporting Council's (IIRC) Integrated Reporting (IR) framework. Axfood's sustainability report is prepared in accordance with the Global Reporting Initiative's (GRI) guidelines, G4 Core.

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

¹⁾ Pages 66–69 are not part of the statutory Annual Report.

A better day where everyone
can enjoy affordable, good
and sustainable food





Axfood at a glance

The Axfood family is made up of successful and distinctive food concepts that rest upon close collaboration. It includes the Willys and Hemköp chains as well as Tempo, Handlar'n and Direkten, which are retailer-owned. B2B sales are conducted through the Axfood Snabbgross chain, and wholesale business is conducted through Dagab. Axfood also owns mat.se and Middagsfrid, and is a part owner of Urban Deli, Eurocash and Apohem.

We who work at Axfood want everyone to be able to eat good and sustainable food – every day. Good food that is produced responsibly with care for people, animals and the environment. By taking a stance, inspiring and providing guidance, we are driving change towards more sustainable food production.

1,137

Axfood collaborates with 1,137 stores, of which 274 are Group-owned.

#2

Axfood is number two in the Swedish market.

50.1%

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

KEY RATIOS

	2017	2016 ¹⁾	Change
Net sales, SEK m	45,968	42,974	7.0%
Operating profit, SEK m	1,886	1,902	-0.8%
Operating margin, %	4.1	4.4	-0.3
Profit after tax, SEK m	1,467	1,473	-0.4%
Earnings per share, SEK	6.98	7.02	-0.6%
Equity ratio, %	39.0	39.1	-0.1
Ordinary dividend per share, SEK	7.00 ²⁾	6.00	16.7%
Average number of employees during the year	9,903	9,211	692
Electricity use, kWh/m ² ³⁾	319.9	334.0	-4.2%
CO ₂ , kg/tonne goods ⁴⁾	7.3	8.7	-16.1%

¹⁾ Figures for 2016 are pro forma following the acquisition of Saba's fruit and vegetable warehouse operation.

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 fleet.

WILLY:S



Hemköp



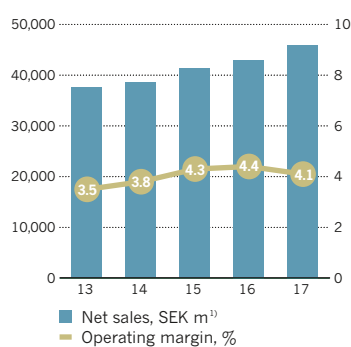
axfood Närlivs



dagab



NET SALES AND OPERATING MARGIN



¹⁾ Figures for 2016 are pro forma following the acquisition of Saba's fruit and vegetable warehouse operation.

TOTAL RETURN, AXFOOD SHARES 2013–2017, INDEX



7.0%
sales growth in 2017¹⁾

NET SALES

Willys is Sweden's leading discount grocery chain, offering a wide assortment at 207 stores. Willys seeks to develop the discount grocery segment by offering Sweden's cheapest bag of groceries via an omnichannel approach. Willys also includes the cross-border shopping chain Eurocash. *Read more on p. 40*



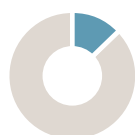
25,415 SEK m

OPERATING PROFIT

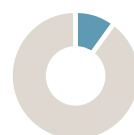


1,020 SEK m

Hemköp offers an affordable, wide assortment with a rich selection of fresh products. With 67 Group-owned stores and 120 retailer-owned stores, Hemköp aims to inspire passion for food with sustainability and make it easy for customers to find good meal solutions. *Read more on p. 42*

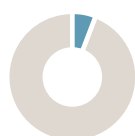


6,189 SEK m
Excl. franchise stores

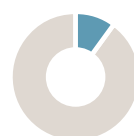


196 SEK m

Axfood Närlivs handled the Group's business customers in 2017. At the start of 2018 Axfood Närlivs was reorganized, and Axfood Snabbgross became a separate segment. Tempo became part of Hemköp, and Handlar'n and the convenience retail business became part of Dagab. *Read more on p. 44*



2,977 SEK m
External
2,984 SEK m
Total



189 SEK m

Dagab is the Group's support company for purchasing and logistics. Dagab is responsible for an efficient flow of goods and logistics. Warehousing is conducted at seven distribution centres. Dagab also includes mat.se and Middagsfrid. *Read more on p. 46*



11,337 SEK m
External
41,139 SEK m
Total



697 SEK m

Eventful year with outstanding sales growth

As the Axfood family now puts 2017 on record, we can once again point to a successful year – a year with several strategic acquisitions, new stores and an accelerated e-commerce rollout. Parallel with this we showed very strong growth and delivered an operating margin in line with our forecast and long-term targets. It was a year full of energy and cooperation, and we have emerged from it with a cohesive, strategic plan for the future.



As I write these comments, on my way home from Willys' annual conference in Gothenburg, I'm reflecting over my first year at Axfood. I sensed I would see a company with strong values – a Group with successful food concepts which, through collaboration, create considerable value for customers and shareholders alike. A year later, I can con-

firm that my first impressions were spot-on, and I am impressed by the great commitment to sustainability that permeates the entire organization.

High energy level

In summing up my first year, I find the high level of energy and many activities throughout the Group to be striking. Small and large measures are being taken continuously across the entire chain, from purchasing to the customer meeting – and everywhere in between. We are twisting and turning every detail to make our customer offering even better.

Through a series of acquisitions we have strengthened and broadened our portfolio. Mat.se is enabling us to be fast and flexible in the strongly growing e-commerce channel; through Eurocash we have taken a strong position in cross-border shopping; and through Saba's warehouse operation we have shortened a link in the chain and increased our efficiency.

During the year we also invested in the start-up of an online pharmacy, Apohem, with the ambition to broaden our offering and enter the growing online pharmacy market.

In our management, we have fine-tuned and developed our plans and strategies so that we can continue to be successful also in the future.

Successful year of expansion

During 2017 Axfood's growth considerably outpaced the market as a whole. Our clearly stronger position in Sweden's food retail market can be credited both to company acquisitions

and high organic sales growth. All of Axfood's segments increased their sales through more customer visits and a higher average ticket value – most notably Willys, which even without the acquisition of Eurocash had very strong performance. E-commerce accelerated during the year, in part through the acquisition of mat.se and in part through the rollout at Willys and Hemköp.

This strong growth had a positive effect on operating profit. According to plan, profitability was down slightly from last year, even though we exceeded the Group's 4% target. The decrease in profitability is mainly due to future investments such as in e-commerce and store refurbishment at Hemköp. Willys and Dagab, which includes mat.se, managed to uphold their profitability despite strong digital growth.

Market in change

The year's performance confirms that we stand strong today, but this does not mean that we can stand still. The market is currently going through major changes that we must adjust to. I would like to highlight three trends in particular that will affect us and the market to a growing degree.

Customer behaviours regarding food are changing at an increasingly faster pace. Customers want flexible solutions, preferring to prepare meals from scratch one day and get help with ready-made solutions the next. The café and restaurant market is growing, but even in the food retail sector there is great potential in addressing these needs.

Sustainability is no longer a narrow issue for a handful of engaged people. Customers are growing increasingly aware of how food production affects our planet as well as our health. Issues such as a product's origin and carbon footprint are becoming increasingly important.

Digitalization affects all companies and industries, and obviously us as well. With more than four million customers a week we have enormous potential in the volume of data we have at our disposal. Managed properly, it can make us even better at serving our customers, adapting our warehouses, reducing food waste

2017

Q1: New CEO and CFO; acquisitions of mat.se and Saba's fruit & vegetable warehouse operation

Q2: Acquisitions of Eurocash and Middagsfrid

Q3: Part-owner of newly started Apohem

Q4: Decision to restructure Axfood Närlivs

“I am impressed by the commitment to sustainability in the entire organization.”

and being more efficient in our processes. The list is long, and we are only at the start of the development. Digitalization is also leading to changed shopping patterns. The food industry is still only in its infancy when it comes to e-commerce, and we are certain this will continue to grow.

Sustainable and innovative agenda going forward

With changes come opportunities as well as challenges. Since we are a family of several different food concepts, we have favourable prospects to address these changes. Through our various concepts we can profile ourselves based on the chains' specific target groups and meet their specific needs. And by integrating our work with our supporting functions, we create economies of scale and become efficient. This is a prerequisite for low prices in a low-margin business like ours.

Axfood has a strong foundation to build further upon. To meet the needs of tomorrow's customers, we will need to further develop ourselves. Our ambition – to contribute to better everyday life where everyone can enjoy affordable, good and sustainable food – is a lodestar in our work that will guide us for many generations ahead.

Our vision to be the leader in good and sustainable food carries a responsibility. Sustainability is something we have worked with for a long time throughout the value chain. We are now looking to take the next step by challenging ourselves, our suppliers and our customers to make more sustainable choices.

Facing the future together

With enthusiasm and commitment we are moving forward into a new year. We stand strong on firm financial ground and see great opportunities to further strengthen our position in a changing market.

Thanks to all our customers and shareholders for the confidence you have put in us during the year. Thanks to all our suppliers and business partners for your great cooperation. And finally, specially warm thanks to all our employees for the great job that you are doing – step by step – by taking Axfood forward to the next level.

Together we are strong!

Stockholm, February 2018

Klas Balkow
President and CEO



Food retail in Sweden – a market in change

The food retail sector is an important part of Swedish business, comprising some 4,000 stores in major metropolitan areas as well as across the countryside. The sector is undergoing change – and Axfood with it to be able to meet consumers' needs and preferences in the future. E-commerce, competition from discount chains and changing food habits are putting new demands on Axfood as a long-term sustainable actor.

The grocery sector is generally less sensitive to economic swings than other retail sectors. It mirrors the population trend in general and is driven primarily by population growth and inflation. Today's grocery shoppers demand sustainability, and sales are being driven by a larger share of organic and value-added products, with higher prices. Food retail sales in Sweden (excluding alcoholic beverages) are estimated at approximately SEK 260 bn (254). Measured in current prices, sales growth was 2.3% according to preliminary data from Statistics Sweden and HUI Research.

The Swedish Trade Federation forecasts that the industry will change faster in the next ten years than during the last fifty, owing to digitalization and consumers' changing habits and opportunities. Through Axfood's House of Brands strategy, the respective food concepts can adapt and meet the distinct needs of their customers. Through attention to every detail in operations – from the assortment, purchasing and logistics, to the interaction with customers in all channels – Axfood is staying attuned to its customers and continues to develop relevant offerings and concepts.



During 2017 Willy's promoted its vegetarian offering across a broad front, and sales of refrigerated and frozen vegetarian products grew 33%.

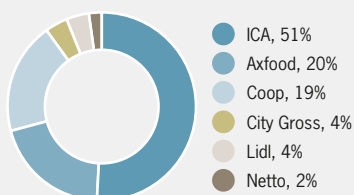
SEGMENTATION IN SWEDEN

Hard Discount	Discount	Hypermarkets	Traditional grocery		Mini-marts
Items:	1,500–2,000	5,000–12,000	12,000–20,000	10,000–15,000	1,000–
Price index:	— ¹⁾	90–98	95–102	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, Eurocash	ICA Maxi, Stora Coop, City Gross	Hemköp, Coop, ICA Supermarket, ICA Kvantum, med flera	Tempo, Handlar'n, Direkten, ICA Nära, 7-Eleven, Pressbyrån, Lilla Coop, and others

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

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.

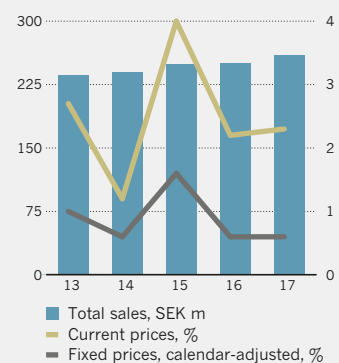
MARKET SHARES, LARGEST COMPETITORS IN SWEDEN 2016²⁾

²⁾ Based on sales figures for 2016 for groceries, as data for 2017 was not available at the time of this report's publication.

Source: In 2016 Axfood began using a different method for calculating market share. Market shares are now based on calculations made from actual data from the most recently available annual reports of the respective companies, in contrast to previously, where the data was obtained from Delfi /DLF /HUI Research. Based on this new method, Axfood's market share was adjusted from 21% in 2015 to 20% in 2016, even though Axfood had higher growth than the market as a whole in 2016.



SALES TREND IN THE FOOD RETAIL MARKET (EXCLUDING ALCOHOLIC BEVERAGES)



Five megatrends – and how Axfood is addressing them

Globalization, digitalization and a focus on sustainable lifestyles are overarching trends that affect all of society and thus also the food retail trade. Axfood has defined five key areas that affect the industry. We are studying these in-depth in an effort to align our operations to them and benefit from them.

Trend 1 Global and urban consumers

Sweden's population is being concentrated in the major metropolitan areas. The populations of Stockholm, Gothenburg and Malmö are expected to grow by 37% during the next 40 years. Parallel with this, in rural municipalities, populations are expected to decline by 10%.

Population growth in Sweden has been high in recent years due to immigration, a low level of emigration, and more births than deaths. People born outside the country account for a significant share of the population. Since the Second World War Sweden's Finnish

population has been the largest group born outside Sweden, but in recent years an historical shift has taken place. Today Syrians are Sweden's largest immigrant group.

At the same time we are travelling more. The number of travel bookings in 2017 is estimated to have grown by 17% compared with 2016. This has brought an influx of influences and inspiration from other cultures. Food from Japan, the Middle East and Korea are becoming increasingly popular.



Trend 2 Sector convergence and changing consumer patterns

For consumers, time is precious. No matter the errand, it must go quickly and conveniently. Today many tasks are performed online, and demand is rising for digital services that make life easier. A key factor in the growth of e-commerce is that younger generations are more digitally literate. Digital grocery shopping in Sweden is currently in an expansive phase. According to estimates from the Swedish Digital Commerce Association, online grocery shopping grew by as much as 30% in 2017

compared with 2016, corresponding to 2.4% of total food sales.

During the past 25 years the share of household spending on food has decreased by nearly half as a share of total private consumption. Through sector convergence, a larger share of consumption is instead going towards café and restaurant visits. Today it's not uncommon to see cafés and pharmacies sharing premises with grocery stores.



“We are travelling more. This means more influences from other cultures. Foods from the Middle East, Japan and Korea are becoming increasingly popular.”

Axfood is focusing on diversity and attractive locations

Axfood is establishing stores in growth locations with convenient access. As a supplier to mini-marts in residential areas, Axfood is also meeting a growing need to do small shopping close to home. All of the Group's chains are working endlessly with assortment development to meet demand for international products.

Modern city dwellers value the advances that Axfood has made in digital services, which simplify their lives and complement our high ambitions for sustainability.

Axfood believes that a workplace distinguished by diversity is good for customers and for business. Our employees' knowledge and perspectives are creating new opportunities and generating better results. Today more than 21% of Axfood's employees have a background outside Sweden, which is about the same as for Sweden as a whole. By 2020, 20% of Axfood's managers are to have an international background.

Read more under Strategy – Customer interface/Customer offering/Employees



Axfood wants to reflect the society that we are part of.

E-commerce and smart solutions

For Axfood, digitalization is about more than just offering e-commerce. It is also about simplifying shopping in stores. Consumers don't want to waste time making decisions, shopping, standing in queues and preparing meals. Axfood is addressing this need through simple solutions that make life easier for customers – e-commerce, meal kits, self-checkout and cardless customer programmes. Through our digital customer programmes more than 3 million customers receive personalized offerings. Parallel with this, Axfood is continuously developing the assortment in order to offer meal solutions for all occasions.

The acquisitions of mat.se and Middagsfrid have increased the Group's e-commerce prowess. Mat.se is exploring novel ways of delivering customers' orders, including delivery direct to their refrigerators or in their cars.

Axfood's investment in the online pharmacy Apohem is part of efforts to expand the customer interface and provide solutions

that make customers' lives easier and give them greater accessibility. Axfood also has good exposure to the café and restaurant sector through Axfood Snabbgross.

Read more under Strategy – Expansion/Customer offering and Axfood Snabbgross



Trend 3 Health and lifestyle – trendy and healthy food

Conscious consumers exhibit their lifestyle choices through the food they eat. Health and exercise continue to be symbols and high status. It is no longer only vegetarians and vegans who think about animal welfare and the environment when choosing the food they eat. One in three Swedes considers themselves to be so-called flexitarians. The large carbon footprint from food production and red

flags about cancer are driving demand for healthy, vegetarian, organic and high-protein food. Food with specific, documented health benefits is becoming increasingly common. Many customers want more information about the source, quality and content of products in their efforts to live healthier and care for the climate and environment.



Trend 4 Sustainability and responsibility – a matter of course

Sustainability is becoming increasingly important in consumers' product choices regardless of whether their concern pertains to animal welfare, the carbon footprint, or the social consequences of the food they eat. Axfood's customers are growing increasingly conscious of the impact food has on their own health and the environment. Food is taking on a more important social role. In addition to environmental and health aspects, a growing number of consumers are also concerned about the social conditions in which various products have been

produced. Environment-friendly packaging, eating foods in season, food produced for a better environment, ethical aspects and a product's origin are becoming increasingly important issues.

Consumers' expectations for the industry are growing every year. Being able to offer a large assortment of organic products has become an inspirational factor – even for discount chains. We see that customers are becoming more conscious and more well-informed, and their commitment to reducing food waste is growing.



Trend 5 Value for money – more than just price

Axfood's chains have different core customer groups, but what they all share in common is that value for money is not about just the lowest price. Some customers prefer ease of shopping and like new solutions such as self-scanning and e-commerce. For others it is important to find their favourite brands at low prices or to gain inspiration, learn about new trends, and get good service in stores.

Axfood's customers are generally very price-conscious. According to Axfood's brand survey, "low prices"

are ranked as most important, closely followed by "high quality".

Aspects such as an appealing and organic assortment, attentive service, friendly staff and food inspiration all enhance customers' perceptions of value for money.

As the saying goes, time is money. One in four customers does not want to stand in a queue in a checkout lane and is happy to pay to have their groceries picked, packed and delivered home.



Axfood offers inspiration and guidance for sustainable choices

Axfood strives to inspire customers for a better life where everyone can enjoy good and sustainable food. Taking a responsible approach to environmental and sustainability issues is part of the Group's daily business. Axfood's customers must feel confident that they will find a large organic assortment and wide range of fruits and vegetables adapted to the season.

Through its private labels Axfood can entice customers to try healthy, fun and more sustainable products, such as coconut milk yoghurt or vegetarian meatballs using mushrooms instead of meat. During 2017 Axfood's Garant private label expanded its organic assortment by 45 items. Through Willys the Group promises to offer not only Sweden's cheapest bag of groceries, but also Sweden's cheapest bag of organic groceries.

During the year Hemköp launched the "Vary with veg" concept, where selected vegetarian alternatives are displayed next to meatballs and liverwurst, for example. After promoting the concept for just over a month, the Hemköp City store in Stockholm sold four times as much of the selected vegetarian products than

in the same period a year ago. With a rich vegetarian offering and inspiration about alternative protein substitutes, Axfood is spurring curiosity and inspiring more consumers to eat green. *Read more under Strategy – Customer offering*



Axfood aspiring to lead in good and sustainable food

For Axfood, the consumer is always in focus, for in the end it is what customers choose that makes the big difference. And in this lies the key to sustainable development: Axfood wants to make it easy for customers to eat well and do good. As an example, the Group has partnered with WWF to ensure that customers will always feel confident in their choices when they buy fish from our stores.

Sustainable development permeates Axfood's strategies, and the Group's goal is to be the industry leader at sustainability. Axfood offers safe and environmentally sound foods, takes extra measures to ensure good working conditions among its suppliers, and clearly labels the country of origin of products.

Axfood is a driver of issues in the industry and often leads the charge, such as concerning the use of antibiotics and plastics. Axfood was also first in Sweden to change over to sugar cane – based bags for fruits and vegetables. The Group continues to expand its offering of organic foods and many initiatives are being taken to reduce food waste – both in stores and in consumers' homes.

Read more under Sustainability



Axfood offers high quality at low prices

For Axfood, affordable food is an important part of business. Through efficient processes and cost control, the Group is working relentlessly to offer low prices while paying attention to the smallest details in its stores and in its e-commerce channels. Willys offers Sweden's cheapest bag of groceries. Hemköp exuberates passion for food, coupling value for money with inspiration. Mat.se is taking a step further in its home delivery aspirations, testing deliveries directly home to customers' refrigerators. All the while, Axfood is meeting the needs of business customers for convenient deliveries of the right products at the right time.

The 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.

Axfood has increased the number of self-checkout lanes in the Group's stores. Customers are more satisfied and can avoid queues, while store employees are freed up to serve customers and offer inspiration.

Read more under Willys, Hemköp, and Strategy – Customer offering

CONSUMERS' DRIVERS REGARDING VALUE FOR MONEY



Source: Consumer survey Nepa / Axfood week 18-35 2017, 2,125 respondents.



Choose organic – make a difference!

By choosing organic products we make a difference for both animals and the environment. Organic is a long-term issue for Axfood. We want to ensure access to organic ingredients from Sweden and develop a greater number of more sustainable products. Axfood is widening its offering in stores and making it easy for customers to make good choices. We encourage

organics for the benefit of more organics. Through our own Garant brand we are steadily expanding our selection of affordable organic products. The Garant organic range is carefully selected, is subject to rigorous testing and comes from producers that have either EU organic or KRAV-certified production.

Leader in good and sustainable food

We have reviewed and refined our vision, mission and business concept to chart the course for our way forward. Axfood is made up of successful and distinctive food concepts. Close collaboration makes the companies stronger and more efficient. Axfood's vision is to take leadership in good and sustainable food. Toward this vision, the Group focuses on six strategic areas.

HOUSE OF BRANDS



VISION

Axfood will be the leader in good and sustainable food

MISSION

Axfood contributes to better everyday life where everyone can enjoy affordable, good and sustainable food

BUSINESS CONCEPT

A family of successful and distinctive food concepts in close collaboration

STRATEGY



Customer offering



Customer meeting



Expansion



Supply chain



Work approach



Our people

SUSTAINABILITY AND COMMUNITY ENGAGEMENT

CORE VALUES AND CULTURE

Axfood creates value through corporate social responsibility

RESOURCES AXFOOD DEVELOPS

Relationships

- Relationships with approximately 1,500 risk-assessed suppliers, many of which are long-term and with ambitions for sustainable and affordable food, which deliver some 35,000 different items
- Advocacy through industry organizations and vis-à-vis community contacts in an effort to solve sustainability issues together

For information on our stakeholders, a materiality analysis and material issues, see p. 118

Intellectual capital

- Competence to develop private label products by drawing from customer surveys and insight work to enhance value-added and affordability
- More than 3 million customers in two cardless and fully digital customer programmes

Knowledge

- Experience and knowledge in e-commerce through positioning of five distinct brands online
- Integrated sustainability work across the entire value chain
- Axfood Academy – internal centre for competence development

Financial

- A business model that generates a strong and stable cash flow
- Strong financial position, with low debt-equity ratio

Facilities

- Seven distribution centres and three dark stores, with an average inventory turnover rate of 33 times a year. Certain facilities are fitted with solar panels to generate their own renewable electricity
- Collaboration with 1,137 stores, of which 274 are Group-owned
- 140 trucks handling distribution to stores, plus a fleet of 110 smaller trucks and vans for home distribution to consumers

Nature

- Energy use: in stores 346 kWh, in warehouses 216 kWh
- Fuel consumption due to transportation of goods

AXFOOD'S OPERATIONS



Choice of suppliers, price negotiations and purchasing



Logistics



Stores, customers and passion for food

RESULTS AXFOOD GENERATES

Relationships

- Axfood has worked together with more than half of its suppliers for at least 10 years. In assortment development, focus is on good, sustainable and affordable products. Every year some 1,400 negotiations are conducted
- Active influence in the work on devising Sweden's national food strategy. Driving role behind the adoption of deposits for more packaging, such as juice bottles

Intellectual capital

- Approximately 28% of sales consist of private label products, which are produced in collaboration with some 400 suppliers. Three new private labels introduced in 2017: Prime Patrol, Dazzley and Spicefield
- Through tools and data warehouses, customers' buying behaviours can be analysed, allowing Axfood to create relevant and personalized offerings

Knowledge

- Increased sales through omnichannel strategy, plus an online offering that reaches more than 5 million customers
- A higher baseline and more products with a sustainability profile, and energy efficiency improvements within the Group
- 1,457 employees spent a total of 3,688 training days via Axfood Academy. In all, 24 different instructor-led courses were held on 159 occasions, and 27,112 e-learning courses were completed by 5,988 individuals

Financial

- High equity ratio of 39.0%, a net debt receivable as per year-end 2017, and a proposed dividend of 100% of net profit
- Investments in ten new stores, modernization of existing stores and four business acquisitions, which has led to higher growth and a stronger House of Brands

Facilities

- Sale of approximately 7,500,000 kWh in surplus electricity to electricity suppliers
- Solar panels that generated approximately 180,000 kWh
- 205 new jobs in newly established stores
- More diversified delivery fleet which use various types of renewable fuels

Nature

- 16% reduction of CO₂ emissions per distributed tonne of goods in 2017 for transports from warehouses to stores using own fleet
- Avoidance of use of HVO biofuel, which uses a processing residue from palm oil. This will lead to a higher carbon footprint for Axfood, but is of long-term importance for the environment

VALUE 2017

Society

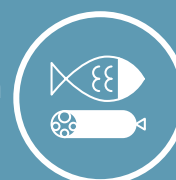
Social security costs, pension costs, income taxes, value-added taxes, alcohol taxes, withholding taxes

3,286 SEK m

**Suppliers**

Costs of goods for resale

33,267 SEK m

**Employees**

Salaries and remuneration

3,959 SEK m

Average number of employees

9,903

**Axfood**

Total capital expenditures

1,934 SEK m

**Shareholders**

Dividend (proposed by the Board of Directors)

1,468 SEK m

**Environmental improvement**

Reduced carbon footprint 2016¹⁾

-22%



¹⁾ The carbon footprint for 2017 cannot be reported until July 2018.

BUSINESS MODEL

Distinct processes from selection to the customer's shopping cart

Axfood's business model is built upon three processes. Every 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 basket. At every step, value is created for Axfood and its stakeholders.

Choice of suppliers, price negotiations, and purchasing

Attention to detail begins with the assortment

Axfood offers affordable, good and sustainable food that meets customers' needs and preferences. Purchasing is done through a Group-wide assortment and purchasing function. Axfood strives for long-term relationships with suppliers who share the same ambition for sustainability and affordable products.



Logistics

Striving for optimal operations

Efficient logistics create conditions for favourable and profitable growth. Other centrally important areas include efficient use of energy and sustainable transports for reduced carbon footprint and better economy.



Stores, customers and passion for food

Give customers freedom of choice and create an inspiring in-store experience

Key aspects in creating inspiring stores include attentive customer service, the selection of fresh products, and modern design and technology. Having a sustainable business requires efficient use of energy. Axfood is committed to meeting customers where they want, either in physical stores or online.





Hurray for Swedish food innovation!

Wouldn't it be great to have Swedish alternatives for the food we currently need to import? By expanding our assortment with products from Sweden and advocating for Swedish food production, Axfood is striving to boost Swedish value-added. Swedish farmers and food entrepreneurs

hold great potential. Axfood has more than a thousand products marked with the Swedish country of origin label in its assortment. We believe that higher demand for Swedish foods inspires more food innovation. Let's put Sweden's "Food Valley" on the map!

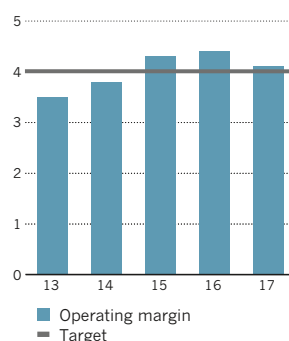
Performance on strategic targets

Axfood's strategic targets support the strategy of profitable growth while advocating for environmental issues and committed employees who are to reflect the diversity of society at large.

Financial targets



OPERATING MARGIN, %



Target

Long-term operating margin of at least 4%.

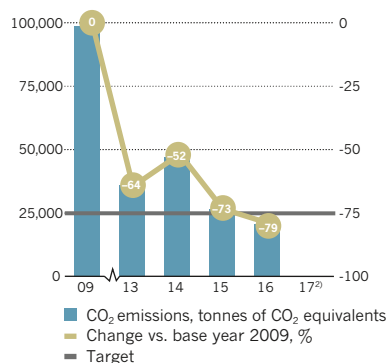
Outcome

The long-term target was reached in 2017, with an operating margin of 4.1%.

Environmental targets



CARBON FOOTPRINT – CO₂ EMISSIONS¹⁾



Target

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

Outcome

From 2009 through 2016²⁾ Axfood reduced its carbon footprint by 79%.

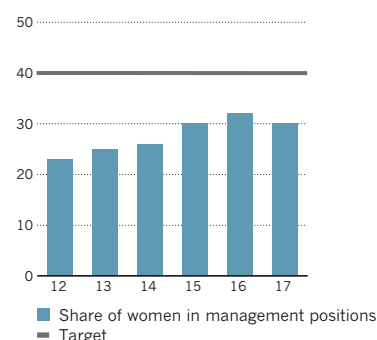
¹⁾ Through better data collection, historical figures have been adjusted compared with the year-end climate data from the Haga Initiative.

²⁾ The outcome for 2017 is dependent on the residual mix, which will be published later in 2018.

Employee targets



GENDER EQUALITY, %

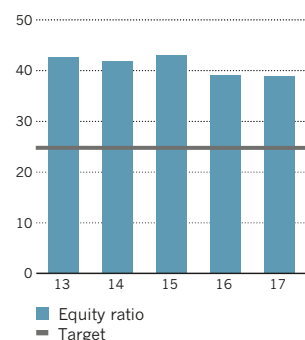


Target

Axfood will have 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

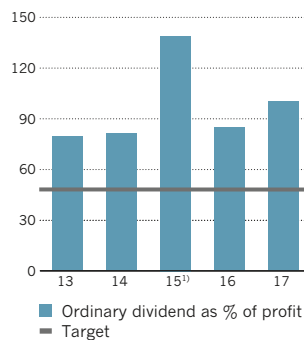
Axfood met the long-term target at the mid-management level in 2017; in other management positions the share of women was 30%.

EQUITY RATIO, %**Target**

An equity ratio of at least 25% during all quarters.

Outcome

The equity ratio as per 31 December 2017 was 39.0%, and the target was achieved during every quarter.

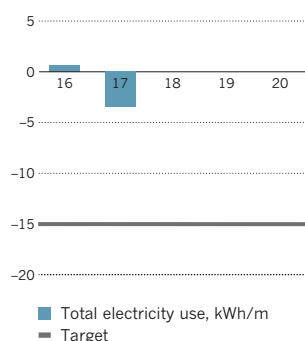
DIVIDEND IN RELATION TO PROFIT, %**Target**

Axfood's dividend policy sets 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 7.00 (6.00) per share, corresponding to 100% of profit after tax.

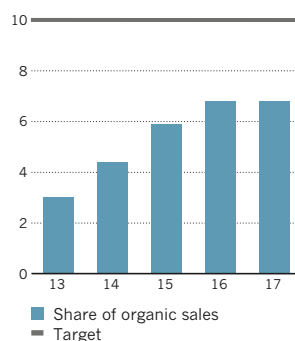
¹⁾ In 2015 an extra dividend of SEK 4.00 per share was paid out.

CHANGE IN ELECTRICITY USE, %**Target**

Axfood will reduce its energy use by 15% per square metre by year-end 2020 (base year: 2015).

Outcome

Electricity use per square metre decreased by 3.5% in 2017 compared with the base year 2015.

SHARE OF ORGANIC SALES, %**Target**

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

Outcome

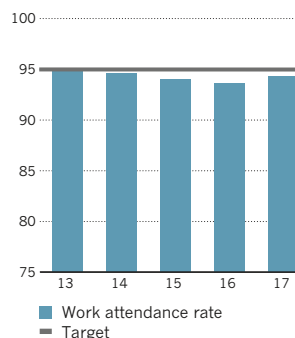
Organic products accounted for 6.8% of net sales in 2017. Organic products accounted for 9.5% of total for Hemköp and 6.0% for Willys.

DIVERSITY, %**Target**

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

Outcome

In 2017, 13% of Axfood's managers and 22% of employees had an international background. More than 30 languages are spoken within the Group.

WORK ATTENDANCE RATE, %**Target**

A work attendance rate among Axfood's employees of at least 95%.

Outcome

The work attendance rate in 2017 was 94.3%.



Everyone should be able to eat affordable, good and sustainable food

Axfood wants to guide and inspire customers to make good and sustainable choices. The assortment is the most important proof of this work and serves as the foundation for Axfood's mission: that everyone should be able to eat affordable, good and sustainable food.

House of Brands

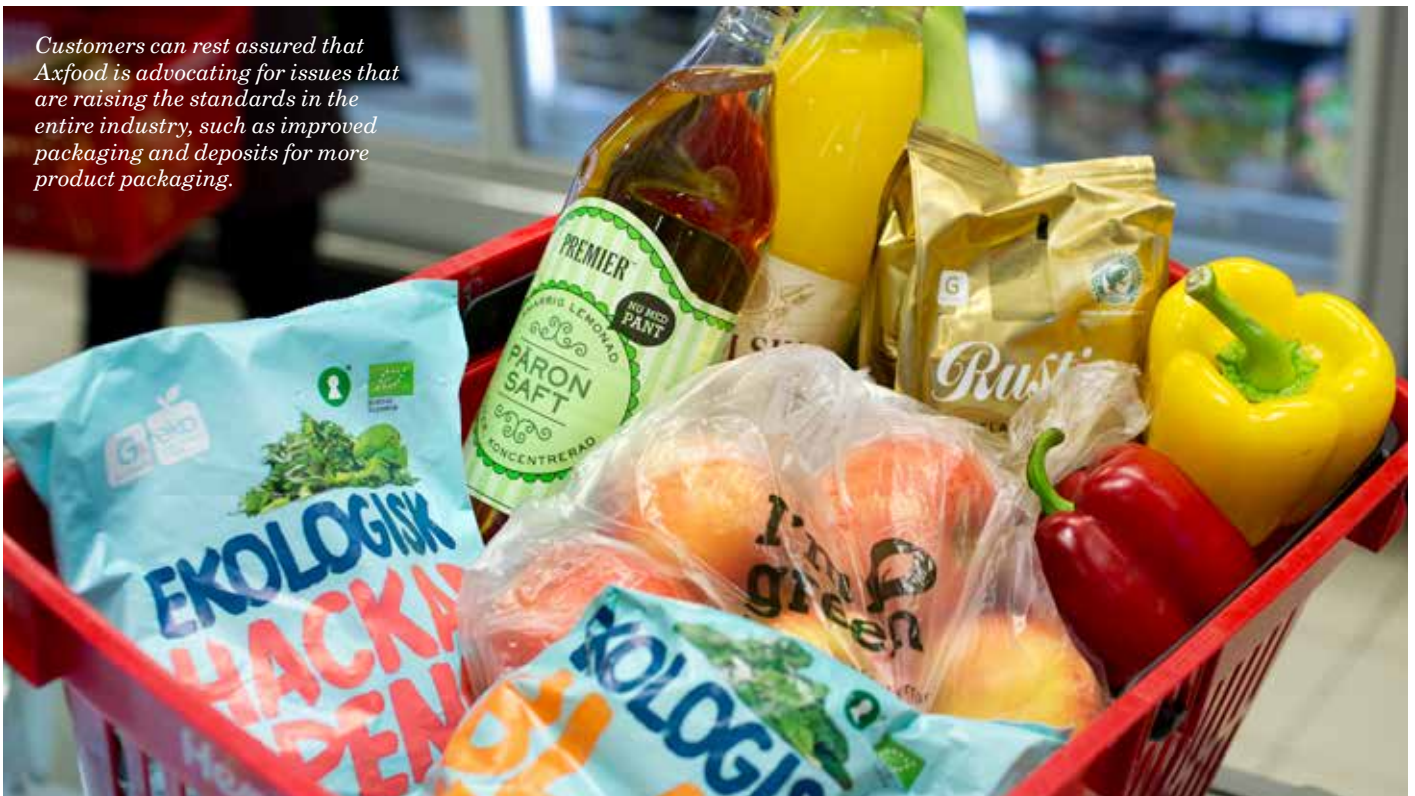
The Axfood Group is a family of successful and distinctive food concepts in close collaboration. For aspects that are not unique for any of the food concepts, Axfood collaborates to achieve cost efficiency. Dagab's assortment and purchasing department works out the offerings for all of Axfood's food concepts. With Dagab as a Group-wide, central assortment and purchasing organization, the Group can leverage large purchasing volumes to offer low prices and achieve economies of scale. For example, Willys must be able to offer Sweden's cheapest bag of groceries. For Hemköp, Dagab negotiates with suppliers to come up with innovative products with a narrower profile for its customer base. In other words, Dagab creates a wide, attractive and efficient assortment, which is a prerequisite for

supplying the various food concepts with products based on their niche positions and their customers' preferences. This model benefits the customers, who receive both value for their money and a wide product selection.

Complete meal solutions

Customers are showing growing interest in prepared foods. To meet this demand, many Hemköp stores and Urban Deli offer complete lunch and dinner solutions that are prepared in-store. This pertains above all to Hemköp stores that are located in areas close to where people work. Larger Hemköp stores also offer catering. Apart from making life easy for customers, the stores can prepare dishes using ingredients that are at risk of going to waste.

Customers can rest assured that Axfood is advocating for issues that are raising the standards in the entire industry, such as improved packaging and deposits for more product packaging.



1,399

*Swedish-labelled products in
our assortment, of which*

364

Swedish-labelled private label products

Vertical integration

Effective from the start of 2017, warehousing of fruits and vegetables, which was previously handled externally, is conducted within Dagab. Through this vertical integration Dagab has gained better control and responsibility over the entire value chain for fresh fruits and vegetables. The benefit for customers is faster delivery from farm to market. The handling of these products by Dagab is also leading to better development of the business.

Responsible suppliers

Today's consumers are conscious and make high demands – they want products made with care for health, animal welfare, the environment and the people who work in production. Axfood is working continuously to meet this demand.

Axfood has some 1,500 suppliers around the world. Approximately 74% have companies registered in Sweden and account for roughly 85% of Axfood's sales. These Swedish-registered companies also sell products that are imported from various parts of the world. The entire food industry is facing major challenges in ensuring and contributing to sustainable and responsible conditions in the supply chain. One of the challenges lies in the complexity of this process and the conditions in the various countries. Axfood makes high demands and works both preventively and to manage deviations – often in cooperation with actors that have depth of knowledge about the local conditions or with other industry actors to put pressure on change. By setting standards for products and suppliers, Axfood is making a difference in social, environmental and natural resource issues.

Good and sustainable food

Producing and selling food products will always have environmental impacts. Axfood is working actively to reduce its footprint and wants to make it easier for customers to make sustainable choices. Axfood is striving to expand its offering of good and sustainable products, and at the same time raise both the lower and upper limits for product standards in the industry.

Vegetarian and organic for everyone

More and more of Axfood's customers are choosing to cut down on their meat consumption. Previously, vegetarian alternatives were typically more expensive niche products. In recent years the vegetarian offering has been broadened and made more accessible for more consumers. During 2017 Axfood's sales of refrigerated and frozen plant-based protein substitutes increased by 29%. Examples of new and innovative vegetarian products include mushroom meatballs, vegan sweet potato aioli and halloumi burgers.



Consumers are finding that taking responsibility and choosing organic products both feels good and tastes good. As for meat, all organic meat sold by Axfood is to be KRAV certified, since KRAV has more wide-reaching rules for animal welfare than the EU's organic certification. During 2017, 3.9% of meat sold was organic, i.e., KRAV certified.

Willys and Hemköp feature 1,000–1,500 organic items in their assortments. Axfood's goal is that organic foods will account for 10% of total sales by 2020. In 2017 this share was 6.8%.

Country of origin labelling

Axfood continues to launch private label products bearing the "From Sweden" label that was introduced in 2016 and that Axfood was one of the initiative-takers behind. Production of Garant products that was previously conducted in other countries is being moved to Sweden. In less than a year Garant has gone from having half of its dairy assortment sourced in Sweden to 100% today. Axfood sees the blue and yellow label as a competitive advantage that represents Swedish value-added and a high standard of food safety, good animal care, tough environmental standards and low use of antibiotics. At year-end 2017 Axfood had 1,399 Swedish-labelled products in its assortment, of which 364 were private label products.

Axfood indicates the country of origin for all of the meat it sells as well as for the main ingredient of private label products with meat content. In the entire Garant line of fresh meat, Axfood has long used exclusively Swedish meats, while processed meats have

mainly been based on imports due to a shortage of supply and high prices. The solution has been to take a step further down the value chain and buy, for example, entire pig carcasses and not only the most attractive cuts, and in such way take so-called anatomic responsibility. In this way, the entire Garant assortment of charcuterie products now uses favourably priced Swedish ingredients, except for products with a specific national origin.

Animal welfare standards

Like its customers, Axfood thinks it is important that animals are well taken care of. The company advocates for good animal care and is investing in responsibly produced meat. Axfood excludes milk-fed veal and foie gras from its assortment.

The Group's stores sell predominantly Swedish meat. Sweden's farmers have a long tradition of good animal care that results in healthy animals, low use of antibiotics and safe foods. The Swedish model entails that antibiotics are used only on individual animals, not entire herds. Axfood sells no meat in which antibiotics have been used to promote growth. Animal care is an important issue that Axfood is advocating for at the EU level. All meat in Axfood's private label products is required to have third-party certification for animal welfare.

Fine fish

Axfood wants to make it easy for customers to eat well and do good. In partnership with WWF, Axfood is working to ensure customers feel confident when they buy seafood. Since 2008 Axfood's chains no longer sell red-listed fish. The goal is to sell only seafood on WWF's green list by 2020. This encompasses products that are certified according to the requirements for MSC, ASC or KRAV, or that are classified as green in some other way on account of sustainable stocks and approved catching methods. Ensuring the supply of ASC certified salmon remains a challenge.

Risk mapping and sustainability certification

The employees in Axfood's purchasing organization receive training to help them make better purchasing decisions that integrate social and environmental dimensions. This is especially important for procurement processes for ingredients from countries that are judged to have high sustainability risks. All suppliers are required to show how they are systematically working in accordance with Axfood's Code of Conduct.

In connection with purchases of private label products associated with higher risks, supplier evaluations based on sustainability aspects are performed early in the selection process.

Risk mapping in the supply chain is based on a number of different dimensions such as the climate, water, child labour and union rights. Hundreds of ingredients have been identified to date. Of Axfood's some 400 private label suppliers, approximately 150 have production in more than 40 high risk countries. These include a large number of subcontractors that Axfood is continuously monitoring in order to identify producers with the highest sustainability risks.

In the immediate environment this is a matter of risk sectors. One example concerns seasonal work for fruit and vegetable growers. Axfood and Axfoundation are initiative-takers behind IP Arbetsvillkor, a labour rights standard that ensures safer working conditions for guest workers in Sweden. By applying IP Arbetsvillkor, Axfood is more confident in its monitoring of the requirements laid out in the Code of Conduct for working conditions. By 2020 all relevant suppliers are to be approved according to this standard.

In addition, Axfood was the first Swedish food retailer to help international fruit and vegetable growers phase out pesticides that are banned within the EU.

6.8%

Organic sales

Sustainability assessment in purchases of private label products



Risk analysis (ingredients/countries)

Axfood performs analyses of ingredients and countries that may be exposed to risks.



Supplier requirements regard- ing working conditions

Axfood sets standards for working conditions that the supplier must meet (Axfood's Code of Conduct).

Suppliers of private label products in high-risk countries or in high-risk categories are evaluated on the basis of social and environmental responsibility criteria.

Thorough process ensures high quality products

Axfood decides to add a new product to its private label offering.

An invitation for tenders is sent to a number of suppliers with a request for documentation in accordance with Axfood's purchasing guidelines.

Product samples are submitted to Axfood.

The samples are tested, and three to four suppliers are selected and asked to return with new product samples that have been adjusted according to Axfood's preferences.

The 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.

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.

The products are delivered to Axfood's distribution centres for further distribution to stores.



Axfood is continuing its work on certifying private label products in an effort to foster security, most importantly for production workers. All crops with a clear coupling to social and environmental challenges are to be sustainability-certified. This applies especially to products such as coffee, tea, cacao and bananas. All coffee, tea and cacao used in Garant products comes from Rainforest Alliance, Fairtrade or UTZ certified plantations. In 2009 Axfood began buying certificates for the palm oil used in its private label products that has not been certified. Since 2015, only certified palm oil is used. Also since 2015, Axfood addresses all use of non-certified soy – both in food products and in animal feed – with offsets.

Private labels leading the way

Axfood's private label products hold a competitive advantage. They support profitable growth by contributing to an appealing and distinctive assortment, and they help in the profiling of various food concepts. In development work, major emphasis is put on a high pace of innovation – on developing products that are far advanced with respect to food trends, health and the environment.

At year-end Axfood had 18 own private labels, with Garant and Eldorado as the most strongly positioned brands with respect to price and quality. Garant has a distinct sustainability profile with requirements for value-added. Eldorado is a dependable low-price alternative with focus on basic and bulk products. To maintain the value foundations that these brands represent, but still meet price competition from discounters, a number of new private labels were developed in 2017. One example is Prime Patrol, which was developed as a private label alternative for imported meat, especially charcuterie products. All meat sold under the Garant brand is Swedish, apart from certain items that have a specific national origin, such as Serrano ham from Spain or Nuremberg sausage from Germany.

Selection process



Step 1: Screening

The supplier must show how it is complying with the Code of Conduct in its production chain at the ingredient level. Axfood approves any certifications, social audits (BSCI, SA8000, SEDEX, etc.) and collective agreements. Collaborations with NGOs and unions are also taken into account. Verifications are requested.



Step 2: Mapping

The supplier must report on the entire production chain as well as on where any social and environmental risks may exist, and on what measures have been taken to mitigate these risks. The level of knowledge and measures are taken into account. Alignment is made with own risk analyses in the evaluation.



Step 3: Evaluation





Selection is made based on an evaluation of the level of sustainability. Purchases are steered towards suppliers with good sustainability work. Suppliers with deficient controls are excluded from the purchasing process.

In addition to brands developed entirely under Axfood's management, the private label portfolio is complemented with brands from the two purchasing organizations that Axfood belongs to: European Marketing Distribution (EMD) and United Nordic. Purchasing through these organizations creates economies of scale. In 2017 two new brands were launched by these organizations: Dazzley and Spicefield. Dazzley is a brand of sweets, ice cream, cookies and desserts. Spicefield is a brand of Asian products, whose assortment may grow through cooperation in the network.

Axfood also has its own Fixa, Falkenberg Seafood, S  klart and Minstingen brands. During 2017 S  klart, a brand of body










care, laundry and cleaning products, was modernized and acquired a more distinct sustainability profile. The products use packaging made of recycled plastic or bioplastic based on sugar cane. For all of the products, extra care is given to the environment, and for the carbon footprint that arises despite all measures, Axfood addresses this through offset projects that generate a corresponding positive effect.

As evidence of the importance attached to assortment development, in 2018 the Group plans to launch some 300 new private label products.

BRANDS	SEGMENT	NO. OF PRODUCTS
Axfood		
	MID-RANGE PRODUCTS OR VALUE-ADDED FOOD PRODUCTS	1,050 305
	MID-RANGE PRODUCTS WITH IMPORTED MEAT INGREDIENTS	25
ELDORADO	DISCOUNT FOOD AND NONFOOD PRODUCTS	800
	MID-RANGE SEAFOOD PRODUCTS	56
S��klart	VALUE-ADDED LAUNDRY, CLEANING AND BODY CARE PRODUCTS	16
fixa	MID-RANGE NONFOOD PRODUCTS AND HOUSEHOLD CLEANING SUPPLIES	390
	MID-RANGE BABY CARE PRODUCTS	22

Priorities 2018

- Develop assortment in the organic, vegetarian and health categories
- Accelerate pace of innovation in development of private label products
- Develop offering of complete meal solutions

BRANDS	SEGMENT	NO. OF PRODUCTS
European Marketing Distribution and United Nordic		
	SWEETS, ICE CREAM, COOKIES AND DESSERTS	53
	ASIAN PRODUCTS	31
PREMIER	SOFT DRINKS	70
	ENERGY DRINKS AND POWER BARS	17
	TEXMEX	12
	MEDITERRANEAN PRODUCTS	50
	BREAD	1
	CHEESE	9
	CHEESE	5
OMEGA	DEEP FROZEN PRODUCTS, MAINLY FISH AND SHELLFISH	12
	PET FOOD	34



The best shopping experience

Axfood aspires to offer customers the best shopping experience for the respective concepts' target groups. Through an omnichannel strategy encompassing attractive stores, competent employees and attractively priced products, Axfood will serve customers when and where they like. Regardless of channel, customers will feel at home in the respective food concepts.



Axfood's customers attach great value to inspiring food ideas and personal service.

The Axfood family

Axfood has a large array of food concepts that are well positioned in their respective segments. The various concepts have different strategies – depending on whether they are wholly or partly owned, or included in a franchise system. What they all share in common is a focus on the customer and the ambition to exceed customers' expectations every day.

Appealing stores and knowledgeable employees

Creating the best shopping experience requires appealing stores. In recent years Willys has carried out an extensive modernization programme. At Hemköp, store upgrades are currently in progress. At year-end approximately 60% of the Group-owned stores had been modernized. The retailer-owned stores are also

undergoing a renewal. At year-end, 25% of franchise stores had been upgraded. Minor improvements and refurbishments of stores are carried out on a continuous basis to ensure that customers' expectations for a modern, inspiring grocery store are met. At Hemköp, more and more employees with specialist competence are being hired to provide inspiration and advice to customers – ranging from pastry chefs and cooks to florists.

Sustainable mindset even in checkout lanes

To serve customers on the move who need to shop quickly without having to stand in a queue, nearly half of the Group's stores offer self-scanning or self-checkout. The Hemköp City store in Stockholm has the most self-checkout lanes of any grocery store in the Nordic countries.



Apart from less litter in stores, digital receipts are contributing to a lower overall environmental impact.

A gigantic amount of receipts are printed out by Axfood's stores. Back in 2016, Axfood offered Tempo retailers the opportunity to introduce digital receipts. In 2018 Willys and Hemköp stores will begin introducing digital receipts that are sent directly to customers' smartphones. If all paper receipts printed by Willys and Hemköp stores (more than 255 million every year) were to be laid out flat they would cover a distance of 63,750 kilometres – or more than 1.5 times around the equator!

According to an EU directive, the use of plastic bags is to be cut in half by 2025 in an effort to reduce litter. Towards this end, Hemköp was the first grocery chain to introduce deposits on plastic bags, see the section on Hemköp p. 42. At year-end more than 20 stores had introduced the new deposit system.

Customer programmes that build loyalty

Axfood's customer programmes are part of the digitalization of the Group's services. The customer programmes at both Willys and Hemköp are cardless and entirely digital. This means that all communication is done via email, apps or text messaging. In 2017 Hemköp introduced digital bonus cheques to increase the redemption rate and raise customer satisfaction. As a result of the digital bonus cheques, 98% are now redeemed, compared with 92% previously. Both Willys and Hemköp send out personalized offerings to customers within their respective programmes. Approximately 49% of Swedish households are members of Willys' customer programme, and 29% are members of Hemköp's.

To meet customers' needs in the best way possible, the customer programmes are coupled to the chains' e-commerce concepts. The number of members increased in 2017 by 12% for Willys and 40% for Hemköp. Axfood has effective analysis tools and data warehouses to process the enormous volumes of data that are collected about customers' shopping behaviours. Through better data analysis, going forward the customer programmes will be developed to offer more relevant and personalized offers.

Starting in May 2018 Sweden's Personal Data Act will be replaced by the General Data Protection Regulation (GDPR), an EU-wide law governing the processing of personal data. The new regulation strengthens consumers' rights and sets stricter requirements on how Axfood is to inform customers about how their personal data is processed. To protect the members of Axfood's customer programmes and others, work is under way on supporting IT solutions.

During the year, broadband was installed in all stores in order to offer wifi service to customers. Digital technology is improving the customer dialogue and facilitating work for store employees.

Higher growth through omnichannel strategy

During 2017 Axfood expanded both its physical stores and online presence. Enabling customers to shop on their own terms – when and how they like – leads to higher sales. Customers encounter the various food concepts in many different channels aside from stores and the internet. The concepts are also communicated in social media, in promotional fliers and in customer newsletters. For all of the concepts, the aim is to ensure that customers are familiar with the respective stores' offerings, regardless of channel.

E-commerce customers have a higher average ticket value than customers who shop only in physical stores.

E-commerce concepts

Axfood today offers three online food concepts to customers. Apart from the Willys and Hemköp chains, Axfood also runs mat.se, a pure-play online food store. In all the Group's online offering reaches more than 5 million consumers. Certain consumers can only use one or two of these concepts, while nearly all consumers in Stockholm, Gothenburg and Malmö can shop online at all three.

>5,000,000
consumers are reached by Axfood's
online offering

Since 2016 Hemköp has been offering sales of meal kits on a subscription basis, which were composed by Middagsfrid. Following the acquisition of Middagsfrid, Hemköp has changed over to offering only the five different dinner solution bags composed by Middagsfrid.

Axfood offers e-commerce also to its business customers. Axfood Snabbgross makes deliveries to restaurants and cafés if the customer prefers this instead of having to visit any of the 24 Snabbgross stores throughout Sweden.

Challenges of selling food online

Axfood has strong growth in e-commerce, but is still in an early phase. In general, the share of food bought online in Sweden is low (see p. 8, Market – Sector convergence and changed consumer patterns). Selling food online is complex. Axfood has identified four main challenges. Number one on this list is the temperature zones that are needed to protect the integrity of the cold chain. This requires coordination and investments in storage.

Number two is that e-commerce volumes are still low. Apart from the dark stores used to fill orders for the pure-play online store mat.se, Axfood's e-commerce orders are picked and packed in the chains' physical stores. This means that employees handle the products twice – first when stocking store shelves, and then again when filling online orders. Not until larger volumes are achieved will it be feasible to establish dark stores for the grocery chains' online orders. Achieving profitability for online shopping will also require more efficient home delivery solutions – the so-called last mile. See the section Strategy – supply chain, p. 30.

Number three is figuring out ways to ensure that groceries delivered home to customers are taken care of by someone so that they do not spoil. Certain customers therefore prefer instead to collect their orders at a store. Roughly half of Willys' e-commerce customers pick up their pre-ordered grocery bags at stores. Willys has designated pick-up stations to make it easy for customers, including separate parking and entrances where possible. Hemköp's e-commerce customers prefer home delivery almost exclusively, but also have the option to pick up their orders at a store.

Number four is that e-commerce requires planning. The trend is that customers are increasingly choosing to not do weekly shopping, but instead decide the same day what they want to eat. Even though same-day delivery is offered, this entails higher costs, and it's not unusual for customers to plan their meals as they want to eat.

Transparent prices

Regardless of which channel customers choose, they will find the same prices, campaigns and virtually the same assortment online as in a physical store. This applies for both Willys and Hemköp. Axfood's three online concepts have chosen different strategies and fees for the service they provide. Willys charges a fixed picking fee regardless of the size of the order, while Hemköp and mat.se charge according to the order's size. For home delivery, Willys charges a fixed fee that is higher than the fee charged by Hemköp and mat.se.

With online shopping, it is easier for price-matching sites to compare prices. Moreover, experience from other e-commerce segments shows that customers are more focused on price when they shop online than when they visit a physical store. Surveys conducted during the year confirm that the products in Axfood's various food concepts are attractively priced.



During 2017, e-commerce customers chose organic products to a greater extent than average customers in the chains' respective physical stores.



Priorities 2018

- Upgrade store concepts
- Develop customer programmes in the respective chains
- Cohesive omnichannel experience in the respective food concepts



Ambition is to grow more than the market

2017 was a year of expansion. Axfood carried out four acquisitions, established ten new stores and more than doubled its e-commerce coverage. Moreover, Axfood partnered in the formation of an online pharmacy company. Expansion is always high on Axfood's agenda. Four to eight new store establishments await in 2018 along with continued growth in e-commerce.

New establishments in 2018

Despite strong growth in e-commerce, its share of total food sales in Sweden is only around 2%. Thus brick-and-mortar stores will continue to be of primary importance for serving customers. New stores are being established in growing municipalities and at attractive locations. During 2018, four to eight new stores will be established in either Willys or Hemköp.

Axfood Snabbgross works in a segment with strong growth, and in just over the last two years has increased its store portfolio by 20%. No new Snabbgross stores are planned for 2018; focus instead will be organic growth in existing stores.

Franchise model

At Hemköp, which has a franchise model, continuous evaluation is done to determine which stores have potential for better performance in the future as a franchise than as a

Group-owned store and thereby strengthen Hemköp's position in the market. During 2017, three so-called 91/9 stores were converted to franchises. At year-end nine Hemköp stores were included in the 91/9 financing programme, under which store managers gain an option to acquire their respective stores after two years.

10
new locations with
e-commerce in 2018

E-commerce

A growing number of Willys and Hemköp stores offered e-commerce in 2017. At year-end Willys offered e-commerce from a total of

34 stores in 19 cities. Hemköp offered e-commerce at 19 stores in nine cities. The pure-play online grocery store mat.se offered consumers in Stockholm, Gothenburg and Malmö home delivery of groceries.

In 2018 Willys will introduce e-commerce at an additional some 25 stores in ten cities. Hemköp and mat.se have opted to further develop their current e-commerce coverage.



In 2017 Axfood acquired Eurocash, which is jointly owned with NorgesGruppen.

Through the acquisition of mat.se and continued expansion of Willys' and Hemköp's e-commerce business, Axfood doubled its e-commerce market coverage in 2017.



Acquisitions and new companies

With the right conditions and right business direction, acquisitions are basically always on Axfood's agenda. Whether and to what extent any are carried out depends on the opportunity at hand and the results of Axfood's evaluation.

Axfood acquired four companies in 2017: the online grocery store mat.se, the dinner solution company Middagsfrid, the cross-border shopping chain Eurocash, and Saba Logistics' fruit and vegetable warehouse operation. These were the first major company acquisitions carried out since 2014, when 50% of Urban Deli was acquired. All four companies have been closely integrated into their respective segments, and their operations are being successively adapted to Axfood's business processes and systems as well as to the Group's sustainability work.

Axfood has started a jointly owned company with Axel Johnson's investment company Novax and a group of experienced e-commerce entrepreneurs to establish the online pharmacy Apohem in Sweden. Axfood owns 28% of the company. Today customers at Axfood's stores can only buy over-the-counter (OTC) drugs. Through Apohem the Group's e-commerce customers will also be offered prescription drugs.



The Swedish pharmacy market

- SEK 40 bn in sales with 5% growth (2016)
- 4.2% of sales online (2016)
- Actors: Apoteket, Apotea (pure-play e-commerce), Apotek Hjärtat, Kronans Apotek and Apoteksgruppen

Priorities 2018

- Continued rollout and further development of e-commerce offering
- Establish 4–8 new stores
- Develop newly acquired companies



Efficient logistics across the entire value chain

Axfood strives for efficient logistics and a sustainable product supply. Automation is an area with great potential, where Axfood will open a new, automated cold storage warehouse with robots that pick orders 24 hours a day. E-commerce is putting new demands on logistics, with an integrated model and holistic view of warehousing and distribution.



A million customers obtain their food every day from Axfood's distribution centre in Jordbro.

Increased automation

Dagab is responsible for all of Axfood's logistics, handling some 3,500 deliveries and 600,000 parcels a day. Digitalization of society is creating a great opportunity to further improve logistics efficiency. A number of automated logistics processes are already in operation today. For example, store restocking orders via Autoorder and their accompanying delivery notes are digital. With the exception of Axfood's two automated high-bay warehouses, which handle mainly imported products with a lower turnover rate, warehousing is personnel-intensive. Going forward, warehousing will be increasingly automated as automation solutions for the food retail trade come down to an acceptable cost level. Factors that continue to

affect complexity in this area include the large scope of the assortment, the turnover rate of products, three temperature zones, and the varying sizes and weight of products.

During 2018 a new cold storage warehouse will be put in operation. Half of the warehouse will be automated with robots that pick orders 24 hours a day. Based on this experience, Axfood will continue to develop its warehousing operations.

Distribution to stores

After refrigerants, product deliveries are the largest contributor to Axfood's carbon footprint from the Group's own operations. Including the entire value chain, the largest footprint is made from emissions and the environmental impacts of food production.

A year ago Axfood reported a large improvement in emissions from transports due to the use of HVO fuel, which is synthetic diesel made through hydrogenation of vegetable oils and/or waste animal fats. It is now no longer possible to buy HVO that is free of palm oil and PFAD (palm fatty acid distillate) other than in limited quantities. Since this production can accelerate deforestation of rain forests, Axfood has decided to avoid using HVO as long as it contains these compounds. The challenge is that the supply of sustainable alternatives is very limited today. This means that Axfood's carbon footprint will likely increase. Over the long term, however, Axfood is taking responsibility to drive development of sustainable transports forward. For information on Axfood's carbon footprint from own deliveries, see the Sustainability section on p. 36.

At year-end Axfood had a fleet of approximately 140 delivery trucks, which account for roughly half of all product deliveries to stores. Since there is no simple solution to the fuel problem, going forward Axfood will diversify its delivery fleet to a greater extent in cooperation with vehicle manufacturers. At year-end Axfood had three trucks that run on liquid petroleum gas, one electric hybrid truck, which is quieter and suitable for smaller volumes in city centres, and one ethanol-powered truck, which runs on ethanol produced in Sweden. Diversification of the delivery fleet will continue in 2018 in an effort to increase the share of vehicles than run on renewable fuels.

E-commerce logistics

With the acquisition of mat.se in early 2017, Axfood acquired three dark stores for e-commerce order-picking. Located in Stockholm, Gothenburg and Malmö, these warehouses are used to fulfil orders for mat.se and Middagsfrid. Picking of e-commerce orders for Willys, Hemköp and Axfood Snabbgross is done in the respective chains' stores.

In connection with the acquisition of mat.se, Axfood acquired a delivery fleet for customers' e-commerce orders. At year-end the Group had 110 smaller trucks and vans that make home deliveries to customers in Stockholm, Gothenburg and Malmö. To create synergies, these vehicles will also be used to deliver orders from all of Axfood's e-commerce concepts. In other locations (accounting for approximately 25% of deliveries), external distributors are used.

Logistics of the future

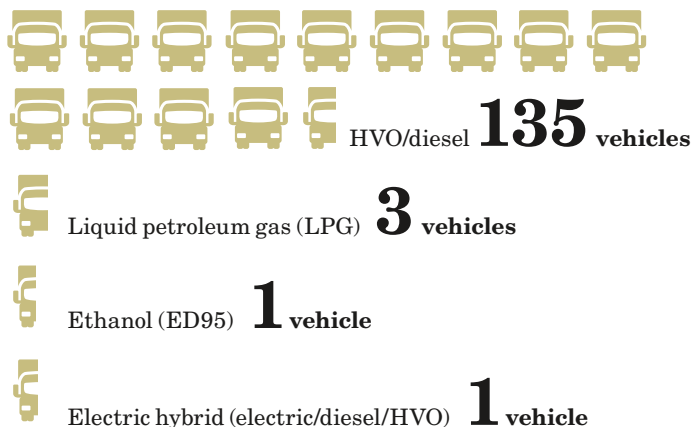
Axfood's vision is that logistics in the future will involve integration of traditional store warehouses with dark stores for filling stores' and e-commerce customers' orders, respectively. Coordination benefits can be achieved by combining these activities in the same warehouses, as it would involve joint goods receiving and fast lead times for restocking.

It is important to view warehousing and distribution as an integrated operation in order to optimize holistic solutions for the Group's business. Without a holistic solution, the effect of coordinating these activities would be small, since most synergies would be offset by an increased need to prioritize and reduced opportunities for transport optimization and planning.



Axfood's delivery fleet

Delivery fleet to stores



Delivery fleet to e-commerce customers



Priorities 2018

- Build automated warehouse
- Develop dark store operations
- Integrate e-commerce warehousing and distribution



Digitalization leading to greater efficiency and collaboration

With efficiency and cost control in focus, Axfood is striving for a customer-centric and dynamic organization. Innovative solutions and systems will boost efficiency. Through digitalization, development can be driven towards more mobile solutions.

Digital work flows

Axfood has a solid foundation in its existing, Group-wide business system. Development and administration of IT systems are becoming increasingly important for operations, since digital services are a natural part of day-to-day activities. At the same time, the pace of development is accelerating. To a great extent this is being driven by e-commerce, where customers have great expectations and where availability must be 24/7. Demands for speed and change must be met by an agile organization.

Investments in IT platforms, infrastructure and digital identities are creating conditions for effective management and control of Axfood's entire value chain. Digitalization is also driving development towards more mobile work solutions. This is beneficial for office work,

but most of all for employees who interact with customers in stores. In 2017 fibre optic cables were installed in all stores. Apart from enhancing customer benefit, this is also making work more efficient for store employees.

By being open to change and curious about innovative solutions, the Group is adapting to technological developments and conditions in the market. With today's technology, simpler administrative routines can be robotized. Within Axfood, such a move was initiated in 2017 for invoice processing.

Through the start-up of an automated cold storage warehouse in 2018, Axfood will gain insight into a new way of working along with valuable experience in automated warehousing. Other measures will involve using technology to change over to more sustainable energy solutions and reduce energy consumption.

375

houses that are heated with surplus heat from Axfood's operations



Grocery shopping is being increasingly digitalized with self-checkout lanes and digital receipts.





Handheld computers facilitate work in stores.

In the logistics operations, deliveries are now confirmed digitally. Instead of paper consignment notes, received deliveries are now signed for using an app. This digitalization offers a host of advantages, including direct entry of information about returns and credits into the business system, less risk for errors, faster delivery follow-up, and automated notifications about product recalls already upon delivery.

Energy efficiency

Axfood has effective tools for systematic measurement and monitoring in order to control its energy use. The goal is to reduce energy consumption by 15% per square metre by year-end 2020 (base year 2015). At the same time, sales as well as demand for fresh and perishable products are rising, which requires more refrigeration. In connection with the refurbishment and new construction of stores, the focus on energy efficiency is great. One measure involves, where feasible, installing solar panels on store rooftops to generate renewable electricity for the stores' own use. In 2017, such solar panel systems generated an estimated total of some 180,000 kWh of electricity. Other measures include installing LED lighting, furnishing all refrigerator and freezer displays with lids and doors, and recycling heat generated from refrigeration and freezer systems. For information on Axfood's carbon footprint from electricity use, see the Sustainability section, p. 36.

Surplus heat fed in to district heating network

At Axfood's distribution centre outside Stockholm and in certain stores, so much heat is recovered from refrigeration systems that a surplus is created. Under contracts signed with its electricity providers during the year, Axfood now feeds this surplus heat

back into the district heating network. The surplus energy generated by the distribution centre is estimated to be approximately 7,500 MWh each year, which is enough to heat 375 houses. This recycling corresponds to a yearly reduction in Axfood's carbon footprint by 98 tonnes.

Refrigerants a continued challenge

In its warehousing operations Axfood has changed over to environment-friendly refrigeration and freezer systems. However, replacing older systems in stores remains an ongoing challenge. Refrigerant leaks are unavoidable, and the older systems are based on refrigerants that have a high environmental impact. After 2020 it will not be allowed to replenish such systems with newly produced refrigerants that have a high environmental impact. More than half of Axfood's Group-owned stores are affected by these new rules. This will require either replacing the systems with more modern ones or reusing refrigerants that are no longer allowed to be produced. Eurocash stores use only environment-classed refrigeration and freezer systems. For more information on Axfood's carbon footprint from refrigerants, see the Sustainability section on p. 36.

Priorities 2018

- Develop data analysis for customer programmes
- Continue phase-out of refrigeration systems with high environmental impact
- Further develop robotic solutions



Diversity creates business benefit

Axfood aspires to reflect the communities that we are a part of. This should be noticeable in the product offering, but also among our employees. Diversity creates business benefit and makes us even better at meeting our customers' varying preferences and needs. A distinct Axfood culture and values-based leadership are drivers that instil pride, commitment and collaboration among employees and retailers.

Long-term work with diversity

To increase diversity in the workplace, Axfood has worked for many years on fostering an inclusive work climate. A good mix of competencies and perspectives leads to better results in all operations. To give a few examples of such initiatives, we formulate advertisements for job vacancies in an inclusive way, recruitment tests can be given in various languages, and the Group applies religious holiday-neutral "squeeze days" for salaried employees. The latter entails that the employees are free to substitute some other holiday to take out a squeeze day than the official Swedish ones.

In 2017, 22% (21%) of Axfood's employees came from an international background. The diversity target is that 20% of all managers will have an international background by 2020. In 2017 this share was 13% (11%).

Gender equality

As a diversity aspect, gender equality is important for developing the business and meeting different needs in society. Within Axfood the balance between men and women in management positions is to be between 40% and 60%. In the Executive Committee the share of women is 30% (40%). In staff and company managements, 36% (37%) are women, and one in three store managers is a woman. In all, the share of women in management positions in 2017 was 30% (32%).

94.3
per cent work
attendance rate

Every year Axfood conducts a mapping of salaries within the Group to prevent unreasonable differences in pay and other terms of employment between men and women. Salaries and terms of employment are set in accordance with applicable collective agreements. No unreasonable differences were identified in 2017.

Stores as integration platform

Axfood's many stores offer job opportunities even for employees without perfect command

of the Swedish language through a range of language-supporting measures. For employees who show talent in retailing and store operations, Axfood offers myriad opportunities for continuing education and development. The key is in

matching individuals who identify with Axfood's core values and show an interest in the grocery business and store operations with various opportunities within the Group. At the start of 2018 Axfood started a newcomer apprentice programme. The 12-month programme will feature a mix of work and training designed to broaden diversity within the Group.

Core values provide guidance

At Axfood we have a shared view of how we are to act with each other, our owners, our suppliers, and above all our customers. The core values apply for everyone in the Group and regardless of whether the relationship pertains to our own operations or external parties. Axfood's core values are alive in the organization and serve as a guiding principle and inspiration.

Axfood's core values





Axfood's employees are happy with their work. Eight in ten would recommend Axfood as a place to work. Axfood had a Customer Satisfaction Index score of 92 in 2016.

Building career paths through development

Axfood is a large employer that encourages employees to try various positions and roles within the Group. Axfood Academy, with both internal and external instructors, is the Group's centre for continuing education and competence development. The academy's courses focus on various roles in stores, warehouses and offices.

In 2017, 1,457 employees participated in a total of 3,688 training days (29,505 hours) via Axfood Academy. In all, 24 instructor-led courses were held on 159 occasions. In addition, more than 27,000 e-learning courses were completed by some 6,000 employees. This translates to the start of one e-learning course every 20 minutes, 24 hours a day.

In pace with growth in e-commerce, the need is growing for drivers to deliver orders to our customers. Many of these drive for external delivery companies, and to ensure that they represent Axfood in a positive light, Axfood Academy has developed a special e-learning course. The training covers routines and processes as well as how our drivers are to treat customers in connection with home deliveries.

Axfood works actively with succession planning to ensure its pipeline of management candidates and achieve the Group's diversity and gender equality targets. Every year the Group's managers make a systematic compilation of names of potential managers of each gender and draw up a development plan for their potential successors.

Stronger employer brand

Axfood's employer brand is steadily growing stronger. The Group's employees are proud to work for Axfood, and this is being strengthened by the Group's unyielding work with sustainability and diversity. Axfood conducts an employee survey every other year, and a full 98% of employees participated in the 2016 survey, which recorded an Employee Satisfaction Index score of 92 for the entire Group (benchmark: 86).

During 2017 Axfood registered 91,800 applications for jobs advertised within the Group. This represents an average of 96 applications for each advertised position.

A healthier workplace

One important strategic target is to maintain a high work attendance rate. In 2017 the work attendance rate was 94.3% (93.9%), which is slightly below the 95% target.

Leadership plays a major role in wellness initiatives. The goal is to enable managers to act upon early signs of ill-health among employees. As part of work on increasing the work attendance rate within the Group, during the year Axfood Academy launched a new web-based work environment training course for managers as a complement to the existing instructor-led courses. The course focuses on the work environment, responsibility, systematic work environment initiatives, the physical work environment, the organizational and social work environment, and sickness-related absenteeism and rehabilitation. The training can be conducted with a focus on the area that is most pertinent at any given time. A majority of managers had participated in the course by year-end.

Whistleblower function with symbolic value

Axfood strives for an open and tolerant company culture. Employees should not be afraid to discuss challenges. For the types of matters that employees may be hesitant about raising via the ordinary channels, a whistleblower function is available. The opportunity to report incidences of corruption, bribery, environmental violations or similar via an encrypted process to an external party is an important signal that Axfood takes violations and unethical behaviour seriously. All cases that are reported are addressed in some way.

During the year, no reports were brought to Axfood's attention of any attempts by employees to commit bribery or on any suspected cases of corruption.

Priorities 2018

- Competence development
- Promote diversity
- Prevent sickness-related absenteeism

A positive force in society – not least in sustainability

Axfood aspires to be a good company and positive force in society. Sustainability work in the Group is an integrated part of operations and aims to drive the industry towards being more sustainable. Axfood's goal is to be climate-neutral by 2020.

Axfood's ambition is to be the leader in sustainability and dare to be at the forefront of new technical solutions and ways of working. In the environmental area, Axfood is working systematically to make continuous improvements in areas with the greatest carbon footprint: energy consumption, transports and material flows. The value chain is analysed to identify which measures have the greatest effect, and Axfood is engaged in a continuous dialogue with its various stakeholders. Sustainability work is broken down into six work areas, see below.

The most important governance mechanisms are the sustainability programme, the Code of Conduct and the Group's ethical guidelines.

Sustainability work is described under the respective strategy areas, but certain aspects are especially important and are driven with great commitment also outside of the strategic focus areas.

Climate-neutral 2020

Axfood's direct carbon footprint comes from refrigerants, own transports from warehouses to stores, electricity consumption and business travel. Axfood's total carbon footprint for 2016 corresponded to 20,761 tonnes of CO₂ equivalents. Compared with 2015 this is a decrease of 22%. Refrigeration and freezer systems accounted for the greatest part of the Group's carbon footprint in 2016. Read more about refrigerants in the section Strategy – Work approach, on p. 32. The improvement in 2016 was greatest in the area of goods transports using the Group's own fleet, whose carbon footprint was nearly halved. This success was mainly due to a changeover to the use of HVO fuel. See the section Strategy – Supply chain, on p. 30.

Transports conducted by external distributors are not included in the reported carbon footprint. The challenge is to find a method and tools to allocate the carbon footprint to the respective service providers, since external distributors

79%
*reduction in Axfood's
carbon footprint*

Axfood's work areas



Sustainable products



Transports



Climate and energy



Responsible suppliers



Employees



Corporate social responsibility



Axfood is promoting more environment-friendly plastics, material recycling and deposits.

coordinate deliveries for other food retailers as well. Axfood has initiated an industry-wide project in this area and hopes in the future to be able to measure the carbon footprint of all transports.

Since 2009 all premises in which Axfood is the electricity customer have renewable electricity and thus no carbon footprint. For certain stores, electricity is included in the rent, which is common in shopping centres. In cases where Axfood rents premises in a shopping centre, Axfood can only specifically request renewable electricity from the property owner. In 2017 Axfood had 14 stores without renewable electricity. Because of these stores, Axfood cannot measure its total carbon footprint until the Energy Markets Inspectorate has published the year's residual mix, i.e., the carbon footprint from non-renewable electricity, which is done approximately five months after the end of the year.

Axfood's overarching environmental target is to be climate-neutral by 2020 and to reduce its carbon footprint from own operations by 75% (base year 2009). From 2009 through 2016 Axfood reduced its carbon footprint by 79%, see the section Targets and target achievement, p. 18. Axfood's carbon footprint for 2017 will be presented in the 2018 half-year interim report.

Solutions for the use of plastics

Axfood has taken the decision to entirely stop using fresh produce bags made from fossil-based plastic and change over to bags made from sugar cane. In all the Axfood Group uses some 170 million bags every year for fruits and vegetables. Compared with a bag made from fossil ingredients, bags made from sugar cane produce roughly 60% lower CO₂ emissions when incinerated.

Recycling plastic is better for the environment than producing new. Bottles for which a deposit is charged and thereby keep their place in the recycling circle can be made into new bottles with only a minimal use of new plastic. In 2015 Axfood was the first food retailer to begin charging deposits on plastic fruit syrup bottles. This has now been expanded and today it is possible to return also plastic juice bottles at all stores included in Returpack's deposit system. Starting in 2018 juice sold under the Garant brand is packaged in bottles that conform to the nationwide deposit system.

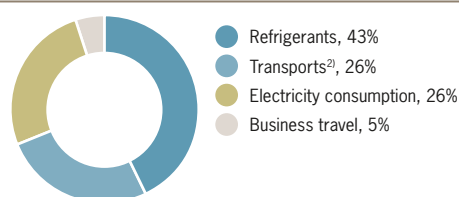
Today there are many deficiencies in the handling of recyclable plastic. Sweden has a low capacity for plastic recycling, which results in costly logistics and long transports, as large amounts of plastic must be transported to recycling plants in Germany. Axfood has long advocated for improvements in the country's plastic recycling system. Through the organization FTI (The Packaging and Newspaper Collection Service), in early 2018 Sweden's food retail industry took the initiative to build Europe's largest and most modern plastic recycling plant. The goal is for

Sweden to be self-sufficient in the sorting and recycling of plastic packaging. With this new plant, the quality and recycling rate will rise significantly from current levels. The plant is expected to be operational in 2019, at which time differentiated packaging fees will also be adopted. This will serve as a strong incentive for work with better packaging.

Measurability of waste

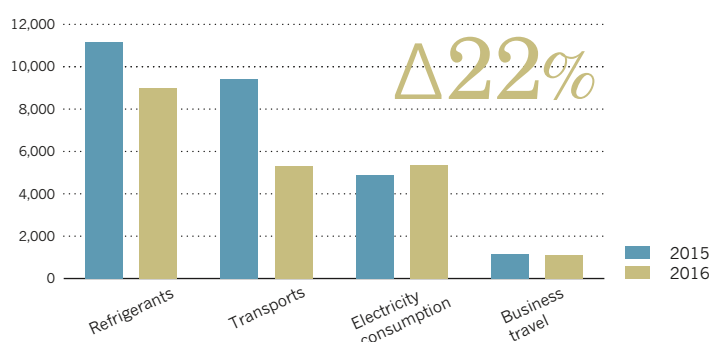
Viewing waste as a commodity is the essence of a circular economy and decisive for reducing Axfood's carbon footprint. Sorting of various material fractions is even more important in stores than in warehousing due to smaller packaging sizes. Measured by volume, corrugated board and soft plastics dominate. Material fractions that are not recycled are sent off for incineration. The weight of combustible material in relation to net sales indicates the extent to which Axfood sorts its waste. During 2017 Willys and Axfood Snabbgross recycled more material, measured both in terms of the number of tonnes and in relation to sales. Due to the acquisition of the fruit and vegetable warehouse operation, Dagab saw a rise in its combustible waste during the year, but excluding the newly acquired operation, Dagab recycled more material.

CARBON FOOTPRINT – CO₂ EQUIVALENTS 2016¹⁾



¹⁾ The outcome for 2017 is dependent on the residual mix, which will be reported on later in 2018.
²⁾ Pertains to the Group's own delivery fleet.

CHANGE IN CARBON FOOTPRINT 2016 VS. 2015





Matmissionen, a social supermarket, was established in close partnership between Axfood and Stockholms Stadsmission.

The fight against food waste

The amount of food wasted around the world corresponds to roughly a third of all food produced. One of the UN's global Sustainable Development Goals is to cut in half the amount of food wasted in the world by 2030 – a goal that Axfood supports. In Sweden the government has instructed the National Food Agency to work together with the Swedish Board of Agriculture and the Environmental Protection Agency to draw up an action plan for cutting food waste in half in Sweden. Toward this goal the food retail industry aims to contribute via its trade organization Svensk Dagligvaruhandel.

When food is thrown out it entails an enormous waste of water, land and energy resources. It also entails unnecessary greenhouse gas emissions. Food is wasted in every part of the value chain, from farming to transports, in stores and in homes. It is important that everyone takes their responsibility at all levels. Axfood is working with a number of different initiatives to reduce both its own and its customers' food waste. This work involves flow controls and maintaining a good balance between well stocked shelves and avoiding expired best before dates. Axfood is improving its purchasing routines, developing novel and smart packaging, lowering prices for products nearing their best before dates, and spreading information to customers. In addition, the Group's store concepts donate food to various charity organizations.

Collaboration and transparency

For Axfood it is important to drive the societal issues that affect its operations and in such way be a positive force in society. As a first step, Axfood takes a position and acts itself, where possible. In cases where a consensus is needed or where its own actions may have a greater effect when taken together with others, Axfood solicits the involvement of industry peers or the industry trade organization. Axfood believes it is important to inform politicians and decision-makers and engage them in a dialogue. Often this is a matter of issues in which industry actors want to see a more long-term perspective and predictability from politicians. For competition-neutral matters or shared interests in business policy issues – both nationally and at the EU level – Axfood works through the retail trade organization Svensk Dagligvaruhandel.

For Axfood, transparency is a responsibility issue. This requires informing customers in stores about how to make sustainable choices. It's also a matter of enabling people to monitor Axfood's work and giving stakeholders opportunities to share their views about Axfood's business and sustainability work.

Dialogue is one way of informing stakeholders, but also of gathering views and creating a platform for strategically developing sustainability work. The scope of this dialogue varies from informal contacts to collaborations and involves various organizations. For more information about our stakeholders, see p. 118.

Food 2030: Together for a sustainable food industry

In 2016 Axfood presented Matkassen 2030, a proposal for a sustainable food strategy for Sweden. In the following spring the Swedish government laid out a national food strategy. The government's strategy is aligned in some respects with Axfood's proposal, but lacks a sustainability focus. Axfood and a number of

other actors in the food industry and retail sector are now working together with the government to concretize the country's food strategy.

In Axfood's follow-up report, Mat 2030 ("Food 2030"), the Group presented its continued thoughts – now with focus on customers' views of good and sustainable food, today and in the future. The bag of groceries that customers buy in a few years needs to be considerably

more sustainable than today's. Axfood envisages that the bag of groceries that customers buy in the future will promote sustainable Swedish agriculture, put demands on innovation, and require that we inspire and make it easier for customers to make sustainable choices in stores.

Axfood continues to urge politicians and decision-makers to support this development by rewarding sustainable solutions and choices through taxes and fees. For Axfood, the future of good and sustainable food will require collaboration – across political blocs, among industry actors and suppliers, and together with our customers.



108
stores donate food to
charity organizations

Priorities 2018

- Measure carbon footprint from external transports
- Build more solar panel systems on store rooftops
- Influence the action plan for Sweden's food strategy
- Drive more effective plastic recycling
- Map out water risks



Veg on the rise at Axfood!

Food should be good – both for us and the environment. We are happy to see more and more customers choosing vegetarian. Eating veg is no passing trend, but a protein shift in which everyone can hang along. The selection of plant-based proteins is growing in

our stores, and we are inspiring more and more customers to discover tasty vegetarian alternatives. In 2017 Axfood's sales of plant-based protein substitutes grew by 29% compared with 2016.

WILLYS

Strong sales with greener stores, more e-commerce and acquisition of Eurocash

2017 was a strong year for Willys. Sales were favourably affected by a higher average ticket value and more customer visits – both at stores and online. Willys continued its expansion through new brick and mortar stores, its entry into the cross-border shopping segment with the acquisition of eight stores along the Norwegian border, and the continued e-commerce rollout. At year-end Willys offered online shopping at 34 stores in 19 cities. Operating profit grew 10.6%.

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

We live for everyone's right to good food ... which is why we are Sweden's most highly recommended grocery store chain.

Store facts

Willys

- 199 wholly owned stores, of which:
 - 151 Willys stores
 - 48 Willys Hemma stores
- Retail area in Willys stores:
 - 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

Eurocash

- 8 partly owned Eurocash stores
- Retail area in Eurocash stores: 1,200–3,200 sq. m., with approx. 10,000–20,000 items

New establishment and e-commerce

In 18 years' time Willys has grown from 12 to 199 stores. During the year three new Willys stores were added. Parallel with this, Willys' e-commerce business was expanded from eight stores at the start of the year to more than 30 stores in 19 cities and year-end.

Willys has a popular, transparent model featuring the same promotional campaigns and prices regardless of channel or store. The aim is to have the cheapest bag of groceries even online. Willys charges one fee for picking and one for delivery. Willys' Collect concept offers a convenient way for customers to pick up their groceries themselves at a Willys store, which also saves customers money.

E-commerce builds loyalty and enables new customers to find Willys. Willys will continue its e-commerce rollout into the coming year.

The Willys Plus customer programme has also had strong growth, gaining approximately 1,000 new members per day during the past year. More than 2.3 million customers are now enrolled in Willys Plus.

A winning offering

Affordable products and an attractive assortment are important for customers. Willys strives for the right balance of popular products in all product categories. Customers should be able to choose veg or meat, brand-name goods or Axfood's private label products.

Organic and vegetarian foods have traditionally been expensive. Willys wants to make it possible for more people to eat good and sustainable food. In 2017 Willys continued to develop its vegetarian product selection in stores, spearheaded by the Vego för alla ("Veg for everyone") campaign. Sales of refrigerated and frozen vegetarian products increased by 33% compared with a year earlier.

In pace with growing consciousness among Swedish consumers about where the food they eat comes from, Willys is further developing its offering of Swedish products in stores. Customers are showing a strong preference for Swedish products, especially meats and processed meats. During the year Willys brought in more meat and dairy products from Sweden and increased the number of promotional campaigns for Swedish meat. Through store signage Willys is helping customers find Swedish products with value-added such as high food safety, good animal care, strict environmental standards and low use of antibiotics.

During the year Willys strengthened its deli offering with its own, novel deli concept. Unstaffed deli displays showcase and highlight a wide range of fine products ahead of the week-end, including cheeses, sliced hams and tapas. Willys launched the concept in some 50 stores during the autumn, and it was well-received. The concept will be successively introduced at additional stores in 2018.

Green stores with red prices

In 2017 the smaller Willys Hemma stores were also certified by the Swedish Society for Nature Conservation to bear its Bra Miljöval ("Good Environmental Choice") marking for grocery stores. Willys is thereby the first in Sweden's food retail sector to have all stores certified as a Good Environmental Choice. This is one of the most rigorous environmental certifications in the Swedish market and requires, among other things, that the stores have a wide selection of organic products, that they avoid particularly environmentally hazardous products, and that they actively work with energy efficiency and waste sorting.

9.7%
growth



Effective management and economies of scale

Offering low prices requires that a store has low costs. This requires daily follow-up and consistent, long-term work on matters big and small. Since all Willys stores are Group-owned, they can maintain a uniform store format, work methods and policies, which creates an efficient organization.

Eurocash – Norwegian customers as new target group

At the start of the year the cross-border shopping chain Eurocash was acquired in partnership with the Norwegian grocery group NorgesGruppen. Axfood is the majority owner with 51%. Eurocash consists of eight stores in Sweden along the Norwegian border, which contributed both to Willys' strong sales growth and earnings. Norwegian consumers appreciate the considerably lower prices in Sweden, especially for meat, tobacco and sweets.

Approximately 2 million Norwegians live less than a 90 minute drive from a Eurocash store.

The cross-border shopping segment is similar to the discount retail segment in its character, with high volumes and a narrower assortment than the traditional grocery segment.

Future challenges and priorities

In 2018 Willys will continue to establish more physical stores, modernize existing ones, widen its e-commerce coverage and develop the assortment and digital communication through the Willys Plus customer programme.

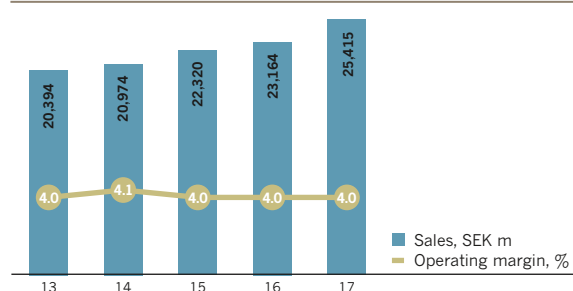
Pricing and cost control are and will continue to be a focal point. Willys will continue to offer the cheapest bag of groceries and be the leading discount chain in Sweden.

Waste-smart is sustainable

Food waste is hard to avoid for a grocery store. For a discount chain like Willys, it is only natural to take up the battle against unnecessary costs. For this reason Willys has created Svinnsmart ("Waste-smart"), which entails taking care of food that would otherwise be thrown out. The goal is to cut the chain's food waste in half by 2020. One new initiative in 2017 was to cut the price for day-old, in-store baked bread and to display products nearing their best-before date for sale at a lower price. Willys continues to look into ways of reducing waste. At year-end 2017, 72 stores had partnerships with charitable organizations that accept food donations, including the Salvation Army, Stadsmissionen, Hela Människan and Alsike kloster. Several hundred tonnes of food were donated during the year.



SALES AND OPERATING MARGIN



KEY RATIOS

SEK m	2017	2016	Change
Net sales	25,415	23,164	9.7%
Like-for-like sales growth, %	4.3	1.4	2.9
Operating profit	1,020	922	10.6%
Operating margin, %	4.0	4.0	0
Number of Group-owned stores	207	196	11
Average number of employees during the year	5,070	4,685	8.2%
Private label share, %	29.7	30.1	-0.4



Sustainability initiatives, passion for food and stronger market position

Hemköp had an expansive year in 2017. Profitability was affected by new store establishment, the e-commerce rollout and extensive store refurbishments – mainly the Hemköp City store in Stockholm, which was closed for just over four months. Over the long term these measures will promote Hemköp's development.

Business concept

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

Vision

Customers' favourite grocery store.

Store facts

- 187 Hemköp stores, of which 67 are Group-owned
- Hemköp stores range from 400 to 4,000 sq. m. of retail area and carry 10,000–12,000 items

E-commerce and digitalization

During the year Hemköp continued its e-commerce expansion, which complements the chain's business and is generating growth. At year-end 19 stores in nine cities offered e-commerce. These offer the same prices, the same wide assortment, and the same promotional campaigns as Hemköp's physical stores.

Hemköp is the first Swedish grocery chain to compensate for the carbon footprint from its home deliveries to customers who place orders on hemkop.se via offsets.

Customers who shop online have a higher average ticket value, choose a higher share of Axfood's private label products and buy a greater share of organic products. Hemköp has a high share of organic product sales, at 9.5%. For the e-commerce channel the organic product share is 15%. For private label products, the share of sales is 10 percentage points higher in the e-commerce channel than in stores – 35% compared with 25%.

Hemköp was the first grocery store chain in Sweden to have a cardless customer programme, and during the year it was made entirely digital – bonus cheques, special offers and communication are all handled via Hemköp's app, email and text messages. Hemköp continues to develop the programme with more relevant and personalized offers.

Inspiring meal solutions

Hemköp is taking sector convergence seriously and substantially expanded its offering of prepared meals during the year. Together with Urban Deli, Hemköp is further developing its array of meal solutions to meet growing demand. In Hemköp's larger stores at central locations, staff are being hired with specialist expertise to handle, inspire and provide advice on matters such as fresh seafood, dry-aged

meat, store-prepared food, catering, flowers and baked goods.

Passion for food and sustainability

Hemköp has a clear mission that is conveyed by all its stores: to inspire passion for sustainable food every day. For example, customers must always feel confident that the fish they buy comes from sustainable stocks. Hemköp is the only grocery chain in Sweden with MSC-certified fish counters.

Having a responsible approach to environmental and sustainability issues is important for Hemköp – and for its customers. Plastic recycling is a symbolic issue on which Hemköp was first to adopt a number of sustainability initiatives.

In spring 2017 Hemköp started a pilot project entailing deposits for plastic grocery bags, which was very well-received, and at year-end the practice had been expanded to some 20 stores.

Successful combination

At year-end 2017 Hemköp comprised 67 Group-owned stores and 120 franchise stores that are owned by private retailers. The franchise contract model is simple and straightforward, and makes Hemköp an attractive choice for franchisees. This combination of ownership forms is a strength that is driving the chain forward. It gives Hemköp the opportunity to be established in many locations across Sweden at the same time that the combination of chain operation and entrepreneurship spur and generate growth.

During the year three Group-owned stores were converted to so-called 91/9 stores. 91/9 is a financing solution that makes it possible for store managers to buy their store. Under the model, the store manager initially acquires a 9% share of ownership with an option to acquire more than 99% of the company. After the option has been exercised, Axfood owns one share.

9.5%
share of
organic sales

Store refurbishments

During the year five new stores were established and eleven were refurbished. One of Hemköp's largest stores, the Hemköp City store in Stockholm, was re-opened in August following a complete modernization. The store serves some 40,000 customers every week.

In modernization work, the spotlight is on passion for food and sustainability. For example, the Hemköp City store in Stockholm has its own florist, a patisserie, an inviting seafood department and heated food buffets. Across the board, customers are inspired to make sustainable choices through a greener meat counter that highlights appealing alternatives to meat through the Variera med vego ("Vary with veg") concept, see below. In addition, the store's modernization has resulted in a 50% reduction in electricity use.

To serve customers who want to do their shopping quickly without having to queue, Hemköp is refitting a large number of stores with self-checkout lanes. Hemköp's customer surveys show that this leads to more satisfied customers.

Tempo – new brand in the Hemköp family

At year-end 2017 Tempo became part of Hemköp after previously having been a part of Axfood Närlivs. Today Tempo comprises 145 franchise stores. Tempo is mini-mart format with a specialized assortment of some 7,000 items. Tempo stores also feature service counters for post and package handling, among other things.

The sales and customer loyalty trends for the Tempo brand are positive.

Future challenges and priorities

In 2018 Hemköp will continue to refurbish and modernize its physical stores, reduce electricity consumption and optimize its e-commerce business at existing stores.

Middagsfrid was acquired by Axfood in 2017, and starting in 2018 Hemköp is offering Middagsfrid's dinner solution bags featuring climate-smart and seasonal products from Swedish



quality producers. Middagsfrid's dinner solutions have thereby replaced the solutions previously offered by Hemköp.

Interaction with customers and inspiration remain in focus. In 2018 all store employees will attend training in how to better attend to and serve customers.

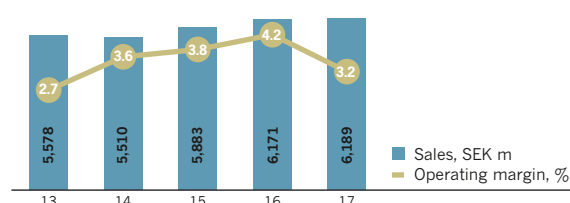
Demand for the latest food trends is rising rapidly at Hemköp's central city stores. Given Hemköp's knowledgeable and discerning customers, the chain benefits from staying abreast of new trends in the market.



Vary with veg

Hemköp offers guidance and inspires customers to make sustainable choices in its stores. Every year Hemköp receives some 105 million customer visits. This gives the chain an opportunity to influence customers to make more sustainable choices. During the autumn Hemköp launched the unique Variera med vego ("Vary with veg") concept, which entails displaying vegetarian alternatives next to popular meat products, such as halloumi burgers next to ordinary beef burgers. The initiative has received much praise as well as international attention, contributing to a 40% increase in sales of the selected vegetarian items since the concept was introduced in August. At year-end the concept was used in 18 stores, with continued expansion in 2018.

SALES AND OPERATING MARGIN



KEY RATIOS

SEK m	2017	2016	Change
Net sales	6,189	6,171	0.3%
Like-for-like sales growth, %	2.1	4.0	-1.9
Operating profit	196	260	-24.6%
Operating margin, %	3.2	4.2	-1.0
Number of Group-owned stores	67	67	0
Average number of employees during the year	1,790	1,817	-1.5%
Private label share, %	24.7	22.7	2.0



Strong performance for unique wholesaler

Axfood Snabbgross has had fine performance over time with good profitability. As part of Axfood's ambition to more strongly focus on the growing café and restaurant market, at year-end Axfood Snabbgross became its own segment. Today Snabbgross has 24 cash and carry stores throughout Sweden. E-commerce is opening up for new customers.

Business concept

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

Vision

Sweden's leading restaurant wholesaler.

Store facts

- 24 Group-owned stores
- Snabbgross stores range from 800 to 4,000 sq. m. of retail area and carry approximately 13,000 items

Expansion in restaurant-dense areas

Axfood Snabbgross is growing in an expanding business. Priority target groups are cafés, fast food restaurants, neighbourhood pubs and lunch restaurants. Two new stores opened during the year.

In Väla Centrum, one of Sweden's largest shopping centres northeast of Helsingborg, a 2,000 sq. m. store opened. Helsingborg has the most restaurants per capita of any city in Sweden.

The Gothenburg region got its second Snabbgross store during the year, located in the Sisjön retail district just south of Gothenburg. The 2,200 sq. m. store has a contemporary format and modern design with a clearer focus on the products. With this new store in Sisjön Axfood Snabbgross has increased its accessibility for all of western Sweden.

In April Axfood Snabbgross moved its store in Uppsala to new, larger premises. The new, modern premises are equipped with high sustainability standards and have a distinct environ-

mental profile. It is estimated that the new, efficient equipment in the store will lower its energy use by 25% compared with the previous premises.

Local, accessible and personal

Axfood Snabbgross is a unique wholesaler in the market, distinguished by accessibility at all levels – generous business hours, nationwide coverage by physical stores, extensive e-commerce and, not least, its employees. Snabbgross stores cater to the specific needs of their local markets. During the year, business hours were adjusted to better suit customers' needs.

Snabbgross's mission is to proudly serve Sweden's many restaurant kitchens through convenient access and everyday low prices.

By offering a breadth of food products in various quality classes, Axfood Snabbgross attracts a wide variety of customer groups and thereby has a large customer base.

3
billion SEK
in sales



Restructuring of Axfood Närlivs

In October 2017 Axfood decided to reorganize Axfood Närlivs in order to strengthen the customer offering and drive growth. The segment was split up to meet customers' varying needs and matched with similar areas of expertise and processes within the Group. With this, Axfood Snabbgross became its own segment.

To strengthen Axfood's offering to external grocery retailers, Tempo was transferred to Hemköp's organization. To coordinate and more clearly delineate logistics for Axfood's external customers, the convenience retailing business and Handlar'n were transferred to Dagab. The new organization took effect on 1 January 2018.



KEY RATIOS

SEK m	2017	2016	Change
Net sales	2,984	2,884	3.5%
Operating profit	189	202	-6.4%
Operating margin, %	6.3	7.0	-0.7
Number of Group-owned stores	24	22	2
Average number of employees during the year	494	476	3.8%



Axfood Snabbgross became its own segment on 1 January 2018.

Knowledgeable staff who reflect the customers

Success factors include accessibility, proximity to customers and knowledgeable staff who serve customers with support and advice. Maintaining a dialogue with customers is of major importance since tailoring to their needs and preferences leads to better business for both parties.

Axfood Snabbgross views its employees' multilingual skills as a vital source of expertise that reflects the diversity of its customer base. Many employees can converse with customers in their mother tongues and in doing so provide even better service. Employees speak everything from Southern Sami to Arabic. Store staff are easily identifiable for customers by wearing nametags that indicate which languages they have a command of. In all, 28 languages are spoken within the company.

New e-commerce platform

An all new e-commerce platform was launched during the year that makes it easier for customers to search for items and more efficient to shop. Customers have shown appreciation for the new platform, which has led to an increase in online sales. Axfood Snabbgross will continue to develop the new e-commerce platform toward the goal of increasing sales via the e-commerce channel.

Sustainability a matter of course

Axfood Snabbgross's stores are working continuously with sustainable development in their day-to-day operations. In many stores the heat generated from refrigeration and freezer systems

is recycled and used to heat the stores. In certain stores, the entire heating needs are met through the store's own systems.

Axfood Snabbgross is preparing itself for the future trend in restaurants, where patrons are growing increasingly discerning and have higher demands on the food they eat. Greater focus is being put on communication about sustainable products and responsibility at stores. To support customers in their decisions Axfood Snabbgross is making an effort to clarify the connection between sustainability and profitability.

28
languages spoken
by employees

Future challenges and priorities

The competition between suppliers to cafés, fast food restaurants, neighbourhood pubs and lunch restaurants is fierce. Axfood Snabbgross has a strong position on account of its high accessibility, both through its geographic presence and generous business hours.

Focus in 2018 will be on the continued modernization of existing stores and finding locations to establish new stores and thereby enable more customers to discover Axfood Snabbgross's offering. Continued development of the e-commerce platform is also high on the agenda in Axfood Snabbgross's ambition to be the most accessible restaurant wholesaler.

Continuous customization of the assortment and conducting the right campaigns are also high on the agenda. It should be easy for customers to find the right products at Axfood Snabbgross. During 2018 Snabbgross plans to hold week-long specials for organic products and to promote low prices for organic products through other promotional activities.



Efficient and innovative operation

Dagab is responsible for ensuring that Axfood's assortment, purchasing and logistics work optimally for all of the Group's market concepts as well as for external business customers. As a support company Dagab plays an instrumental role in Axfood's work on continuously improving the efficiency of the product flow from assortment and purchasing to warehousing and distribution. Dagab posted higher sales in 2017 and maintained its operating margin.

Business concept

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

Vision

We will strengthen Axfood's market position for the long term.

Price value based on demand

It all starts in Dagab's purchasing department. This is where an attractive assortment is created and also where Axfood's private label products are developed. The assortment is one of Axfood's most important cornerstones. The work starts with the chains' needs and customers' varying preferences. All supplier agreements are negotiated centrally by Dagab, and in such way the best conditions for Axfood's various food concepts are created. By coordinating purchases of the Group's total volumes, Dagab gains strong purchasing power that translates to price value – and enables more people to eat good and sustainable food.

Axfood's private labels feature attractively priced quality products that accounted for just over 28% of the Group's sales in 2017. This makes Axfood best in Sweden at private label products. Several new brands were launched in 2017; Spicefield, Dazzley, and Prime Patrol. Read more about Axfood's private label products on p. 20.

Clear origin

Knowing a product's origin is important for Axfood's customers. During the year production of all Garant dairy products was moved to Sweden. The Från Sverige ("From Sweden") marking, which all Garant dairy products now bear, is a quality seal that vouches for food safety, animal care and low use of antibiotics. To meet consumer demand and ensure the supply of Swedish meat, during the year Dagab began buying entire carcasses, which are then butchered and further distributed to suppliers for processing. This has enabled a changeover of the entire range of Garant charcuterie products to Swedish meat at competitive prices. An exception is made for products with a distinctly regional origin, such as processed meats from

Spain or Italy, where it is expected that Serrano and Parma ham will come from these respective countries. At year-end, 364 private label products bore the "From Sweden" marking.

New opportunities with new warehouse

Automated warehousing technology has improved substantially in recent years. In 2017 Dagab began construction of a new transit cold storage for perishables in Jönköping that will begin operating in 2018. The warehouse will be automated with robots that pick orders 24 hours a day.

At the start of the year Axfood acquired Saba Logistics' warehouse operation in Helsingborg. Saba handled Dagab's fruit and vegetable warehousing for many years. By integrating this warehousing Dagab has gained better control over the entire value chain for fruits and vegetables. This is translating to lower prices for consumers and opportunities to develop the business. Following the acquisition, the warehouse was expanded to also handle flowers.

High internal purchasing percentage and smooth product flow

Dagab is striving to increase the percentage of purchases made by Axfood's stores via the Group's own warehouses. A higher internal purchasing percentage contributes to more efficient transports and higher capacity utilization of delivery trucks, resulting in lower environmental impact. In addition, fewer product deliveries simplify work for store employees, who can focus on serving their customers.

The internal purchasing percentage continued to increase in 2017. To improve ordering efficiency and ensure uninterrupted product restocking in stores, Dagab is working to increase the share of automatically generated

28%
private label share
in 2017

orders through its Autoorder system. With Autoorder, products are automatically ordered from Dagab's warehouse when the number of items remaining on the store shelf falls to a set level. The next step in this process is under way and involves using Autoorder also for products ordered directly from vendors. This step is being introduced gradually.

New area: External business

In convenience retailing, logistics are centrally steered – something that Dagab is fully focused on. For this reason, Axfood's entire convenience retailing business, which until year-end 2017 was organized under Axfood Närlivs, has been transferred to Dagab and is included in a new area for external business. The Handlar'n store format is also included under the convenience retailing concept. By gathering all external business in a single area, Dagab will be able to strengthen Axfood's customer offering and develop new businesses.

The pure-play online store mat.se and Middagsfrid

Through the acquisition of mat.se Axfood gained a pure-play online store and a wealth of e-commerce expertise and coverage. Mat.se has three dark stores in Stockholm, Malmö and Gothenburg, respectively, plus a fleet of small trucks and vans for home delivery. Through innovative initiatives, Axfood's new online store will devise consumer-friendly solutions for online grocery shopping. The recently acquired dinner solution company Middagsfrid is also part of mat.se.

mat.se

Challenges in meeting climate goals

The Group's carbon footprint is strongly affected by refrigerant emissions and energy consumption for refrigerated and frozen products. Dagab has previously invested in solar panel systems on warehouse and store rooftops as an effective way to contribute to the Group's environment-friendly energy supply. Transports of products to stores also account for significant environmental impact. Dagab previously showed a large improvement in its carbon footprint, largely owing to the use of HVO fuel for product transports using its own fleet. Unfortunately it is no longer possible to buy HVO that is free from palm oil or PFAD (palm fatty acid distillate). Since production of palm oil and PFAD for fuel

can accelerate deforestation of rain forests, Axfood has decided to avoid using HVO as long as it contains palm oil and PFAD. The challenge is that the supply of sustainable alternatives is very limited today.

Future challenges and priorities

Dagab's overarching mission is to contribute to the chains' success by providing the right assortment, the right purchasing prices, and optimal logistics solutions. By succeeding at this Dagab is contributing to the chains' competitiveness and Axfood's market position. One continued challenge involves meeting consumer demand primarily for Swedish and organic products. With higher demand and limited supply comes higher prices. The biggest shortage is for Swedish meats and high-fat dairy products. This has led to substantially higher prices for butter, for example.

KEY RATIOS

SEK m	2017	2016 ¹⁾	Change
Net sales	41,139	39,091	5.2%
Distributed sales	31,986	30,815	3.8%
Operating profit	697	670	4.0%
Operating margin, %	1.7	1.7	0
Average number of employees during the year	2,178	1,888	15.4%
Delivery reliability, %	96.9	96.8	0.1

¹⁾ Figures for 2016 are pro forma to reflect the acquisition of Saba's fruit and vegetable warehousing operation.



Efficiency at every level

Dagab serves as a partner to Willys, Hemköp, Axfood Snabbgross and mat.se. The purchasing, assortment and logistics model has been improved steadily to increase inventory turnover, improve distribution and create more efficient order flows and transports. In this context Dagab's task is to create large-scale, flexible and customer-unique solutions to meet the chains' varying needs and at the same time benefit from scale economies. One of the logistics operation's most important key ratios is delivery reliability, which hovered around the 97% target in 2017. For perishables, 80% of shelf life is to be spent in stores. Deliveries are made to approximately 7,000 stores and customers across Sweden.

Axfood's value drivers

Historically favourable total return

During the last five years Axfood's shares have delivered a total return of 219%. The dividend policy is to distribute at least 50% of profit after tax.

TOTAL RETURN, AXFOOD 2013–2017, INDEX



Stable industry and financial position

The food retail market is relatively resilient to fluctuations in the economy, with stable growth that is driven primarily by population growth and inflation. Swedish consumers' preferences for quality and demand for information about the origin of products are driving development towards a more sustainable industry.

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.



Strategy for profitable growth

Through its focus on profitable growth, Axfood can achieve favourable growth in value over time. In 2018 Axfood plans to establish four to eight new stores, offer e-commerce to consumers in another some dozen or so cities and continue modernizing stores.

Axfood is working continuously to improve efficiency and hold costs down toward the goal of maintaining its operating margin at 4%. To increase efficiency in logistics a cold storage warehouse automated with robots will be built. Reducing energy consumption and focusing on energy efficiency are other measures that are lowering costs – and also lowering the Group's carbon footprint. Axfood's goal is to be climate-neutral in its own operations by 2020.

Strong positions and brands

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

Willys is Sweden's leading discount grocery chain, with 200 Group-owned stores. Eurocash offers low prices in the cross-border shopping segment along the Norwegian border. Hemköp and Axfood Snabbgross are firmly positioned to offer their customers passion for food, inspiration and service. Through mat.se, Axfood's e-commerce concepts are being further improved with innovative solutions and attractive offers.

Being able to offer a distinctively sustainable product selection is important in view of the

growing consumer interest in organic, certified and vegetarian products. Organic products as a share of total grocery sales by Willys and Hemköp in 2017 amounted to 6.0% and 9.5%, respectively, with considerably higher shares in the e-commerce channel.

Axfood's own Garant private label has high brand recognition in the market and is associated with wholesome, good food. Axfood's private label products are leading the way in sustainability and health. The Group's private labels accounted for 28% of total sales in 2017.



Annual Report 2017

“Axfood’s strong growth in 2017 can be credited to acquired businesses and high organic growth. Our stable cash flow and financial position have allowed the Board to propose a dividend of SEK 7 per share.”

Anders Lexmon
CFO



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¹⁾ Pages 66–69 are not part of the statutory annual report.



Administration report

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

The Board of Directors and President of Axfood Aktiebolag (publ), with registered office in Stockholm, Sweden, herewith submit the annual report and consolidated accounts for the 2017 financial year.

Operations

Axfood conducts food retail and wholesale business in Sweden. Retail business is conducted through the Willys, Hemköp and Eurocash chains, with a total of 274 Group-owned stores at year-end (263). During the year a number of stores were established, acquired, sold or closed. Store conversions are also conducted between Axfood's various concepts.

In 2017, 16 stores were established or acquired, and five stores were closed or sold.

In addition to Group-owned stores, Axfood collaborates with a large number of retailer-owned stores that are tied to Axfood through agreements, including stores in the Hemköp chain, but also stores operating under the Handlar'n, Tempo and Direkten brands. In all, Axfood collaborates with approximately 860 retailer-owned 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 B2B sales to mini-marts, service stations and other convenience retailers. Axfood Närlivs also includes 24 Axfood Snabbgross cash and carry stores.

The assortment that Axfood offers its customers also includes private label products. The largest private label is Garant. Private label products as a share of net sales amounted to 28.2% (27.9%) in 2017.

Market

Retail food sales in Sweden (excluding alcoholic beverages) showed positive development in 2017. Measured in current prices, sales rose 2.3% (2.2%), based on preliminary data from Statistics Sweden and HUI Research. At constant prices, adjusted for price and calendar effects, volume increased by 0.6% (0.6%). Total food retail sales in 2017 are estimated at approximately SEK 260 bn (254).

Important events 2017

Q1

- Klas Balkow is installed as new CEO, succeeding Anders Strålman after 12 years of service. A new CFO, Anders Lexmon, also takes office, succeeding Karin Hygrell-Jonsson.
- Saba's fruit and vegetable warehouse operation is acquired and consolidated in the Group as from 1 January.
- Matse Holding AB is acquired and consolidated in the Group as from 1 February.
- Axfood Snabbgross opens its 23rd store.



Q2

- Eurocash Food AB is acquired in partnership with NorgesGruppen and is consolidated in the Group as from 1 April.
- One of Hemköp's largest stores, Hemköp City in Stockholm, is closed for four months for refurbishment.
- Middagsfrid is acquired and consolidated in the Group as from 1 June.



Q3

- Co-investment in newly formed company to launch an online pharmacy, Apochem. In connection with this, Ann Carlsson, CEO of Apoteket AB, vacates her seat on Axfood's board.
- European Commission approves acquisition of Eurocash, and Axfood sells a minority stake to NorgesGruppen.



Q4

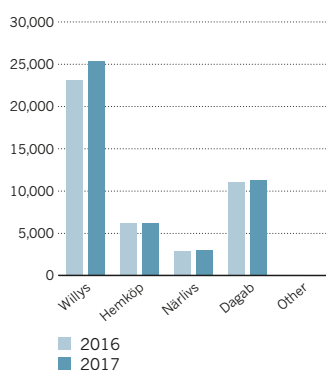
- Decision to reorganize Axfood Närlivs, effective 1 January 2018.
- By year-end Willys had launched e-commerce in 19 cities, and Hemköp in nine. Together with mat.se, Axfood's food concepts reach more than 5 million consumers online.
- Axfood Snabbgross opens its 24th store and completes update of its e-commerce platforms in all stores.



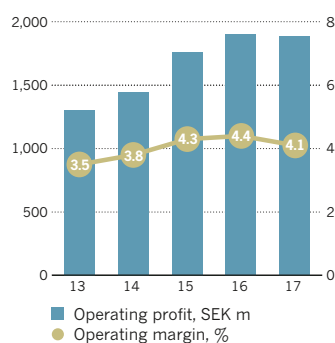
Statement of profit or loss and other comprehensive income, Group

Amounts in SEK m	Note	2017	2016
Net sales	2, 5	45,968	43,355
Cost of goods sold	6, 8	-39,306	-37,151
Gross profit		6,662	6,204
Selling expenses	6, 8	-2,819	-2,609
Administrative expenses	6, 8, 9	-2,422	-2,109
Share of profit in associated companies and joint ventures	22	-3	-4
Other operating income	5	483	432
Other operating expense	6	-15	-12
Operating profit	2	1,886	1,902
Interest income and similar profit/loss items	13	8	5
Interest expense and similar profit/loss items	13	-13	-13
Net financial items		-5	-8
Profit before tax		1,881	1,894
Current tax	15	-375	-319
Deferred tax	15	-39	-102
Net profit for the year		1,467	1,473
Other comprehensive income			
<i>Items that cannot be reclassified to profit or loss for the period</i>			
Revaluation of defined benefit pension plans	28	-15	0
Tax attributable to items that cannot be reclassified to profit or loss for the period	15	3	0
<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		0	0
Change during the year in the fair value of hedges	33	0	4
Change in fair value of available-for-sale financial assets		-6	-
Tax attributable to items that have been reclassified or can be reclassified to profit or loss for the period	15	1	-1
Other comprehensive income for the year		-17	3
Comprehensive income for the year		1,450	1,476
Profit for the year attributable to:			
Owners of the parent		1,463	1,473
Non-controlling interests		4	0
Profit for the year		1,467	1,473
Comprehensive income for the year attributable to:			
Owners of the parent		1,446	1,476
Non-controlling interests		4	0
Comprehensive income for the year		1,450	1,476
Earnings per share before and after dilution, SEK	16	6.98	7.02
Operating profit includes depreciation/amortization of	10	744	719

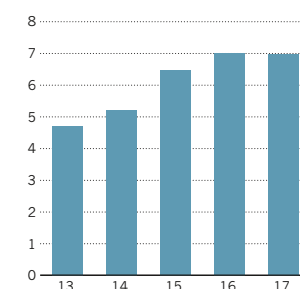
**CONSOLIDATED NET SALES
PER SEGMENT, SEK M**



**CONSOLIDATED OPERATING PROFIT
AND OPERATING MARGIN**



EARNINGS PER SHARE, SEK¹⁾



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

Net sales and operating profit Group

Consolidated net sales totalled SEK 45,968 m (43,355), an increase of 6.0% (5.1%) compared with 2016.

Net sales for the Group consist to 75% (74%) of store sales and 25% (25%) of external wholesale volume and store compensation. Retail sales for Group-owned stores increased by 7.7% for the year (4.0%), with a 3.8% rise (2.0%) in like-for-like sales. A breakdown of sales per chain is shown in the table below.

The Group's gross margin was 14.5% (14.3%). Operating profit totalled SEK 1,886 m (1,902), corresponding to an operating margin of 4.1% (4.4%). Operating profit included SEK 744 m (719) in depreciation and amortization.

Willys

Willys' sales grew 9.7% (3.8%) to SEK 25,415 m (23,164). The acquisition of Eurocash contributed to the strong growth. Like-for-like sales increased by 4.3% (1.4%).

Two new stores opened in 2017 and one store was acquired, in addition to the eight Eurocash stores. Eighteen stores were refurbished during the year. The total number of stores was 207 (196), including 151 (148) Willys, 48 (48) Willys Hemma and 8 (0) Eurocash. E-commerce continued to grow, and in total Willys offers e-commerce at 34 stores in 19 cities. The number of members in the Willys plus customer programme increased to 2.3 million (2.1).

Willys' operating profit was SEK 1,020 m (922), corresponding to an operating margin of 4.0% (4.0%).

Hemköp

Hemköp's sales grew 0.3% (4.9%) to SEK 6,189 m (6,171), with a 2.1% rise (4.0%) in like-for-like sales.

E-commerce expanded in 2017 and is now offered at 19 stores in nine cities. Store sales including Hemköp franchises totalled SEK 13,291 m (12,701), an increase of 4.6% (5.8%) compared with the preceding year. The number of stores at year-end was 187 (185), of which 120 (118) were retailer-owned and 67 (67) were Group-owned. During the year, 11 (3) Group-owned stores were modernized.

Hemköp's operating profit was SEK 196 m (260), corresponding to an operating margin of 3.2% (4.2%).

Axfood Närlivs

Axfood Närlivs' sales rose 3.5% (5.5%) to SEK 2,984 m (2,884). Axfood Snabbgross continued to develop strongly during the year, which can be credited both to more customers and a higher average ticket value as well as to a number of new store openings. During 2017 Axfood Snabbgross opened two new stores, and the number of stores at year-end was 24 (22).

Operating profit was SEK 189 m (202), corresponding to an operating margin of 6.3% (7.0%).

Dagab

Dagab includes the Group's logistics function and the assortment and purchasing function. During the year Dagab acquired Saba Logistics' fruit and vegetable warehouse operation, mat.se and Middagsfrid.

Sales totalled SEK 41,139 m (42,319), representing a change of -2.8% (6.4%). Sales decreased as a result of the Saba acquisition, where prior to the acquisition fruits and vegetables were sold by Dagab to Saba and then repurchased after warehousing. These transactions ended in connection with the acquisition. Adjusted for this, sales increased by 5.2%. External sales amounted to SEK 11,337 m (11,092). Delivery reliability was 96.9% (96.8%). Operating profit strengthened to SEK 697 m (670), corresponding to an operating margin of 1.7% (1.7%) pro forma.

Net financial items

Net financial items improved by SEK 3 m during the year, from SEK -8 m to SEK -5 m. Interest expense for pension liabilities decreased by SEK 3 m.

Tax, profit for the year and earnings per share

The tax expense was SEK 414 m (421), corresponding to an effective tax rate of 22.0% (22.2%). Profit for the year after tax was SEK 1,467 m (1,473), or SEK 6.98 per share (7.02).

Seasonal variations

Axfood's sales are affected to some extent by seasonal variations. Sales are higher 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 the 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.

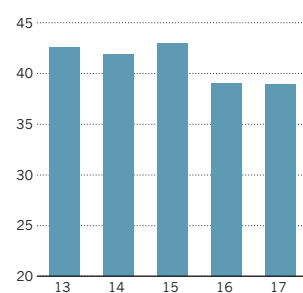
STORE SALES, GROUP-OWNED AND FRANCHISE

SEK m	2017	2016	Change, %	Like-for-like stores, 2017	Like-for-like stores, 2016	Change, %
Willys total	25,415	23,164	9.7	24,058	23,071	4.3
Hemköp	6,071	6,072	0.0	5,795	5,676	2.1
Hemköp franchise	7,220	6,629	8.9	6,770	6,513	3.9
Hemköp total	13,291	12,701	4.6	12,565	12,189	3.1
Store sales, Axfood Group	38,706	35,865	7.9	36,623	35,260	3.9

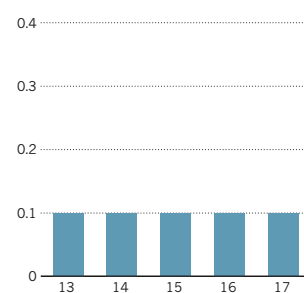
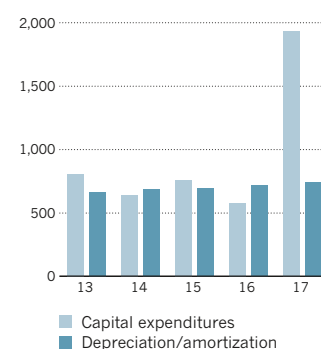
Statement of financial position, Group

Amounts in SEK m	Note	31/12/2017	31/12/2016
Assets			
Non-current assets			
Intangible assets	17		
Goodwill		2,671	1,864
Other intangible assets		717	614
		3,388	2,478
Property, plant and equipment	18, 20		
Land and buildings		41	52
Equipment, tools and fixtures		1,877	1,701
Construction in progress		114	46
		2,032	1,799
Financial assets			
Participations in associated companies and joint ventures	22, 23	19	18
Other long-term securities holdings	23, 29	48	100
Other non-current receivables	23, 24, 29	17	20
		84	138
Deferred tax assets	15	131	61
Total non-current assets		5,635	4,476
Current assets			
Inventories			
Finished products and goods for resale	25	2,263	2,191
		2,263	2,191
Current receivables			
Accounts receivable – trade	26, 29	954	926
Other current receivables	24	101	105
Prepaid expenses and accrued income	27	1,140	1,115
		2,195	2,146
Cash and cash equivalents	29		
Cash and bank balances		1,376	1,726
		1,376	1,726
Total current assets		5,834	6,063
TOTAL ASSETS		11,469	10,539

EQUITY RATIO, %



DEBT-EQUITY RATIO, MULTIPLE

CAPITAL EXPENDITURES/DEPRECIATION
& AMORTIZATION, SEK M

Amounts in SEK m	Note	31/12/2017	31/12/2016
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		262	262
Other capital contributions		496	496
Reserves	33	5	10
Profit brought forward		3,503	3,349
		4,266	4,117
Non-controlling interests		212	1
		4,478	4,118
Non-current liabilities			
Provisions for pensions and similar obligations	28, 30	418	418
Other interest-bearing liabilities	20, 29, 30	61	41
Deferred tax liability	15	784	674
Other non-current liabilities		29	27
		1,292	1,160
Current liabilities			
Other interest-bearing liabilities	20, 29, 30	49	39
Accounts payable – trade	29	3,458	3,224
Current tax liabilities		27	32
Other current liabilities	29	245	168
Accrued expenses and deferred income	19, 31	1,920	1,798
		5,699	5,261
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		11,469	10,539

Financial position

Non-current assets

The Group's non-current assets increased during the year by SEK 1,159 m, from SEK 4,476 m to SEK 5,635 m. Non-current assets consist primarily of goodwill, SEK 2,671 m (1,864), and machinery and equipment, SEK 1,877 m (1,701).

Capital expenditures

The Group's total capital expenditures in intangible assets and in property, plant and equipment amounted to SEK 1,934 m (580). Of these, SEK 1,106 m (6) pertained to investments in business combinations, SEK 479 m (349) to investments in retail operations, SEK 138 m (85) to investments in wholesale operations and SEK 203 m (135) to investments in IT.

During 2017 Axfood acquired shares in Matse Holding AB, Eurocash Food AB and Middagsfrid AB as well as the warehouse operation from Saba along with a store. The store was converted to Willys. The combined purchase consideration for acquisitions in 2017 amounted to SEK 1,064 m (9), of which SEK 49 m was paid in 2016. The consideration was paid in cash, and no amounts remain to be paid for previous years' acquisitions. Axfood's share of ownership in all of the acquisitions is 100% except for in Eurocash Food, where 49% has been sold to NorgesGruppen. Axfood has retained control after this sale.

For further information about acquisitions, see Note 3.

Working capital

Of current assets, inventories make up the single largest item, SEK 2,263 m (2,191). Inventories consist of finished goods in the retail operations, 51% (52%), and wholesale operations, 49% (48%). Trade payables make up the single largest item in current liabilities, totalling SEK 3,458 m (3,224).

Shareholders' equity and liabilities

Shareholders' equity amounted to SEK 4,478 m (4,118), including non-controlling interests of SEK 212 m (1), which is a net increase of SEK 360 m.

During the year SEK 1,259 m (1,889) 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 increased from SEK 498 m to SEK 528 m. The interest-bearing net debt receivable decreased from SEK 1,249 m to SEK 871 m.

The equity ratio was 39.0% (39.1%), and the net receivable-equity ratio was 0.2 (0.3).

CHANGE IN INTEREST-BEARING NET DEBT RECEIVABLE FOR THE GROUP AND RECONCILIATION OF LIABILITIES ATTRIBUTABLE TO FINANCING ACTIVITIES

	31/12/2016	Cash flow	Non-cash changes		31/12/2017
			Acquisitions of subsidiaries	Other changes	
Non-current interest-bearing liabilities	41	-43	57	6	61
Current interest-bearing liabilities	39	-54	58	6	49
Reconciliation of liabilities attributable to financing activities¹⁾	80	-97	115	12	110
Interest-bearing pension liabilities	418	-22		22	418
Cash and cash equivalents	1,726	-350			1,376
Non-current interest-bearing receivables	21			2	23
Interest-bearing net debt receivable	1,249	-231	-115	-32	871

¹⁾ Included in the reconciliation of liabilities attributable to investing activities in the Statement of cash flows, Group, see p. 56.

Statement of cash flows, Group

Amounts in SEK m	Note	2017	2016
Operating activities			
Operating profit		1,886	1,902
Depreciation/amortization charged against profit		712	694
Interest paid		-5	-2
Interest received		6	4
Adjustments for non-cash items		-5	-26
Paid tax		-382	-327
Cash flow from operating activities before changes in working capital		2,212	2,245
Cash flow from changes in working capital			
Change in inventories		26	-165
Change in current receivables		4	-193
Change in current liabilities		292	354
Cash flow from operating activities		2,534	2,241
Investing activities			
Acquisitions of intangible assets		-114	-93
Acquisitions of property, plant and equipment		-651	-435
Acquisitions of businesses	3	-746	-9
Sales of businesses	4	0	7
Sales of property, plant and equipment		17	20
Change in other financial assets		-6	-49
Cash flow from investing activities		-1,500	-559
Financing activities			
Amortization of debt		-97	-
Share repurchases		-28	-
Shareholder dividend		-1,259	-1,889
Cash flow from financing activities		-1,384	-1,889
CASH FLOW FOR THE YEAR		-350	-207
Cash and cash equivalents at start of year		1,726	1,933
Cash and cash equivalents at year-end		1,376	1,726

Group cash flow from operating activities

The Group's cash flow from operating activities before changes in working capital decreased by SEK 33 m to SEK 2,212 m (2,245) and consisted mainly of the net sum of purchases and sales of food retail items. Excluding paid tax of SEK -382 m (-327), cash flow from operating activities before changes in working capital increased by SEK 22 m (164). Reversed depreciation and amortization has been adjusted with the portion that pertains to leased assets, totalling SEK 32 m (25). Adjustment for non-cash items amounted to SEK -5 m, net (-26), and pertains to provisions for pensions, capital gains and obsolescence. Interest received during the year totalled SEK 6 m (4), and interest paid totalled SEK 5 m (2).

Investments and divestments

The Group's total investments in intangible assets and in property, plant and equipment amounted to SEK 1,934 m (580). Investments in intangible non-current assets and in property, plant and equipment excluding acquisitions amounted to SEK 828 m (574). These invest-

ments have been adjusted by SEK -63 m (-46) in cash flow pertaining to finance leases. Investments in intangible assets and in property, plant and equipment attributable to acquired operations amounted to SEK 1,106 m (6). Acquisitions in operations affected cash flow by a total of SEK 746 m (9). The difference is explained by acquired working capital, the portion attributable to non-controlling interests, and to the fact that part of the consideration for mat.se was paid in 2016.

Financing activities

The Group's change in interest-bearing liabilities affected cash flow by SEK -97 m (-), which pertains to amortization of loans from acquired operations. The dividend paid to the owners of the Parent Company totalled SEK 1,259 m (1,889), corresponding to SEK 6.00 per share in ordinary dividend (5.00) and SEK - per share (4.00) in extra dividend, based on 209,870,712 shares.

For a reconciliation of liabilities attributable to financing activities, see p. 55.

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 2016	262	496	1	9	-3	-106	3,871	4,530	1	4,531
Comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	1,473	1,473	0	1,473
Other comprehensive income for the year	-	-	0	-	3	0	-	3	-	3
Comprehensive income for the year	-	-	0	-	3	0	1,473	1,476	0	1,476
Shareholder dividend	-	-	-	-	-	-	-1,889	-1,889	0	-1,889
Acquisition of non-controlling interest	-	-	-	-	-	-	0	0	0	-
Closing shareholders' equity 2016	262	496	1	9	0	-106	3,455	4,117	1	4,118
Opening shareholders' equity 2017	262	496	1	9	0	-106	3,455	4,117	1	4,118
Comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	1,463	1,463	4	1,467
Other comprehensive income for the year	-	-	0	-5	0	-12	-	-17	-	-17
Comprehensive income for the year	-	-	0	-5	0	-12	1,463	1,446	4	1,450
Shareholder dividend	-	-	-	-	-	-	-1,259	-1,259	-	-1,259
Share repurchase	-	-	-	-	-	-	-28	-28	-	-28
Share-based payments	-	-	-	-	-	-	4	4	-	4
Transactions with non-controlling interests	-	-	-	-	-	-	-14	-14	207	193
Closing shareholders' equity 2017	262	496	1	4	0	-118	3,621	4,266	212	4,478

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 4,478 m (4,118) at year-end, including non-controlling interests of SEK 212 m (1). Profit for the year attributable to non-controlling interests amounted to SEK 4 m (0).

The equity ratio was 39.0% (39.1%) at year-end 2017.

Return on equity was 34.9% (34.1%).

Share capital

The share capital as per 31 December 2017 amounted to SEK 262,338,390 (262,338,390). The share capital is distributed among 209,870,712 shares (209,870,712), of which the number of shares outstanding was 209,676,712 (209,870,712) on 31 December 2017. 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 (1.25).

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 (0).

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 derecognized 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 -6 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 0 m (4), and deferred tax, totalling SEK 0 m (-1). A compilation of the change in value of the hedging reserve during the year is provided in Note 33.

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. Other than interest-bearing pension liabilities and finance leases, Axfood has no external borrowing, whereby the Group defines capital as shareholders' equity.

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 29 December 2017, which was SEK 158.10, Axfood's market capitalization was SEK 33,181 m (30,053).

Share performance 2017

Axfood's share price grew by 10.4% in 2017, while the Consumer Services index fell by 16.3%. The Nasdaq Stockholm composite index rose 6.4% in 2017. The total return for Axfood's shares in 2017 including reinvested dividends was 15.4%. The highest closing price quoted during the year was SEK 161.00, on 7 December, and the lowest closing price was SEK 133.30, on 28 March.

Trading volume

In 2017 a total of 131.5 million (139.3) Axfood shares were traded in all marketplaces, with average daily trading volume of 523,785 shares (557,360). Trading on Nasdaq Stockholm accounted for 71% (65%) of total trading volume in Axfood shares.

In 2017 the average turnover rate for shares listed on Nasdaq Stockholm increased to 80%, compared with 67% in 2016. The average turnover rate for Axfood shares on Nasdaq Stockholm in 2017 increased to 45%, compared with 43% in 2016. The total average turnover rate for Axfood shares in 2017, based on trading in all marketplaces, was 63% (66%).

Ownership structure

The number of shareholders increased in 2017 and was 49,292 at year-end 2017 (33,164). The principal owner is Axel Johnson AB, with 50.1% of the shares (votes and capital). No other shareholder owns – directly or indirectly – more than 10% of the shares in Axfood (votes and capital).

Axel Johnson's shareholdings were unchanged in 2017. Axfood AB owns 194,000 treasury shares (0.1%), which are designated to ensure delivery of shares coupled to Axfood's long-term share-based incentive programme for 2017 (LTIP 2017).

Of Axfood's share capital, 82.4% (80.3%) is owned by Swedish investors and 17.6% (19.7%) is owned by foreign investors. Swedish ownership is dominated by private individuals and companies, with 63.8% (62.6%) of the capital, while mutual funds own 13.0% (11.6%) and institutions 5.6% (6.1%). The USA and Finland account for the largest share of foreign ownership.

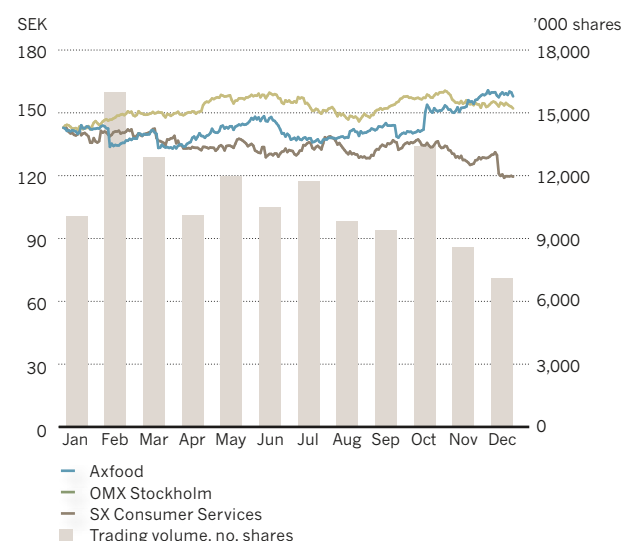
Dividend

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 2017 financial year the Board has proposed an ordinary dividend of SEK 7.00 per share (6.00), corresponding to 100.0% (85.5%) of profit after tax. Based on 209,676,712 shares, the dividend will amount to SEK 1,468 m. Based on the last price paid on 29 December 2017 (SEK 158.10), the proposed dividend represents a dividend yield of 4.4%.

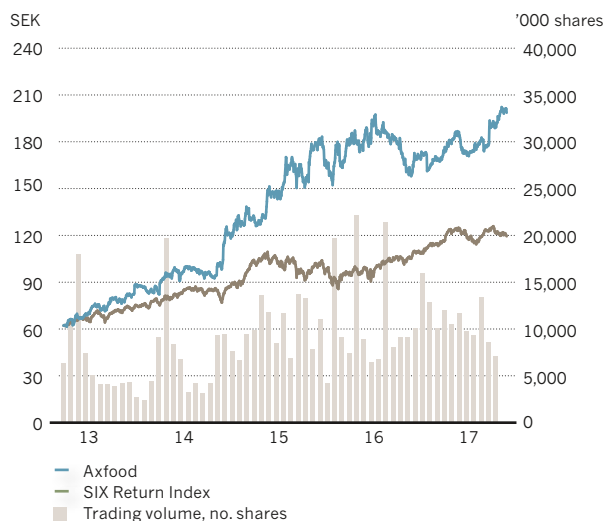
In addition to the ordinary dividend, Axfood has paid extra dividends on four previous occasions, for the 2004, 2005, 2006 and 2015 financial years.

During the last five years, the ordinary dividend has averaged 85.5% of profit after tax.

AXFOOD SHARE PRICE AND TRADING VOLUME, 2017



AXFOOD SHARES, TOTAL RETURN 2013–2017



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

OWNERSHIP STRUCTURE, 31 DECEMBER 2017

Size class	No. shareholders	Shareholders, %	No. of shares	Share of votes and capital, %
1 – 500	39,651	80.4	4,488,690	2.1
501 – 1,000	4,718	9.6	3,794,657	1.8
1,001 – 5,000	3,820	7.8	8,590,665	4.1
5,001 – 10,000	510	1.0	3,717,303	1.8
10,001 – 15,000	146	0.3	1,808,454	0.9
15,001 – 20,000	91	0.2	1,641,989	0.8
20,001 –	356	0.7	185,828,954	88.5
Total	49,292	100.0	209,870,712	100.0

TEN LARGEST SHAREHOLDERS AT 31 DECEMBER 2017

Name	No. of shares	Share of capital and votes, %
Antonia Ax:son Johnson (family and companies)	105,080,264	50.1%
AMF Försäkringar & Fonder	8,640,257	4.1%
Swedbank Robur fonder	8,188,348	3.9%
SEB Investment Management	4,838,221	2.3%
Odin funds	4,005,000	1.9%
Nordea Investment Funds	3,518,150	1.7%
Norges Bank	3,115,052	1.5%
BPSS LUX/PARVEST	1,892,162	0.9%
Sax Göran (family and companies)	1,807,508	0.9%
JP Morgan Chase NA	1,525,781	0.7%
Total	142,610,743	68.0%
Others	67,259,969	32.0%
Total	209,870,712	100.0%

KEY DATA PER SHARE, SEK

	2017	2016	2015	2014 ¹⁾	2013 ¹⁾
Ordinary dividend	7.00 ²⁾	6.00	5.00	4.25	3.75
Extra dividend	– ²⁾	–	4.00	–	–
Dividend as % of net profit	100.0 ²⁾	85.5	138.8	81.4	79.8
Number of shares outstanding	209,676,712	209,870,712	209,870,712	52,467,678	52,467,678
Share price at year-end	158.10	143.20	146.80	116.63	80.68
Market cap at year-end, SEK m	33,181	30,053	30,809	24,476	16,931
Highest/lowest price paid	161.00/133.30	164.20/131.40	165.70/110.68	121.45/78.50	84.40/61.38
Dividend yield, %	4.4 ²⁾	4.1	6.1	3.6	4.6
Earnings per share	6.98	7.02	6.48	5.22	4.70
Shareholders' equity per share	20.35	19.62	21.58	19.20	17.96
P/E multiple	22.7	20.4	22.6	22.3	17.2
Turnover rate, %	45	43	30	23	21
Volatility, standard deviation	15.98	20.82	20.99	19.10	14.84
Beta	0.41	0.61	0.73	0.54	0.31
Number of shareholders	49,292	33,164	19,888	16,191	15,701

¹⁾ In 2015 Axfood carried out 4:1 stock split. In accordance with the split, the comparison figures have been adjusted.

²⁾ Proposed by the Board of Directors.

ANALYSTS WHO CONTINUOUSLY COVER AXFOOD

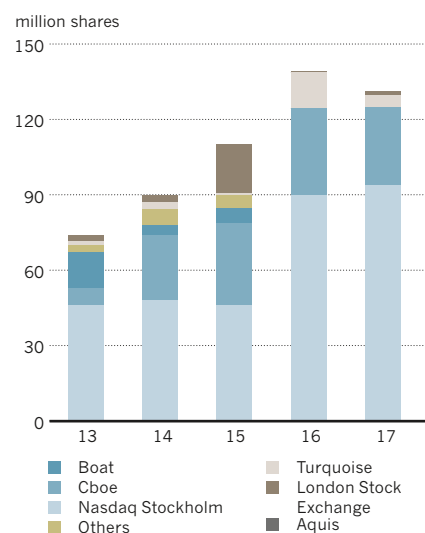
Company	Name
ABG Sundal Collier	Andreas Lundberg
Carnegie Investment Bank	Niklas Ekman
Kepler Cheuvreux/Swedbank	Fredrik Ivarsson
Den Danske Bank	Daniel Smidt
Handelsbanken Capital Markets	Niklas Skogman
Nordea	Stellan Hellström
SEB Enskilda	Gustav Sandström

FINANCIAL CALENDAR 2018

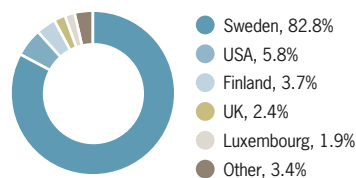
Report	Date
Interim report January–March	24 April 2018
Half-year interim report January–June	16 July 2018
Interim report January–September	24 October 2018

FOR FURTHER INFORMATION

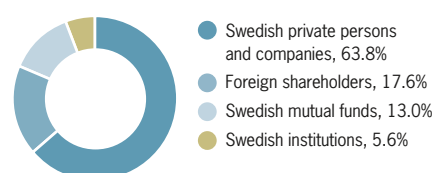
Cecilia Ketels,
Head of Investor Relations
Tel.: +46-8-553 996 39
cecilia.ketels@axfood.se

TRADING VOLUME FOR AXFOOD SHARES
ON VARIOUS MARKETPLACES, 2013–2017

GEOGRAPHIC DISTRIBUTION OF SHAREHOLDERS



BREAKDOWN OF OWNERSHIP



SHARE DATA

ALL TIME HIGH, 5 FEB. 2016

SEK 167.60

TRADING BLOCK

1 share

LISTING

**Nasdaq Stockholm
Large Cap list**

ABBREVIATION

AXFO

SECTOR CLASSIFICATION

Consumer Services

ISIN CODE

SE0006993770

Annual General Meeting 2018

The Annual General Meeting (AGM) of Axfood AB (publ) will be held at 5 p.m. (CET) on Wednesday, 14 March 2018, at Stockholm City Conference Centre, Folkets Hus (Barnhusgatan 12-14), Stockholm. Registration will open at 4 p.m.

Notification

Shareholders who wish to attend the Annual General Meeting must notify the Company of their intention not later than 4 p.m. (CET) on Thursday, 8 March 2018, at the following address:

Axfood AB

AGM

c/o Euroclear Sweden

Box 191, SE-101 23 Stockholm, Sweden

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 certificate of registration), and be in Axfood's possession before the Annual General Meeting.

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, 8 March 2018, and notify the Company of their intention to participate at the AGM not later than 4 p.m. (CET) on Thursday, 8 March 2018.

Shareholders whose shares are registered in the name of a nominee must temporarily re-register their shares in their own names with Euroclear Sweden AB to be entitled to vote at the AGM. Shareholders must notify their nominees well in advance of Thursday, 8 March 2018.

Recommendation for decision at the 2018 AGM

The Board of Directors proposes an ordinary dividend of SEK 7.00 per share (6.00) for 2017, corresponding to a total dividend of SEK 1,468 m (1,259), based on the number of shares outstanding at year-end 2017.

Notice of Annual General Meeting

Notice of the Annual General Meeting 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 Annual General Meeting will be available on the Company's website at least three weeks prior to the meeting and on the day of the meeting.

Calendar – 2018 AGM

- 8 March Record date for 2018 AGM
- 8 March Last day to notify to attend the 2018 AGM
- 14 March Final day of trading in Axfood shares including the right to the dividend
- 14 March 4 p.m., doors open to AGM
- 14 March 5 p.m., 2018 AGM is called to order
- 16 March Record date for payment of dividends
- 21 March Payment date for dividends

Axfood's 2017 Annual General Meeting was held on 15 March in Stockholm.



Employees

Axfood had an average of 9,903 employees in 2017 (9,211). Acquisitions during the year contributed to the increase. The employee breakdown was 53% women (54%) and 47% men (46%). The share of employees who work in the retail operations was 73% (75%), while the share who work in the logistics operations was 23% (22%).

Axfood's employees are to reflect the diversity of the Group's customers and shall all have the same opportunities for development. Axfood's goal is that 20% of all managers will have an international background by 2020. In 2017, 22% (21%) of Axfood's employees and 13% (11%) of managers came from an international background.

Gender equality is part of the Group's diversity work. Axfood's long-term goal is to achieve an even gender balance in management positions. In 2017 the share of women in the Executive Committee was 30% (40%).

The work attendance rate increased by 0.4 percentage point to 94.3% in 2017, which is slightly below the 95% target, but reflects the trend in society in general. For more information about employees and statistics, see the Strategy section on p. 34 and Complementary sustainability information, on p. 116.

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 counterparts 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. In 2017 a new, three-year pay agreement was reached between the parties, with the effect of a combined pay increase by approximately 6.5% during the period.

Every year a mapping of salaries is conducted within the Group to prevent unreasonable differences in salary and benefits. In the 2017 mapping no unreasonable differences were discovered.

With respect to guidelines for compensation and other terms of employment for the President and other senior executives, see the Corporate Governance Report on p. 72.

53%
women

13%
managers with international
background



Employees at Axfood Snabbgross encourage better communication with customers by wearing nametags that indicate which languages they have a command of. In all, 28 languages are spoken within the company.



Axfood's employer brand is strengthened through the Group's dedication to sustainability and diversity.

Significant risks and uncertainties

Like all business activities, Axfood's business is exposed to risks. Risks can have negative impact on Axfood's business, but managed properly, they can also add value to the Company. How risks are managed is of great significance for the Company's success. The risks that could have the greatest impact on the Group are the risk for a disruption in the logistics chain, IT and information security risks, and liability and insurance risks. Other risks with a medium-high potential impact are supplier risks, employee risks, the risk for labour market conflicts, acquisition and establishment risks, and regulatory risks. Axfood's strategic and operational risks are described in more detail on p. 66, together with the risk management process. Axfood's financial risks are described on p. 70.

Subsequent events

For information on significant events that have taken place after the balance sheet date, see Note 34.

Future outlook

In a changing market characterized by fierce competition, Axfood stands on firm ground to build further upon. To meet tomorrow's customers, Axfood will continue investing in the future. Capital expenditures in 2018 are expected to amount to SEK 900–1,000 m, excluding acquisitions.

In addition to the current long-term financial targets, the Board of Directors has added a growth target, which calls for Axfood to grow more than the market.

Sustainability Report 2017



In accordance with Ch. 6 § 11 of the Swedish Annual Accounts Act, Axfood has opted to prepare its statutory sustainability report separately from the statutory annual report.

Sustainability is an integrated part of Axfood's business and permeates the Company's chosen business model, vision and strategic direction. Axfood aspires to be a positive force in society and the leader in sustainability. For a description of Axfood's business model, see p. 16 in Axfood's 2017 Annual and Sustainability Report. Sustainability aspects pertain to all parts of the strategy and are described on pp. 20–35.

Apart from the sustainability aspects that are coupled to the strategy, other important issues are described in the Sustainability section on pp. 36–38. Guidance for the issues that Axfood focuses on is provided in the materiality analysis, which is continuously validated through an open dialogue with various stakeholders, see pp. 118–121.

The flip side of opportunities in the business activities are the associated risks. Axfood works actively on preventing sustainability risks. These are described in the Risks and risk management section, pp. 66–69. Sustainability risks exist in several risk categories, namely: Supplier risks, Employee risks, Liability and trust risks, Climate and environmental risks, Risks related to acquisitions and new establishment, and Internal and external regulatory risks.

Axfood has strategic targets for its work both with the environment and employees. These targets and their outcomes

during the last five years are illustrated on pp. 18–19. For a description of the achievement of all targets and outcomes in the sustainability programme, see pp. 126–129, and for other sustainability key ratios see pp. 124–125. Axfood is a signatory to the UN Global Compact's ten principles for human rights, labour, the environment and anti-corruption, and in this context the sustainability report constitutes Axfood's Communication on Progress. During the year, Axfood did not gain knowledge about any attempts to solicit or accept bribes among employees or any suspicions about corruption.

A description of the organization, policies and governance of sustainability work is provided on p. 117.

For the tenth year in a row, Axfood is reporting its sustainability work in accordance with the GRI Guidelines, G4 Core level. Further information about our various sustainability-related disclosures is provided in the GRI Index on p. 130.

The page references provided above serve as guidance in Axfood's reporting on its work and achievements in areas such as the environment, social conditions and labour, respect for human rights and combating corruption. This information constitutes Axfood's sustainability report.

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.

Auditor's report on the statutory sustainability report

To the general meeting of the shareholders of Axfood AB (publ) corporate identity number 556542-0824

Engagement and responsibility

It is the Board of Directors who is responsible for the statutory sustainability report for the year 2017 as defined by the Board of Directors on page 63 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

We believe that the examination has provided us with sufficient basis for our opinion.

Opinion

A statutory sustainability report has been prepared.

Stockholm, 5 February 2018

Deloitte AB

Hans Warén

Authorized Public Accountant

This report is a translation of the Swedish language original. In the events of any differences between this translation and the Swedish original, the latter shall govern.

Income statement and balance sheet, Parent Company

INCOME STATEMENT

Amounts in SEK m	Note	2017	2016
Net sales		1	0
Selling expenses		-1	-1
Administrative expenses	7, 8, 9, 10	-363	-316
Other operating income	7	241	228
Operating result		-122	-89
Profit from participations in Group companies		1	-
Interest income and similar profit/loss items	13	4	4
Interest expense and similar profit/loss items	13	-2	-1
Result after financial items		-119	-86
Appropriations	14	1,737	1,501
Profit before tax		1,618	1,415
Current tax	15	-361	-314
Deferred tax	15	2	0
Profit for the year		1,259	1,101

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

BALANCE SHEET

Amounts in SEK m	Note	31/12/2017	31/12/2016
ASSETS			
Property, plant and equipment			
Equipment, tools and fixtures	18	12	22
		12	22
Financial assets			
Participations in Group companies	21, 23	3,338	3,136
Other long-term securities holdings	29	3	52
Deferred tax assets	15	7	5
Other non-current receivables	24, 29	6	3
		3,354	3,196
Total non-current assets		3,366	3,218
Current assets			
Current receivables			
Accounts receivable – trade	29	2	2
Receivables from Group companies	29	3,076	2,705
Prepaid expenses and accrued income	27	11	9
		3,089	2,716
Cash and cash equivalents	29		
Cash and bank balances		804	1,303
Total current assets		3,893	4,019
TOTAL ASSETS		7,259	7,237

Parent Company

Other operating income for the Parent Company amounted to SEK 241 m (228) for the year. After selling and administrative expenses of SEK -364 m (-317) and net financial items of SEK 3 m (3), profit totalled SEK -119 m (-86). Appropriations totalled SEK 1,737 m (1,501). Of appropriations, SEK 2,010 m (1,975) pertains to Group contributions received and rendered.

Capital expenditures totalled SEK 0 m (2). Cash and cash equivalents held by the Parent Company totalled SEK 804 m (1,303). At year-end the Parent Company had no interest-bearing receivables outside the Group. The interest-bearing net receivable changed from SEK 188 m at the start of the year to SEK 241 m at year-end. The Board of Directors proposes an ordinary dividend of SEK 7.00 per share for 2017. Based on 209,676,712 shares, the total dividend will amount to SEK 1,468 m.

BALANCE SHEET, CONT.

Amounts in SEK m	Note	31/12/2017	31/12/2016
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		1,536	1,718
Profit for the year		1,259	1,101
		2,795	2,819
Total shareholders' equity		3,082	3,106
Untaxed reserves	14	2,400	2,127
Provisions			
Provisions for pensions and similar obligations	28, 30	28	22
Non-current liabilities			
Other non-current liabilities		2	1
Current liabilities			
Accounts payable – trade	29	20	19
Liabilities to Group companies	29, 30	1,594	1,823
Current tax liability		72	85
Other current liabilities		5	4
Accrued expenses and deferred income	31	56	50
		1,747	1,981
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		7,259	7,237

INTEREST-BEARING NET DEBT RECEIVABLE, PARENT COMPANY

Amounts in SEK m	31/12/2017	31/12/2016
Interest-bearing portion of Receivables from Group companies	1,019	725
Cash and cash equivalents	804	1,303
Provisions for pensions and similar obligations	-28	-22
Interest-bearing portion of Liabilities to Group companies	-1,554	-1,818
Interest-bearing net debt receivable	241	188

Cash flow statement and shareholders' equity, Parent Company

CASH FLOW STATEMENT

Amounts in SEK m	2017	2016
Operating activities		
Result before financial items	-122	-89
Interest paid	-2	-1
Interest received	4	4
Depreciation/amortization charged against result	10	10
Adjustments for non-cash items	9	2
Paid tax	-373	-314
Cash flow from operating activities before changes in working capital	-474	-388
Cash flow from changes in working capital		
Change in current receivables	-304	151
Change in current liabilities	-256	206
Cash flow from operating activities	-1,034	-31
Investing activities		
Acquisitions of property, plant and equipment	0	-2
Acquisitions of subsidiaries	-706	0
Acquisitions of shares and participations in other companies	-	-49
Sales of subsidiaries	556	-
Acquisitions of financial assets	-3	-
Cash flow from investing activities	-153	-51
Financing activities		
Shareholder dividend	-1,259	-1,889
Share repurchases	-28	-
Group contribution received	1,975	1,805
Group contribution rendered	-	-20
Cash flow from financing activities	688	-104
CASH FLOW FOR THE YEAR	-499	-186
Cash and cash equivalents at start of year	1,303	1,489
Cash and cash equivalents at year-end	804	1,303

SHAREHOLDERS' EQUITY

Amounts in SEK m	Restricted shareholders' equity		Unrestricted shareholders' equity	Total shareholders' equity
	Share capital	Revaluation reserve	Profit brought forward	Total
Opening shareholders' equity 2016	262	25	3,607	3,894
Profit for the year	-	-	1,101	1,101
Shareholder dividend	-	-	-1,889	-1,889
Closing shareholders' equity 2016	262	25	2,819	3,106
Profit for the year	-	-	1,259	1,259
Shareholder dividend	-	-	-1,259	-1,259
Share repurchases	-	-	-28	-28
Share-based payments	-	-	4	4
Closing shareholders' equity 2017	262	25	2,795	3,082

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. Risks can be broken down into operational risks, strategic risks and financial risks. Risks are something that can impact Axfood's operations negatively, however, managed properly, they can add value to the Company. How risks are managed is of fundamental significance for the Company's success.

Risk management process

To prevent risks or mitigate their effects and loss, Axfood works with an established Enterprise Risk Management process, where risks are continuously identified, managed and reported within the Group. In this work, operational, strategic and financial risks are assessed from probability and consequence perspectives. Operational and strategic risks include sustainability risks. Risks are assessed and documented by the respective risk owners at least twice a year as well as on a continuing basis where necessary. Assessment is made of the changed level of risk as well as of existing and potential risks. To illustrate risks, they are categorized based on their level in risk maps, see the illustration on p. 67 on risk documentation. Risks are also classified according to how well countermeasures are implemented, and are categorized using red, yellow and green colours. The risk owners are the members of the Executive Committee, who are responsible for the risk maps in their respective areas. Axfood has a risk committee, which is led by the Group's Risk Manager. The Risk Committee is tasked with, among other things, following up planned countermeasures and consolidating the risks identified by the respective risk owners. A compilation is made at the Group level, which coincides with respect to time with the Group's business plan and thereby facilitates budgeting for decided countermeasures. For a description of the organization, governance and reporting of Axfood's risk management, see the illustration below.

Incident management

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 insured levels.

Insurance

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, cyber security, transports, and liability for directors and senior executives. In 2017 Axfood opened up its insurance to competition and procured new insurance solutions, which led to lower premiums and better terms and conditions.

Crisis management and business continuity plans

Crisis management plans are in place within the Axfood Group that are exercised by the various companies' crisis management organizations. Such plans are designed to ensure preparedness for a crisis and that the right actions are taken on the right occasion by the designated key functions. The aim is to minimize acute damage in a situation in which normal routines are insufficient. For events in which a crisis is drawn-out, Axfood works preventively and actively with business continuity plans to minimize the duration of any business interruption.

Operational and strategic risks

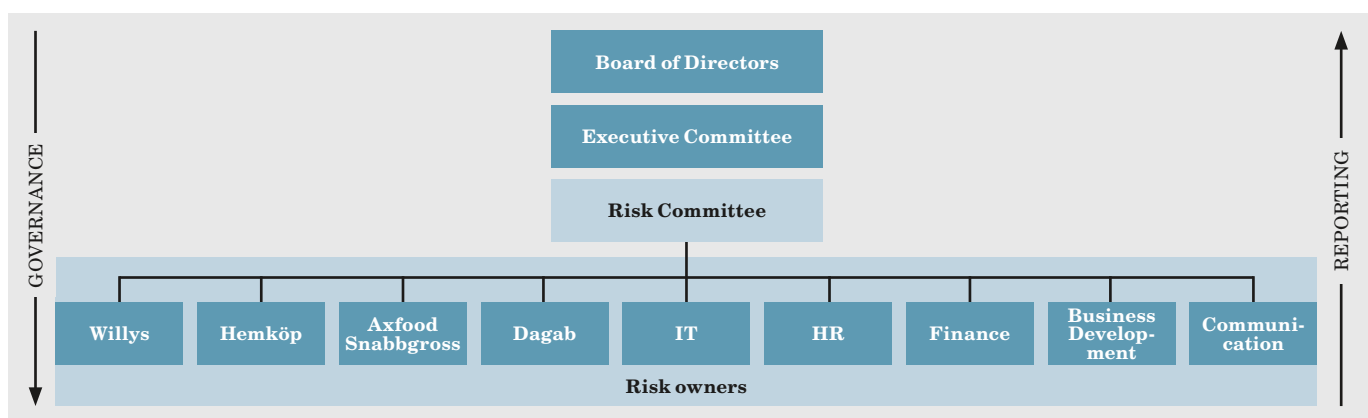
(A) Risk for disruption in the logistics chain

One of the most serious business risks that the Company must manage is a disruption in the logistics chain, especially regarding fire in a distribution centre, which would result in property loss and business interruption losses. Axfood has very high focus on its systematic fire safety work and puts great emphasis maintaining a well-working fire safety organization with preventive measures such as adequate training and good routines, adapted technical fire safety measures and recurring controls and follow-up. Another aspect that could affect the logistics chain is Axfood's IT structure, see under IT and information security risks (B).

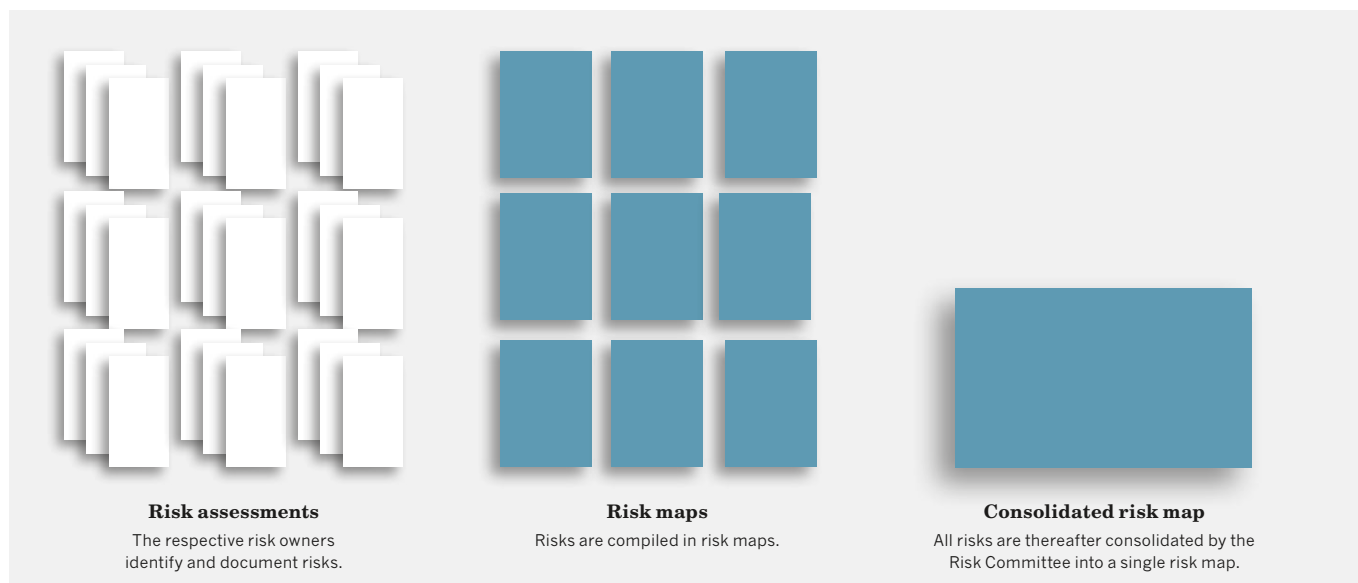
(B) IT and information security risks

There is keen awareness in the Company that centralization elevates the Group's vulnerability and the risk for a major operational disruption. This also applies to the centralized

RISK ORGANIZATION



RISK DOCUMENTATION



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 can be safeguarded through duplicate resources and geographic spread of risk. Parallel with this, Axfood continuously reviews what can be done to further mitigate risks. During 2017, broadband capacity was increased significantly at all of the Group's stores, entailing the activation of new services. The new network also has 4G backup, which would take over communications in the event the primary connection is down. In the event of a lost connection, for example, the stores have the ability to operate offline. Axfood has adopted a cloud strategy that entails considering cloud solutions in new projects and constantly staying abreast of developments in the world around us. Axfood also works continuously on raising awareness of the risk of losing sensitive data. Information security in general is a priority area.

(C) Supplier risks

Axfood conducts extensive quality, safety and sustainability work particularly regarding its private label products, but also for other products in its assortment. Identification of risks at the supplier level is based on a number of different dimensions such as work environment, water, child labour, union rights and animal welfare. Quality assurance is conducted at several levels before a supplier is approved, and the selection criteria include suppliers' sustainability work. Purchasing is steered toward suppliers with good sustainability work or a positive willingness to change. Axfood also makes recurring visits and/or conducts audits at suppliers to discuss product knowledge, product development, compliance with the Code of Conduct and, where applicable, investigating and following up any defects. 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. To maintain and preferably strengthen customers' trust, it is also important to maintain good control of the supplier chain.

(D) Employee risks

Recruiting, developing and retaining competent and committed employees is highly important for Axfood and necessary for the Company's expansion and performance. To counter negative effects of key persons leaving the Group, Axfood works continuously with succession planning. Axfood also maintains great focus on diversity and gender equality work within the entire Group. All workplaces are to be free from all forms of discrimination and objectionable special treatment, which is delineated in the Group's equal treatment policy. Axfood shall be an attractive and sustainable workplace where the focus on health and a good work environment is fundamental.

(E) Risk for labour market conflicts

Labour market conflicts, such as a strike or lockout in any area of the business, could result in operational disruptions. Negotiations of collective agreements for Axfood's operations are conducted through the auspices of the Swedish Trade Federation, in which Axfood is a member.

(F) 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 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 private 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. Failures in the environmental area, such as having excessively high traces of pesticides in foods or unsuitable chemicals in other products could hurt trust in Axfood's brands and prompt more consumers to do their shopping with competitors. For Axfood's competitiveness it is important to always develop the assortment according to customers' needs. This can entail, for example, offering sustainable foods such as organic, vegetarian or Swedish products. Weak goal fulfilment in the area of sustainability could, over time, tarnish customers' trust in Axfood's brand and in Axfood's various food concepts.

(G) Climate and environmental risks

The risk scenario with respect to environmental matters is multi-faceted and covers brand issues, assets and food ingredients as well as costs that may arise as a result of political decisions. The trend toward more environmentally conscious

customers, combined with an inability to be sufficiently fast at adapting the assortment to customers' changed expectations, could also lead to lower sales. However, risks are at the same time opportunities for those in the industry that are well advanced in relation to their competitors in addressing the risks.

Climate change can no longer be prevented through environmental policy measures, even through the opportunities to mitigate it is great. More extreme weather is presenting an ever-greater challenge to food production. Drought, heat, storms, floods and extreme cold can reduce agricultural production considerably in vital food producing areas. This can lead both to higher prices that affect sales and difficulties in securing volumes to meet customer demand. To meet these challenges it is becoming increasingly important to not be dependent on only one region in the world for specific food ingredients. To diversify this risk it is imperative that product supply is based on several geographic areas.

(H) Risks associated with acquisitions and new establishments

Axfood both acquires and establishes new operations on a regular basis. If the conditions in the operations do not correspond to what was known prior to such decisions, there is a risk for a

STRATEGIC AND OPERATIONAL RISKS

Risk	Main risks	RISK LEVEL		Risk management	Insured ¹⁾
		Likelihood	Consequence		
A	Risk for disruption in the logistics chain			Very high focus is put on systematic fire safety work. Major emphasis on an effective fire safety organization with preventive measures such as training, good routines, technical fire safety, and recurring controls and follow-up. With respect to IT risks, see risk B.	✓
B	IT and information security risks			Major emphasis is put on preventive work and continuity planning. Operations to be secured through redundant systems with geographic spread of risk. Cloud strategy drafted, 4G backup for stores. High awareness about information security issues, where training and technical solutions are examples of measures.	✓
C	Supplier risks			Alternative solutions are evaluated on a regular basis. High demands are put on fire safety and financial stability among suppliers.	✓
D	Employee risks			Axfood works continuously with succession planning. High focus on diversity work, zero tolerance for discrimination and objectionable special treatment, high focus on having a good work environment and work/life balance.	n.a.
E	Risk for labour market conflicts			Coordination and dialogue via the employers trade organization. Often long contract periods, which reduces the risk for conflict.	✓
F	Liability and trust risks			Axfood conducts extensive quality and food safety work. Preventive work through far-reaching internal control programme and quality assurance of private label products. Clear routines for food handling.	✓
G	Climate and environmental risks			Secure deliveries through purchases from different production areas.	n.a.
H	Acquisition risks			Very thorough market analyses of e.g., competition and demographics, where every investment calculation stretches over several years.	n.a.
I	Regulatory risks			Axfood has very well-working system of internal control and abides by an ethical approach in all areas. Axfood's Code of Conduct is described in more detail at axfood.se. For new laws or regulations, measures are decided on well in advance of enactment.	✓
J	Risks for errors in the financial reporting			A more detailed description of Axfood's work with internal control is provided in the Corporate Governance Report.	n.a.

Likelihood /Consequence – very low low medium high very high

¹⁾ Fully or in part.

negative impact on Axfood's earnings and brand. With respect to acquisitions, it is also important to achieve successful integration and to retain key persons. 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. During the year Axfood acquired Eurocash, mat.se, Middagsfrid and Saba's fruit and vegetable warehouse operation along with one store. Integration of the acquisitions is proceeding according to plan.

(I) Internal and external regulatory risks

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 to countering the offering or accepting of bribes and corruption in all areas of the Group. With respect to suppliers, Axfood requires that all agreements include

Axfood's Code of Conduct, which is described in more detail on p. 117 and is available in its entirety on axfood.se. In connection with new laws or regulations, measures are decided on well in advance of enactment. One such example is the EU's new General Data Protection Regulation (GDPR), which comes into force in 2018. Axfood wants to make sure that its customers, employees and suppliers feel secure about the processing of their personal data. Data protection is therefore taken very seriously. Since the passing of the GDPR in 2016, Axfood has conducted a review of its processing of personal data and has been adapting its processes and routines in accordance with the new law.

(J) Risks for errors in the 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 with internal control is included in the Corporate Governance Report, p. 72.



Financial risks

The Axfood Group is exposed to financial risks, which are described under the respective type of risk below.

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.

(K) Financing and liquidity risks

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, the Group has a refinancing risk reserve, which is broken down into a liquidity reserve and an operating reserve, in accordance with the finance policy. The refinancing risk reserve consists of the Group's cash and cash equivalents along with unutilized, committed credit facilities and shall amount to a minimum of SEK 300 m (300). The refinancing risk reserve may be used during individual weeks in the event of short-term movements in liquidity. On 31 December 2017 the refinancing risk reserve amounted to SEK 1,102 m (1,550). 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 200 m (200), the Group had no long-term granted credit facilities as per 31 December

2017 and 31 December 2016. Information on granted and drawn credit lines, as well as maturity dates for utilized credits, is provided in Note 30.

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 that have a K-1 rating. As per 31 December 2017 the Axfood Group had account holdings in Swedish banks with a K-1 rating, which are approved counterparties in the finance policy.

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 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.

(L) 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 2017 the Axfood Group had no restricted fixed-income investments.

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

FINANCIAL RISKS

Risk	Main risks	RISK LEVEL		Risk management
		Likelihood	Consequence	
K	Financing and liquidity risk			The Group has access to the debt market, for both short- and long-term loans as well as loan promises issued by Swedish banks.
L	Interest rate risk			Interest rate risk is limited by maintaining terms of fixed interest of normally 12 months.
M	Currency risk			Axfood's policy is to hedge 100% of orders placed in foreign currency.
N	Credit risk			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 /Consequence – very low low medium high very high

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 2017 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. At the end of the reporting period, there was no amount pertaining to interest-bearing liabilities excluding pension liabilities and finance leases that would affect earnings and shareholders' equity in the event of a one percentage point change in the interest rate.

The effect on interest income during the coming 12-month period of a one percentage point increase or decrease in interest rates on interest-bearing assets amounts to SEK +/-8.9 m (13.3).

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

(M) 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 2017 hedges were taken out using these instruments. As per 31 December 2017 all outstanding currency forward contracts, with a nominal value of SEK 517 m (495), were restated to fair value.

A compilation of outstanding forward contracts is provided in Note 33.

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

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 33.

(N) 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 collaborating stores, associated companies and joint ventures. Outstanding guarantee commitments amounted to SEK 2 m (2) and are reported under contingent liabilities, see Note 32. 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 26. The Parent Company did not have any significant external credit risks at year-end.

SENSITIVITY ANALYSIS REGARDING CURRENCY RISK 2017

Currency	SEK m	10% change in exchange rate vs. SEK, SEK m
EUR	3,858	385.8
USD	194	19.4
DKK	27	2.7
NOK	146	14.6
GBP	2	0.2
Total	4,227	422.7

Corporate Governance Report 2017

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.



Four in ten Swedes choose vegetarian food one or more times a week. Half of these choose veg alternatives mainly out of consideration for the environment or climate. (Axfood/Sifo)

Chairman's message

– Well poised for the future

The Board's duty is to work with continuity and long-term perspective to ensure Axfood's development and a favourable, sustainable return for the shareholders. The trends in the food retail sector regarding shopping behaviours and consumption patterns have grown clearer. With its various food concepts, Axfood has a strong position and is well poised for continued changes.

For future growth

The trends in the food retail industry are many, and they are becoming increasingly clear. Customers today are more conscious about what they eat – with respect to both nutritional content and how the foods are produced. At the same time, there is great focus on value for money, not least with the growth of e-commerce, which is creating a greater degree of price transparency. Paired with other trends, such as convenience, this is putting ever-greater demands on food retailers. Owing to Axfood's House of Brands strategy we can be flexible and stay abreast of changes in the market based on the profiles of the Group's respective food concepts. In this way we can meet more customers' needs and reach more target groups. It is a strong foundation for creating growth.

The e-commerce channel for groceries grew strongly during the year, but is behind other sectors in Sweden regarding its share of total sales and has an even smaller share compared with many European countries. The Board is focused on making sure that we shape the food store of the future – and of course with a foundation on corporate social responsibility. Our omnichannel strategy – to serve customers both online and in stores – is a key part of this. Through the acquisitions and investments we made during the year, we have not only caught up with our competitors in e-commerce, but have also broadened our business with cross-border shopping and are in the starting blocks to launch an online pharmacy.

Active owner role

Having insight and flexibility to change with customers is always at the top of the Board's agenda. This applies not only for board work at Axfood, but also the owner that I represent, the Axel Johnson Group. At Axel Johnson we are pursuing what we call our 10/50 strategy, i.e., within ten years' time, 50% of revenue will come from new businesses conducted by the Group companies. Axfood's high pace of change is fully on track to this goal.

It is gratifying to note that there are many who share our belief in the future, and that Axfood is attracting many investors. During the last three years the number of shareholders has tripled. Today Axfood has nearly 50,000 shareholders. I hope that many of these investors are also satisfied customers of ours.

Good corporate governance at Axfood

Axfood's corporate governance is distinguished by a clear division of responsibility between the management and control bodies as well as by the clear order that exists in Axfood's internal systems. Through risk management, good control and monitoring of the business, operations are conducted in such a way that our owners can rest assured that their capital is being managed prudently.



The Board has a well-balanced and gender-equal composition that covers a broad base of competence in food retail, in retail business in general, and in digitalization. Discussions are open, forward-looking and distinguished by a non-political culture. Together with the extremely strong engagement and personal responsibility shown by every board member, we have favourable conditions for long-term, sustainable value creation.

Poised for the future

With customers' shopping behaviours and consumption patterns changing in tandem with technological development, Axfood must capitalize on its opportunities. We have demonstrated that Axfood has a great ability to take initiative and will continue to be progressive.

To have strategic scope to act and sufficient speed, it is important that we have a continued strong financial position at the same time that we pay an attractive, stable dividend to our owners. For this reason we aim to grow more than the market – mainly through organic growth – while maintaining good profitability for the Group as a whole. And we are well poised to meet continued changes with a solid foundation to improve upon!

Mia Brunell Livfors
Chairman of the Board

Governing bodies, rules and regulations

Axfood is a Swedish, public stock corporation with corporate identity number 556542-0824. The Company has its registered office 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 described in the Auditor's Report on p 112.

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 of 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 (www.bolagsstyrning.se).

Internal governance instruments

The Articles of Association adopted by the Annual General Meeting (AGM) are 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.

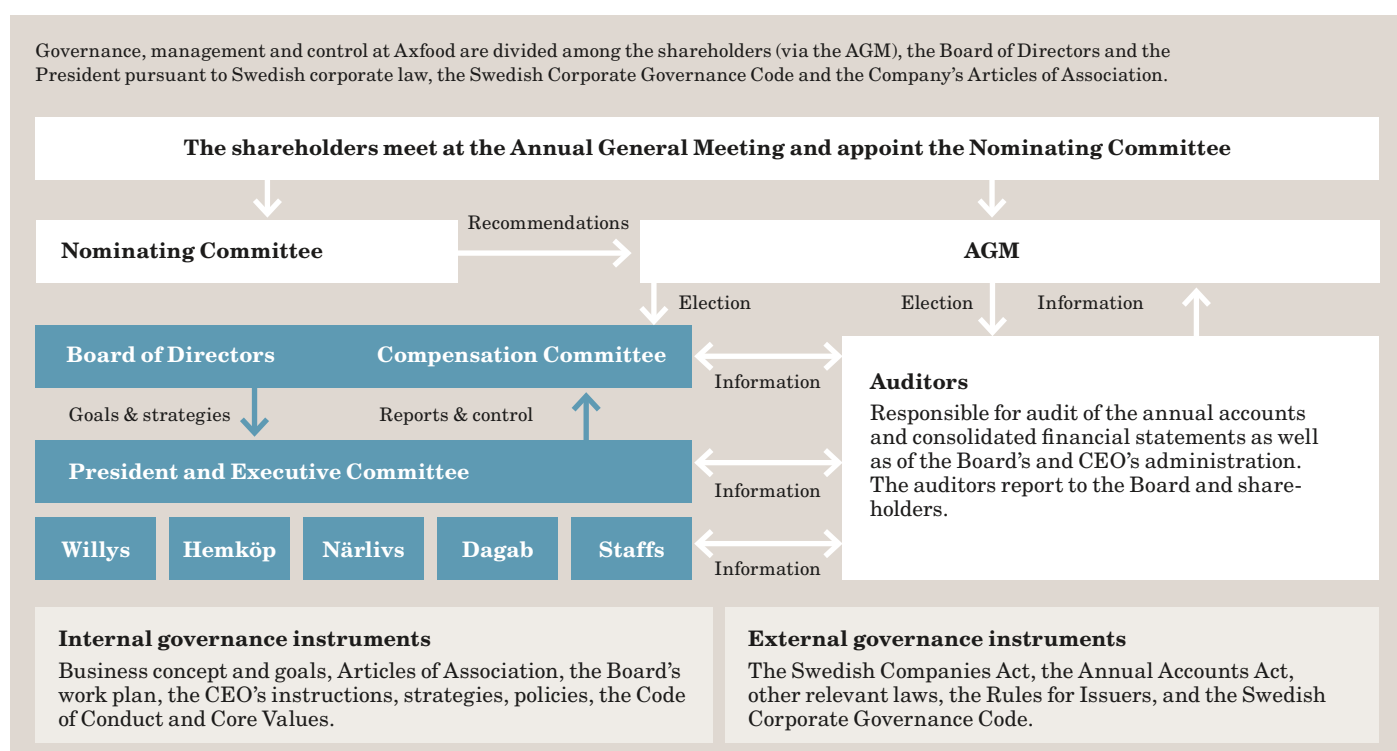
Explanation:

The Nominating Committee's composition is based on shareholder statistics as per 31 August and was publicly announced on 20 September. Since Axfood's AGM is held relatively early in the year (in March), announcement of the Nominating Committee was made just under six months before the AGM. This is considered by the AGM to be sufficient time for the Nominating Committee to perform its duties.

Shareholders

Axfood's shares were introduced on the Stockholm Stock Exchange in 1997 and have been traded on Nasdaq Stockholm's Large Cap list since October 2006. The Company has 209,676,712 shares outstanding.

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 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 Committee and Head of Sustainability. The Board monitors this work via reports from the Head of Sustainability. To ensure that this work is conducted in an integrated fashion, it is important that the individual companies 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 Sustainability.

Sustainability work is reported on as an integral part of this document, the Annual and Sustainability Report 2017.

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 the event of a sale of shares in these companies, 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.

Annual General Meeting

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 Axfood'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 Annual General Meeting (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 for board members to the Nominating Committee. Nominations are to be submitted to the Nominating Committee chair by email 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. The Chairman of the Board of Axfood is a co-opted member of the Nominating Committee.

Diversity policy

The Nominating Committee relies on Rule 4.1 of the Code as its diversity policy. This means that 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. Achieving this requires knowledge about the retail industry, digital trade, corporate governance, compliance, finance, financial analysis and compensation matters. Previous board experience is another key competency. In addition, it is explicitly stated that it is important to take diversity into account with respect to age, gender, education and other professional background.

The goal is to have a board distinguished by high diversity and at the very least a board with an even gender balance. As with the Axfood Group in general, the goal is that women and men should be represented within a range of 40%–60%. No board member shall be discriminated against due to faith, ethnic background, age, gender, sexual preference, functional impairment or other reason.

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 Articles of Association do not contain any stipulations on the appointment or dismissal of board members.

209,870,712 *shares*



The Hemköp City store in Stockholm features the Hav 52° concept, an inviting seafood counter with MSC-labelled products.

The Board's work

Each year the Board adopts a written work plan that lays out its 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 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 pension 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 nine 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 permitting 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 Klas Balkow serving as chairman. The other directors on the boards of subsidiaries are leaders from various parts of the Group. The companies have board meetings at least four times a year.

Year in review

Shareholders

Axfood had 49,292 (33,164) shareholders as per 31 December 2017. Compared with a year ago this represents an increase by nearly 50%. At year-end, ownership by Axel Johnson AB, the single largest shareholder, was unchanged at 50.1%. The second largest shareholder was AMF Försäkringar & Fonder, whose shareholding was 4.1% of the shares and votes at year-end. Private persons and closely held companies held 63.8% (62.6%) of the shares at year-end, and foreign shareholders held 17.6% (19.7%) of the shares.

Axfood AB owns 194,000 treasury shares, or 0.1%, to secure delivery of shares coupled to Axfood's long-term share-based incentive programme 2017 ("LTIP 2017").

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).

For further information about Axfood's shares, see p. 58.

Annual General Meeting 2017

Axfood's Annual General Meeting (AGM) was held in Stockholm on Wednesday, 15 March 2017. A total of 443 shareholders and representatives were in attendance, representing 148,187,675

shares, corresponding to 70.6% of the number of shares and votes in the Company.

Nominating Committee ahead of the 2018 AGM

According to the principles for appointment of the Nominating Committee that were adopted by the 2017 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 2017 were Axel Johnson AB, AMF Försäkringar & Fonder, Swedbank Robur funds, SEB funds and ODIN funds. All of these are considered to be independent in relation to the Company and the Executive Committee. The Nominating Committee ahead of the 2018 AGM held five meetings. The Nominating Committee addressed the Board's evaluation and drafted a proposal for new board members in which the diversity policy was taken into account.

No fees were paid for work on the Nominating Committee. The composition of the Nominating Committee is shown in the table below.

Resolutions at 2017 AGM

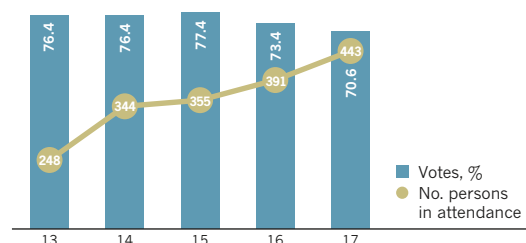
The 2017 AGM made the following resolutions, among others:

- In accordance with the Board's proposal, to pay an ordinary dividend of SEK 6 per share (5) and no extra dividend (SEK 4 per share) for the 2016 financial year
- That the Board shall consist of seven members without deputies
- That directors' fees shall be payable in a combined amount of SEK 3,225,000 (2,775,000), in accordance with the Nominating Committee's recommendation. The directors' fees are apportioned as follows:
 - SEK 675,000 for the Chairman
 - SEK 500,000 for the Vice Chairman
 - SEK 410,000 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 Mia Brunell Livfors as a director and as Chairman of the Board
 - Re-election of directors Antonia Ax:son Johnson, Fabian Bengtsson, Caroline Berg, Ann Carlsson and Lars Olofsson, and election of Christer Åberg as a new director
- To adopt guidelines for appointment of the Nominating Committee, in accordance with the Board's recommendation. 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 introduce a long-term share-based incentive programme, and in connection with this, authorize the Board to decide on purchases of own shares and transfers of treasury shares
- To adopt guidelines for employees' purchases of shares in subsidiaries, which were unchanged.

The auditing firm Deloitte notified the Company that Hans Warén will be designated as chief auditor.

The complete minutes of the AGM are available on Axfood's website: axfood.se.

AGM ATTENDANCE 2013–2017



COMPOSITION OF NOMINATING COMMITTEE

Name	Representing	Share of votes as per 31/8/2017, %
Caroline Berg	Axel Johnson AB, committee chair	50.1
Tomas Risbecker	AMF Försäkringar & Fonder	4.3
Liza Jonson	Swedbank Robur funds	3.8
Johan Strandberg	SEB funds	2.3
Vegard Søråunet	ODIN funds	1.8

Board of Directors

Following the 2017 AGM Axfood's board consisted of seven AGM-elected directors and no deputies. In accordance with the Nominating Committee's proposal, Christer Åberg was elected as a new director at the 2017 AGM. Prior to the 2017 AGM the Board consisted of six AGM-elected directors. Each of these directors has important expertise for Axfood, and their experience amply covers the areas considered to be important for the Company. Three directors and three deputies are appointed by the employees. As a whole Axfood has good breadth on the Board from a diversity perspective. Of the AGM-elected directors, half are women. The Board has a well-balanced age composition, with a breadth and depth of experience in relevant areas. The Board's composition is shown in the table below. A more detailed presentation of the board members is provided on p. 86.

Axfood's President, Klas Balkow, is not a member of the Board, but participates at board meetings in a reporting role. Anders Lexmon, Axfood's Chief Financial Officer, serves as the company secretary.

At the statutory board meeting on 15 March 2017, Lars Olofsson was elected as Vice Chairman of the Board.

In August Ann Carlsson, CEO of Apoteket AB, decided to leave the Board at her own request as a result of Axfood's investment in a newly formed company that will start an online pharmacy.

Directors' independence

The Code stipulates that a 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.

Three of the directors, Fabian Bengtsson, Ann Carlsson and Christer Åberg, were also considered during the year to have met the requirement for independence in relation to the Company's major shareholders. Four directors have been judged as being non-independent in relation to the Company's major shareholders. Mia Brunell Livfors is President and CEO of Axfood's largest shareholder, Axel Johnson AB, and has 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.

The Board's work

The Board held eight meetings in 2017, including a statutory meeting that 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 Annual General Meeting.

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 investor relations).

At the board meeting in June, strategic issues were discussed. In addition to follow-up and evaluation of the strategy for 2017, updating of the strategy for 2018 was begun. An updated vision, mission and strategy (Agenda 2018) was adopted at the board meeting in October.

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 customer and growth strategies, profitability and efficiency improvements, and e-commerce and the digital strategy.

Deloitte attended two board meetings during the year and reported on the audit plan and on its observations from its audit.

The Board also addressed the report from the auditors and reviewed the Company's internal control and compliance, and performed the annual evaluation of the Board, which was reported to the Nominating Committee.

The Board's work during the year is further illustrated in the diagram at right.

COMPOSITION OF THE BOARD OF DIRECTORS

Name	Year elected	Independent	Total fee, SEK	Compensation Committee	Attendance	
					Board meetings	Committee meetings
Mia Brunell Livfors (Chairman)	2016	No	675,000	Yes	8/8	7/8
Lars Olofsson (Vice Chairman)	2013	No	500,000	Yes	7/8	7/8
Antonia Ax:son Johnson	2000	No	410,000	–	6/8	–
Fabian Bengtsson	2016	Yes	410,000	–	8/8	–
Caroline Berg	2014	No	410,000	Yes	8/8	8/8
Ann Carlsson ¹⁾	2015	Yes	410,000	–	5/8	–
Christer Åberg ²⁾	2017	Yes	410,000	–	7/8	–
Anders Helsing (employee representative)	–	–	–	–	8/8	–
Michael Sjöström (employee representative)	–	–	–	–	7/8	–
Lars Östberg (employee representative)	–	–	–	–	6/8	–
Total			3,225,000			

¹⁾ Ann Carlsson was a board member through August 2017.

²⁾ Christer Åberg as from the 2017 AGM.

8
board meetings
in 2017

Compensation Committee

The members of the Compensation Committee as from 15 March 2017 were Mia Brunell Livfors (committee chair), Caroline Berg and Lars Olofsson. Axfood's President, Klas Balkow, 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 also drafted a recommendation for the Board to introduce another long-term share-based incentive programme for key persons in Axfood.

The Compensation Committee held eight meetings in 2017. No fees have been paid to committee members for their work on the Committee.

Evaluation of the Board's work

Mia Brunell Livfors, Chairman of the Board, is responsible for 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 Annual General Meeting.

In 2017 the Chairman conducted an electronic questionnaire survey for all of the board members and also received verbal comments. The results were very good in all categories and indicated, among other things, a strong structural connection of the Board's work with Axfood's strategy and business plan, and the strong level of engagement among the board's members. The results of this evaluation were reported to both the Board and the Nominating Committee in December 2017.

Auditor

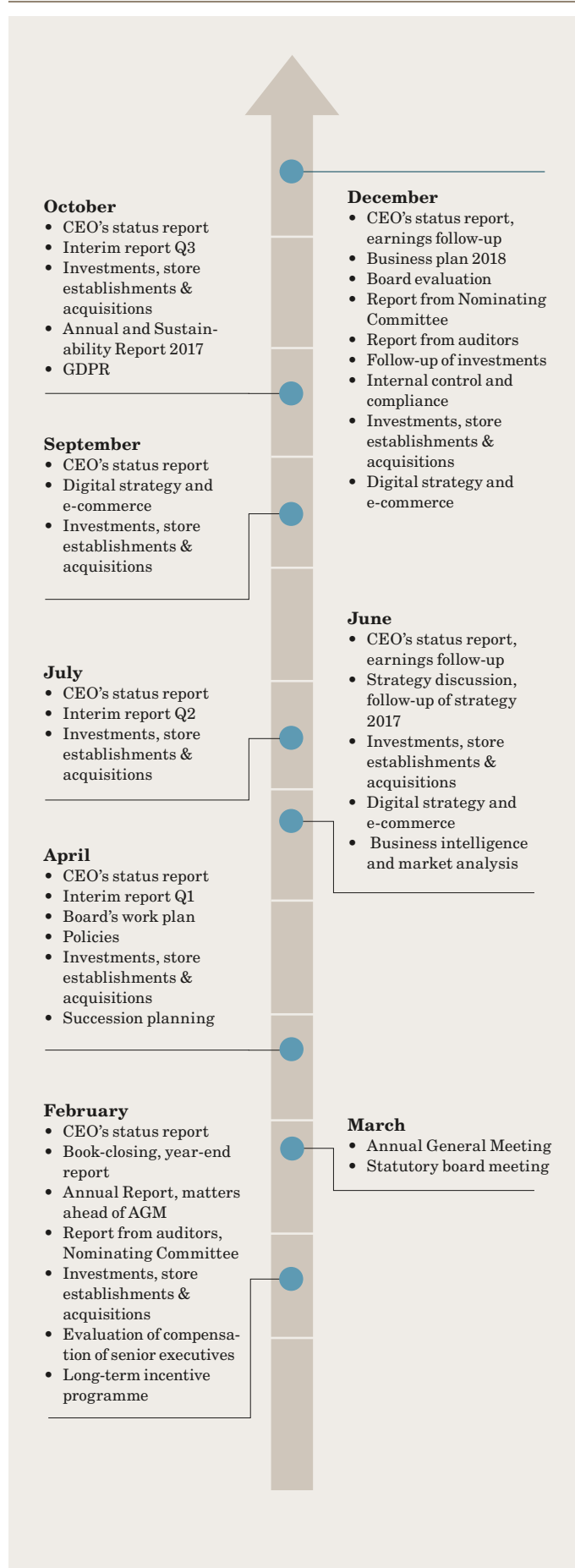
Hans Warén, Authorized Public Accountant and Chairman of the Board of Deloitte Sweden, is chief auditor. In addition to his assignment for Axfood, he is the chief auditor for Castellum, Gunnebo, Lindab and Trelleborg.



AUDITORS' FEES 2015–2017

SEK m	Group			Parent Company		
	2017	2016	2015	2017	2016	2015
Auditing fees, KPMG AB	–	0	4	–	0	1
Auditing fees, Deloitte AB	5	4	–	1	1	–
Consulting fees, KPMG AB	0	0	3	0	0	2
Consulting fees, Deloitte AB	0	0	0	0	0	0
Total	5	4	7	1	1	3

THE BOARD'S WORK IN 2017



Auditors

At the 2016 Annual General Meeting, the accounting firm Deloitte AB was elected as auditor for a term extending until the 2018 Annual General Meeting. Hans Warén, Authorized Public Accountant, is chief auditor.

Executive Committee

Axfood's Executive Committee in 2017 was made up of Axfood's President along with the presidents of four operating companies and five heads of staff. Klas Balkow took office as the new President and CEO on 16 March 2017. A more detailed presentation of the members of the Executive Committee is provided on p. 88.

Guidelines for compensation of members of the Executive Committee

The guidelines for compensation and other terms of employment for the President and other senior executives were adopted by the AGM on 15 March 2017. Since then, long-term variable compensation can entail participation in a share-based incentive programme.

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 in line with the going rate in the market. Recommendations for compensation are to be proposed by a special compensation committee within the Board. For the President, 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.

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 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.

Short-term variable compensation

Short-term variable compensation is based on the achievement of Axfood's targets for:

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

This compensation shall be paid in the form of annual, variable compensation. The targets for the outcome levels are set by the Compensation Committee at the start of the year (for the President, by the Board in its entirety). The short-term variable compensation has a cap as follows:

- 60% of base salary paid out during the year for the President
- 50%–55% of base salary paid out during the year for the other members of the Executive Committee.

The sum of short-term variable compensation for the President and the other members of the Executive Committee can amount to a maximum of approximately SEK 16 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.



	Audit year	Year 2	Year 3
Individual performance	Base salary		
Axfood's achievement of targets and achievements of personal goals	Short-term variable compensation		
	Long-term variable compensation=LTIP 2017	Financial and share-based performance requirements	
	Pension benefits		
	Other benefits and severance pay		

Long-term share-based incentive programme (LTIP)

The aim of LTIP is to align the shareholders' interests with the interests of the members of the Executive Committee and other key persons and thereby ensure maximum long-term value creation and to encourage personal shareholding in Axfood. It also aims to strengthen the Group's ability to recruit and retain talented employees and other key persons. Participation in the programme requires a personal investment in Axfood shares. For information about LTIP 2017, see Note 8.

Pension 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 President's pension benefits and sets the pension benefits for the other members of the Executive Committee. For the President, a provision is made in an amount equivalent to 35% of his annual base salary. For the other members of the Executive Committee, the basic pension benefit consists of the so-called ITP plan, where one member of the Executive Committee, for this part, has a solution corresponding to ITP 1. As a supplement to this, for those executives covered by ITP 2, a defined contribution pension is payable corresponding to 25% of salary amounts between 30 and 50 times the Income Base Amount. One member of the Executive Committee has a pension solution in which the total pension provision is 35% of fixed, base salary, less premiums for ITP 2.

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 President 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 Annual General Meetings adopted guidelines for compensation and other terms of employment for members of the Executive Committee for the time up until the 2017 Annual General Meeting. 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 goals. In accordance with adopted principles, a certain portion of this variable compensation has been withheld until the 2018 Annual General Meeting. However, the amounts have been expensed in the respective financial years. Previously decided variable compensation that fell due for payment after the 2017 Annual General Meeting has been paid out. Variable compensation that has not fallen due for payment amounted to SEK 6.9 m (7.0) as per 31 December 2017. The guidelines adopted by the 2017 Annual General Meeting 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 2018 Annual General Meeting, no significant changes are proposed in the principles for compensation and other terms of employment for members of the Executive Committee.



The newly modernized Hemköp City in Stockholm hosts 2,000 sq. m. of food inspiration and passion with own chefs, pastry chefs and a florist.



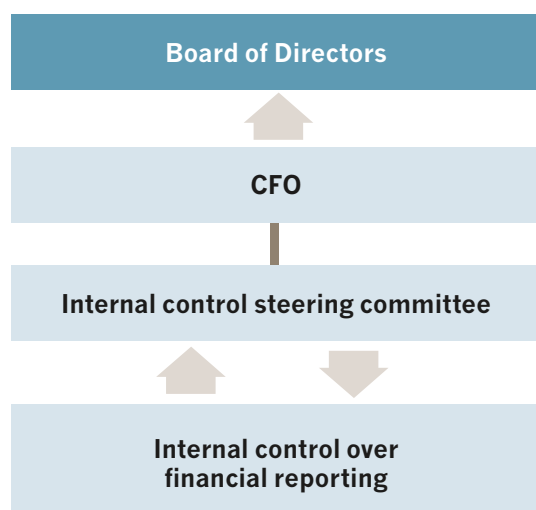
The Board's report on internal control

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 point 7.4 of the Code. 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 CFO 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 2017 an annual revision was performed of Axekon documents. All document owners 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 2017 identified the following areas, among others: robotic processes in financial flows, and financial

reporting related to acquired companies. In addition, work continued with internal control with respect to the structure of authorizations, roles and limitations in the combination of roles, both with respect to operational roles and IT roles. A recurring focus was also on updates of functionality in SAP that affect financial reporting. Axfood is working continuously to strengthen internal control related to these risk areas.

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.

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.

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

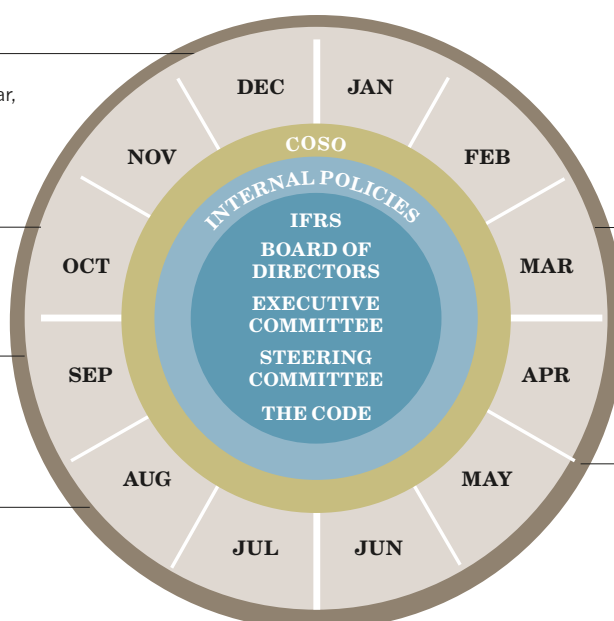
- Follow-up of reporting

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

Work during the year

During 2017 focus continued to be on reviews of new and existing flows related to the financial reporting. New controls were identified and tested.

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 risk management 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.

Work during the year

During 2017, cooperation was strengthened with Axfood's central Risk Management function.

Stockholm, 5 February 2018

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 2018 AGM.

Board of Directors



- 1. Mia Brunell Livfors**, Chairman of the Board and director since 2016
President and CEO of Axel Johnson AB since 2015
Chairman: Axel Johnson International AB, Dustin Group AB, Kicks Kosmetikkedjan AB and Åhléns AB
Vice Chairman: Martin & Servera AB
Director: Efva Attling Stockholm AB, Stena AB and Swedish Trade Federation
Education: Economics studies, Stockholm University
Professional experience: Former President and CEO of Investment AB Kinnevik, many years of experience from board work with listed Swedish companies
Committee membership: Compensation Committee
Current shareholding in Axfood: 0 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.
Vice Chairman: Smart Eye AB
Director: Axel Johnson AB, Bata Shoes and Compass Ltd
Education: B.Sc. Business and Economics, 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
Director: Axel Johnson AB, Axel Johnson Inc., AxFast AB, Axfoundation, the Axel and Margaret Ax:son Johnson Foundation for Public Service, the Antonia Ax:son Johnson Foundation for Environment and Development, 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. Fabian Bengtsson**, Director since 2016
Director: NetOnNet Group Aktiebolag, Waldir Aktiebolag and Aktiebolaget Remvassen
Education: B.Sc. Business and Economics, Lund University
Professional experience: Long record of experience in the retail trade and digital trade from the SIBA group, among other things as President 2001–2014; as Chairman of NetOnNet AB 2012–2015; and as a director/Chairman of CE-Konsument-elektronikbranschen AB
Current shareholding in Axfood: 7,050 shares
Independent in relation to the Company and the Executive Committee, and to major shareholders of the Company



5. Caroline Berg, Director since 2014
Chairman: Axel Johnson AB and the Erik and Göran Ennerfelt Foundation for International Studies for Young Swedes
Vice Chairman: Nordstjernan AB
Director: The Axel and Margaret Ax:son Johnson Foundation, Axfast AB, Dustin Group AB, Martin & Servera 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 AB 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

6. Christer Åberg, Director since 2017
President and CEO of Food Folks AS/ McDonald's Norden
Vice Chairman: Mekonomen Group
Chairman: Apoex AB
Education: Marketing Economist, IHM Business School, Stockholm
Professional experience: President and CEO of Hilding Anders International AB 2015–16; CEO Orkla Confectionery & Snacks 2013–16; CEO Arla Foods AB 2009–2013; CEO Atria Scandinavia AB 2006–2009; various positions at Unilever
Current shareholding in Axfood: 4,800 shares
Independent in relation to the Company and the Executive Committee, and to major shareholders of the Company

7. Anders Helsing, Employee representative, Director since 2016
Other assignments: Employee representative on the board of directors of Axfood IT
Professional experience: Axfood employee since 1998
Current shareholding in Axfood: 59 shares
Non-independent in relation to the Company and the Executive Committee

8. Michael Sjören, Employee representative, Director since 2010
Other assignments: Employee representative on the board of directors of Axfood Närlivs AB and Dagab Inköp & Logistik AB
Professional experience: Axfood Group employee since 1995
Current shareholding in Axfood: 0 shares
Non-independent in relation to the Company and the Executive Committee

9. Lars Östberg, Employee representative, Director 2009–2011 and since 2016
Other assignments: Employee representative on the board of directors of Willys AB
Professional experience: Willys employee since 2002
Current shareholding in Axfood: 0 shares
Non-independent in relation to the Company and the Executive Committee

All shareholdings reported as per 31 December 2017.

Executive Committee



1. **Klas Balkow**, President and CEO, Axfood AB
Axfood employee since: 2017
Other assignments: Vice Chairman, Swedish Trade Federation, Director of Svensk Dagligvaruhandel and the Confederation of Swedish Enterprise
Education: Secondary School Engineering
Professional experience: CEO Clas Ohlson, CEO Aximage (previously a business area in Axel Johnson), senior positions with Procter & Gamble in the Nordic countries and the USA, and Bredbandsbolaget. Member of Axfood's Executive Committee since 2017
Current shareholding in Axfood: 10,000 shares
2. **Anders Lexmon**, Chief Financial Officer
Axfood employee since: 2002
Education: M.Sc. Agricultural Economics and Management, Swedish University of Agricultural Sciences (SLU)
Professional experience: Head of Financial Control, Axfood; Head of Group Accounting, Axfood; Head of Group Accounting, SJ; auditor, KPMG. Member of Axfood's Executive Committee since 2017
Current shareholding in Axfood: 1,000 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 of 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: 16,000 shares

5. **Louise Ring**, Head of Human Resources
Axfood employee since: 2003
Other assignments: Director of the Umeå School of Business and Economics (USB), 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: 1,069 shares



6. Nicholas Pettersson, President, Dagab Inköp & Logistik AB
Axfood employee since: 2004
Other assignments: Chairman of Urban Deli Holding AB; Chairman of Hall Miba AB
Education: M.Sc. Econ., Växjö University
Professional experience: President, Axfood Närlivs; Market Manager, 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: 2,800 shares

7. 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: 4,000 shares

8. Annica Elmhagen Lundquist²⁾, 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; Head of Corporate Communications, Eniro and Telenor; Partner, Kreab; PR manager, Microsoft North America; Consultant, JKL. Member of the Executive Committee since 2015
Current shareholding in Axfood: 850 shares

9. Eva Pettersson, President, Axfood Snabbgross AB (President, Axfood Närlivs AB until 31 December 2017)
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: 850 shares

10. 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: 1,700 shares

All shareholdings reported as per 31 December 2017.

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

²⁾ Annica Elmhagen Lundquist left her employment on 31 January 2018. Claes Salomonsson, Axfood's Director of Media Relations, is serving as acting Head of Corporate Communications.

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Notes to the financial statements

1

Significant accounting policies

Conformity with norms and laws

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as endorsed by the EU. In addition, Swedish Financial Reporting Board recommendation RFR 1, Supplementary Reporting Rules for Groups, has been 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 5 February 2018. The Group's statement of profit or loss and other comprehensive income, and statement of financial position, and the Parent Company's income statement and balance sheet, are subject to adoption by the Annual General Meeting on 14 March 2018.

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. A defined benefit pension liability/asset is reported at the net value of the fair value of the plan assets and the present value of the defined benefit liability, adjusted for any asset restrictions.

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 35.

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

Changes in IFRS with application as from 2017 have not had any significant effect on the Group's accounting.

New IFRSs that have not yet begun to be applied

A number of new or amended IFRSs take effect in coming financial years and have not been applied prospectively in the preparation of these financial statements. New and amended IFRSs with future application that will affect the financial statements are described below.

IFRS 15 Revenue from Contracts with Customers, the new revenue standard, takes effect in 2018 and for Axfood's part replaces IAS 18 Revenue and interpretation IFRIC 13 Customer Loyalty Programmes. Most of Axfood's sales, approximately 75%, are derived from stores.

According to the new standard, Axfood's revenue will be recognized at the point in time at which the buyer gains control over the product, compared with previously, when revenue was recognized when the material risks and rewards were transferred to the buyer. The transition has no effect on the point in time for Axfood's revenue recognition, since the point in time at which control over the products is passed on to the customer corresponds to the point in time at which Axfood recognized revenue under IAS 18. Variable consideration attributable to store sales, such as discounts and price reductions, are not affected by adoption of the new standard. With respect to the remaining approximately 25% of revenue that pertains to the wholesale and franchise businesses, adoption of the new standard will not affect revenue recognition for these parts. Work is under way on formulating additional disclosures in accordance with IFRS 15.

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. The Group will begin applying IFRS 9 Financial Instruments as from 1 January 2018. The Group will exercise the exception to not recalculate comparative information for earlier periods regarding changes in classification and measurement (including impairment losses). IFRS 9 entails changes in how financial assets are classified and measured, introduces an impairment model that is based on expected credit losses and makes changes in the principles for hedge accounting. The Group's assessment is that the new categories of financial assets that are introduced through IFRS 9 will not have any material effect on the recognition of trade receivables and loan receivables that are managed on the basis of fair value. As per 31 December 2017, available-for-sale financial assets existed with a fair value of SEK 25 m. According to IFRS 9 these assets are classified in the category "fair value through profit or loss", since they do not meet the requirement for contractual cash flows. There are no material effects in the classification of financial liabilities. IFRS 9 replaces the "incurred loss event model" with a model based on expected future credit losses. The new impairment model is to be applied for financial assets measured at amortized cost. Based on the loss risk provision methodology in IFRS 9, the Group has determined that additional impairment losses need to be recognized, but in an insignificant amount. In connection with the transition to IFRS 9 the Group can choose between continuing to apply the rules for hedge accounting according to IAS 39 or to apply the hedging rules in IFRS 9. The Group has chosen to apply the new rules in IFRS 9. Types of hedge relationships that the Group currently identifies meet the requirements in IFRS 9 and correspond to the Company's risk management strategy and goals. Consequently, no effect on the reporting has been identified.

IFRS 16 Leases, the new leasing standard that takes effect in 2019 with 2018 as the comparison year, will affect Axfood. The new standard differs significantly from the current IAS 17. The new standard applies for all lease contracts as well as all subleases. A linear operating lease cost has been replaced with a "top-heavy" cost profile for each individual lease contract. Portfolios with a spread of lease terms are affected less. The disclosures provided in Note 11 about operating leases provide an indication of the type and scope of the leases that currently exist. A project has been started, and an analysis of how the financial statements will be affected in terms of amount will continue in 2017 and forward. A choice of transitional method has not yet been made.

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

Subsidiaries

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

The purchase method is used in the preparation of the consolidated financial statements.

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/to 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 have been made to the Group's accounting policies.

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

Associated companies> NOTE 22

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 equity method is applied starting at the point in time at which control arose and until the point in time at which control ceased. Dividends received from associated companies decrease the carrying amount of shares and participations in associated companies. When the Group's share of reported losses in the associated company exceeds the carrying amount of the participations in the Group, the value of the participations is reduced to zero.

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.

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.

Joint ventures> NOTE 22

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, see the above with respect to associated companies. The equity method is applied starting at the point in time at which joint control arose and until the point in time at which joint control ended.

Transactions that are eliminated upon consolidation> NOTE 7

Intra-Group receivables and liabilities, income or expenses, and unrealized gains or losses that arise out of transactions between Group companies are eliminated in their entirety in preparation of the consolidated accounts. 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.

Income> NOTE 5

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, which for retail means when the product is paid for in a store and for wholesale when the product is delivered. 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 sales in stores and wholesale sales.

Franchise fees

Axfood has agreements with a number of independent grocers for cooperation under the Hemköp, Tempo and Handlar'n concepts. The retailers 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.

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.

Leasing

Operating leases> NOTE 14

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> NOTE 20

For reporting of finance leases, the asset is reported as a non-current asset in the Group's statement of financial position and is initially stated at the lower of the leased asset's fair value or the present value of the minimum 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 asset is depreciated over the asset's useful life, while the lease payments are reported as interest and amortization of the liability.

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. Variable fees are expensed in the periods in which they are incurred.

Financial income and expenses> NOTE 13

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 payables 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.

The calculation includes all fees paid or received, and that are part of the effective interest.

Receivables and liabilities in foreign currency.....> NOTE 33

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.....> NOTE 15

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> NOTE 17

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.

Goodwill is valued at cost less any accumulated impairment. Goodwill is attributed to the relevant cash-generating units and is not amortized, but is instead tested annually for impairment, see Note 17 and 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 carried as an asset in the statement of financial posi-

tion, under the condition that future efficiency improvement gains are probable and will exceed incurred costs. Costs for feasibility 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 valued 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 5 years.

2) Customer relationships have an amortization period of 1 year.

- 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> NOTE 18

Property, plant and equipment are carried 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.

Depreciation of property, plant and equipment

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.

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

Financial instruments> NOTE 23, 24, 26, 29, 30

Financial instruments reported in the statement of financial position include – on the assets side – cash and cash equivalents, loan receivables, trade receivables and financial investments. The liabilities side includes trade payables and loan liabilities. 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 receivables 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 payables 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 carried at cost, corresponding to the instrument's fair value plus transaction costs, except for instruments measured at fair value through profit or loss, 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 measured at fair value through profit or loss. The option portion of convertible debentures is included in this category.
- Loan receivables and trade receivables. 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 measured at amortized cost. Axfood's trade payables 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 measured 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 receivables 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 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 receivables 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 measured at amortized cost.

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

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 measured 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 com-

prehensive 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 definitive need to recognize 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 measured 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 measured 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 payables are offset by changes in the value of forward contracts in profit or loss.

Inventories NOTE 25

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. An impairment loss is 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 charged against profit. 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> NOTE 8, 28

Short-term compensation

Short-term employee compensation is calculated without discounting and is recognized as an expense when the related services were performed. 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

Pension plans

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 restrictions. 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 2017 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 28.

Termination pay

An expense for compensation in connection with terminations of personnel is recognized at the earliest point in time when the Company can no longer revoke an offer to employees or when the Company recognizes costs for restructuring.

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.

Share-based payments

Pursuant to a resolution by the 2017 Annual General Meeting, the Axfood Group has introduced a share-based incentive programme in which settlement is done with shares and where the Company receives services from the employee in exchange for equity instruments (matching shares and performance shares) in the Group. The programme covers a three-year period and requires that, during the term of the programme, the participants continue to be employed and that they have purchased and retain a certain number of shares in Axfood ("savings shares"). The cost of the share-based compensation is based on the fair value of the share rights that the employee receives. The value is calculated at the grant date using a calculation model based on Monte Carlo simulations and is adjusted in subsequent periods until in the end it reflects the actual number of rewarded share rights. The fair value of the granted share rights is reported as a personnel cost, with a corresponding increase in equity that is apportioned over the vesting period.

During the vesting period, provisions are made for social security charges.

Repurchases of the Company's own shares in order to fulfil the delivery obligation under outstanding share-based programmes are reported in equity.

Contingent liabilities> NOTE 32

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 or it cannot be estimated with sufficient reliability.

The Group's contingent liabilities consist primarily of counterbonds for bank guarantees and guarantees for own liabilities.

Statement of cash flows

The statement of cash flows is prepared in accordance with the indirect method. The reported cash flow pertains only to transactions that entail incoming or outgoing payments. Axfood's cash and cash equivalents include cash on hand and bank balances.

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, applies 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 2017

No changes were made in the Parent Company's accounting policies for 2017.

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 (Trygandelagen) 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 instruments

In view of the connection between reporting and taxation, the rules on financial instruments in IAS 39 are not applied for financial instruments in the Parent Company as a legal entity. Financial non-current assets are measured at cost less any impairment, and financial current assets are measured at the lower of cost or market value.

Financial guarantees

The Parent Company's financial guarantee agreements consist mainly of guarantees for the benefit of subsidiaries, joint ventures and associated companies. Financial guarantees entail that the Company has an obligation to compensate the holder of a debt instrument for losses it incurs in the event a specified debtor does not make payment upon maturity in accordance with the terms of the contract. For reporting of financial guarantees, the Parent Company applies a Swedish Financial Reporting Board relief rule compared with the rules in IAS 39. The relief rule pertains to financial guarantee agreements pledged to the benefit of subsidiaries, associated companies and joint ventures. In these cases, the rules of IAS 37, points 14 and 36, are applied instead, which entail that financial guarantee agreements are to be reported as a provision on the balance sheet when Axfood AB 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 lease agreements 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 2018 and later

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 2017 or 2016. No impairment losses were reversed in 2017 or 2016. No significant non-cash items other than depreciation/amortization, impairment and disposals were booked in 2017 and 2016.

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, inventory and logistics. Approximately 75% of sales are to Group-owned stores.

Axfood 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. A restructuring took effect on 1 January 2018, see p. 46 for further information.

No individual customer accounts for more than 10% of consolidated sales, and thus no major customer is considered to exist. Joint-Group pertains to head office support functions, such as the Executive Committee, Finance/Accounting, Communications, Business Development, HR and IT.

Per operating segment	Willys		Hemköp		Axfood Närlivs		Dagab		Joint-Group		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Result of operations														
External net sales	25,415	23,164	6,189	6,171	2,977	2,880	11,337	11,092	50	48			45,968	43,355
Internal net sales					7	4	29,802	31,227	720	674	-30,529	-31,905	-	-
Net sales	25,415	23,164	6,189	6,171	2,984	2,884	41,139	42,319	770	722	-30,529	-31,905	45,968	43,355
Depreciation/amortization	-276	-275	-108	-105	-21	-21	-101	-92	-238	-226			-744	-719
Share of profit in associated companies					0	0	-3	-4					-3	-4
Operating profit	1,020	922	196	260	189	202	697	670	-216	-152			1,886	1,902
Financial items, net													-5	-8
Consolidated profit before tax													1,881	1,894
Other disclosures														
Investments in non-current assets ¹⁾	235	239	203	73	41	37	138	85	211	140			828	574

¹⁾ Tangible and intangible non-current assets, excluding acquisitions of operations.

3 Acquired operations

In 2017 Axfood acquired Matse Holding AB. Control was obtained on 31 January when Axfood completed its public cash offer and received 98.8% of the shares. At the acquisition date, non-controlling interests amounted to approximately SEK 5 m, measured at fair value. During the year, the remaining shares were acquired through a compulsory redemption process, and Axfood's holding was 100% on 31 December 2017. The company is reported in the Dagab segment. Consideration paid amounted to SEK 556 m, of which SEK 49 m was paid in 2016. Acquired assets and liabilities are reported in Axfood's statement of financial position at fair value.

Acquired assets and liabilities in Matse Holding AB

	Fair value reported in Group
Intangible assets	83
Property, plant and equipment	25
Deferred tax assets	40
Current assets	52
Interest-bearing non-current liabilities	-14
Deferred tax liabilities	-18
Other current liabilities	-41
Total identified net assets	127
Goodwill	429
Purchase price	556
Cash and cash equivalents in acquired companies	-25
Consideration paid in preceding year	-49
Impact on cash and cash equivalents since the start of the year	482

Also during the year, 100% of the shares were acquired in Eurocash Food AB, which comprises eight stores. Control was obtained in connection with the acquisition, and the company is reported in the Willys segment as from 1 April. On 31 May, 100% of the shares were acquired in Middagsfrid AB by the Axfood Group through Matse Holding AB. Control was obtained on the acquisition date. In addition, Saba Logistics' warehouse operation was acquired by Dagab Inköp & Logistik AB on

1 January 2017. One store was also acquired during the year, which has been converted to Willys. The combined consideration paid for these acquisitions amounted to SEK 508 m. Acquired assets and liabilities are reported in Axfood's statement of financial position at fair value.

Other acquisitions, acquired assets and liabilities ¹⁾

	Fair value reported in Group
Intangible assets	73
Property, plant and equipment	118
Deferred tax assets	4
Current assets	186
Interest-bearing non-current liabilities	-43
Deferred tax liabilities	-33
Other current liabilities	-175
Total identified net assets	130
Goodwill	378
Purchase price	508
Cash and cash equivalents in acquired companies	-51
Of which, non-controlling interests	-193
Impact on cash and cash equivalents since the start of the year	264

¹⁾ The table is based on preliminary purchase price allocation, since the integration of Eurocash was not completed until 2018. No significant uncertainties existed at the balance sheet date.

Identified goodwill is entirely attributable to the synergies that are created in connection with acquisitions. Acquired goodwill in Matse Holding AB amounted to SEK 429 m in 2017 and SEK 378 m in other acquired operations. Approximately SEK 81 m is expected to be tax-deductible. For information about the year's change in the Group's goodwill in general, see Note 17. Other identified surplus value pertains to the brand in Matse Holding AB, SEK 55 m, and customer relationships, SEK 25 m. Identified surplus value in other acquired operations amount to SEK 71 m. Additional adjustments of carrying amounts at fair value according to IFRS have not been required.

Axfood's share of ownership in the store acquired in 2017 is 100% after the acquisition. The store was acquired in August. Axfood's share

3

Acquired operations, cont.

of ownership in remaining acquisitions is 100%, except for in Eurocash Food, where a sale of 49% was made to NorgesGruppen during the year. Control remains after the sale. In the months that followed the acquisitions of operations, the acquired operations contributed SEK 1,462 m to consolidated net sales. If the acquisitions had been carried out as per 1 January 2017, the Group's income would have been approximately SEK 395 m higher, i.e., a total of approximately SEK 46,363 m. The profit/loss effect is difficult to assess, as the operations were initially charged with one-time costs.

Payment was made in cash, and no amounts remain to be paid from previous years' acquisitions.

Acquisition-related expenses attributable to the year's acquisitions amount to SEK 8.3 m and are reported as administrative expenses.

Acquisitions in the preceding year

During the preceding year two stores and one in-store service counter were acquired. Both stores were converted to Hemköp.

The combined consideration paid for acquisitions in 2016 was SEK 9 m. Payment was made in cash, and no amounts remain 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 reported in Axfood's statement of financial position at fair value.

The following assets and liabilities were acquired in 2016

	Fair value reported in Group
Property, plant and equipment	2
Current assets	4
Other current liabilities	-1
Total identified net assets	5
Goodwill	4
Purchase price	9
Cash and cash equivalents in acquired companies	0
Impact of acquisitions of operations on cash and cash equivalents since the start of the year	9

Identified goodwill is entirely attributable to the synergies that are created in connection with acquisitions. Additional adjustment of reported values to fair value in accordance with IFRS have not been necessary. Acquired goodwill amounted to SEK 4 m in 2016. Axfood's share of ownership in stores acquired in 2016 amounts to 100% after the acquisitions. One store was acquired in June and one in September. During the months following the acquisitions of operations, the acquired operations contributed SEK -0.2 m to consolidated profit after tax. The operations have combined annual sales of approximately SEK 93 m. If the acquisitions had been carried out as per 1 January 2016, the Group's income would have been approximately SEK 60 m higher, i.e., a total of approximately SEK 43,415 m. The profit/loss effect from 1 January 2016 until the date of acquisition is difficult to assess, as the operations 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 202 m (0).

4

Discontinued operations

Sold operations

During the year four store operations were sold. Three of these pertained to sales of companies to store managers in accordance with the 91/9 model. The sales were not of such size that they needed to be reported separately as discontinued operations in the statement of profit or loss and other comprehensive income. Cash flow from sales of operations during the year was SEK 0 m (7). The consideration for one of the sales was not settled as per 31 December 2017.

5

Breakdown of income

Group	2017	2016
Net sales:		
Sales of products	45,504	42,954
Other sales	464	401
Total net sales	45,968	43,355
Other operating income	483	432
Total	46,451	43,787

6

Breakdown of expenses

Group	2017	2016
Cost of goods for resale	33,267	31,654
Personnel costs	5,909	5,311
Depreciation/amortization	744	719
Other	4,642	4,197
Total	44,562	41,881

7

Information on intra-Group income and expenses

The Parent Company's income from Group companies amounted to SEK 220 m (228). The Parent Company's expenses from Group companies amounted to SEK 54 m (45). 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.

8

Information on employees and expensed compensation of directors, the President and other senior executives

Average number of employees ¹⁾	2017	Of whom, men	2016	Of whom, men
Parent Company				
Average number of employees	164	49	150	45
Subsidiaries				
Average number of employees	9,739	4,633	9,061	4,178
TOTAL, GROUP	9,903	4,682	9,211	4,223

¹⁾ In calculating the number of hours worked per year per employee, 1,920 hours has been used (1,920).

Information on employees and expensed compensation of directors, the President and other senior executives, cont.

Gender breakdown, Group, number

	Boards of Directors		Other senior executives	
	2017	2016	2017	2016
Men	97	60	31	31
Women	18	18	16	16
Total	115	78	47	47

Gender breakdown, Parent Company, number

	Board of Directors		Other senior executives	
	2017	2016	2017	2016
Men	3	2	7	6
Women	3	4	3	4
Total	6	6	10	10

Wages, salaries and other remuneration, and social security charges

	2017			2016		
	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	123	68	29	104	55	21
Subsidiaries	3,836	1,509	297	3,493	1,340	268
TOTAL, GROUP	3,959	1,577	326	3,597	1,395	289

Expensed salaries and other benefits paid to other senior executives, KSEK

2017	Base salary	Variable compensation	Other benefits	Pension cost	Other compensation	Share-based payments	Total
President ¹⁾	7,184	3,316	204	5,183	–	1,008	16,895
Other senior executives, Parent Company ^{2, 3)}	21,391	8,769	978	11,956	55	1,638	44,787
Total	28,575	12,085	1,182	17,139	55	2,646	61,682
Other senior executives, subsidiaries	43,155	6,734	1,493	17,519	948	1,759	71,608
TOTAL, GROUP	71,730	18,819	2,675	34,658	1,003	4,405	133,290

2016

President ¹⁾	6,830	4,410	363	2,740	–	–	14,343
Other senior executives, Parent Company ^{2, 3)}	23,155	9,779	1,019	8,524	41	–	42,518
Total	29,985	14,189	1,382	11,264	41	–	56,861
Other senior executives, subsidiaries	40,654	6,566	1,478	14,799	2,724	–	66,221
TOTAL, GROUP	70,639	20,755	2,860	26,063	2,765	–	123,082

¹⁾ Anders Strålman was President of the Parent Company through 15 March 2017, and thereafter Klas Balkow.

²⁾ The Axfood Group's Executive Committee (excluding the President) in 2017: Karin Hygrel-Jonsson (through March), Anders Lexmon (as from March), Anders Quist, Louise Ring, Jan Lindmark, Nicholas Pettersson, Thomas Evertsson, Eva Pettersson, Annica Elmhagen Lundquist and Thomas Gäreskog. 2016: Karin Hygrel-Jonsson, Hans Holmstedt (through July), Anders Quist, Louise Ring, Jan Lindmark, Nicholas Pettersson, Thomas Evertsson, Eva Pettersson, Annica Elmhagen Lundquist and Thomas Gäreskog.

³⁾ Of base salaries, variable compensation and other compensation paid out by the Parent Company, KSEK 18,430 (19,084) pertains to compensation that the senior executives received from other Group companies. Of the Parent Company's other benefits, KSEK 586 (634) pertains to compensation from other Group companies.

Wages, salaries and other compensation, broken down by senior executives and other employees

	2017		2016	
	Boards, presidents and other senior executives	Other employees	Boards, presidents and other senior executives	Other employees
Parent Company ¹⁾	45	96	46	76
Subsidiaries	53	3,765	51	3,424
TOTAL, GROUP	98	3,861	97	3,500

¹⁾ Of the Parent Company's salaries and other compensation to senior executives, SEK 18 m (19) pertains to compensation from other Group companies.

Share-based payments

On 12 May 2017 the Group started a long-term share-based incentive programme (LTIP 2017), pursuant to a resolution by the 2017 Annual General Meeting.

LTIP 2017 (Long-term Incentive Programme 2017) was offered to senior executives and other key persons in the Axfood Group. The aim is to reward performance, increase and spread shareholdings among senior executives and motivate them to stay with the Company.

The programme stretches over three years starting in May 2017 and requires that the participants buy or previously own a certain number of shares in Axfood ("savings shares"). All participants have bought shares in Axfood at market price up to the predetermined, maximum number of shares for each category of participants. Grants are made free of charge after the vesting period in the form of matching shares and performance shares.

Grants of matching share rights (one per savings share) require continued employment by the Axfood Group during the vesting period, continued personal shareholding in Axfood during the same period, and that the total shareholder return ("TSR") on the Company's shares during the period 2017-2019 exceeds zero per cent.

Grants of a maximum of six performance share rights require continued employment by the Axfood Group and that the participant's personal shareholding in Axfood remained, and are based in part on the

Company's TSR compared with the SIX Return Index (maximum of two shares) and in part on the Axfood Group's total average sales growth provided a certain average EBIT margin has been achieved (maximum of four shares).

The programme is equity-settled, and grants will be made through grants of shares.

LTIP 2017 Group

	2017
Vesting terms	Three-year TSR>0 Sales growth in market level to +2% on average over 3 years and EBIT margin >3.5% on average over 3 years' time TSR level with SIX Return Index 2017-2019 accumulated up to 10% better than same period
Base value, share price, SEK	143.5
Number of participants upon grant	59
Number of participants on balance sheet date ¹⁾	58
Savings shares, number ²⁾	23,850
Grants of matching shares, number ²⁾	23,850
Grants of performance shares, number ²⁾	143,100
Maximum number of matching shares and performance shares	191,993
Weighted average fair value at measurement date for entire term ³⁾ ⁴⁾	23.0
Cost for the year	5.1
Accumulated cost	5.1
Maximum cost for entire term	49.6
Liability (social security charges) 2017	1.5
Term	May 2017–May 2020

¹⁾ Of whom, senior executives, 10 persons.

²⁾ Of the savings shares and matching shares, 12,350 pertain to senior executives.

Of the performance shares, 74,100 pertain to senior executives.

³⁾ Of fair value, SEK 12 m pertains to senior executives.

⁴⁾ Of which, matching shares SEK 3.9 m and performance share SEK 19.1 m.

The fair value of services received from employees in exchange for granted share rights is measured on the basis of the fair value of the granted share rights. The fair value of the share rights has been estimated using a calculation model based on Monte Carlo simulations. The participations are valued at the share price on the grant date of the share rights as a base. The social security charges are valued using the share price on the balance sheet date as the base. The estimated dividend has been taken into account in the calculation model.

The cost is allocated on a linear basis over a three-year period and includes social security charges.

During the year, reported amounts for LTIP 2017 have been affected by the number of person who have left the programme (1 person). The probability of target achievement of performance requirements with respect to sales and EBIT has been raised from 50% to 75%.

LTIP 2017

Parent Company

The same terms that apply for the Group apply for the Parent Company. With respect to the Parent Company, the fair value at the measurement date for the entire term is SEK 11 m, of which SEK 8 m for senior executives. The cost reported in 2017 for the Parent Company is SEK 2.5 m, and the reported liability for social security charges is SEK 0.7 m.

Repurchased shares for LTIP 2017

To secure the Company's obligation for conditional matching and performance shares under LTIP 2017, during the second quarter of 2017 Axfood repurchased 194,000 shares for a total of SEK 28 m at an average price of SEK 143.69 per share. This holding of treasury shares thereby amounts to 194,000 shares and secures delivery of shares to LTIP 2017.

Fees and other benefits paid to members of the Board of Directors, KSEK

	2017		2016	
	Directors' fees	Other compensation	Directors' fees	Other compensation
Parent Company				
Chairman of the Board ¹⁾	675	–	647	–
Vice Chairman of the Board ²⁾	500	–	478	–
Other board members:				
Antonia Ax:son Johnson	408	–	381	–
Fabian Bengtsson ³⁾	408	–	300	–
Caroline Berg	408	–	381	–
Peggy Bruzelius ⁴⁾	–	–	81	–
Ann Carlsson ⁵⁾	271	–	381	–
Odd Reitan ⁴⁾	–	–	81	–
Christer Åberg ⁶⁾	307	–	–	–
Michael Sjören ⁷⁾	–	–	–	–
Ulla-May Iwahr Rydén ⁸⁾	–	–	–	–
Inger Sjöstrand ⁸⁾	–	–	–	–
Anders Helsing ⁸⁾	–	–	–	–
Lars Östberg ⁸⁾	–	–	–	–
Total	2,977	–	2,730	–

¹⁾ Fredrik Persson was Chairman of the Board until the 2016 AGM, and Mia Brunell Livfors for the time thereafter.

²⁾ Lars Olofsson was Vice Chairman of the Board.

³⁾ As from the 2016 AGM.

⁴⁾ Up until the 2016 AGM.

⁵⁾ Through August 2017.

⁶⁾ As from the 2017 AGM.

⁷⁾ Employee representative.

⁸⁾ Employee representatives. Ulla-May Iwahr Rydén and Inger Sjöstrand up until the 2016 AGM, and Anders Helsing and Lars Östberg for the time thereafter.

Comments, Note 8

Board of Directors

Fees are payable to the Chairman of the Board and the directors in accordance with an AGM resolution. No separate fee is paid for committee work. Employee representatives do not receive any directors' fees. According to a resolution by the 2017 AGM, the annual fee payable to directors was set at KSEK 3,225 (2,775), of which KSEK 675 (675) is payable to the Chairman. Seventy-five per cent of the fees were paid out in 2017, with the remainder being paid out after year-end. Expensed fees paid to the board members are shown in the table.

President

Anders Strålman, Axfood's President up until March 2017, received SEK 2.3 m (11.2) in contractual salary and other benefits in 2017, including SEK 0.7 m (4.4) in variable compensation. Klas Balkow, Axfood's President as from March 2017, received expensed, contractual salary and other compensation amounting to SEK 9.2 m (–) in 2017, of which variable salary amounted to SEK 2.6 m (–) and share-based payments SEK 1.0 m (–). The President's variable compensation is based on the performance and development of the business. The variable compensation for Anders Strålman can amount to a maximum of 70% of one year's salary. 100% of the set variable compensation will be paid out after the Annual General Meeting in the year following the year in which it was earned. The remaining 50% from 2016 will be paid out after the 2018 Annual General Meeting, provided he is still employed. The variable compensation for Klas Balkow can amount to a maximum of 60% of his annual salary. 100% of the set variable compensation will be paid out after the Annual General Meeting in the year following the year in which it was earned, provided he is still employed.

In addition, President Anders Strålman has a taxable housing and travel benefit, a car benefit and private health insurance. Anders Strålman 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 2017 amounted to SEK 21.8 m (19.2). Anders Strålman's employment will end in November 2018, at which time he reaches the retirement age. In addition, Axfood's current President, Klas Balkow, has a taxable car benefit and private health insurance. Klas Balkow 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 2017 amounted to SEK 2.4 m (–). 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 amounted to SEK 31.9 m (33.0), including SEK 8.8 m (9.8) in variable compensation and SEK 1.6 m (–) in share-based payments. By other senior executives is meant the nine persons who together with the President make up the Axfood Group's Executive Committee. See p. 88 for the composition of the Executive Committee. Variable compensation is based mostly on the Group's earnings and sales performance, and partly on personal goals. Variable compensation can amount to a maximum of 55% of the executives' yearly salary. Other senior executives have customary terms of employment. In the event the Company serves notice, a notice period of a maximum of 12 months applies, less any earned income from external employment. In addition, severance pay corresponding to a maximum of 12 months' salary may be payable, less any earned income from external employment. For notice given by the executive, a six-month notice period applies. The retirement age is set at 65 years. For these members of the Executive Committee, the basic pension benefit consists of the so-called ITP plan, where one member of the Executive Committee on this part has a solution corresponding to ITP 1. In addition to this, for the executives covered by ITP 2, the Company pays defined contribution pension premiums corresponding to 25% of salary amounts between 30–50 times the Price Base Amount. One member of the Executive Committee has a pension solution where the total pension provision is 35% of fixed cash salary less premiums for ITP 2. 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	
	2017	2016	2017	2016
Deloitte				
Auditing fees	5	4	1	1
Auditing activities in addition to the audit assignment	0	0	0	0
Other services	0	0	0	0
Total	5	4	1	1

By audit assignment is meant the statutory audit of the annual report and consolidated financial statements and bookkeeping, the Board of Directors' and President's administration, and auditing and other review 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	
	2017	2016	2017	2016	2017	2016	2017	2016
Cost of goods sold	159	144	1	2	459	456	619	602
Selling expenses	1	0	0	0	44	43	45	43
Administrative expenses	7	4	0	0	73	70	80	74
Total depreciation/amortization	167	148	1	2	576	569	744	719

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	
	2017	2016	2017	2016
Minimum lease payments during the financial year	1,492	1,477	33	8
Variable charges	14	13	–	–
Total leasing costs during the financial year¹⁾	1,506	1,490	33	8
Leasing income pertaining to sublet premises	120	108	23	–
Contracted future minimum lease payments				
Within one year	1,408	1,298	33	8
Between one and five years	3,689	3,883	119	17
Longer than five years	1,411	893	29	4
Total future lease payments	6,508	6,074	181	29

¹⁾ Of which, rents for premises SEK 1,430 m (1,423) for the Group and SEK 28 m (7) 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 5 m (10). Sales to associated companies and joint ventures totalled SEK 16 m (14). Axfood's associated companies and joint ventures owned no shares in Axel Johnson AB as per 31 December 2017. Axfood AB is 50.1%-owned by Axel Johnson AB.

Martin & Servera AB, a subsidiary in the Axel Johnson Group, delivers foodservice products to Axfood companies. Purchases from Martin & Servera amounted to SEK 49 m (44) during the year. Axfood's sales to Martin & Servera during the year amounted to SEK 15 m (21). As per 31 December 2017, the Axfood Group's current liabilities to Martin & Servera amounted to SEK 7 m (7), and current receivables amounted to SEK 1 m (2).

AxFast AB, a company in the Axel Johnson Group, leases properties to companies in the Axfood Group. During the year Axfood's profit was charged with SEK 25 m (55) in rents to AxFast AB. All rents are set on an arm's length basis. As per 31 December 2017, the Axfood Group's current liabilities to AxFast AB amounted to SEK 0 m (0). Åhléns AB, a subsidiary in the Axel Johnson Group, runs department stores and specialty shops. The Axfood Group leases premises from Åhléns, among other things. During the year, Axfood's profit was charged with SEK 25 m (21) in rents for premises. As per 31 December 2017, the Axfood Group's current liabilities to Åhléns amounted to SEK 0 m (9).

13 Net financial items

	Group		Parent Company	
	2017	2016	2017	2016
Interest income from bank deposits	0	0	0	0
Interest income from non-impaired loan receivables and trade receivables ¹⁾	8	5	4	4
Interest income from impaired loan receivables and trade receivables	0	0	–	–
Exchange rate movements	0	0	0	0
Other financial income	0	0	–	–
Total financial income	8	5	4	4
Interest expenses on financial liabilities carried at amortized cost				
Borrowings (bank loans and bank lines of credit) ²⁾	–2	0	0	0
Trade receivables and other current liabilities	–1	–1	0	0
Pension liability	–8	–11	–1	–1
Other financial expenses	–2	–1	–1	0
Total financial expenses	–13	–13	–2	–1

¹⁾ Interest income in the Parent Company from Group companies amounted to SEK 4 m (4).

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

14 Appropriations and untaxed reserves

	Parent Company	
	2017	2016
Appropriations		
Group contribution received	2,044	1,975
Group contribution rendered	–34	–
Provision to tax allocation reserve	–546	–476
Dissolution of tax allocation reserve	274	–
Change in accumulated excess depreciation	–1	2
Total	1,737	1,501
Untaxed reserves		
Tax allocation reserves	2,396	2,124
Accumulated excess depreciation	4	3
Total	2,400	2,127

15 Taxes

	Group		Parent Company	
	2017	2016	2017	2016
Current tax				
Current tax on profit for the year	–375	–321	–361	–314
Adjustment of current tax from previous years	0	2	0	0
	–375	–319	–361	–314
Deferred tax				
Deferred tax	–39	–102	2	0
	–39	–102	2	0
Total reported tax charge	–414	–421	–359	–314

Group – reconciliation of applicable tax rate and effective tax rate

	2017	%	2016	%
Reported profit before tax	1,881		1,894	
Tax based on applicable tax rate for Parent Company	–414	–22.0	–416	–22.0
Tax effect of:				
Other non-deductible expenses	–10	–0.5	–10	–0.5
Other tax-exempt revenues	9	0.4	3	0.2
Adjustments of current tax pertaining to previous years	1	0.1	2	0.1
Adjustments of deferred tax pertaining to previous years	0	0.0	0	0.0
Reported tax charge/effective tax rate	–414	–22.0	–421	–22.2
Tax attributable to other comprehensive income	4		–1	

Parent Company – reconciliation of applicable tax rate and effective tax rate

	2017	%	2016	%
Reported profit before tax	1,618		1,415	
Tax based on applicable tax rate for Parent Company	–356	–22.0	–311	–22.0
Tax effect of:				
Other non-deductible expenses	–3	–0.2	–3	–0.2
Other tax-exempt revenues	0	0.0	0	0
Adjustments of deferred tax pertaining to previous years	0	0.0	0	0.0
Reported tax charge/effective tax rate	–359	–22.2	–314	–22.2
Current and deferred tax items reported directly against shareholders' equity	–		–	

Reported deferred tax assets and tax liabilities

	Group		Parent Company	
	2017	2016	2017	2016
Intangible assets	–96	–60	–	–
Land and buildings	0	–1	–	–
Equipment, tools, fixtures and fittings	10	9	–	–
Financial assets	0	–	–	–
Deficit	63	–	–	–
Other receivables	7	6	–	–
Untaxed reserves	–676	–601	–	–
Provisions	35	31	7	5
Other liabilities	4	3	0	0
Total deferred tax asset (+)/deferred tax liability (–), net	–653	–613	7	5
Deferred tax asset	131	61	7	5
Deferred tax liability	–784	–674	–	–

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

15 Taxes, cont.

Tax attributable to other comprehensive income ¹⁾

Group	2017			2016		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Translation differences	0	0	0	0	0	0
Cash flow hedges	0	0	0	4	-1	3
Available-for-sale financial assets	-6	1	-5	0	0	0
Actuarial gains and losses	-15	3	-12	0	0	0
Other comprehensive income	-21	4	-17	4	-1	3

¹⁾ The Parent Company has no taxes attributable to other comprehensive income.

Group, change in deferred tax in 2017

	Amount at start of year	Recognized in profit for the year	Effect of acquired/divested companies	Recognized in other comprehensive income	Amount at end of year
Intangible assets	-60	-6	-30	-	-96
Land and buildings	-1	1	-	-	0
Equipment, tools, fixtures and fittings	9	1	-	-	10
Financial assets	-	0	-	-	0
Deficit	-	20	43	-	63
Other receivables	6	0	-	1	7
Untaxed reserves	-601	-57	-18	-	-676
Provisions	31	1	0	3	35
Other liabilities	3	1	-	-	4
Total	-613	-39	-5	4	-653

Group, change in deferred tax in 2016

	Amount at start of year	Recognized in profit for the year	Effect of acquired/divested companies	Recognized in other comprehensive income	Amount at end of year
Intangible assets	-54	-4	-2	-	-60
Land and buildings	-1	0	-	-	-1
Equipment, tools, fixtures and fittings	6	3	-	-	9
Other receivables	7	0	-	-1	6
Untaxed reserves	-501	-101	1	-	-601
Provisions	31	0	-	0	31
Other liabilities	3	0	-	-	3
Total	-509	-102	-1	-1	-613

16 Earnings per share

Earnings per share were SEK 6.98 (7.02). 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. The number of shares outstanding was 209,676,712

(209,870,712), and the average number of outstanding shares was 209,748,468 (209,870,712). A possible dilution associated with LTIP 2017 would have an immaterial effect on earnings per share.

17 Intangible assets

Group	Goodwill		Intangible assets in progress		Other intangible assets ¹⁾	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Opening cost	1,864	1,860	25	70	1,634	1,524
Increase through acquisitions	807	4	-	-	156	-
Investments	-	-	101	76	13	17
(of which, internally developed)	-	-	(101)	(76)	(13)	-
Disposals	-	-	-	-	-	-29
Reclassifications	-	-	-77	-121	77	122
(of which, internally developed)	-	-	(-77)	(-121)	(77)	-121
Closing accumulated cost	2,671	1,864	49	25	1,880	1,634
Opening amortization	-	-	-	-	-969	-850
Disposals	-	-	-	-	-	29
Amortization for the year	-	-	-	-	-167	-148
Closing accumulated amortization	-	-	-	-	-1,136	-969
Opening impairment	-	-	-	-	-76	-76
Closing accumulated impairment ²⁾	-	-	-	-	-76	-76
Closing planned residual value	2,671	1,864	49	25	668	589

¹⁾ Of other intangible assets, SEK 132 m (6) pertains to trademarks, SEK 15 m (18) pertains to leaseholds, and SEK 22 m (0) to customer relationships. The remainder, SEK 499 m (564), pertains to IT development.

²⁾ Pertains to impairment of trademarks.

17 Intangible assets, cont.

Goodwill

The Group's reported goodwill as per 31/12/2017 is broken down per segment as follows:

	31/12/2017	31/12/2016
Hemköp	628	628
Willys	884	594
Axfood Närlivs	57	57
Dagab	1,102	585
Total	2,671	1,864

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 499 m (564). 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 four years (four).

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 estimated to be generated during the remaining useful life of the units, with an assumption of infinite 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 2018 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 6.8% after tax (7.0%), which corresponds to a discount rate before tax of approximately 8.4% (8.6%).

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% (4.4%), a size premium of 1.3% (1.3%), a company-specific premium of 0.2% (0.5%), and a beta coefficient of 0.5 (0.5). The beta coefficient shows the relationship between the price of Axfood's shares and changes in a benchmark index. With a discounting factor of 6.8% (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 2017 (31 December 2016).

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 2018 business plan, which forms the basis for cash flow calculations, the Executive Committee has made an assumption on price and volume growth of approximately 1.5% (1.5%), 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	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Opening cost	66	66	6,679	6,496	46	125
Increase through acquisitions	–	–	142	–	1	–
Investments	–	–	508	379	206	104
Sales and disposals	–20	–	–400	–378	–	–
Reclassifications	–	–	139	182	–139	–183
Closing accumulated cost	46	66	7,068	6,679	114	46
Opening depreciation	–14	–12	–4,977	–4,730	–	–
Sales and disposals	10	–	363	322	–	–
Depreciation for the year	–1	–2	–576	–569	–	–
Closing accumulated depreciation	–5	–14	–5,190	–4,977	–	–
Opening impairment	–	–	–1	–15	–	–
Sales and disposals	–	–	–	14	–	–
Closing accumulated impairment	–	–	–1	–1	–	–
Closing planned residual value	41	52	1,877	1,701	114	46

¹⁾ The cost of land was SEK – m (10).

Parent Company	Equipment, tools, fixtures and fittings	
	31/12/2017	31/12/2016
Opening cost	73	71
Investments	0	2
Sales and disposals	0	–
Closing accumulated cost	73	73
Opening depreciation	–51	–41
Depreciation for the year	–10	–10
Closing accumulated depreciation	–61	–51
Closing planned residual value	12	22

19 Government support

Government support in the form of labour market policy grants amounted to SEK 4 m (3) in the statement of financial position (reported under prepaid income) and SEK 51 m (47) 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	
	31/12/17	31/12/16
Opening cost	120	116
Increase through acquisitions	20	–
Investments	63	46
Sales and disposals	–35	–42
Closing accumulated cost	168	120
Opening depreciation	–40	–40
Sales and disposals	20	25
Depreciation for the year	–32	–25
Closing accumulated depreciation	–52	–40
Closing planned residual value	116	80

Finance lease liabilities fall due for payment as follows:

2017	Future minimum lease payments	Interest	Present value of minimum lease payments
Within 1 year	49	0	49
Between 1 and 5 years	61	0	61
Total	110	0	110

2016	Future minimum lease payments	Interest	Present value of minimum lease payments
Within 1 year	39	0	39
Between 1 and 5 years	41	0	41
Total	80	0	80

Current liabilities fall due for payment monthly during the coming year. 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

2017 Parent Company	Reg. no.	Registered office	Number of shares	Share of capital, %	Book value
Willys AB	556163-2232	Gothenburg	1,000	100	412
Hemköpskedjan AB	556113-8826	Stockholm	100,000	100	595
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
NAX AB (Eurocash)	559029-7809	Stockholm	510	51	200
Total, Group companies					3,338

2016 Parent Company	Reg. no.	Registered office	Number of shares	Share of capital, %	Book value
Willys AB	556163-2232	Gothenburg	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
NAX AB	559029-7809	Stockholm	1,000	100	0
Total, Group companies					3,136

22 Participations in associated companies and joint ventures

Group	Associated companies		Joint ventures	
	2017	2016	2017	2016
Opening cost	2	2	29	29
Acquisition of associated companies	4	–	–	–
Closing cost	6	2	29	29
Adjustments of shareholders' equity pertaining to investments in associated companies				
Opening carrying amount	2	2	–15	–11
Share in profit after tax ¹⁾	0	0	–3	–4
Closing carrying amount	2	2	–18	–15
Total	8	4	11	14

¹⁾ Corresponds to total comprehensive income.

2017 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
Apothem AB	559094-8401	Stockholm	7,500	28	4	4
Total					8	8

2017 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	11	11
Total					11	11

2016 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

2016 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	14	14
Total					14	14

Axfood has no unreported 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 years correspond 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
2017				
Opening cost	3,486	18	100	20
Acquisitions during the year	507	4	3	3
Shareholder contribution	394	–	–	–
Divestment	–748	–	–6	–6
Share in associated company profit after tax	–	–3	–	–
Reclassifications	49	–	–49	–
Closing accumulated cost	3,688	19	48	17
Opening accumulated impairment	–350	–	–	–
Closing accumulated impairment	–350	–	–	–
Closing accumulated book value	3,338	19	48	17
2016				
Opening cost	3,486	22	51	22
Acquisitions during the year	–	–	49	1
Share in associated company profit after tax	–	–4	–	–
Reclassifications	–	–	–	–3
Closing accumulated cost	3,486	18	100	20
Opening accumulated impairment	–350	–	–	–
Closing accumulated impairment	–350	–	–	–
Closing accumulated book value	3,136	18	100	20

24 Non-current and current receivables

	Group		Parent Company	
	31/12/17	31/12/16	31/12/17	31/12/16
Non-current noninterest-bearing receivables	17	20	6	3
Total other non-current receivables	17	20	6	3
Other noninterest-bearing receivables	101	105	–	–
Total other current receivables	101	105	–	–

25 Inventories

Inventories	31/12/17	31/12/16
Finished goods and goods for resale	2,263	2,191
Total	2,263	2,191

26 Accounts receivable – trade

Accounts receivable – trade	31/12/17	31/12/16
Trade receivables, gross	967	942
Provision for doubtful receivables	–13	–16
Trade receivables, net	954	926
Provision account for doubtful receivables	31/12/17	31/12/16
Provision at start of year	–16	–16
Provision/reversal for possible losses	3	0
Confirmed and recovered losses	0	0
Provision at year-end	–13	–16
Maturity analysis of trade receivables	31/12/17	31/12/16
Trade receivables not due	786	837
Trade receivables past due 0–30 days	149	77
Trade receivables past due >30–90 days	16	10
Trade receivables past due >90–180 days	3	2
Trade receivables past due >180–360 days	5	2
Trade receivables past due >360 days	8	14
Total	967	942

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 68 m (69) of outstanding trade receivables. Accepted security consists mainly of chattel mortgages, bank guarantees and guarantees. In 2017 a total of SEK 1 m (1) of accepted security was utilized to settle unpaid trade receivables. The credit quality of non-impaired receivables is judged to be good. For further information on financial risks, see p. 70.

27 Prepaid expenses and accrued income

	Group		Parent Company	
	31/12/17	31/12/16	31/12/17	31/12/16
Prepaid rents	353	340	–	–
Accrued bonuses and similar	579	544	6	4
Delivered, uninvoiced	1	1	–	–
Other prepaid expenses	166	203	5	5
Other accrued income	41	27	–	0
Total	1,140	1,115	11	9

28 Provisions for pensions and similar obligations

	Group	
	2017	2016
Defined benefit pension plans, Group		
Present value of funded obligations	9	9
Present value of unfunded obligations	418	418
Total present value of obligations	427	427
Fair value of plan assets	–9	–9
Present value of net obligations	418	418
Net liability in statement of financial position	418	418
Amounts reported in statement of financial position		
– provisions	418	418
– assets	–	–
Net liability in statement of financial position	418	418

Of Axfood's net liability for defined benefit pension plans in Sweden, SEK 382 m (384) consists of obligations within the FPG/PRI system. Of these obligations, SEK 382 m (384) 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. The 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 23 m (22).

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. 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 32.

Changes in the present value of defined benefit obligations	2017	2016
Obligations for defined benefit plans as per 1 January	427	437
Benefits paid	-22	-24
Current service cost	5	3
Interest expense	8	11
Reclassification	-3	-
Revaluations:		
Actuarial gains and losses on changed financial assumptions	11	38
Actuarial gains and losses on changed demographic assumptions	0	-33
Experience-based adjustments	1	-5
Obligations for defined benefit plans as per 31 December	427	427

The present value of obligations is distributed among the plans' members as follows:	2017	2016
Active	0	1
Persons on disability pensions	8	18
Owners of paid-up policies	678	729
Retirees	1,391	1,403
Total number of pledges included in the obligation	2,077	2,141

Change in net liability during the year	2017	2016
Net liability at start of year	418	428
Compensation from pension foundation	0	0
Defined benefit direct pensions	3	1
Net expense in profit for the year	10	13
Pension disbursements	-22	-24
Actuarial gains/losses reported as a liability	12	0
Reclassification	-3	-
Net liability at year-end	418	418

Costs recognized in profit for the year, Group	2017	2016
<i>Defined benefit pension plans</i>		
Earned benefits	5	3
Interest expense	8	11
Actual return on plan assets	0	0
Total	13	14
<i>Defined contribution pension plans</i>		
Costs during the period ¹⁾	320	285
Total pension cost	333	299

¹⁾ Pension insurance premiums paid during the year to Alecta for pension insurance under the ITP plan amounted to SEK 110 m (88). Alecta's surplus can be apportioned among the policyholders and/or the insureds. As per 30 September 2017, Alecta's surplus in the form of its collective funding ratio was 158% (142%). 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 2017.

Pension costs are broken down per function in profit for the year as follows (Group)	2017	2016
Cost of goods sold	181	162
Selling expenses	74	66
Administrative expenses	70	60
Interest expense	8	11
Total	333	299

Income and expenses reported in other comprehensive income (Group)	2017	2016
<i>Defined benefit pension plans</i>		
Revaluations:		
Net actuarial gains/losses reported for the year ¹⁾	-15	0
Net income and expenses reported in other comprehensive income	-15	0

¹⁾ Including special employer's payroll tax.

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

	2017	2016
Discount rate	2.19%	2.00%
Future annual pension increases	1.90%	1.50%
Duration ¹⁾	14.2 yrs	14.3 yrs
Longevity assumption after 65 years		
- men	22 yrs	22 yrs
- women	24 yrs	25 yrs

¹⁾ Corresponds to the average remaining duration of the obligations.

Effects on future cash flows

The Group estimates that approximately SEK 23 m (23) will be paid towards defined benefit plans in 2018.

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)	29	26
Inflation (-/+ 0.5% change)	26	29
Longevity (+/- 1 year change)	17	18

Parent Company

The Parent Company's reported pension liability amounted to SEK 28 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	2017	2016
Reported capital value on 1 January	22	20
Benefits paid out	0	-1
Defined benefit direct pensions	3	0
Cost excluding interest expense	2	2
Interest expense	1	1
Reported capital value of pension obligations on 31 December	28	22

Of the Parent Company's reported pension liability, SEK 22 m (19) is covered by credit insurance via PRI.

Pension costs	2017	2016
<i>Own undertakings</i>		
Liability revaluation of undertakings	2	2
Interest expense	1	1
Total	3	3
<i>Undertakings through insurance</i>		
Insurance premiums ¹⁾	21	15
Special employer's payroll tax on pension contributions	5	3
Cost of credit insurance premiums	0	0
Total	26	18
Pension costs for the year	29	21

¹⁾ Of which, premiums paid to Alecta for pension insurance according to the ITP plan, totalling SEK 8 m (8).

28 Provisions for pensions and similar obligations, cont.

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 2018.

29 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. No offsetting of financial assets or financial liabilities has taken place. For a description of financial risks, see p. 70.

The breakdown of how fair value is determined is done according to the following three levels:

Level 1: according to prices in an active market for the same instrument.

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.

Group 2017	Derivatives used in hedge accounting	Initially identified 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
Other long-term securities holdings		10	13	25		48	48		48
Other non-current receivables			17			17	17		17
Accounts receivable – trade			954			954	954		954
Cash and bank balances			1,376			1,376	1,376		1,376
Total financial assets	–	10	2,360	25	–	2,395	2,395	–	2,395
Other non-current interest-bearing liabilities					61	61	61		61
Other current interest-bearing liabilities					49	49	49		49
Other current liabilities	0					0	0	245	245
Accounts payable – trade					3,458	3,458	3,458		3,458
Total financial liabilities	0	–	–	–	3,568	3,568	3,568	–	3,813

Group 2016	Derivatives used in hedge accounting	Initially identified 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
Other long-term securities holdings		11	10	79		100	100		100
Other non-current receivables			20			20	20		20
Accounts receivable – trade			926			926	926		926
Cash and bank balances			1,726			1,726	1,726		1,726
Total financial assets	–	11	2,682	79	–	2,772	2,772	–	2,772
Other non-current interest-bearing liabilities					41	41	41		41
Current liabilities to credit institutions					39	39	39		39
Other current interest-bearing liabilities	7					7	7	161	168
Accounts payable – trade					3,224	3,224	3,224		3,224
Total financial liabilities	7	–	–	–	3,304	3,311	3,311	161	3,472

Parent Company 2017	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
Other long-term securities holdings		3		3	9		3
Other non-current receivables	6			6	6		6
Accounts receivable – trade	2			2	2		2
Receivables from Group companies	1,032			1,032	1,032	2,044	3,076
Cash and bank balances	804			804	804		804
Total financial assets	1,844	3	–	1,847	1,853	2,044	3,891
Accounts payable – trade			20	20	20		20
Liabilities to Group companies			1,560	1,560	1,560	34	1,594
Total financial liabilities	–	–	1,580	1,580	1,580	34	1,614

Parent Company 2016	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
Other long-term securities holdings		52		52	58		52
Other non-current receivables	3			3	3		3
Accounts receivable – trade	2			2	2		2
Receivables from Group companies	730			730	730	1,975	2,705
Cash and bank balances	1,303			1,303	1,303		1,303
Total financial assets	2,038	52	–	2,090	2,096	1,975	4,065
Accounts payable – trade			19	19	19		19
Liabilities to Group companies			1,823	1,823	1,823		1,823
Total financial liabilities	–	–	1,842	1,842	1,842	–	1,842

29 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 (25). Financial assets initially measured at fair value through profit or loss consist of the option portion of convertible debentures, and amount to SEK 10 m (11) (Level 2), which are measured using an option valuation model (Black & Scholes). Finance leases totalling SEK 110 m (80), of which SEK 61 m (41) are long-term, are valued using discounted cash flows. 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 receivables, other receivables, cash and cash equivalents, trade payables and other liabilities represents a reasonable approximation of fair value.

30 Non-current and current interest-bearing liabilities

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Granted credit lines				
Bank overdraft facilities	200	200	200	200
Total granted credit lines	200	200	200	200
Drawn bank overdraft facilities	–	–	–	–
Total utilized credit lines	–	–	–	–
Cash and bank balances	1,376	1,726	804	1,303
Total¹⁾	1,576	1,926	1,004	1,503

¹⁾ The Group's refinancing risk reserve, totalling SEK 1,102 m (1,550), consists of granted, unutilized bank overdraft facilities totalling SEK 200 m (200) and disposable funds in bank accounts totalling SEK 902 m of SEK 1,376 m (1,350 of 1,726).

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Non-current interest-bearing liabilities²⁾				
Finance leases ³⁾	61	41	–	–
Total other non-current interest-bearing liabilities	61	41	–	–
Provisions for pensions and similar obligations	418	418	28	22
Total non-current interest-bearing liabilities	479	459	28	22
Current interest-bearing liabilities				
Finance leases ³⁾	49	39	–	–
Liabilities to Group companies ⁴⁾	–	–	1,554	1,818
Total other current interest-bearing liabilities	49	39	–	–
Total current interest-bearing liabilities	49	39	1,554	1,818

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.

30 Non-current and current interest-bearing liabilities, cont.

Group	Effective		Effective	
	31/12/2017	interest rate	31/12/2016	interest rate
Interest exposure, liabilities				
Maturity less than 1 year	49	0.81%	39	0.81%
Maturity later than 1 year but less than 5 years	61	0.81%	41	0.81%
Total interest-bearing liabilities	110	0.81%	80	0.81%

For further information on financial risks, see p. 70.

31 Accrued expenses and deferred income

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Payroll-related items	1,195	1,096	54	46
Accrued bonuses and similar	131	103	–	–
Accrued real estate costs	50	46	–	–
Delivered, uninvoiced	244	223	–	–
Other accrued expenses	184	245	2	4
Other deferred income	116	85	–	–
Total	1,920	1,798	56	50

32 Contingent assets, pledged assets and contingent liabilities

The Axfood Group did not have any pledged assets as per 31 December 2017 and 31 December 2016.

	Group		Parent Company	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Contingent liabilities				
Guarantees for subsidiaries	–	–	287	301
Guarantees for others	2	2	–	–
FPG/PRI	6	6	–	–
Other contingent liabilities	9	6	–	–
Total	17	14	287	301

Guarantees for others consist of guarantee commitments for collaborating stores, associated companies and joint ventures. In cases where there is a risk of loss, a provision has been made among possible loan losses. Other contingent liabilities consist primarily of counterbonds for bank guarantees that have been made for the Axfood Group. The likelihood of a contingent liability being settled is judged to be very small.

For further information on financial risks, see p. 70.

33 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 31/12/2017 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	443	443	443	9.86	–
USD	62	62	62	8.19	–
DKK	4	4	4	1.33	–
NOK	7	7	7	1.01	–
GBP	1	1	1	11.01	–
Total outstanding currency risk	517	517	517		

Maturity analysis of outstanding forward exchange contracts

Of outstanding forward exchange contracts on 31 December 2017, totalling SEK 517 m (495), contracts with a value of SEK 502 m (422) have a duration of up to 3 months, contracts with a value of SEK 13 m (73) have a maturity between 3 and 6 months, and contracts with a value of SEK 2 m (–) have a maturity longer than 6 months.

Reported fair value of outstanding currency hedges	2017	2016
EUR	0	–6
USD	0	1
Other	0	–1
Total	0	–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 –3 m (17), and amounts transferred to inventories totalled SEK 8 m (–17). The ineffective portion of cash flow hedges that has been recognized in profit for the year amounts to SEK – m (–).

Transaction exposure

The Group's transaction exposure during the respective full years is broken down into the following currencies:

Currency	2017	%	2016	%
EUR	3,858	91.3	3,350	91.9
USD	194	4.6	167	4.6
DKK	27	0.7	15	0.4
NOK	146	3.4	114	3.1
GBP	2	0.0	1	0.0
Total	4,227	100.0	3,647	100.0

For further information on financial risks, see p. 70.

34 Subsequent events

In addition to the current long-term financial targets, the Board added a growth target, entailing that Axfood shall grow more than the market.

Carl Stenbeck, currently Head of Digital Development for the H&M brand, was appointed as Head of Strategy and Business Development at Axfood and will be a member of the Executive Committee.

35 Critical assessments and estimations

Impairment testing of goodwill

In calculating cash-generating units' recoverable value in connection with the Company's testing of any need to recognize goodwill impairment, a number of 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 2017 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 28.

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 home mortgage bonds with a term that corresponds to the Group's average remaining duration of its obligations, which in Axfood's case amounts to 14.2 years.

None of the assumptions described in Note 28 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, p. 70.

Reg. no. 556542-0824

The Board of Directors proposes that, of the retained profits of KSEK 2,794,797, SEK 7.00 per share be paid out in ordinary dividend. Retained profits will be distributed as follows:

	KSEK
Dividend	1,467,737
To be carried forward	1,327,060
	<u>2,794,797</u>

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 5 February 2018. 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 14 March 2018.

Stockholm, Sweden, 5 February 2018

Mia Brunell Livfors
Chairman of the Board
Director

Lars Olofsson
Vice Chairman of the Board
Director

Antonia Ax:son Johnson
Director

Fabian Bengtsson
Director

Caroline Berg
Director

Christer Åberg
Director

Anders Helsing¹⁾

Michael Sjören¹⁾

Lars Östberg¹⁾

Klas Balkow
President and CEO

Our audit report was submitted on 5 February 2018
Deloitte AB

Hans Warén
Authorized Public Accountant

¹⁾ Employee representative

Auditor's report

To the general meeting of the shareholders of Axfood AB (publ) corporate identity number 556542-0824

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Axfood AB (publ) for the financial year 2017-01-01 – 2017-12-31 except for the corporate governance report on pages 72–89. The annual accounts and consolidated accounts of the company are included on pages 49–65 and 70–111 in this document.

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 2017 and its financial performance and cash flow 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 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance report on pages 72–89. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the statement of profit or loss and other comprehensive income and statement of financial position for the parent company and the group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's Board of Directors in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1, have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our

audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Dependency on IT-systems

Description of risk

Axfood sell groceries through the store chains Willys and Hemköp and a large number of collaborating stores. Wholesale trading is conducted through Axfood Närlivs. Well established procedures regarding secure IT-operations and well-functioning IT-processes are therefore of the outmost importance for Axfood's business as the large volume of transactions means that completeness of transactions is critical in order to avoid material misstatements in the financial reporting. Having an accurate and complete transfer between the point-of-sale system and the accounting system as well as between the inventory system and the purchasing system is of particular significance for revenue recognition, costs of goods and valuation of inventory.

For further information, please refer to note 1 regarding the group's accounting policies on page 91 and note 2 of operating segments on page 97.

Our audit procedures

Our audit included but was not limited to the following audit procedures:

- Evaluating general IT controls in the point-of-sale system and accounting system as well as the inventory and purchasing system with the involvement of IT specialists, and
- Auditing transfers between critical IT-systems with the involvement of IT specialists. In the audit we have applied technical analytic tools to enable the audit of large sample selections.

Valuation of goodwill

Description of risk

Axfood report goodwill of SEK 2,671 m as of 31 December 2017. Goodwill has resulted from business combinations. The value of the reported goodwill depends on future return and profitability in the cash-generating units that the goodwill relates to and is tested annually for impairment.

Valuation of goodwill is considered to be a key audit matter due to the risk of inaccurate judgments and estimates in the impairment testing, such as estimated future cash flows, gross margins, discount rates and growth, which could have a material impact on the Group's result and financial position.

For further information, please refer to note 1 the Group's accounting policies on page 91, note 3 of acquired operations on page 97, note 17 of intangible assets on page 103 and note 35 of critical judgments and estimates on page 110.

Our audit procedures

Our audit included but was not limited to the following audit procedures:

- Auditing Axfood's impairment test of goodwill and evaluation of key assumptions with involvement of our valuation experts, and

- Auditing the application of accounting principles and the adequacy of relevant disclosures in the financial statements.
- Auditing of relevant disclosures in the financial statements.

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–48, 66–69 and 116–137. The Board of Directors and the President are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the President

The Board of Directors and the President are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the President are also responsible for such internal control as they 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.

In preparing the annual accounts and consolidated accounts, the Board of Directors and the President are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the President intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are

considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the President.
- Conclude on the appropriateness of the Board of Directors' and the President's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any potential significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the President of Axfood AB (publ) for the financial year 2017-01-01 – 2017-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to 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.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

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. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The President shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the President in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a 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.

The auditor's examination of the corporate governance report

The Board of Directors is responsible for that the corporate governance report on pages 72–89 has been prepared in accordance with the Annual Accounts Act. Our examination of the corporate governance report is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance report. This means that our examination of the corporate governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions. A corporate governance report has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Deloitte AB, Stockholm, was appointed auditor of Axfood AB by the general meeting of the shareholders on 15 March 2017 and has been the company's auditor since 17 March 2016.

Stockholm 5 February 2018
Deloitte AB

Hans Warén
Authorized Public Accountant

For signature please see Swedish version of Auditor's report

This auditor's report is a translation of the Swedish language original. In the event of any differences between this translation and the Swedish original the latter shall govern.

Complementary sustainability information



“We will continue to challenge ourselves and focus on new solutions at the same time that we maintain long-term perspective on all matters concerning food produced with care.”

Åsa Domeij
Head of Sustainability

Organization and governance of sustainability work

Axfood's sustainability work is an integral part of the Group's business model and governance. This work rests upon a foundation of Axfood's core values and Code of Conduct as well as the Group's sustainability programme.



Axfood works with sustainability matters in a business-driven manner and integrates them in all aspects of operations. Conducting preventive work to the greatest extent possible and adhering to the precautionary principle are fundamental aspects in this work.

Permeates entire Group

Responsibility for overarching strategies, goals and actions, and follow-up rests with the Executive Committee and Head of Sustainability. Starting in 2018 the Head of Sustainability leads a recurring sustainability forum once a quarter for the Executive Committee.

Axfood's board addresses sustainability issues from a strategic perspective.

Integrating matters in the business activities spurs engagement throughout the organization. The individual companies and divisions within the Axfood Group have operational responsibility for their own sustainability work. This responsibility rests specifically with the respective companies' presidents or divisional managers.

Sustainability coordinators have been appointed in all segments (Wilys incl. Eurocash, Hemköp, Axfood Snabbgross and Dagab incl. mats.se and Middagsfrid) and in the major departments (quality, purchasing, IT and HR). The coordinators propose goals and activities, and make sure that they are carried out. This work is coordinated by the Head of Sustainability through active dialogue, meetings with parts of the network based on specific topic areas, and through a strategic review that is conducted at least once a year. In addition, environmental ambassadors have been appointed in all Wilys and Axfood Snabbgross stores, who assist their respective organizations in achieving set goals.

Axfood conducts continuous competence enhancement activities to raise employees' knowledge about sustainability issues and the commercial benefit of being an industry leader in this area.

Newly acquired operations are gradually integrated into the sustainability work.

Sustainability programme as governance tool

Axfood's sustainability programme is an important governance tool for the Group's work and constitutes the Group's sustainability policy. The programme describes the goals that have been set and includes a set of key ratios for monitoring in the areas of sustainable products, transports, energy consumption and use of premises, responsible suppliers, employees, and animal welfare. The targets are followed up at least once a year and are updated in pace with continuing work.

Code of Conduct guides work

The Axfood Group Code of Conduct serves as the foundation for all activities and lays out the requirements and expectations that Axfood has on its suppliers. The Code is based on recognized conventions for human rights, working conditions and the environment. Axfood is to conduct its business in accordance with generally accepted business practice and high ethical standards in all of the Group's relationships with stakeholders. Pertinent employees – mainly buyers – receive detailed training in what the Code of Conduct requires of a person in charge of quality. All employees are informed about the Code of Conduct through e-learning.

Suppliers certify in writing that they will adhere to Axfood's Code of Conduct in connection with purchases, or alternatively, Axfood accepts the supplier's code of conduct. Buyers are responsible for ensuring that suppliers adhere to the Code of Conduct, while the quality assurance department supports and oversees this work. Axfood's Code of Conduct is available in Swedish and English at www.axfood.se. Its content can also be conveyed to suppliers in other languages, such as Chinese, Russian and Spanish.

Ethical guidelines

At the time of their hiring, all newly hired salaried employees certify in writing that they have acknowledged Axfood's ethical guidelines. The ethical guidelines are updated every year and are also to be signed yearly by employees in the Group who have the right to authorize payments or who in some other way can influence purchasing decisions for products or services.

By signing them the employees personally certify that they will comply with the rules they lay out. The employee's immediate supervisor and the companies' respective HR departments are responsible for answering questions surrounding this. In 2017, 829 employees signed under the guidelines.

In 2016 a whistleblower system was established within the Axfood Group. During the year Axfood did not obtain knowledge about any attempts at bribery among employees or about suspected cases of corruption.

Group-wide policy documents

- Code of Conduct
- Ethical guidelines on the soliciting and accepting of bribes, and corruption
- Employee manual (incl. equal treatment policy)
- Environmental policy
- Purchasing policy
- Work environment and health policy

Our stakeholders, materiality analysis and material issues

Every day Axfood interacts with thousands of stakeholders. Through an open dialogue Axfood ensures and confirms that its sustainability work is aligned with its stakeholders' interests. The materiality analysis serves as the foundation for the significant issues in Axfood's sustainability work.

Through an open dialogue in which Axfood is receptive to the surrounding world's expectations and our stakeholders' needs, we can continue to develop our operations in the desired direction. Such a dialogue is a prerequisite for achieving our ambition to be a leader in sustainability and dare be a forerunner with respect to new technical solutions and ways of working.

Axfood's most important stakeholders are the groups of people who are affected most by and/or affect the Company's operations: customers, employees, owners, suppliers and society at large.

Materiality analysis

A yearly validation of the materiality analysis guides Axfood in its sustainability reporting and forms the basis of reporting in accordance with GRI G4 Core.

Implementation

Through an ongoing dialogue with the Company's stakeholder groups during the year and a discussion focused on the Swedish environmental objectives, Axfood was able to validate the previ-

ous materiality analysis. This validation largely confirmed the results from the more extensive materiality analysis performed in 2015.

The process for the materiality analysis in 2015 included an internal workshop with representatives from Axfood's operations. With the UN's Sustainable Development Goals (SDGs) as the starting point, Axfood's most relevant sustainability issues were identified and discussed from a strategic perspective.

Incorporating other priority issues raised in the dialogue with stakeholder organizations and other interests, a questionnaire was prepared with 25 questions grouped into six categories:

- Assortment and consumer responsibility
- Carbon footprint
- Business culture
- Responsibility as an employer
- Responsibility in the supply chain
- Corporate social responsibility



Axfood is a values-steered company that aspires to be a positive force in society.

Stakeholder overview

Stakeholders	Channels for dialogue	Important issues
 <p>Customers</p> <p>Axfood strives to offer its customers a wide range of environmentally adapted, healthy and safe products at competitive prices – affordable, good and sustainable food for everyone.</p> <p><i>Read more under Strategy – Customer offering and Customer meeting, p. 20.</i></p>	<ul style="list-style-type: none"> • Interaction with customers in stores • Consumer contact • Focus groups • Consumer surveys conducted with Nepa • Social media • Leaflets, customer magazines, information on websites 	<ul style="list-style-type: none"> • Use of pesticides and chemicals • Animal welfare • Anti-corruption and bribery • Work environment, working conditions and health • Certification of critical food ingredients • Country of origin and traceability
 <p>Employees</p> <p>Axfood wants proud and committed employees, and to be a collaborative and effective organization.</p> <p><i>Read more under Strategy – Our people, p. 34.</i></p>	<ul style="list-style-type: none"> • Daily status meetings and interaction • Employee get-togethers and conferences • Training • Bi-yearly employee survey, including Customer Satisfaction Index (CSI) and Net Promoter Score (NPS) • Annual performance reviews 	<ul style="list-style-type: none"> • Work environment, working conditions and health • Organic food • Attract and develop employees • Use of pesticides and chemicals • Anti-corruption and bribery
 <p>Suppliers</p> <p>By making demands and engaging in dialogue, Axfood strives to raise the level of its suppliers' sustainability work.</p> <p><i>Read more under Strategy – Supply chain, p. 30.</i></p>	<ul style="list-style-type: none"> • Separate meetings in the purchasing process • Supplier assessments within the framework of business networks, such as Hållbar livsmedelskedja • Special dialogue projects, e.g., for soy and palm oil • Annual supplier meetings for all suppliers with Axfood's management • Training of suppliers' employees in risk countries • Social audits. A total of 77 audits were carried out in 2017 (54) 	<ul style="list-style-type: none"> • Anti-corruption and bribery • Use of pesticides and chemicals • Healthy food • Work environment, working conditions and health • Country of origin and traceability
 <p>Owners</p> <p>Axfood shall create enduring value for its shareholders by exercising corporate social responsibility.</p>	<ul style="list-style-type: none"> • One-on-one investor meetings • Webcasts/conference calls in connection with interim reports • Presentations at investor luncheons, seminars, capital market days and other gatherings • Road shows in Sweden, the UK, France, Germany, Switzerland and the USA 	<ul style="list-style-type: none"> • Anti-corruption and bribery • Attract and develop employees • Use of pesticides and chemicals • Organic and healthy food • Energy consumption • Favourable, sustainable return • Food waste
 <p>Society</p> <p>Axfood shall actively strive to contribute to society by influencing and being responsive. Axfood is engaged in continuous dialogues and partnerships during the year with various organizations in the area of sustainability as well as with politicians and decision-makers.</p> <p>People who are not yet customers have similar priorities as Axfood's customers. Existing customers prioritize healthy and locally produced food to a greater extent.</p> <p>Stakeholder organizations prioritize, above all, issues related to products and the assortment, and the supply chain.</p> <p><i>Read more under Sustainability, p. 36.</i></p>	<ul style="list-style-type: none"> • Personal meetings with decision-makers in Sweden and the EU • Presentations at conferences and other gatherings • Membership in trade organizations, such as the Swedish Trade Federation, Svensk Dagligvaruhandel and Hållbar livsmedelskedja • Dedicated public affairs officer since 2015 	<ul style="list-style-type: none"> • Use of pesticides and chemicals • Anti-corruption and bribery • Animal welfare • Country of origin and traceability • Work environment, working conditions and health • Healthy food • Certification of critical primary food ingredients

This web-based questionnaire was completed by a total of 2,122 respondents from various stakeholder categories: owners, employees, customers, non-customers and suppliers. All of the issues were deemed to be important or very important for Axfood. In the analysis, the results from the various stakeholder categories were weighted to give the responses from all of the categories the same weight.

Stakeholders' focus areas

The analysis showed that stakeholders value products with high quality and with minimal use of pesticides and chemicals. They also want assurances that the animal-based products they buy have been produced with care for the animals. It is important that producers have a good work environment and decent working conditions. Work environment and health are also significant factors in stores.

In addition, handling of food in stores with as little food waste as possible is a central area of concern. Good business ethics and integrity with respect to risks for corruption – not least in the purchasing operations – is another important issue for stakeholders.

Material issues

Issues that are material for Axfood reflect the issues that have been assigned high priority by stakeholders as well as issues that are the most material for Axfood from a sustainability perspective, but also based on which sustainability issues are the most material for Axfood overall in view of Axfood's business strategy and competitiveness. Axfood has made varying progress in its strategic work with material issues.

What these issues all share in common is that they are not only addressed and have an impact within the organization, but that work with them is conducted to a great extent in cooperation with suppliers. Axfood reports in accordance with the GRI framework for all material issues.

Apart from the most material issues, there are numerous important issues that Axfood also informs about in its sustainability reporting. See the figure on the next page.



“Axfood has identified the following issues as being the most important, both for its stakeholders and for its own operations. They represent issues that Axfood must address in order to create long-term value and to realize the Group’s sustainability strategy.”

Material issues for Axfood

Animal welfare

Axfood shall contribute to improved animal care, such as by advocating for reduced use of antibiotics in meat production.

Anti-corruption and bribery

Axfood shall counter all forms of corruption and bribery, among other things through training.

Control of the supply chain

Axfood shall advocate for decent working conditions among its suppliers and greater traceability, and actively strive for more sustainable production of products such as palm oil and soy.

Efficient use of energy

Axfood shall have energy-efficient stores, such as by investing in low-energy refrigerator and freezer displays.

Gender equality and diversity

Axfood shall reflect the diversity of its customers and have an even gender balance and a broad international background among its employees and managers.

Pesticides and chemicals

Axfood shall advocate for the avoidance of hazardous chemicals and pesticides in food production.

Reduced carbon footprint

Axfood shall have efficient transports and sorting systems, use innovative solutions for preventing food waste, and advocate for climate-smart food production.

Sustainable products

Axfood shall offer healthy and organic foods in which critical primary ingredients such as palm oil and soy are certified.

Work environment, working conditions and health

Axfood shall offer a safe and healthy work environment with working conditions that are aligned with standard practice in the market.

Inform

- Attract and develop employees
- Eco-labelling and/or social certification
- Favourable, sustainable return
- Consumer information about sustainable choices
- Locally produced food
- Community impact
- Use of water
- Charity

Medium

Report

- Anti-corruption and bribery
- Work environment, working conditions and health
- Gender equality and diversity

Report and focus

- Pesticides and chemicals
- Animal welfare
- Efficient use of energy
- Sustainable products
- Control of supply chain
- Reduced carbon footprint

High

Materiality

About this report

For the tenth year in a row Axfood is reporting its sustainability work in accordance with the GRI Guidelines, G4 Core level.

Reporting principles

Axfood's sustainability reporting coincides with the Company's financial year and covers the period 1 January–31 December 2017. Sustainability work pertains to all companies in the Group. For the companies acquired in 2017 – mat.se including Middagsfrid, and Eurocash – integration with the sustainability work is in progress and thus these units are not included in the quantitative results unless expressly stated.

The quantitative reporting covers both Group-owned retail operations, with 266 stores (Willys and Hemköp), and wholesale operations (Dagab and Axfood Närlivs). At present, franchise stores (the so-called retailer-owned stores) do not report sustainability data centrally to Axfood and are therefore not included in the reporting. The same applies for external transport contractors in the wholesale operations. In this respect the report does not differ from previous years' reports and methodologies.

The report is structured in accordance with the GRI principles, which means that it should provide a comprehensive picture of operations, where the content is determined by the aspects that are the most material for Axfood's operations and for the Company's stakeholders.

The materiality analysis described on p. 118 has served as the basis for the choice of GRI indicators, where every material aspect has been matched against at least one GRI indicator, which is shown in the GRI index on p. 130. The index also includes comments on omissions or incomplete data. The report is not subject to external certification. The preceding report was published in February 2017.

Since Axfood is a signatory of the UN Global Compact's ten principles on human rights, labour, the environment and anti-corruption, the sustainability report constitutes Axfood's Communication on Progress.

Measurement and calculation methods

Sustainability data for Axfood are compiled centrally. Reporting is done by sustainability coordinators or by employees in expert functions. Figures pertaining to sales and employees are taken from HR and accounting systems.

Material fractions

Contractors that collect material fractions from Axfood's stores register the volume in Axfood's service vendor portal, which also serves as the basis for invoicing. Based on this information, the weight of combustible material in relation to net sales is reported. This key ratio indicates the extent to which Axfood's stores sort their waste. A low share of combustible material entails that a high share of material is sorted and reused.

Axfood strives to ensure that as little material possible ends up in the combustible fraction. Sourcing is more labour-intensive in stores than in warehouses due to packaging size.

During the year, the reporting system for combustible waste at Hemköp was not able to provide satisfactory documentation for a calculation, which is why Hemköp does not yet report this key ratio.

Carbon footprint – CO₂ emissions

Axfood's carbon footprint from its own operations consists mainly of CO₂ emissions. The following factors are included in calculations of carbon footprint:

- carbon footprint from refrigerants
- CO₂ emissions from transports of distributed goods from warehouses to stores using the Group's own fleet, and business travel
- electricity use in own stores and warehouses

On account of the fact that external data (the residual mix) for 2017 was not available at the time Axfood's sustainability report was published, the Company's carbon footprint for 2017 cannot be reported. Once the residual mix for 2017 has been made public, see Electricity use, Axfood will report on the year's carbon footprint in future interim reports.

Refrigerants

Calculation of the carbon footprint from refrigerants in Group-owned stores, warehouses and own delivery vehicles is based on the replenishment of refrigerants during the year. Emissions are recalculated to CO₂ equivalents, based on the GHG protocol. In this report, replenishment data for 2016 is provided, since the reporting for 2017 had not been completed at the time of publication of the 2017 Annual and Sustainability Report. For a more detailed description of the calculation method, see the Haga Initiative, www.hagainitiativet.se.

Transports

CO₂ emissions pertain to delivered goods using own vehicles from warehouses to stores and are based on the use of various fuels, data provided by fuel suppliers, the total volume of goods delivered in tonnes, and the share that is distributed using own vehicles.

Electricity use

All premises (stores, warehouses and offices) in which Axfood is the direct electricity customer use green electricity; in other words, the electricity consumption has no CO₂ emissions. Axfood is putting pressure on property owners of stores located in shopping centres or where Axfood for some other reason is not the

electricity customer, to order renewable electricity. At year-end 2017, 14 stores or dark stores did not have renewable electricity. Of these, three dark stores pertained to mat.se and eight stores to Eurocash. If an electricity customer does not make an active choice of the source of its electricity, its electricity will be sourced from the so-called residual mix. The more customers that actively choose cleaner electricity sources, the dirtier the residual mix will be. The level of CO₂ emissions in the residual mix varies from year to year. Data on the residual mix is usually not available until 5–6 months after the end of the year. Thus the carbon footprint from electricity use in 2017 is not available for inclusion in this report.

Calculation of total electricity use is based on the total area of stores and warehouses in relation to net sales. When sales increase, more energy is used. The stores and warehouses included in the calculations are the ones covered by Axfood's central agreements with electricity providers, which is approximately 85% of stores and all warehouses, except for the newly acquired warehouse for fruits and vegetables and the three dark stores.

Business travel

Calculation of the carbon footprint from business travel is based on all identified modes of transport: air (booked via travel agencies), rail, airport shuttle, taxi, company car, rental car, and personal car. Axfood's travel policy requires that business travel be booked via the Group's contracted travel agency. The carbon footprint from hotel stays and travel by local mass transit is not included. Business travel within mat.se and Middagsfrid is included in the key ratios.

Sustainable products

Axfood strives to offer sustainable products in its assortment. Examples of more sustainable products are organic products, vegetarian protein substitutes and healthier product variants, but also products certified by such organizations as Rainforest Alliance, UTZ and Fairtrade, or according to IP or Global GAP. The aim is to increase the share of good products and to adopt higher standards for the entire product range. Examples of healthy products are vegetables, fish, shellfish, seeds, low fat dairy products and Keyhole-labelled products. Axfood measures the share of organic product sales in proportion to total food sales within the Group.

Organic products include both EU organic and KRAV-certified products. By vegetarian products is meant refrigerated or frozen vegetarian protein substitutes, i.e., ready-to-eat food products, such as tofu and Quorn. They do not include frozen or refrigerated vegetables, legumes or bread.

Employees

The average number of employees is a measurement of all time for work attendance including paid leave, less overtime, divided by 1,920 working hours per year. Employees in mat.se, Middagsfrid and in the fruit and vegetable warehouse operation are included in the key ratio.

The average service period is calculated as the sum of permanent employees' time employed in years (31/12/2017 – date hired) divided by the number of permanent employees.

Employee turnover is calculated as the number of permanent employees who ended their employment during the year in relation to the average number of permanent employees as per 31 December 2017.

The work attendance rate is calculated as the number of hours worked in relation to the scheduled working time.

By an even gender balance in management positions is meant that men and women are represented within a range of 40%–60%. By management position is meant that the person has directly subordinate employees.

Having an international background is one measure of diversity. Axfood uses the same definition as Statistics Sweden, i.e., that the employee him-/herself or both parents were born outside of Sweden.

Suppliers

Social audits pertain to suppliers of private label products in risk countries. Axfood uses the same definition of risk country as BSCI, which in turn is based on the World Bank's ranking of selected parameters.

Quality assurance/product safety

Product recalls are announced when a product is judged to pose a health or environmental risk. Recalls are communicated to the general public via press release.

Significant changes since the preceding reporting period, or explanations

Axfood acquired four operations in 2017. Integration of sustainability work in the acquired companies is being done gradually. Certain key ratios, where so indicated, also include the newly acquired companies. In other respects, no significant changes were made since publication of the 2016 Sustainability Report.

Other sustainability key ratios

The following key data does not include the newly acquired operations in mat.se, Middagsfrid or Eurocash, unless separately indicated.

KEY DATA PER STORE CHAIN

	Hemköp		Willys		Willys Hemma		mat.se		Eurocash	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Number of organic products	1,424	1,418	999	987	737	753	1,700	1,352	1,066	n.a.
Organic products as % of total food sales	9.5	9.3	5.9	5.9	7.6	7.5	16.6	16.8	2.4	n.a.
Number of Fairtrade certified products	140	155	94	87	82	76	124	103	120	n.a.
Fairtrade certified products as % of total food sales	0.81	0.79	0.90	0.86	1.31	1.20	0.84	0.69	0.4	n.a.
KRAV-certified meat, % of total meat sales	8.9	6.8	2.9	2.8	5.3	5.0	n.a.	n.a.	0.6	n.a.
Number of hypoallergenic products	943	963	779	798	527	558	n.a.	n.a.	892	n.a.

QUALITY STANDARDS

Type of product	Supplier requirement ¹⁾
Household chemical products, cosmetics and hair care products	ISO 9001 or GPM
Vegetables, root vegetables and fruit	Certification according to Global GAP or similar
Certain non-food items, such as toys and electrical appliances	Documentation and certificate of CE marking
Products designed for contact with food	Certification that the product is made with material approved in accordance with Normpack's rules

¹⁾ Suppliers that have not completed certification can request dispensation if they can present a credible timetable for certification.

QUALITY ASSURANCE OF PRIVATE LABEL PRODUCTS

	2017	2016	2015
Private label product recalls from stores	29	24	26
Other product recalls from stores	107	76	96
Share of private label product suppliers approved according to GFSI, %	99	99	99
Social audits performed by BSCI	77	54	48

CO₂ EMISSIONS – TRANSPORTS²⁾

	2017	2016	2015
Total CO ₂ , tonnes	4,321	5,309	9,433
CO ₂ kg/tonnes of goods	7.3	8.7	16.9
CO ₂ kg/SEK m in sales	282.7	375.1	709.8
No. vehicles in own fleet	140	138	135
No. vehicles with breath alcohol ignition interlock devices	140	138	135

²⁾ Pertains to delivered goods using own fleet.

CO₂ EMISSIONS – BUSINESS TRAVEL³⁾

	2017 ⁴⁾	2016	2015
CO ₂ air travel, tonnes ³⁾	623	678	655
CO ₂ rail travel, tonnes ³⁾	0	0	0
CO ₂ car travel, tonnes	465	427	489

³⁾ Pertains to business travel booked by travel agencies.

⁴⁾ Including mat.se

ELECTRICITY USE FOR GROUP-OWNED STORES AND WHOLESALE FACILITIES⁴⁾

	2017	2016	2015
Retailing, MWh	232,536	238,902	232,810
Wholesaling, MWh	30,004	29,063	27,577
Total, MWh	262,540	267,965	260,387
Electricity use (kWh) in relation to net sales (SEK), %	0.59	0.62	0.63
Number of stores	266	258	262
Electricity use kWh/m ² , stores	346	360	361
Electricity use kWh/m ² , wholesale facilities	216	209	196
CO ₂ emissions from electricity (tonnes) in relation to net sales (SEK m), % ⁵⁾	n.a.	12	12
Total CO ₂ , tonnes ⁵⁾	n.a.	5,343	4,891

⁴⁾ Electricity use is calculated on a like-for-like basis for units that had electricity use for the full year during the respective comparison years. Electricity use pertains to the stores and warehouses covered by Axfood's central agreements with electricity providers, which is approximately 85% of stores and all warehouses, except for the newly acquired fruit and vegetable warehouse and dark stores.

⁵⁾ Data on the residual mix for 2017 will be published later in 2018.

COMBUSTIBLE WASTE 2017⁶⁾

	Willys		Axfood Snabbgross		Dagab	
	2017	2016	2017	2016	2017 ⁷⁾	2016
Combustible waste from stores/warehouses, tonnes	8,805	9,103	544	614	1,414	827
Combustible waste (tonnes) in relation to the resp. segments' sales (SEK m), %	37	40	18	21	3	2

⁶⁾ Moving 12-month figures with a one-quarter time lag.

Hemköp is currently conducting a quality assurance of its reporting system.

⁷⁾ The acquisition of the fruit and vegetable warehouse operation increased combustible waste in 2017. Excluding this warehouse, combustible waste amounted to 781 tonnes and 1.9% in relation to Dagab's sales.

CO₂ EMISSIONS, REFRIGERANTS⁸⁾

CO ₂ equivalents, tonnes	2016	2015
Willys	5,561	6,279
Hemköp	2,431	2,627
Axfood Snabbgross	1,147	1,342
Dagab	1,591	1,490
Eurocash	n.a.	n.a.
mat.se	n.a.	n.a.
Axfood, total	10,730	11,738

⁸⁾ Registration of replenishment in 2017 was not completed at the date of publication of this report.



Together with the Group's largest rice supplier, the charitable organization Oxfam and Axfoundation, in March Axfood started the "Project for sustainable and equitable rice farming in Pakistan", which is focused on ten villages in Punjab, Pakistan. By involving all actors in the supply chain Axfood is advocating for more sustainable growing practices and stronger farmers. Photo: Oxfam.

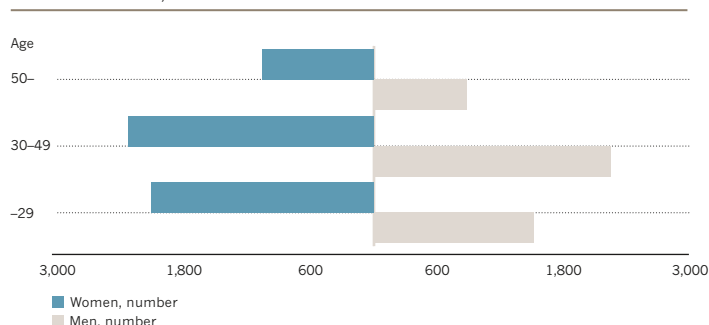
EMPLOYEE STATISTICS

	2017	2016	2015	2014	2013
Work attendance rate, total, %	94.3	93.9	94.0	94.6	94.8
Retail, %	94.5	93.9	94.1	94.8	94.9
Wholesale, %	92.5	92.3	92.8	93.4	93.7
Staffs, %	96.8	96.4	95.9	96.4	96.7
Employee turnover rate, %	12.5	13.8	10.4	12.7	8.9
Men/women, %	12.0/15.0	12.2/14.8	9.5/11.2	12.2/13.0	8.0/9.6
Age category <29, %	22.4	21.0	15.7	16.5	12.7
Age category 30-49, %	10.9	8.9	6.9	10.1	6.7
Age category 50+, %	5.8	10.7	9.5	12.9	8.7
Average service time, years	9.0	9.5	9.8	10.3	9.8
Total number of permanent employees ¹⁾	10,139	8,733	9,362	8,561	8,402
Number of full-time employees	5,006	4,439	4,637	4,422	4,386
Number of part-time employees	5,133	4,294	4,725	4,139	4,016
Average number of employees ²⁾	9,903	9,211	8,803	8,481	8,285
Number of men	4,682	4,223	4,008	3,913	3,837
Number of women	5,221	4,988	4,795	4,568	4,448
Number of training days	3,688	3,521	3,464	4,506	4,300

¹⁾ All employees are covered by collective agreements.

²⁾ Based on 1,920 working hours per year. Including employees in mat.se, Middagsfrid and the fruit and vegetable warehouse operation.

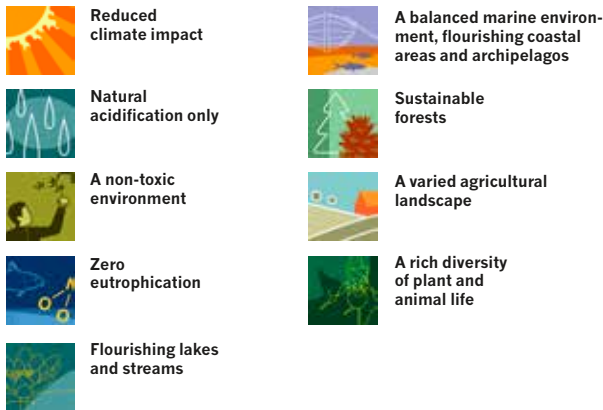
AGE STRUCTURE, PERMANENT EMPLOYEES



Targets and target achievement in sustainability programme

Axfood's sustainability programme includes a number of short- and long-term targets. Most of Axfood's targets have couplings to Sweden's environmental objectives and/or the UN's Sustainable Development Goals. With a few exceptions, all of the Swedish environmental objectives are reflected in Axfood's sustainability programme. Of the UN's SDGs, "Responsible consumption and production" and "Climate action" are the two most relevant for Axfood. The sustainability targets are monitored yearly, either through key ratios or by checking on the progress of the work.

A SELECTION OF SWEDEN'S ENVIRONMENTAL OBJECTIVES






























A SELECTION OF THE UN'S SUSTAINABLE DEVELOPMENT GOALS




● Achieved ● In progress ● Target not achieved

Target	Coupling to Sweden's Environmental Objectives	Coupling to the UN's Sustainable Development Goals	Results and comments 2017	Status
Sustainable products – Axfood & Dagab				
By 2020 at the latest, Axfood's store chains will sell only green-listed seafood products.			A step forward with ASC-labelled smoked and brined salmon in stores.	●
Axfood and Axfood's store chains will work actively to highlight good sustainability choices.			Willlys' "Veg for everyone" and Hemköp's "Vary with veg" and "A greener meat counter" campaigns.	●
By 2022 at the latest, the requirements that Axfood has today for Integrated Production (IP), Global GAP or other equivalent system for fruits and vegetables will also be met for its private label products that contain primary vegetable ingredients.				●
By 2020 at the latest, Axfood's private label products (Garant, Garant Ekologiska varor, Prime Patrol and Eldorado) will include information about the primary ingredients' country of origin in all categories with certain exceptions, such as composites without a clear primary ingredient.				●
In the fruits & vegetables category, Dagab will have expanded requirements for which pesticides are permitted for growing in countries outside the EU, which all suppliers must meet by 2020 at the latest.				●
Dagab will avoid chemical compounds included on the SIN list in products and packaging (e.g. Bisphenol). The goal shall be achieved by 2022.				●

● Achieved ● In progress ● Target not achieved

Target	Coupling to Sweden's Environmental Objectives	Coupling to the UN's Sustainable Development Goals	Results and comments 2017	Status
Since 2009 all palm oil included in private label products has been compensated for via certificates. This compensation will be gradually changed over to the use of certified palm oil, mainly segregated or IP (Identity Preserved). – By 2016 at the latest, 100% of the palm oil used in Garant and Fixa private label products will be certified. – For private label products under the Eldorado and Dazzley brands, all palm oil will be certified by 2017 at the latest. – By 2020 Axfood's private label product suppliers shall strive to buy certified palm oil from producers included in RSPO-NEXT.	 			●
By 2020, suppliers of private label products will use only certified palm oil or, alternatively, compensate for use through certificates.	 			●
All soy used in all private label products will either be certified or compensated for via certificates.	 			●
All primary ingredients in the Garant, Dazzley and Eldorado assortments of cacao, tea and coffee will be certified according to some form of sustainability certification by 2017 at the latest. Garant products preferably according to Fairtrade or Rainforest Alliance, and Eldorado and Dazzley primarily according to UTZ.			The primary ingredients are certified.	●
By 2016 at the latest, all conventionally grown bananas will be covered by some sort of sustainability certification, except for in cases of shortages.				●
By 2020, customers will be offered sustainability certifications (Fairtrade, Rainforest Alliance or UTZ) for Axfood's private label products for at least three additional risk products (e.g., nuts, sugar, spices). This target applies primarily for products sold under the Garant private label. Garant products to be certified preferably according to Fairtrade or Rainforest Alliance.				●
Axfood will strive to have environmentally adapted packaging for all of its private label products (such as FSC-labelled paper, tin cans only in exceptional cases, and only material that works in the recycling system). Packages and products that are difficult to recycle will be avoided.	 			●
Axfood's companies will reduce the share of combustible residual products in relation to sales.			Willys and Axfood Snabbgross have reduced their shares of combustible residual products. Dagab has expanded its warehouse operations and thereby has a higher share of combustibles; however, excluding the new warehouse in Helsingborg, the share has decreased.	●
Sustainable products – Willys				
Willys will continue to offer the cheapest bag of organic groceries.	  			●
Willys will strive to dramatically reduce food waste in stores and has the ambition to make improvements form year to year.				●
Sustainable products – Hemköp				
By 2020 Hemköp will increase its share of organic food sales to 15%.	  			●
Hemköp's retailer-owned stores will adhere to sustainability decisions like the Group-owned stores.			Activities are planned for 2018.	●
By 2017 at the latest Hemköp will phase out petroleum-based plastics from its central assortment of shopping bags, also in retailer-owned stores.		 		●
Sustainable products – Axfood Närlivs				
By 2020 Tempo will increase its share of organic food sales to 6%.	  		Share of 5.2% achieved in 2017, compared with 4.3% in 2016.	●

● Achieved ● In progress ● Target not achieved

Target	Coupling to Sweden's Environmental Objectives	Coupling to the UN's Sustainable Development Goals	Results and comments 2017	Status
Animal welfare				
Private label organic meat and charcuterie products will be certified primarily according to KRAV, and secondarily to the EU organic certification.				●
Axfood's private label products (Garant, Garant Ekologiska varor, Prime Patrol and Eldorado) will include information on the country of origin of the primary meat ingredient.				●
By 2025 at the latest, all suppliers of private label products will meet the requirement for animal welfare certification or equivalent. At least 70% will meet this requirement by 2020 at the latest. This requirement was introduced in 2016.				●
Meat from pigs that are castrated without anaesthetics will be discontinued from Garant products by 2016 at the latest. For the other private label assortment, including Eldorado, by 2018 at the latest.			Achievement by 1 January 2019 at the earliest	●
By 2020 Dagab will use only suppliers of private label products that work actively for reduced use of antibiotics according to specific criteria. By 2020 at the latest, this requirement will also be communicated to suppliers of brand-name products				●
By 2020 at the latest, Hemköp's sales of organic meat will amount to 15% of total meat sales.	  		The share in 2017 was 6.8%.	●
Use of energy and premises				
The Axfood Group will reduce the carbon footprint from its own operations by 75% by 2020 and be climate-neutral (base year 2009).				●
The Axfood Group will reduce its energy consumption by 15% per square metre by the end of 2020 (base year 2015).				●
For investments in store refrigeration systems, climate-friendly refrigerants will be used.				●
The Axfood Group will use ecolabelled office machines (computers, printers and copying machines) when such alternatives exist.				●
Dagab will begin measuring CO ₂ emissions also from subcontracted transports from warehouses to stores.				●
By 2020 at the latest, Dagab will reduce its electricity consumption in relation to sales by 15% (base year 2015).				●
Transports				
Dagab will reduce CO ₂ emissions from its delivery fleet by 20% by 2020 (base year 2015).			Goal achieved for 2017 (~54%), but there is uncertainty about sustainable fuels going forward.	●
The Axfood Group will reduce the number of business trips by air by 15% by 2018 at the latest (base year 2015).				●
All company cars will be environmental-classed.				●
Employees will conduct more travel-free meetings by: – increasing the use of teleconferences by 5% compared with 2015 – increasing the use of web conferences by 8% compared with 2015				●

● Achieved ● In progress ● Target not achieved

Target	Coupling to Sweden's Environmental Objectives	Coupling to the UN's Sustainable Development Goals	Results and comments 2017	Status
Suppliers				
By 2016 at the latest, Dagab will adopt a strategy for ensuring living wages for workers in the supply chain.				●
By 2030, eradicate poverty as far as possible in Axfood's supply chain for its private label products by ensuring that the people who work in manufacturing and farming earn more than the UN's poverty level.				●
By 2020 at the latest, the strategy for living wages will lead to Axfood being able to monitor the progress on living wages. The strategy applies primarily for purchases of primary products for Axfood's private label products.				●
By 2020 at the latest, all relevant suppliers of private label products and their subcontractors will be included in an accredited social follow-up system (BSCI, Fair for Life, SEDEX or similar) or, alternatively, be parties to collective agreements with recognized union organizations.				●
By 2020 at the latest, Axfood's initiatives in identified risk products will have improved both social and environmental conditions in three source markets.				●
By 2020 at the latest, all suppliers of private label products will report annually on their climate measures.				●
By 2020 at the latest, Axfood will have methods for evaluating how suppliers in regions with water shortages are reducing their water use.				●
For all purchasing of private label products in risk countries/risk categories, the selection process for suppliers will include sustainability aspects.				●
By 2022 at the latest, Axfood will have integrated enhanced sustainability criteria for e.g., water and for the chemical and carbon footprint of products in the tendering process.				●
By 2016 at the latest, Dagab will identify purchasing markets for private label products with an elevated corruption risk and address this with a specific programme.				●
In 2017 Axfood will begin implementation of a whistleblower system among retailers and suppliers.				●
By 2020 all relevant suppliers (growers and guest workers) of fruits and vegetables will be certified according to IP Arbetsvillkor.				●
Employees				
By 2020 at the latest, 20% of Axfood's senior executives will come from an international background.			13%, an improvement over the preceding year (11%).	●
A minimum of 75% of Axfood's managers will be recruited internally, and a minimum of 10% will be recruited externally.			Cannot be reported on at present due to lack of system support.	n.a.
Have a high work attendance rate of at least 95%.			94.3%, an improvement over the preceding year (93.9%).	●
Maintain an Employee Satisfaction Index score of at least 90.			The survey is conducted every other year, most recently in 2016. Result in 2016: 92.	●
Achieve an even gender balance among Axfood's senior executives, i.e., that men and women will be represented within a range of 40%–60% by 2020.			70% men and 30% women among all managers; outcome: 65% men and 35% women in company managements and staffs.	●
All employees will have completed basic environmental training.				●
By 2017 at the latest, all pertinent employees will have completed an activity coupled to Axfood's ethical guidelines, with focus on corruption.			Pertinent employees sign Axfood's Ethical Guidelines yearly. In 2017, 829 employees signed the guidelines.	●
No employees will feel that they have been discriminated against at work.				●

GRI Index

The following index references where obligatory standard disclosures and selected indicators from the materiality analysis are reported in this Annual and Sustainability Report. Nasdaq Stockholm has prepared a voluntary guide for sustainability reporting that includes value drivers that are considered to be key sustainability aspects for investors. The GRI factors included in Nasdaq's guide are marked below.

G4-XX = GRI indicator included in Nasdaq Stockholm's sustainability guide.

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Specific Standard Disclosures

Material Aspects, DMA and Indicators in materiality analysis		Page reference	Comment/Reservation	Important issues for Axfood
ENVIRONMENT				
Energy				
G4-DMA	Sustainability governance of material Aspects	18–19, 117, 121–123, 128		Efficient use of energy
G4-EN3	Energy consumption within the organization	2, 19, 37, 124		
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Emissions				
G4-DMA	Sustainability governance of material Aspects	18–19, 117, 121–123, 126–129		Reduced carbon footprint
G4-EN15	Gross direct greenhouse gas (GHG) emissions	18, 36–37		
G4-EN16	Gross energy indirect GHG emissions	36–37, 124		
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G4-EN18	GHG emissions intensity ratio	124		
G4-EN19	Initiatives to reduce GHG emissions, and amount of reductions achieved	36–37		
Effluents and Waste				
G4-DMA	Sustainability governance of material Aspects	18–19, 117, 121–123, 127		Reduced carbon footprint
G4-EN23	Total weight of waste, per type of disposal method	37, 124		
Products and Services				
G4-DMA	Sustainability governance of material Aspects	18–19, 117, 121–123, 126–129		Reduced carbon footprint
G4-EN27	Report quantitatively the extent to which environmental impacts of products and services have been mitigated	14–15, 20–24		
Transport				
G4-DMA	Sustainability governance of material Aspects	18–19, 117, 121–123, 128		Reduced carbon footprint
G4-EN30	Significant environmental impacts of transporting products and other goods and materials used in operations	14–15, 30–31		
Supplier Environmental Assessment				
G4-DMA	Sustainability governance of material Aspects	22–24, 117, 121–123, 128		Control of supply chain
G4-EN32	Percentage of new suppliers screened using environmental criteria	21–22, 129		
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain, and actions taken	21–22		
SOCIAL				
Labour Practices and Decent Work				
Employment				
G4-DMA	Sustainability governance of material Aspects	18–19, 117, 121, 123, 129		Gender equality and diversity Work environment, working conditions and health
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	125		
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	61		

Specific Standard Disclosures

Material Aspects, DMA and Indicators in materiality analysis		Page reference	Comment/Reservation	Important issues for Axfood
Occupational Health and Safety				
G4-DMA	Sustainability governance of material Aspects	18–19, 117, 121, 123, 129		Work environment working conditions and health
G4-LA5	Percentage of total workforce represented in formal joint-management worker health and safety committees	61		
G4-LA6	Types and rate of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities by region	125		
Diversity and Equal Opportunity				
G4-DMA	Sustainability governance of material Aspects	18–19, 117, 121, 123, 129		Gender equality and diversity
G4-LA12	Composition of board and management, and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity	34, 125		
Equal Remuneration for Women and Men				
G4-DMA	Sustainability governance of material Aspects	18–19, 117, 121, 123, 129		Gender equality and diversity
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category	34		
Supplier Assessment for Labour Practices				
G4-DMA	Sustainability governance of material Aspects	21–23, 117, 121, 123, 129		Control of supply chain
G4-LA14	Percentage of new suppliers screened using labour practices criteria	22–23, 129		
G4-LA15	Significant actual and potential negative impacts for labour practices in the supply chain, and actions taken	21–23, 129		
Human Rights				
Non-Discrimination				
G4-DMA	Sustainability governance of material Aspects	14–15, 117, 121, 123, 129		Gender equality and diversity
G4-HR3	Total number of incidents of discrimination and corrective actions taken		In 2017 two cases of discrimination were filed, for which Axfood assessed labour right sanctions.	
Supplier Human Rights Assessment				
G4-DMA	Sustainability governance of material Aspects	21–23, 117, 121, 123, 129		Control of supply chain
G4-HR10	Percentage of significant suppliers and subcontracted suppliers screened using human rights criteria, and actions taken	22–23, 129		
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain, and actions taken	21–23		
Society				
Anti-Corruption				
G4-DMA	Sustainability governance of material Aspects	117, 121, 129		Anti-corruption and bribery
G4-S04	Percentage of employees that have received training in the organization's anti-corruption policies and procedures	117, 129		
G4-S05	Confirmed incidents of corruption and actions taken	117		
Product Responsibility				
Customer Health and Safety				
G4-DMA	Sustainability governance of material Aspects	18–19, 117, 121–123, 126–128		Animal welfare Pesticides and chemicals Healthy food
G4-PR1	Percentage of product and service categories for which health and safety impacts are assessed for improvement, and percentage of significant product and service categories assessed	20–24, 124		
Product and Service Labelling				
G4-DMA	Sustainability governance of material Aspects	18–19, 117, 121, 123, 126–128		Healthy food
G4-PR3	Type of information about products and services required by the organization's procedures for product and service information labelling, and percentage of products and services subject to such information requirements	21–23, 124		

Definitions and glossary

Financial key ratio definitions

Capital employed: Total assets less noninterest-bearing liabilities and non-interest-bearing provisions. Average capital employed is calculated as capital employed at end of the period plus capital employed at the same point in time in the preceding year, divided by two.

Cash flow from operating activities per share: Cash flow from operating activities for the period divided by the weighted average number of shares.

Cash flow per share: Cash flow for the period divided by the 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: Net profit for the period attributable to owners of the parent divided by a weighted average number of shares outstanding.

Equity ratio: Shareholders' equity including non-controlling interests as a percentage of total assets.

Interest-bearing net debt receivable/liability: Interest-bearing non-current and current receivables and liabilities, including cash and bank balances, and the interest-bearing portion of financial assets.

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

Inventory turnover rate: The cost of delivered goods divided by the average inventory value.

Like-for-like sales: Sales for stores that existed and generated sales in the comparison period, broken down into Group-owned and franchise stores.

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

Net debt-equity ratio/net receivable-equity 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 period.

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

Pro forma: Pro forma is a method for reporting changed historical figures that describe financial effects after a change in order to be able to compare with current figures.

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

Return on shareholders' equity: Net profit for the period attributable to owners of the parent as a percentage of average equity attributable to owners of the parent. Average equity is calculated as shareholders' equity at the end of the period plus shareholders' equity at the same point in time in the preceding year, divided by two.

Sales, Group-owned retail operations: Sales for Hemköp and Willys stores owned by Axfood.

Sales growth: Percentage increase in sales between two periods.

Sales of private label products: Sales of private label products, excluding fruits & vegetables, as a percentage of store sales including Hemköp franchise stores.

Shareholders' equity per share: Equity attributable to owners of the parent divided by the number of shares.

Share turnover rate: The number of shares traded during the year divided by the number of shares outstanding at year-end.

Store sales, Axfood Group – Sales for Hemköp and Willys stores, including Hemköp franchise stores.

Total capital expenditures: Investments in intangible and tangible non-current assets, including finance leases.

Operational key ratio definitions and glossary

Autoorder: An automated store restocking system.

Average number of employees during the year: The total number of hours worked divided by an annual working time of 1,920 hours.

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.

Employee turnover rate: The number of ended employment positions divided by the number of employees.

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.

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.

91/9 model: An agreement within Hemköp under which a store is majority-owned by Axfood during the initial years, and subsequently becomes over 99%-owned by the retailer and Axfood holds one share.

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.

The Axfood Group uses various financial measures in its financial reporting that are not defined in IFRS. Axfood believes that these key ratios are relevant for readers of Axfood's financial reports as a complement in assessing Axfood's performance. Since not all companies calculate financial measures in the same way, these are not always

comparable with measures used by other companies. These financial measures are therefore not to be regarded as a substitute for measures defined in IFRS. The following table provides references to measures that cannot be derived from the financial statements and other disclosures.

DERIVATION AND RECONCILIATION

Store sales – Group-owned and franchise stores, 12-month data SEK m	Like-for-like stores					
	2017	2016	% ¹⁾	2017	2016	% ¹⁾
Net sales, Willys	25,415	23,164	9.7	–	–	–
Of which, sales for Group-owned stores ²⁾	25,415	23,164	9.7	24,058	23,071	4.3
Net sales, Hemköp	6,189	6,171	0.3	–	–	–
Of which, sales for Group-owned stores ²⁾	6,071	6,072	0.0	5,795	5,676	2.1
Store sales, Hemköp franchise stores	7,220	6,629	8.9	6,770	6,513	3.9
Store sales, Hemköp Group-owned and franchise stores	13,291	12,701	4.6	12,565	12,189	3.1
Retail sales, Group-owned stores²⁾	31,486	29,236	7.7	29,853	28,747	3.8
Store sales, Axfood Group	38,706	35,865	7.9	36,623	35,260	3.9

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

²⁾ Summation of sales for Group-owned stores.

Ten-year overview

Amounts in SEK m	2017	2016	2015	2014	2013	2012 ¹⁾	2011	2010	2009	2008
Result of operations										
Net sales	45,968	43,355	41,247	38,484	37,522	36,306	34,795	34,260	32,378	31,663
Operating profit	1,886	1,902	1,760	1,447	1,302	1,200	1,250	1,209	1,128	1,077
Profit after financial items	1,881	1,894	1,749	1,430	1,278	1,162	1,214	1,172	1,082	1,011
Profit attributable to non-controlling interests	4	0	0	9	6	0	0	0	0	–
Tax	–414	–421	–388	–326	–285	–260	–323	–310	–289	–274
Net profit for the year	1,467	1,473	1,361	1,104	993	902	891	862	793	737
Financial position										
Intangible assets	3,388	2,478	2,528	2,536	2,645	2,642	2,461	2,301	2,143	2,032
Property, plant and equipment	2,032	1,799	1,930	1,894	1,916	1,820	1,801	1,588	1,476	1,541
Financial assets	84	138	95	80	60	45	44	32	30	33
Other non-current assets	131	61	60	54	36	38	35	42	38	35
Inventories	2,263	2,191	2,035	2,100	1,906	1,932	1,916	1,822	1,790	1,769
Other current assets	2,195	2,146	1,956	1,919	1,909	1,822	1,704	1,564	1,380	1,628
Cash and cash equivalents	1,376	1,726	1,933	1,109	457	521	317	315	316	312
Assets	11,469	10,539	10,537	9,692	8,929	8,820	8,278	7,664	7,173	7,350
Shareholders' equity	4,266	4,117	4,530	4,029	3,768	3,398	3,237	2,972	2,635	2,259
Non-controlling interests	212	1	1	36	34	28	–	0	0	–
Interest-bearing liabilities and provisions	528	498	504	585	535	861	1,042	840	848	1,394
Other liabilities	6,463	5,923	5,502	5,042	4,592	4,533	3,999	3,852	3,690	3,697
Shareholders' equity and liabilities	11,469	10,539	10,537	9,692	8,929	8,820	8,278	7,664	7,173	7,350
Cash flow										
Cash flow from operating activities	2,534	2,241	2,495	2,029	1,596	1,915	1,384	1,365	1,558	1,152
Cash flow from investing activities	–1,500	–559	–751	–582	–718	–816	–941	–831	–580	–1,098
Cash flow from financing activities	–1,384	–1,889	–920	–795	–942	–895	–441	–535	–974	–213
Cash flow for the year	–350	–207	824	652	–64	204	2	–1	4	–159

Amounts in SEK m	2017	2016	2015	2014	2013	2012 ¹⁾	2011	2010	2009	2008
Key ratios										
Operating margin, %	4.1	4.4	4.3	3.8	3.5	3.3	3.6	3.5	3.5	3.4
Margin after financial items, %	4.1	4.4	4.2	3.7	3.4	3.2	3.5	3.4	3.3	3.2
Equity ratio, %	39.0	39.1	43.0	41.9	42.6	38.8	39.1	38.8	36.7	30.7
Net debt-equity ratio (+)/net receivable-equity ratio (–), multiple	–0.2	–0.3	–0.3	–0.1	0.0	0.1	0.2	0.2	0.2	0.5
Debt-equity ratio, multiple	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.6
Capital employed	5,006	4,616	5,035	4,650	4,337	4,288	4,279	3,812	3,483	3,653
Return on capital employed, %	39.4	39.5	36.5	32.4	30.3	28.2	31.0	33.2	31.8	32.0
Return on shareholders' equity, %	34.9	34.1	31.8	28.1	27.5	27.2	28.7	30.7	32.4	33.4
Interest coverage, multiple	145.7	146.7	103.9	60.6	43.6	26.8	29.9	31.1	22.2	14.7
Capital expenditures	1,934	580	764	643	806	932	993	862	633	1,158
Depreciation/amortization	744	719	696	693	667	632	588	555	526	477
Earnings per share, SEK ^{2,3)}	6.98	7.02	6.48	5.22	4.70	4.30	4.25	4.10	3.78	3.51
Shareholders' equity per share, SEK ^{2,3)}	20.35	19.62	21.58	19.20	17.96	16.19	15.42	14.16	12.56	10.76
Cash flow per share, SEK ³⁾	–1.67	–0.99	3.93	3.11	–0.30	0.97	0.01	0.00	0.02	–0.76
Cash flow from operating activities per share ³⁾	12.08	10.68	11.89	9.67	7.60	9.12	6.59	6.50	7.42	5.49
Number of shares outstanding ³⁾	209,676,712	209,870,712	209,870,712	52,467,678	52,467,678	52,467,678	52,467,678	52,467,678	52,467,678	52,467,678
Weighted average number of shares ³⁾	209,748,468	209,870,712	209,870,712	52,467,678	52,467,678	52,467,678	52,467,678	52,467,678	52,467,678	52,467,678
Average number of employees during the year	9,903	9,211	8,803	8,481	8,285	8,021	7,062	6,895	6,816	6,847
Ordinary dividend, SEK/share ³⁾	7.00 ⁴⁾	6.00	5.00	4.25	3.75	3.00	12.00	12.00	10.00	8.00
Extra dividend, SEK/share	–	–	4.00	–	–	–	–	–	–	–

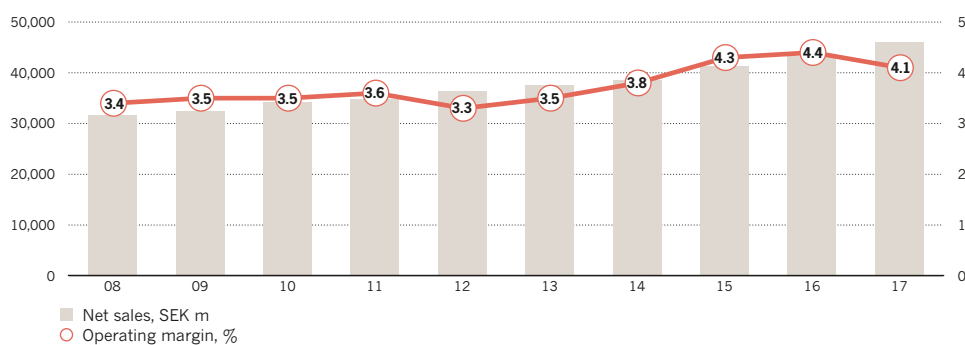
¹⁾ On account of new accounting policies as from 1 January 2013 regarding pension costs (IAS 19), the comparison figures for 2012 have been adjusted.

²⁾ Before and after dilution.

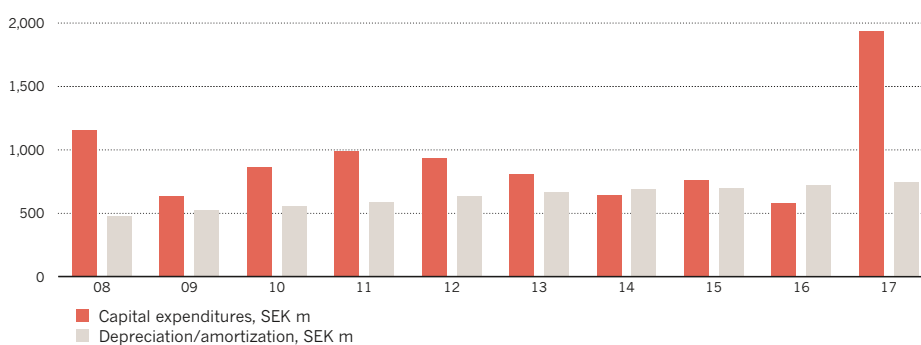
³⁾ In 2015 Axfood carried out 4:1 stock split. The number of shares after the split is 209,870,712 (52,467,678). Comparison figures have been adjusted.

⁴⁾ Proposed by the Board of Directors.

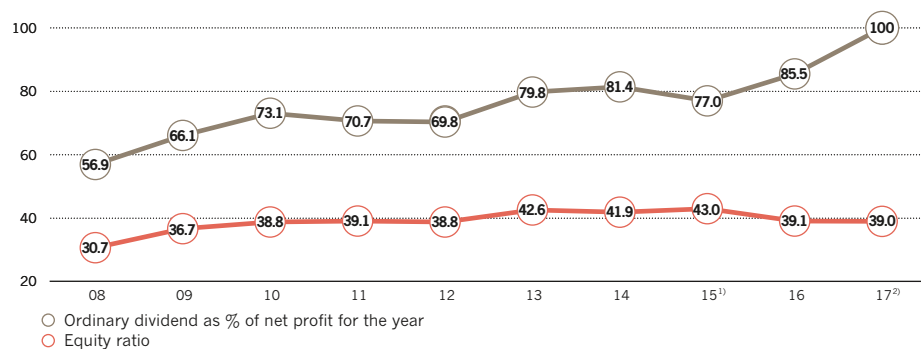
AXFOOD'S NET SALES AND OPERATING MARGIN



CAPITAL EXPENDITURES AND DEPRECIATION/AMORTIZATION



ORDINARY DIVIDEND AND EQUITY RATIO, %



¹⁾ Including the extra dividend, the dividend amounted to 138.8% of net profit for the year in 2015.
²⁾ Proposed by the Board of Directors.

For further information:

Cecilia Ketels, Head of Investor Relations
 Tel.: +46-8-553 996 39
 cecilia.ketels@axfood.se

Åsa Domeij, Head of Sustainability
 Tel.: +46-8-553 99 000
 asa.domeij@axfood.se

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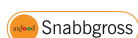
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WILLY:S

Hemköp

 Snabbgross

 Närlivs

mat.se

 eurocash



dag**ab**



Direkten

 UP
URBAN DELI

Axfood AB

SE-107 69 Stockholm
Visitors' address
Norra Stationsgatan 80C
Tel +46-8-553 990 00
info@axfood.se
www.axfood.se
Reg. no.: 556542-0824

Willys AB

SE-412 86 Gothenburg
Visitors' address
Falkenbergsgatan 3
Tel +46-31-733 31 00
info@willys.se
www.willys.se
Reg. no.: 556163-2232

Hemköpskedjan AB

SE-107 69 Stockholm
Visitors' address
Norra Stationsgatan 80C
Tel +46-8-553 990 00
info@hemkop.se
www.hemkop.se
Reg. no.: 556113-8826

Axfood Snabbgross AB

SE-107 69 Stockholm
Visitors' address
Norra Stationsgatan 80C
Tel +46-8-553 990 00
www.snabbgross.se
Reg. no.: 556000-3575

Dagab Inköp & Logistik AB

SE-107 69 Stockholm
Visitors' address
Norra Stationsgatan 80C
Tel +46-8-553 990 00
Reg. no.: 556070-3166

Axfood AB

Shared Service Center
SE-551 93 Jönköping
Visitors' address
Bataljonsgatan 12
Tel +46-36-36 41 00