

# Shared passion for good and sustainable food

Annual and Sustainability Report 2018



Axfood

# Shared passion for good and sustainable food

For the Axfood family, good and sustainable food is the heart and soul of a modern grocery store. We are working tirelessly to meet customers' needs. At the same time we are working actively to reduce our carbon footprint and make it easier for consumers to make sustainable choices. Apart from making a positive impact on our business, it just feels right.

Our goal is to grow more than the market, with a wide assortment of attractively priced and sustainable products – and always available in the channels and at times of the customers' choosing. Through continuous improvements, innovative products and new concepts we are advancing our positions. All aspects of the chain are essential – from production and purchasing to the customer's shopping cart.

The past summer's drought in Sweden put the entire food chain to test in a number of ways, with feed shortages, smaller harvests and the early harvesting of animals. To ease the effects and find new paths forward, greater collaboration is needed between farmers, the food industry, the food retail sector and politicians. The responsibility and passion for food is shared.

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### About the Annual Report

Pages 70 to 118 constitute the statutory annual report, which has been audited.

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. This report has been prepared in accordance with the GRI Standards 2016, Core option.

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







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







# Axfood at a glance

Axfood is a leading food retail group in Sweden and a family of distinctive food concepts working in collaboration. Together these reach more than 4 million customers every week. Our meetings with customers take place in more than 300 Group-owned stores, online, and in some 900 collaborating stores.

**WILLY:S**

**Hemköp**

**axfood Snabbgross**

**dagab**

**eurocash**

**mat.se**

**tempo**

**MIDDAGS  
FRID**

**axfood Närlivs**

**HANDLARN**

**Direkten**

**UP  
URBAN DELI**

**apohem.se**

**To achieve cost efficiency, purchasing and logistics are conducted jointly. Central purchasing creates economies of scale and enables attractive pricing.**

## Purchasing









Axfood's buyers compose an assortment of products from some 1,500 suppliers that is suited for all of the Group's food concepts. The products are to be good for health and at the same time are made with care for animals, the climate, and the people who produce them.

## Warehousing

Delivering the right products at the right time to stores is essential. Axfood has high delivery reliability and inventory turnover. Every day some 600,000 cases are handled in the Group's warehouses.

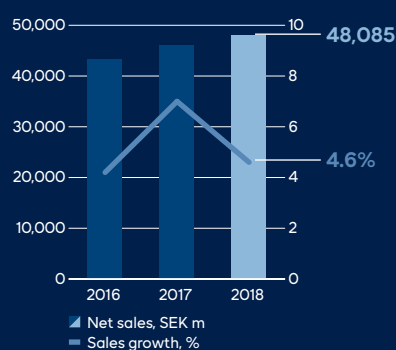
## Distribution

Axfood distributes products to some 7,000 stores and customers throughout Sweden. The delivery fleet is modern, and work is under way to upgrade the fleet to include more fossil-free trucks.

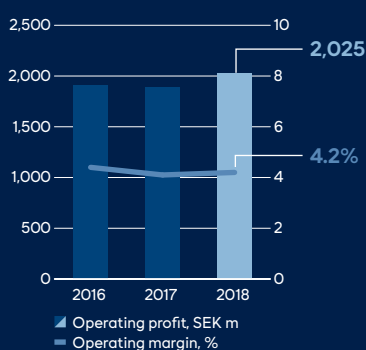
	Net sales, share of Axfood total	Growth	Operating profit, share of Axfood total	Operating margin
<b>Willys</b> including Eurocash (Read more on p. 38)	 27,066 SEK m	6.5%	 1,197 SEK m	4.4%
<b>Hemköp</b> including Tempo (Read more on p. 40)	 6,403 SEK m	3.3%	 227 SEK m	3.5%
<b>Axfood Snabbgross</b> (Read more on p. 42)	 3,241 SEK m	8.6%	 121 SEK m	3.7%
<b>Dagab</b> Including Mat.se, Middagsfrid, Axfood Närlivs, Handlar'n, Direkten, Urban Deli and Apohem (Read more on p. 44)	 Total 42,456 SEK m External 11,327 SEK m	3.2%	 685 SEK m	1.6%

All data pertaining to the segments in 2017 are reported pro forma and do not include joint-Group data.

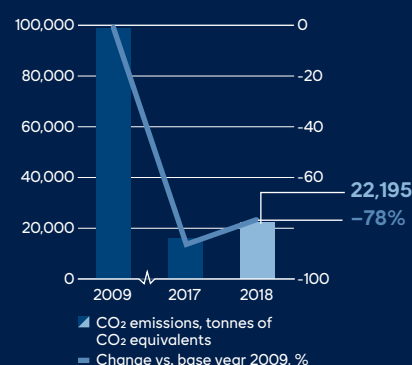
### Net sales Sales growth



### Operating profit Operating margin



### Carbon footprint



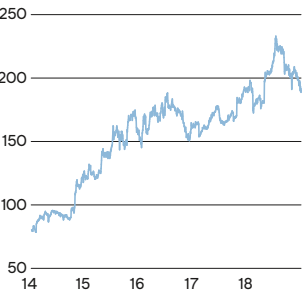
Axfood is a large cap company listed on Nasdaq Stockholm. The largest owner since the Company's founding is Axel Johnson, which today owns 50.1%.

During the last five years Axfood has delivered a total return of 137%. There are a number of value drivers which, in Axfood's assessment, affect the stock's performance:

**Axfood as an investment**

- Well-positioned strong brands
- Efficient purchasing and logistics operation
- High cash flow generation and strong financial performance
- Focus on sustainability
- Strategy that meets the market's driving forces

Total return, Axfood shares Index



**SEK 7.00**

Dividend proposed by the Board of Directors





"During 2018 we delivered on our strategic priorities. The assortment has been further developed, and our chains have strengthened their positions in the market. Our omnichannel experience is cohesive, and the digital customer interaction has been strengthened side-by-side the e-commerce rollout. Our first automated warehouse has been inaugurated, and we are working to further improve operational efficiency through greater digitalization."

Klas Balkow  
*President and CEO*

# Business review

# A successful year with strengthened market positions

## A successful year

Now that we have closed the books and I can take pause to reflect over the year that has passed, I can only feel proud. Proud of all the great work our employees have done during the year, but also proud that more and more customers are choosing to shop at any of the concepts in the Axfood family. Together we reach more than 4 million customers a week, which is an impressive figure. Together we are stronger.

## An industry in transformation

The industry we work in is changing at an ever-faster pace, which is creating challenges as well as opportunities. We hear and read about this in the papers, but for those of us who work in the industry, it's clear. We see it and experience it every day. Our industry is currently undergoing a transformation.

New shopping patterns and customer behaviours are changing the conditions for how we can ensure a truly good meeting with our customers. You only have to reflect on your own experience to see how fast we are adapting and

changing our daily routines. Just as easy as it was for me in the past to tick off a shopping list during a visit to the grocery store, I can now have a bag of groceries for the family delivered home to my front door every week. For my family, e-commerce saves time and makes life's daily puzzle a little easier.

We are also seeing how new food trends and eating habits are putting demands on our offering and composition of products. Clearly our customers are becoming increasingly conscious about the impact of food on our health and the environment.





Further, convenience is one of the trends that is getting more and more people to eat at restaurants and cafés, or take a ready-made meal home with them. The restaurant and café market is growing at the same time that the distinction between what is a food store and what is a restaurant is becoming more diffuse. The assortment in several of our food concepts is being increasingly focused on prepared and takeaway meals.

### **We are delivering on our customer promise**

It is in the midst of this transformation that we are growing considerably more than the market and are taking market shares. This proves to us that our customers appreciate what we are doing, which is the very best rating we can receive. Food accounts for a large share of household expenses, and we therefore have an important job to do in order to continue offering attractively priced products.

Willys had a great year in 2018. It is clear that more and more customers appreciate Willys' pledge to have Sweden's cheapest bag of groceries. It's great to watch Willys advance at a pace that is twice as high as the market's growth. Meanwhile Axfood Snabbgross, which serves the restaurant and café segment, also had high growth. Here we are addressing the biggest trend in the unfolding sector convergence – eating out – in a convincing way and grew considerably more than the market in 2018.

Hemköp grew in line with the market during the year. Here we are working with full focus on strengthening our customer meeting, improving our communication and continuing to develop a growing array of meal solutions as part of our offering.

### **A year with challenges**

It wasn't an entirely easy year, however. We had the warmest summer in many years, and the ensuing drought had large consequences for many. One direct consequence was higher costs for food. Axfood was early to engage

suppliers in an active and close dialogue to address future food supply, but despite this we can expect that there may be shortages of certain products going forward.

The warm summer also brought challenges for our product supply, which together with higher fuel costs affected our efficiency and the profitability of our purchasing and logistics company Dagab.

### **Continuous development**

Despite a record year in our sails we are not letting up. Our most important financial target is to grow more than the market. To do this we can never stand still. We need to continuously evolve with the world around us and our customers – and adapt to emerging trends. It is a constantly ongoing process.

We are steadily raising the bar to offer good and sustainable food. The goal is to be best in the industry. In our sustainability work we are therefore working systematically to improve social and environmental aspects. I am especially proud of our persistent fight against food waste, which is truly a waste of resources that affects both our customers' wallets and the environment. During the year we set a goal to cut food waste in half by 2025 – a high aspiration that puts great demands on innovation and determination. With 2015 as the base year we can clearly see that we are well on track to our goal, and through this past year we have reduced food waste by 15%.

As part of our work on introducing more meal solutions in our family, during the year we increased our ownership in Urban Deli, the innovative restaurant and market hall concept that aims to create a better and simpler life around food with its own production of food, no matter if it is taken home or eaten on site.

We are also working continually on finding new synergies and new, smart ways to simplify things for customers. Through our investment in the online pharmacy Apohem, today we can offer our customers access to the full spectrum of products and services offered by a pharmacy.

One of the year's most important events is that we took our first step in the shift to automation. At the end of the year we inaugurated the new, automated warehouse in Jönköping, which supplies Axfood's store chains throughout Sweden with perishables. With automation comes greater efficiency, not least because robots can pick orders 24/7. We have also communicated our next, exciting step in digitalization – a highly automated warehouse in Stockholm that will fulfil orders both for stores and e-commerce customers. We are thereby creating a level of flexibility in our warehousing that is independent of the pace at which e-commerce grows. Over time this will increase our competitiveness.

### **Well poised for 2019**

I am entirely convinced that the pace of change in our industry will remain high going forward. And I know that our tempo will be at least as high. We are reviewing our ways of working and our level of digitalization to be adaptable and sufficiently agile to meet the coming challenges. It is an exciting development, and I think we have everything it takes to succeed. This requires a high level of commitment and that everyone is receptive to change with a large measure of curiosity. Since these are qualities I see every day in our organization, it is with great confidence that I approach the new year.

I want to offer great thanks to all of our customers, who put their trust in us every day. But above all I want to thank all of the employees in the Axfood family for their work, which has led to strong growth and earnings. I am confident that we will continue to be an aggressive challenger in the Swedish food market. We are now looking ahead!

Stockholm, February 2019

**Klas Balkow**  
President and CEO

**“Willys had a great year in 2018. It is clear that more and more customers appreciate Willys' pledge to have Sweden's cheapest bag of groceries.”**

Klas Balkow, President and CEO

# Food retail in Sweden – a mature market undergoing change

**The food retail sector is an important part of Swedish industry and a large employer, providing a livelihood for more than 100,000 people. Young people account for roughly a fourth of these. In the Swedish countryside, grocery stores often serve as a community hub, offering in addition to groceries, also pharmacy, post and banking services.**

The food retail industry is generally less sensitive to economic swings than other trade sectors. The industry is affected mainly by population growth and inflation.

Food retail in Sweden is a mature market, and the three largest actors – ICA, Axfood and Coop – account for roughly 90% of the market. The two discounters Lidl and Netto, which have been in the Swedish market for 15 years, together have a market share of approximately 7%.

## Positive sales performance

Food retail sales in Sweden (excluding alcoholic beverages) developed in a positive direction in 2018. Measured in current prices, sales growth was 3.2% according to preliminary data from Statistics Sweden. According to new market data published by the Swedish Food Retailers Federation and analysed by HUI, the Swedish food retail market grew by 3%. Axfood's store sales (including Hemköp franchises) increased by

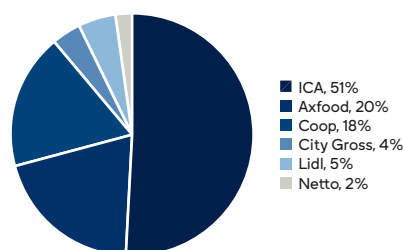
5.3% during the year, entailing that Axfood increased its market share according to both Statistics Sweden's and HUI's growth data.

E-commerce continues to account for a small share of food retail sales and is not included in the figures from Statistics Sweden. Estimates indicate that e-commerce accounts for approximately 2% of the food market. According to the Swedish Food Retailers Federation, growth for e-commerce was approximately 27% in 2018.

## Fast pace of change

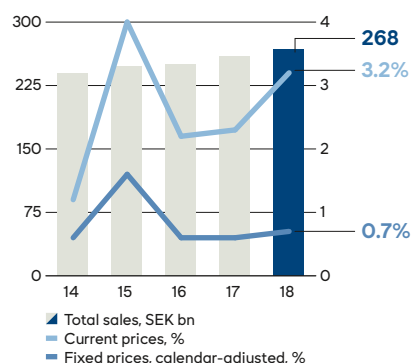
The Swedish Trade Federation forecasts that the industry will change faster in the next ten years than during the last fifty. Today's grocery consumers are increasingly aware of their food's impact on the environment, climate and health. This is creating higher demand for organic and value-added products – with higher price levels – which is driving sales.

**Market shares, largest competitors in Sweden 2017**



Source: Market shares are based on calculations of actual data from the respective companies' most recently published annual reports.

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







### Effects of drought

The summer drought has had an extensive impact on the Swedish grocery trade. During the summer it led to high sales of specific products such as beverages and ice cream, at the same time

that a ban on open fires resulted in lower demand for barbecue products. According to preliminary figures from Statistics Sweden, inflation in 2018 was 2.4%, excluding any calendar effects.

### 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	1000–
Brands:		Netto, Lidl	Willys, Willys Hemma Eurocash	ICA Maxi, Stora Coop, City Gross	Hemköp, Coop, ICA Supermarket, ICA Kvantum and others	Tempo, Handlar'n, Direkten, ICA Nära, 7-Eleven, Pressbyrån, Lilla Coop and others
Locations:		Residential and external	Residential and external	External	City centres, residential	Traffic-oriented or residential

# Trends that Axfood is addressing

Digitalization, demographic changes and a greater focus on sustainability are overarching trends that affect society as a whole and put new demands on Axfood as a long-term sustainable actor. Understanding the external business environment, foreseeing what will happen next and how this affects the Axfood family are crucial for being able to meet tomorrow's needs and demand.

## Digitalization

Digitalization affects all parts of the food retail industry, from design to purchasing, logistics, work methods, marketing and the meeting with customers. Digitalization is giving rise to new challenges, opportunities and risks. It entails more automation and greater efficiency, but also a greater need for employee competence development. E-commerce is growing rapidly, and more people are buying food online. A key factor for the expansion of e-commerce is that younger consumers are more digitally literate and shop more online than older consumers. According to the Swedish Trade Federation, e-commerce in the food retail sector is expected to grow from a share of roughly 2% today to 6% by 2025. Changed shopping behaviours are paving the way for new business models and businesses.

Read more under Strategy – Customer meeting p. 22, Customer offering p. 17, Work approach p. 28, and Expansion p. 25.

## Demographic changes

Population growth in Sweden has been substantial for a few years as a result of high immigration, low emigration, and more births than deaths. According to Statistics Sweden's population forecast, Sweden's population will reach about 13 million by 2070. People born outside of the country account for a significant share of the population, with Syrians now as Sweden's largest immigrant group. The share of Swedes born outside the country is projected to increase to 22%. At the same time, Sweden's population is steadily ageing. By 2070 the share of elderly people in the population is projected to increase sharply, while the share of people of working ages will decrease. The share of single-person households continues to rise. These factors affect what, when and how food is bought and eaten. It also affects the availability of labour.

Read more under Strategy – Customer meeting p. 22, and Customer offering p. 17.





## Sector convergence

Sector convergence is ongoing, as more and more actors have overlapping offerings. The distinction between sectors is being erased as many companies offer products and services that traditionally are not part of their core businesses. Groceries are being sold to a greater extent at restaurants, convenience stores and other retail stores. Cafés and pharmacies are sharing premises with grocery stores and are selling food products.

The share of household expenses that go to groceries has been around 12% since the turn of the millennium. At the same time, the market for prepared food has benefited from the strong economy in recent years and has grown sharply. The share of household expenses spent at cafés and restaurants has increased by 1.5 percentage points.

Read more under Strategy – Expansion p. 25 and Customer offering p. 17.

## Health and sustainability

Conscious consumers manifest their lifestyle through food. Environmentally adapted packages, reduced food waste, food in season, ethical aspects and source are becoming increasingly important considerations. Health and exercise continue to be symbols of high status.

Issues surrounding responsibility, environmental impact and health are growing increasingly important. A fourth of Swedes plan to eat less meat during the coming year, according to a survey conducted by Sifo under assignment by Axfood. Among women this share is a third. The biggest reason they state is concern for the environment and climate. Men cite health reasons to a higher extent.

Many customers want more information about source, quality and content in order to be able to live healthier.

Consumers' expectations on the food retail sector are growing every year. Offering a large selection of organic products has become a hygiene factor even for discount chains.

Read more under Strategy – Customer offering p. 17 and Sustainability governance p. 122.

## Price value

With digitalization comes greater transparency surrounding prices, making it easy for customers to make comparisons. Axfood's customers are generally very price conscious. According to Axfood's brand survey, "value for money" is most important after "quality". At the same time it is not only price that determines what gives customers value for their money. Aspects such as attentive service, attractive peripheral services and a high-quality assortment are important factors in customers' perceptions of price value.

To bring down prices for customers, retailers are increasingly relying on private labels and large purchasing organizations. According to HUI, private label products have accounted for more than 20% of sales in the Swedish food retail industry for several years. In 2018 several European food retail groups joined together and started strategic alliances for global purchasing.

Read more under Strategy – Customer offering p. 17.

# What do Axfood's stakeholders say?

**Axfood's vision is to take leadership in good and sustainable food. Through continuous dialogue with stakeholders Axfood is working to capitalize on drivers and develop its business. This work is based on the Group's materiality analysis. Following are a few voices from the most important stakeholder groups. For more information on the materiality analysis, see p. 126.**

## Suppliers

Pesticides are an important issue among Axfood's stakeholders. Axfood is working to ensure that suppliers of fruits and vegetables grown outside of the EU do not use chemicals that are banned for growers within the EU.

We have convinced our pomegranate growers in Turkey to replace chemical pesticides with a blend of vegetable and mineral extracts. We now get pomegranates without residuals from Axfood's list of banned chemicals.



Tove Palm, Sustainability Manager of Total Produce

## Employees

Attracting and developing employees is an important aspect for Axfood. For younger, ambitious store employees, store manager training is one way of developing.

Having opportunities to develop at work is very important for me. When I grow, the company also grows. I feel I have opportunities to develop at Axfood and that I have a range of career paths. In the trainee programme I can share knowledge and experiences with others who have the same goals that I have. It is also reassuring that Axfood believes in its employees and invests in tomorrow's leaders.



Sandra Demir, Willys, trainee in Axfood's store manager trainee programme 2018/19

## Owners

For Axfood's owners, a good, sustainable return is important. During the last ten years Axfood has increased its earnings per share by 80% and distributed between 66% and 100% of profit after tax.

Axfood has long worked actively with responsible business – to be "the good company". The Group's positive performance is proof that this work has been successful. I feel that staying at the forefront in sustainability and transforming the business to a more digital society in the way Axfood has done are key parameters for being able to generate good, sustainable returns also in the future.



Jacob Wall, Director of Business Development at Axel Johnson, 50.1% owner of Axfood

## Customers

The increased awareness about not only eating good but also doing good is clearly apparent in Axfood's customer surveys. It is a development that is reflected in the product assortment.

For me good animal care is extremely important. It simply doesn't taste good if I'm not certain the animals from which I get my meat or eggs have been well cared for. And with the declining health of our oceans it feels extra important to eat fish and shellfish that are harvested in a way that contributes to more sustainable and living waters that are rich in species. It feels good to be able to make a small contribution myself through my choices of what to eat for dinner.



Anonymous Hemköp customer

## Society

To drive the issue of sustainable fuels, Axfood does not use HVO biofuel in its delivery trucks when other alternatives are available. This is because HVO is made with ingredients derived on palm oil, the production of which is contributing to rain forest depletion. Axfood has instead opted to diversify its vehicle fleet.

As a legislator it feels good to get timely and factual consequence analyses of what various legislative proposals entail. Axfood has been a driver in the HVO issue and clear on explaining the effects. I am happy that Sweden's parliament has now made decisions that will counter the use of palm oil derivatives in fuels.



Magnus Oscarsson, Member of the Swedish Parliament and member of Environment and Agriculture Committee



# In the aftermath of the drought

The summer's drought gave rise to major challenges for Swedish food production. Smaller harvests, feed shortages and earlier harvesting of animals have had both short- and long-term effects on the industry. For Axfood, Swedish food production is important and vouches for high quality with food safety, good animal care, tough environmental requirements and low use of antibiotics. Following the drought Axfood has deepened its cooperation with Swedish producers and is supporting them through expanded store campaigns and clearer information about Swedish value-added.

# Shared passion for good and sustainable food

## Mission

Axfood enables a better day where everyone can enjoy affordable, good and sustainable food.

## Vision

Axfood will be the leader in good and sustainable food.

To inspire customers to make good choices, Axfood strives to offer an affordable, wide and sustainable assortment. It should also be inspiring and affordable to shop, whether in a store or online. Good service and a smooth shopping experience are central for ensuring a positive meeting with customers. An attractive customer offering combined with high accessibility help ensure a better day for everyone.

Sustainability is an important aspect of Axfood's vision and part of our daily work. Since food production is a large source of carbon emissions in the world,

it is important that Axfood – as a buyer and producer of private label products – takes its share of responsibility for reducing the carbon footprint. Axfood's sustainability work is tied to a number of the UN's Sustainable Development Goals – including "Responsible consumption and production" and "Climate action" – as well as to Sweden's Environmental Objectives.

## Business concept

A family of successful and distinctive food concepts in close collaboration.

Axfood develops and operates a house of brands in the Swedish food retail market. Each of the food concepts is well-positioned in its respective segment and aims to offer the best customer experience for its target

group. Purchasing and logistics for all of the food concepts are conducted by a joint-Group organization – a collaboration that creates an efficient and strong group.

**WILLY:S**

**Hemköp**

**Snabbgross**

**dagab**

**eurocash**

**mat.se**

**MIDDAGS  
FRID**

**tempo**

**apohem.se**

**Närlivs**

**UP  
URBAN DELI**

**HANDLARN**

**Direkten**



# Strategy

To be the leader in good and sustainable food, Axfood is pursuing a strategy consisting of growth-promoting priorities and efficiency enhancing areas. Added to this is a strong focus on our employees, who make sure that the business develops in accordance with the strategy. Three strategic areas are in focus with respect to growth. It is about having an attractively priced assortment of good and sustainable food. Via an omnichannel Axfood will interact with its customers through its food concepts, giving them the best shopping experience when and where they like. Apart from enhancing sales in existing stores, continued expansion through the e-commerce rollout and

establishment of new stores is key to the ambition to grow. Expansion is always high on the agenda. Efficiency is largely a matter of having effective product sourcing. Axfood is increasing the level of automation in the entire Group – everywhere from administration and offices to warehouses and stores. A higher level of automation leads to new processes and ways of working across the value chain. It is also an example of the importance of employee development, to ensure that the Group has the right competence also going forward.

See Axfood's strategies, pp. 17–31.

Follow-up of this strategy is important part for governance of the Group. Governance is conducted through the use of business-related indicators coupled to Axfood's six strategic areas. Other important indicators include financial key ratios and follow-up of sustainability work. To measure Axfood's success, a number of key performance indicators have been selected as being strategically important for future development.

See strategic targets and outcome, p. 32.

Taken together these frameworks and Axfood's company culture help the Group's employees make the right decisions in their daily work.

## Growth



### Customer offering

We will offer our customers an attractive, wide and affordable assortment.



### Customer meeting

Through our brands and food concepts we will meet our customers' varying needs – no matter where, when and how we meet our customers.



### Expansion

We will grow in new and existing markets by establishing stores and developing new segments, categories and services.

## Efficiency



### Supply chain

We will be a driver of sustainable product supply with high efficiency and quality across the entire chain.



### Work approach

We will develop an innovative, customer-oriented and dynamic organization in which efficiency and cost control are in focus.

## Our people



### Our people

We will attract, recruit and develop the industry's best employees.

## Culture and core values

## Sustainability and community engagement

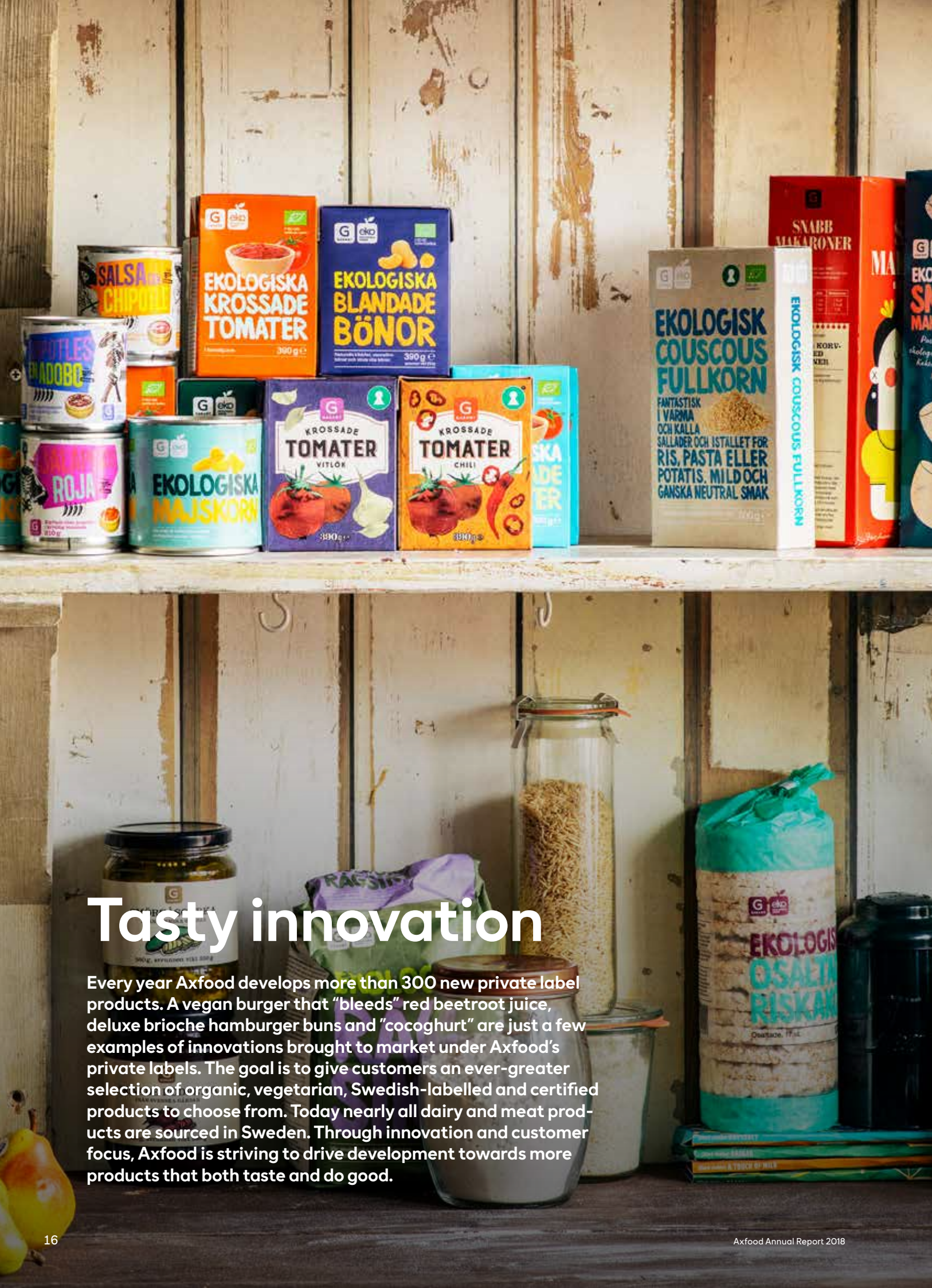
# Community engagement

Axfood has an ambition to be a driver of societal issues that affect its operations. We want to be heard, to influence the societal debate, and make a difference. Most of all it's a matter of consumption and production of food, but

in 2018 Axfood also voiced its position in discussions over fuels. Sustainable plastic packaging was another position taken jointly by actors across the industry during the year. We want to influence society on issues in which the

industry needs a stronger long-term focus and predictability, or quite simply to increase knowledge about our business. We want to be a positive force in society.





# Tasty innovation

Every year Axfood develops more than 300 new private label products. A vegan burger that “bleeds” red beetroot juice, deluxe brioche hamburger buns and “cocoghurt” are just a few examples of innovations brought to market under Axfood’s private labels. The goal is to give customers an ever-greater selection of organic, vegetarian, Swedish-labelled and certified products to choose from. Today nearly all dairy and meat products are sourced in Sweden. Through innovation and customer focus, Axfood is striving to drive development towards more products that both taste and do good.



# Customer offering



Axfood will offer an attractive, effective and wide assortment that gives customers price value.

**By being quick to identify emerging customer preferences, Axfood is developing a large selection of innovative products under its private labels. Through a wide product assortment, all customers can share in the passion created by attractively priced, good and sustainable food. Succeeding at this requires close collaboration with suppliers and farmers, especially following the 2018 summer drought.**

## Wide assortment of good and sustainable food

Today's consumers are conscious and put ever-higher demands on the food they eat. They are also searching for price value backed by high quality. At the same time, consumers increasingly have their eye out for inspiring ideas to simplify daily life surrounding meals. Axfood's customer surveys and materiality analysis show that consumers today are increasingly looking for products that are good for their health, but that are also made with care for animals and the people who make them. These are therefore criteria that Axfood is working constantly with.

## Private label products

Axfood's private label products present a competitive advantage. They contribute to profitable growth by adding to an inviting and distinctive assortment, and help profile the various food concepts. In 2018 private label products accounted for 29.2% of sales. 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.

New product development is based on emerging trends and customer insights. Product samples are tested, and mid-range and value-added products are rated by an external consumer panel of 60 persons.

Read about how Axfood's private label products are created at [axfood.se](http://axfood.se).







At year-end Axfood had 18 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 an emphasis on value-added. For example, 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. Eldorado is a dependable discount alternative with focus on basic and bulk products. To maintain the value foundations that these brands represent, but still meet price competition from discounters, Axfood has complemented them with a number of other private labels, all representing a distinct profile or segment.



In 2018 Axfood joined the Global Deal – an international partnership that advocates for decent working conditions through improved dialogue.

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.

As proof of the importance attached to assortment development, in 2018 the Group launched approximately 240 new private label products, which is an increase compared with previous years. For 2019 the plan is to maintain the same pace of development in the assortment.

#### Meal solutions

Many of today's consumers want convenience and are drawn to prepared food. Hemköp and Urban Deli offer complete warm meal solutions that are prepared in-store by cooks. In addition, Willys and Hemköp have expanded their offerings of refrigerated meals and salads along with pre-cut vegetables to make cooking at home easier. During the year Hemköp also launched

sushi stalls at its larger stores. Willys too has begun offering a selection of warm meal solutions.

Prepared dishes not only target an evolving customer preference; the food can be cooked using ingredients that would otherwise be at risk of being wasted.





Meal kits represent a compromise between convenience and full control over ingredients. By subscribing to Middagsfrid's pre-packed grocery bags with recipes, customers can save time and skip planning, but still cook their meals themselves.

#### Economies of scale and low prices









Dagab is responsible for the Group's purchasing and assortment, and develops the offerings for all of the Axfood family's food concepts. With a joint, central unit, the Group can leverage large purchasing volumes to achieve economies of scale and thereby lower prices. The assortment needs to be wide enough to suit everything from discount chains to narrower concepts with focus on innovative products.



## Axfood

Brands	Segment	No. of products
	Mid-range food products Value-added food products	1,050 305
	Mid-range products with imported meat ingredients	25
<b>ELDORADO</b>	Discount grocery and specialty food products	800
	Mid-range seafood products	56
<b>Säklart</b>	Value-added laundry, cleaning and body care products	16
<b>fixa</b>	Mid-range nonfood products and household cleaning supplies	390
	Mid-range baby care products	22

## European Marketing Distribution and United Nordic

Brands	Segment	No. of products
	Sweets, ice cream, cookies and desserts	53
	Asian food products	31
<b>PREMIER</b>	Beverages	70
<b>Powerking</b>	Energy drinks and power bars	17
	Texmex	12
	Mediterranean food products	50
	Bread	1
	Cheese	9
	Cheese	5
<b>OMEGA</b>	Deep frozen products, mainly fish and shellfish	12
	Pet food	34

## Responsibility in the supply chain

The food industry as a whole is facing major challenges in ensuring and contributing to sustainable and responsible conditions in the entire supply chain. This is partly because the chain is often long with many sub-suppliers, and partly because of the varying structures and requirements from country to country.

Read more about a few of Axfood's projects for improving social conditions among suppliers on [axfood.se](http://axfood.se)

Axfood has some 1,500 suppliers around the world. They must demonstrate how they are adhering to Axfood's Code of Conduct through systematic work processes. By setting demands, both preventive and for deviations, Axfood can make a difference. The Group's buyers – primarily of private label products – receive training in how to make purchasing decisions that integrate social and environmental dimensions. Suppliers of private label products that do not meet the requirements – down to the ingredient level – are screened out. Training of buyers is especially important in procurements

that include ingredients from countries that are judged to have high sustainability risks.

In purchasing of private label products, suppliers are assessed according to sustainability criteria already in the screening process if they operate in a risk country.

Read more about Axfood's sustainability assessments on p. 144.

Producing and selling food always involves environmental impacts. Axfood is working actively to reduce its footprint and to make it easier for customers to make sustainable choices. Axfood is striving to increase its offering of good and sustainable products, and at the same time raise the standards in the industry. Examples of good and sustainable products include organic and plant-based products, and products sourced in Sweden. This includes products that are produced locally, without unnecessary additives, or that have been developed in the best interest of animals.

See how Axfood works with good and sustainable food on the following pages.

## Priorities 2019

- Develop and strengthen the assortment of good and sustainable food
- Strengthen price position for private label products
- Increase efficiency and achieve purchasing synergies
- Further develop offering of meal solutions

# Good and sustainable food at Axfood





## Swedish products

Axfood today has 1,046 Swedish-labelled products in its assortment, of which 356 are private label products. The severe drought in summer 2018 led to shortages of animal feed and vegetables, among other things. To support Swedish farmers, during the autumn Axfood promoted Swedish

products in its stores, with highly visible signs showing where products are from. A dialogue was also conducted with suppliers with assurances that primary producers would be given reasonable compensation in relation to price increases.

## Vegetarian products

The offering of vegetarian products was widened during the year with a host of new and innovative items. Axfood's own Garant brand launched some 40 new vegetarian products during the year, including a vegan burger patty with a meaty texture that "bleeds" red beetroot juice.

At the store level, high protein products are being highlighted. Hemköp displays vegetarian alternatives next

to popular meat products, urging customers to "Vary with veggie". Willys is making veggie products more accessible through its "Veggie for everyone" campaign. During 2018 sales of refrigerated and frozen plant-based protein substitutes grew 22%.

## Organic products

Axfood's sales of organic products have been on the rise for a number of years. In 2018, demand stabilized somewhat, with organic products accounting for 6.6% of sales.

Within Axfood the number of organic items varies between 1,000 and 1,700 per food concept. Mat.se has the largest selection of organic products – and also the largest share of organic product sales. With a simple click, custom-

ers can convert the products in their shopping carts to organic alternatives.

Axfood has decided to only sell organic meat that is KRAV certified, since KRAV has more wide-reaching rules for animal welfare than the EU's organic certification. During 2018, 3.9% of meat sold was KRAV certified.

## Animal welfare

Axfood gives priority to responsibly produced meat – predominantly Swedish. Sweden's farmers have a long tradition of good animal care with low use of antibiotics that results in healthy animals and safe foods. Meat in which antibiotics have been used to promote growth is not sold whatsoever in Axfood's stores. Moreover, all meat in Axfood's private label products is required to have third-party certification for animal welfare.

Axfood is working together with WWF to provide a more sustainable offering of fish and shellfish. Since 2008 Axfood does not sell red-listed fish. During the year the goal to sell only green-listed fish from sustainable stocks and with approved catching methods was pushed back to 2022 in order to give more producers an opportunity to meet the certification requirements. Today approximately 65% of fish sold by Axfood is green-listed.

# Create the best customer experience



The Axfood house of brands meets customers' varying needs – no matter where, when or how.

**To make life easier for customers, Axfood shares the passion for good and sustainable food where customers want – online or in physical stores. Regardless of channel, the goal is to give customers the best shopping experience, with a high standard of service and attractively priced offerings that are aligned with the respective food concepts' positioning.**

## >4 million

customers visit any of the Axfood Group's stores every week.

### Positioned food concepts

The food concepts in Axfood's house of brands are positioned in different segments. What they share in common is a focus on customers and an ambition to exceed their expectations. Doing this and creating the best customer experience requires inviting sales channels.

### Modern stores

Normally Axfood's stores are modernized every five to seven years. Sometimes, such as when creating a more environmentally adapted or ergonomically designed store, this requires a major investment.

Extensive modernization has been under way at Hemköp for several years. Approximately 80% of Hemköp's Group-owned stores have been modernized by year-end, and about 25% of retailer-owned stores. In addition, at Hemköp more and more employees are being hired with specialist expertise to be able to create the right offering in

stores. This includes, for example, florists, pastry chefs and cooks.

Willys has begun a minor updating of its concept in 2019. Focus is on clear displays and customer communication as well as on highlighting a wider offering of fresh products, such as roasted chicken. In addition to this, small, continuous improvements are being made to create inspiring and inviting stores.

Axfood Snabbgross also plans to modernize certain stores in the coming year.

Refrigerant leaks from older refrigeration systems have a large carbon footprint. These older systems may not be refilled with newly produced refrigerants after 2020. All of Axfood's stores and warehouses are well under way with system upgrades.

### Digitalization and the environment

Self-scanning, digital signage and Wi-Fi are a few examples of how stores are being digitalized. Environmentally conscious and practical customers now also have the option to choose a digital receipt at Hemköp and Willys. Axfood Snabbgross will introduce the same service in 2019.

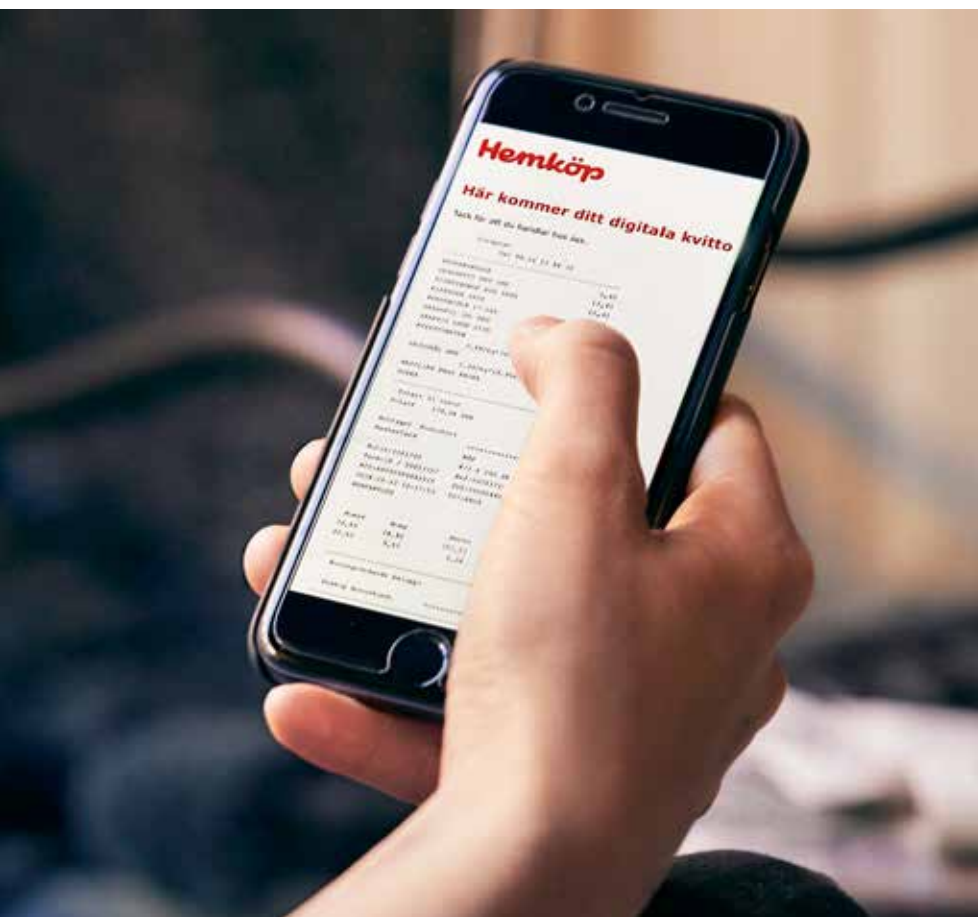
Many Hemköp customers can also choose to pay a deposit for their plastic shopping bags, ensuring clean recycling of the plastic. During 2018 consumption of plastic grocery bags at Willys and Hemköp decreased by approximately 6%. The goal is to cut this in half by 2025.

### The fight against food waste

The UN's Global Goals call for a halving of food waste in the world by 2030 – a goal that Axfood supports. Food waste occurs in all parts of the value chain – from the farms, transports and stores to customers' homes. It is important that people take responsibility in every step. Axfood is working with various initiatives to reduce both its own and customers' food waste.







# 1.5%

food waste in Axfood in 2018.  
The goal is to cut food waste  
in half by 2025.

## Priorities 2019

- Continued modernization of Hemköp stores and rollout of Willys' upgraded store concept
- Fine-tuning of the respective chains' customer programmes
- Strengthening of the digital customer interface

The Group's own food waste in stores is low, accounting for just over 1.5% of food sales in 2018. Axfood's target is to cut its food waste in half by 2025. Every year Axfood donates approximately 600 tonnes of food to charity organizations instead of it going to waste. In addition, some 120 of Axfood's stores and warehouses are involved in partnerships with various charities and donate food that would otherwise be tossed out.

## Enhanced customer value with e-commerce

Selling food online is complex, and Sweden is in the early stages with a low share of e-commerce sales. Following are just a few of the challenges:

- Handling of three temperature zones
- Reception of deliveries by customers
- Consumption is not immediate, which requires planning when shopping.

Axfood has a good position in Swedish e-commerce, with strong growth. Online grocery shopping is offered to customers via four distinct concepts: willys.se, hemköp.se, mat.se and

middagsfrid.se, which is a meal kit subscription service complete with recipes. It is important that customers feel at home with the respective stores' offerings no matter which channel they choose and that they get the same prices online as they would get at a store. The various food concepts therefore reflect the same market positioning online as in their physical stores.

Most customers today view online shopping as a complement to shopping at a physical store. Since mid-2016 Axfood has regularly measured the share of online shopping conducted by its customers who shop online. The average e-commerce shopper buys roughly a third of products online and two-thirds in stores. It is therefore important to look at customers' total purchases when analysing growth and most importantly profitability. The service offered in e-commerce in the form of order-picking or home delivery is affecting profitability in the food retail industry.

Willys has designated pick-up stations in its stores, where more than half of

the chain's online orders are picked up. Hemköp's e-commerce customers prefer almost exclusively home delivery. Mat.se, which operates only online, offers only home delivery.

For Axfood Snabbgross, e-commerce is developing favourably and today distribution accounts for approximately 20% of sales.

## High relevance of customer programme

Willys and Hemköp have fully digital, cardless customer programmes. In all, more than 4 million customers are enrolled in the two programmes. Attractive offers, based on customers' shopping history, are digitally directed to customers. During the year Axfood strengthened its customer-centric analysis and refined its personalized offers to make them more relevant.



# Food in mass transit

More and more customers are choosing to shop online and have their groceries delivered home to their front doors or pick them up – ready-packed – at the store. Being able to click one's way through an order – either on a bus on the way home from work or laying on a sofa in front of the TV – saves time and reduces stress. It makes life's daily puzzle a little easier, especially since it can be done at any time during the day. Having groceries delivered home can be likened to the food retail version of mass transit. Axfood sees major potential for online shopping by attracting new customers and in the trend of existing online customers shopping more regularly and for higher average amounts.



# Growth through new opportunities



Axfood will grow in new and existing markets by establishing stores and developing new segments, categories and services.

**Axfood wants to share its passion for food with more people. Apart from increasing sales in existing stores, Axfood seeks to grow by establishing new stores and continuing the e-commerce rollout. Through Apohem, Axfood has taken the step into the pharmacy market and the ability to offer medicines to the Group's e-commerce customers.**

## >5 million

consumers are reached via e-commerce.

### Priorities 2019

- Establish 5 to 10 new stores
- Continued e-commerce rollout
- Establish presence in pharmacy market

### New establishments in attractive locations

2018 was an off year for new store establishment, with only three new store openings. This was due in part to the highly expansive year before and in part to prolonged construction processes. In 2019 the pace will once again increase, and five to ten stores will be established in growing municipalities. Some of these municipalities are entirely new for Axfood, while in others, stores are being established in trendy or new city areas. A physical store's location is still decisive for its ability to attract customers, since e-commerce accounts for only a few per cent of the market. However, the growth of e-commerce is affecting the size of new stores to some extent.

### Acquisitions of franchise stores

The number of Hemköp franchise stores can vary somewhat from year to year owing to agreements and ongoing evaluation of the form in which a particular store can best strengthen Hemköp's position in the market. To enable selected store managers to acquire a store, Hemköp has a financing programme called 91/9. Initially the store manager owns 9% of the store with an option to buy the entire store except for one share, which continues to be owned by Axfood and allows for a repurchase. During 2018, agreements were signed on the transfer of three Hemköp stores to the 91/9 programme, and no stores were acquired by store managers after exercising an option.

### A third offer e-commerce

More Willys stores began offering e-commerce in 2018. At year-end nearly a third of Willys and Hemköp stores offered e-commerce. The pure-play online grocery store Mat.se offers consumers in Stockholm, Gothenburg and Malmö home delivery of groceries. In

all, Axfood's various e-commerce concepts reached more than 5 million consumers at year-end 2018. In 2019 Willys plans to proceed with the continued e-commerce roll-out to an additional some ten cities. Hemköp is focusing on further developing its e-commerce operations in existing locations.

The meal kit company Middagsfrid continued to refine its offering and today offers five meal kit options plus a few special offers every week.

All Axfood Snabbgross stores offer e-commerce to their business customers.

### Entry to pharmacy market

Company acquisitions and the formation of new companies are always of interest with the right conditions and business focus. During 2018 the online pharmacy Apohem opened. Business began with sales of self-care products, which were thereafter complemented with prescription drugs at the start of 2019. Axfood's e-commerce customers can thereby now also gain access to prescription drugs. Axfood and Axel Johnson's investment company Novax are the principal owners of Apohem.

### Increased ownership in Urban Deli

During 2018 Axfood increased its ownership in Urban Deli to just over 90%. Urban Deli is a mix of restaurant and market hall with own production of innovative foods. The idea is let customers decide if they want to consume their food on the spot or take it home. At the same time, Urban Deli serves as a meeting place to shop, eat, have a coffee or a drink. It is also Axfood's test environment for new and innovative products, and where new influences are captured. Going forward, Urban Deli's ready-made meal solutions, with an accent on quality and innovation, will be offered to more Hemköp customers who are also searching for inspiring food ideas.

# Greater competitiveness through logistics



Axfood will drive sustainable product supply with high efficiency and quality across the entire supply chain.

**Axfood strives for efficient logistics. With the new cold storage warehouse in Jönköping, the first step has been taken into automated warehousing. In parallel with this, work is in progress on establishing a highly automated warehouse in Stockholm that will handle store orders as well as individual customers' online orders. The warehouse is expected to be operational in 2023 and will provide great flexibility in the development of e-commerce.**

## **Automation creates opportunities**

Dagab is responsible for all of Axfood's logistics and handles some 6,000 deliveries and 600,000 cases a day. Digitalization represents a great opportunity to further improve logistics efficiency. However, robotization of warehousing is complex and is affected by, among other things, the varying size and weight of products, three temperature zones and the inventory turnover rate.

A new distribution centre began operating in Jönköping at the end of 2018 and now supplies perishables to all of Axfood's stores in Sweden. The warehouse is twice as large as its predecessor, which creates greater future opportunities for the perishables assortment. Half of the warehouse is automated, with robots that pick orders 24/7. Once fully operational, this automated nationwide warehouse will deliver some 28,000 cases every day.

## **Logistics solution of the future**

Axfood has begun work on realizing the vision for the logistics solution of the future. To remain competitive and flexi-

# 28,000 cases

**delivered every day from the automated cold storage warehouse in Jönköping.**

ble also in the future no matter how fast e-commerce develops, Axfood is building a dual purpose warehouse that will handle store orders as well as individual customers' online orders in Stockholm. It will strengthen the customer offering and improve delivery quality and service for customers through modern and efficient warehousing processes. The warehouse will feature a joint receiving area and fast lead times for restocking. The equipment will be climate-adapted, and during construction, major emphasis will be on minimizing the environmental impact.

The goal is to create synergies in the Group and increase productivity. Over a four-year period the yearly capital





expenditure for automation is estimated to be approximately SEK 400–600 m. The ambition is to have the warehouse in operation in 2023.

### Joint dark store

In 2019, e-commerce orders for Willys and Hemköp in Stockholm will begin to be picked at Mat.se's dark store, instead of as previously in the respective chains' stores. Axfood Snabbgross will continue to pick e-commerce orders in its stores. The joint dark store will offer better service to customers along with coordination gains and improved profitability for e-commerce. This is Axfood's first step towards optimizing the entire logistics flow.

### More diversified delivery fleet

Emissions from its own transports account for a large share of Axfood's total carbon footprint. To achieve the goal of being climate-neutral by 2020 and at the same time drive development of sustainable transports, Axfood is shifting over to a more fossil-free vehicle fleet. Today Axfood sees no

single solution for replacing HVO fuel, which contains a large portion of palm oil and is therefore avoided. Instead the Group is investing in a more diversified vehicle fleet with several different transport and fuel solutions. During 2018 Axfood decided that no single vehicle type shall account for more than half of total fuel consumption by 2025 at the latest.

Many of Axfood's traditional delivery trucks are still run on diesel, but the fleet also includes a growing number of trucks that run on renewable fuels such as biogas, RME (rapeseed biofuel), ethanol and electricity.

Read more about Axfood's total carbon footprint under Sustainability governance on p. 122.

# 1 in 5 vehicles

will run on fossil-free fuel by 2019.

### Priorities 2019

- Begin development of an automated warehouse for store and e-commerce orders in Stockholm
- E-commerce deliveries in Stockholm from joint dark store for willys.se, hemköp.se, mat.se and Middagsfrid
- Improve efficiency of logistics
- Continue diversification of vehicle fleet



During 2018 Axfood was the first food retail company to invest in delivery trucks that run on liquid biogas.

# New ways of working through digitalization



Axfood will develop an innovative, customer-oriented and dynamic organization in which efficiency and cost control are in focus.

**Digitalization is creating opportunities to improve operations. Using digital systems and innovative solutions, Axfood can become even more relevant for customers and at the same time increase its efficiency. New solutions and a high pace of development require an agile organization with a strong capacity for change.**

Sharper focus on customer behaviours through

## customer centric analysis.

### Priorities 2019

- Implement work methods that support the digital customer interface and adapt the organization
- Robotization and automation
- Increase degree of data-driven analyses and decisions

### Digital work flows

Axfood's digitalization is based on a Group-wide, modern business system. Development is taking place rapidly, and complementary systems and ways of working are enabling even greater benefit both for employees and customers. Following are just a few of the benefits being created by digitalization.

Through new tools for customer-centric analysis, Axfood can create a more relevant customer experience. Through this analysis, the assortment and prices can be better controlled, and offers can be personalized to a higher degree.

Digital aids in stores are becoming more common. For example, store staffing can be optimized with the help of data-driven analyses. An app is currently being tested that will enable customers to find products in a store via a map function or using a hand-held scanner.

Operations behind the digital customer meeting are also becoming more highly digitalized. This includes everything from sales promotion and offering alternative products to improving home deliveries and contacts with customer service. The ability to quickly and smoothly offer a friction-free shopping experience is paramount.

Axfood has introduced digital identities for all employees, creating better conditions for internal communication and management.

Simpler administrative work tasks can be automated through the use of robots, making work easier for employees and freeing up time for other duties. During 2018, invoice processing by robots was expanded within Axfood and now includes both customer and supplier invoices.

### An agile organization

Digitalization is putting new and high demands on the organization. Axfood is striving to develop an innovative,

customer-oriented operation with a high capacity for change, where efficiency and cost control are in focus. To be agile, greater demands are put on cross-functional cooperation between various departments and experts. It also requires teams that interact and learn from each other – and most importantly from customers – to achieve shared goals. The rapid pace of technological development and competition also require an ever-shorter time from idea to implementation. Apart from the fact that employees require training in new ways of working and more people need to be hired with digital competence, certain development aspects can benefit through partnerships with external entrepreneurs.

### Energy management that creates surpluses

Axfood has effective tools for systematic measurement and monitoring to control its energy needs. As the Group grows and demand for fresh and refrigerated products increases, it is important to focus on energy efficiency, such as by installing LED lighting, solar panels, lids and doors on all refrigerator and freezer displays, and recycling heat from refrigeration and freezer units.

At the distribution centre in Stockholm and a few of the Group's stores, so much heat is recovered from refrigeration and freezer systems that a surplus is created. Since 2017 this surplus heat is sold back to the district heating network.

Read more about Axfood's total carbon footprint under Sustainability governance on p. 122.



# New thinking with AI

Axfood is working continually on developing and using new digital solutions – all in an effort to make life a little better for our customers and our surroundings. During 2018 Axfood developed a self-learning algorithm for staff planning in stores that makes it easier to have the right staffing in stores and save time spent on planning. The model is fed with historic sales data plus more than 100 parameters such as inflation, payroll dates and campaigns. The goal is to provide better customer service and use employees' hours in a smarter way.





# Culture that leads the way



Axfood will attract, recruit and develop the industry's best people.

**A distinct Axfood culture and values-steered leadership are driving forces that instil pride and commitment. Together with passion for food this also fosters collaboration. For Axfood, diversity is important and makes a positive contribution to our business. It should therefore be apparent both in our product assortment and our employee make-up.**

Axfood strives to attract, recruit and develop the industry's best people in a workplace characterized by commitment, diversity and sustainability. The employees' various skills, competences and perspectives create new opportunities and generate better decisions. This makes Axfood even better at meeting customers' various needs and makes the Group a more exciting place to work at. Diversity is conducive to business benefit, quite simply. It is for this reason that Axfood has worked for many years to create an inclusive work climate, see the outcome on p. 144.

Axfood works actively with succession planning to fill 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.

Axfood's ambition is that the balance between men and women in management positions will be in the range of 40% to 60%. Progress is being made in this area, as shown on p. 32, where the performance on the strategic targets is presented.

A large step in the work on accelerating gender equality was the adoption of a new recruitment process in 2018. It ensures an objective selection through tests and questions that focus more on



attributes than on specific professional knowledge. Axfood can thereby broaden its base of candidates and attract the right people. This is expected to lead to higher performance in the organization, lower sickness-related absences, lower personnel turnover, greater diversity and lower costs for external recruitment consultants.

It is also highly important that job applicants are taken care of in a good manner. The new recruitment system creates conditions for a more effective and secure process. It creates opportunities for analyses of where, how and when we can best reach candidates.

During 2018 Axfood registered 117,700 (91,800) applications for jobs posted by the Group. This represents an average of 88 (96) applications per position.

### The store as integration platform

Axfood's many stores offer job opportunities even for individuals without perfect command of the Swedish language. For employees who show talent in retailing and store operations, Axfood offers myriad opportunities for continuing education and development.

Since the start of 2018 Axfood has been conducting the apprentice programme Nyanländ i Axfood ("New-comer at Axfood"), which features a mix of practical store work and training. Most of the programme's participants have been offered employment in a store following their participation in the programme.

### Core values provide guidance

To be able to meet new preferences from customers in a highly dynamic market and deliver on our strategy, we must continuously develop the company culture. At Axfood we have

# 25,885

**e-learning courses were completed in 2018.**

a shared view of how employees should act with each other, suppliers, and above all customers. The core values apply for everyone in the Group and regardless of whether the relationship pertains to our own operations or external parties. During 2018 Axfood's core values were refined to even more clearly serve as a precept and promote wanted behaviours among employees in their daily work.

### Building career paths through competence development

Axfood is a large employer that encourages its 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. During 2018 the Digital Axfood Academy was launched, gathering all training courses in a single system that gives employees and managers better control over courses that they have completed. It also opens great opportunities to swiftly pinpoint training activities in response to new legal requirements, for example, or when employees switch companies.

In 2018, 2,109 employees completed a total of 4,010 days in training. On top of this, nearly 26,000 e-learning courses were completed. This means that on average, an e-learning course is taken every 18 minutes, 24/7.

### Strong employer brand

Axfood's employees are proud to work for Axfood, which is strengthened by the Group's unyielding work with sustainability and diversity. 93% of employees responded to the employee survey in 2018. On the whole, engagement has increased in the Group's companies, and Axfood is now on par with the benchmark. Engagement is related to the factors most closely at hand in daily work as a work team, colleague or manager. The most recent measurement showed an Engagement index score of 77 (76). Engaged employees result in higher productivity and more satisfied customers.

### Healthier workplace

One important strategic target is to maintain a high work attendance rate, see the outcome on p. 32. 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, the Axfood Academy conducts training focused on, among other things, the work environment, sickness-related absenteeism and rehabilitation.

### Prioritized activities 2019

- Work with culture and core values
- Increase diversity in senior positions
- Competence renewal and competence succession
- Increase work attendance rate

### Our core values

#### Together we are stronger

- Help each other, show appreciation, and rely on others' competence

#### The store is our stage

- Always prioritize the customer and embrace change

#### We are aware

- Prioritize in order to maintain high quality and be prudent with our resources

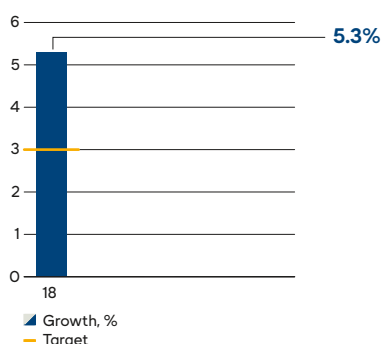
#### We dare

- Strive for constant improvement, lead the way and take initiative

# Performance on strategic targets

## Financial targets

### Growth



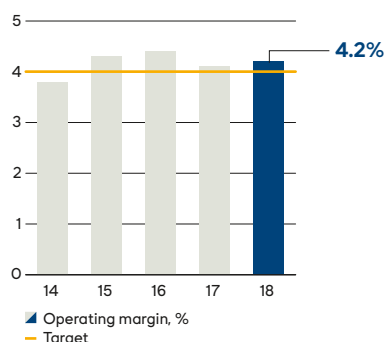
#### Target

Axfood will grow faster than the market (new target as from 2018).

#### Outcome

During 2018 Axfood's store sales (including Hemköp franchises) increased by 5.3%, while growth for the market was 3.0% in current prices, according to HUI/the Swedish Food Retailers Federation. Axfood thereby increased its market share.

### Operating margin



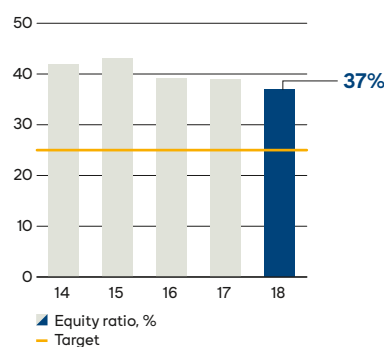
#### Target

Long-term operating margin of at least 4%.

#### Outcome

The long-term target was reached in 2018, with an operating margin of 4.2%. Profitability was favourably affected by like-for-like sales performance and the sales mix.

### Equity ratio



#### Target

In 2018 the target was an equity ratio of at least 25% during all quarters.

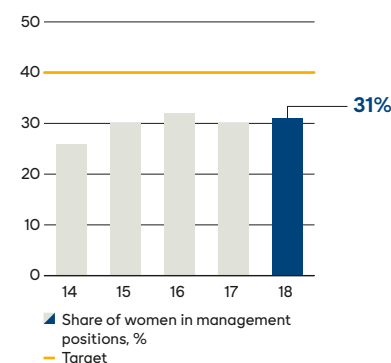
As a consequence of changed accounting policies (transition to IFRS 16 Leases), in 2019 the target is an equity ratio of at least 20% by year-end.

#### Outcome

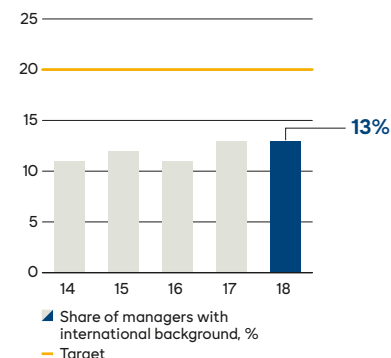
The equity ratio as per 31 December 2018 was 37%, and the target was achieved during every quarter.

## Employee targets

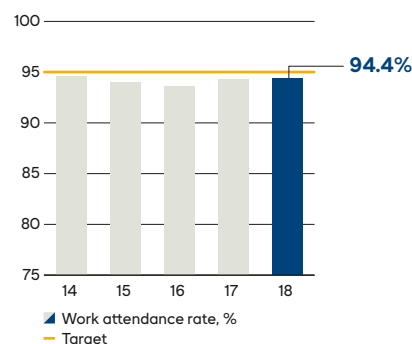
### Gender equality



### Diversity



### Work attendance rate





# Sustainability targets

## 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 2018; in other management positions the share of women was 31%.

## Target

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

## Outcome

In 2018, 13% of Axfood's managers and 24% of employees had an international background. More than 30 languages are spoken within the Group.

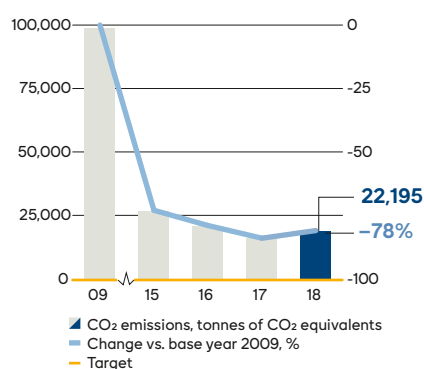
## Target

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

## Outcome

The work attendance rate in 2018 was 94.4%, which is slightly below the target and reflects the trend in society as a whole.

## Carbon footprint – CO<sub>2</sub> emissions



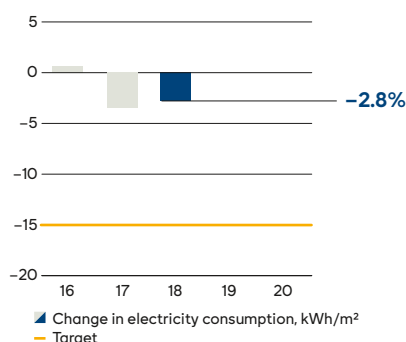
## Target

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 2018 Axfood reduced its carbon footprint by 78%. Transports accounted for the largest footprint (48%), followed by refrigerants (29%), electricity consumption (18%) and business travel (5%). The increase in 2018 compared with 2017 is mainly due to Axfood's decision to not use HVO biofuel.

## Change in electricity consumption



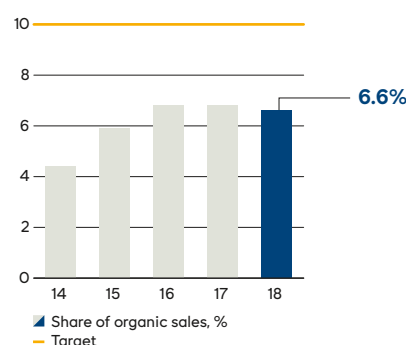
## Target

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

## Outcome

Electricity consumption per square metre decreased by 2.8% in 2018 compared with the base year 2015. The decrease was achieved despite the long, warm summer and high capacity utilization of warehouses.

## Share of organic sales



## Target

Organic products as a share of total net sales will amount to 10% by 2020. Starting in 2019 the target has been updated to also include sustainability certified products. This broader target entails that sustainability certified products shall amount to at least 25% by 2025.

## Outcome

Organic products accounted for 6.6% of net sales in 2018. Organic products accounted for 9.3% of total for Hemköp and 5.9% for Willys.

# Axfood creates value through corporate social responsibility

## Resources Axfood develops

### Relationships

- Relationships with approximately 1,500 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 about Axfood's stakeholders and material issues, see p. 126.*

### Intellectual capital

- Competence to develop private label products by drawing from customer surveys and insight work to enhance value-added and affordability.
- More than 4 million customers in two cardless and fully digital customer programmes at Willys and Hemköp.

### Knowledge

- Experience and knowledge in e-commerce through positioning of six distinct brands online (willys.se, hemköp.se, Mat.se, middagsfrid.se, axfoodsnabbgross.se and apohem.se).
- As a first step towards automation, start of operations of the Group's first automated warehouse in 2018.
- Integrated sustainability work across the entire value chain.
- Axfood Academy – internal centre for competence development.

### Financial

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

### Facilities

- Eight warehouses and three dark stores, with an average turnover rate of 32 times per year. At certain facilities, surplus heat that is generated from refrigeration systems is sold back to the district heating system.
- Collaboration with 1,217 stores, of which 302 are Group-owned.
- 152 own trucks handling distribution to stores, plus a fleet of 131 smaller trucks and vans for home distribution to customers.

### Nature

- Energy consumption: in stores 343 kWh, in warehouses 224 kWh.
- Consumption of fuel through product transports.

## Axfood's operations

1

Choice of suppliers, price negotiations and purchasing

2

Logistics

3

Stores, customers and passion for food



## Results Axfood generates

**Relationships**

- Axfood has worked together with more than half of its suppliers for at least ten 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 formulating Sweden's national food strategy. Driving role behind the adoption of deposits for more packaging, such as plastic juice bottles.

**Intellectual capital**

- Approximately 29% of sales consist of private label products, which are produced in collaboration with some 400 suppliers. Through tools and data warehouses, customers' buying behaviours can be analysed, allowing Axfood to create relevant and personalized offering.

**Knowledge**

- Increased sales through omnichannel approach, 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.
- 2,109 employees spent a total of 4,010 training days via Axfood Academy. In all, 22 different instructor-led courses were held on 167 occasions, and 25,885 e-learning courses were completed by 6,666 individuals.

**Financial**

- High equity ratio of 37%, a net debt receivable as per year-end 2018, and a proposed dividend of 94% of net profit.
- Investments in three new stores, modernization of existing stores and expanded ownership in Urban Deli, which has led to higher growth and a stronger brand.

**Facilities**

- Sale of approximately 7,000,000 kWh in surplus energy to district heating network.
- Solar panels that generate an estimated 234,000 kWh of electricity.
- Approx. 500 new jobs created in newly established stores.
- More diversified delivery fleet that uses various types of renewable fuels.

**Nature**

- CO<sub>2</sub> emissions per distributed tonne of goods from warehouses to stores using own fleet increased to 16.6 CO<sub>2</sub> equivalents per tonne of goods.
- Avoidance of HVO biofuel, which is made with ingredients based on palm oil. This has resulted in a higher carbon footprint for Axfood, but is of long-term importance for the environment.

## Value 2018

**Society****SEK 3,621 m**

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

**Suppliers****SEK 34,985 m**

Costs of goods for resale

**Employees****SEK 4,193 m**

Salaries and compensation

**Axfood****SEK 1,021 m**

Total capital expenditures

**Shareholders****SEK 1,466 m**

Dividend (proposed by the Board of Directors)

# 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 shopping cart. At every step, value is created for Axfood and the Group's stakeholders.

## 1 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 builds long-term relationships with suppliers who share the same ambition for sustainability and affordable products.

## 2 Logistics

### Striving for optimal product flows

Logistics are about optimizing the product flow from reception of goods to warehousing and picking, to delivery to stores or customers. Efficient logistics create conditions for favourable and profitable growth. Other centrally important areas include efficient use of energy and sustainable transports for a smaller carbon footprint and better economy.

## 3 Stores, customers and passion for food

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

Key aspects in creating a rewarding customer interaction are inspiring stores, a rich selection of fresh products, and modern design and technology. Having a sustainable business requires active work against food waste, efficient use of energy, and a passion to inspire customers to buy good products. Axfood will meet its customers where they prefer – in physical stores and online.



# Segmental overview

Share of Group operating profit<sup>1)</sup>

## Willys

Willys is Sweden's leading discount chain, with a wide and deep assortment in 200 Group-owned stores. With Sweden's cheapest bag of groceries, Willys aspires to lead and develop the discount segment of food retail.

Willys includes the cross-border grocery chain Eurocash, with eight stores.

59%



## Hemköp

Hemköp offers an attractively priced, wide and deep assortment of fresh products. Hemköp's 187 stores aim to inspire for good meals in a simple and painstaking manner.

Hemköp includes Tempo, a mini-mart format comprising some 150 retailer-owned stores.

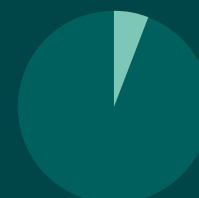
11%



## Axfood Snabbgross

Axfood Snabbgross is one of Sweden's leading restaurant wholesalers with a customer base of restaurants, fast food operators and cafés. The chain offers personal service, availability and quality from 24 stores nationwide.

6%



## Dagab

The support company Dagab handles the assortment, purchasing and logistics for the entire Axfood house of brands as well as other B2B customers.

Dagab includes the online grocery store Mat.se, the meal kit company Middagsfrid, the online pharmacy Apohem, and Urban Deli, a combined restaurant and market hall concept with own food production.

34%



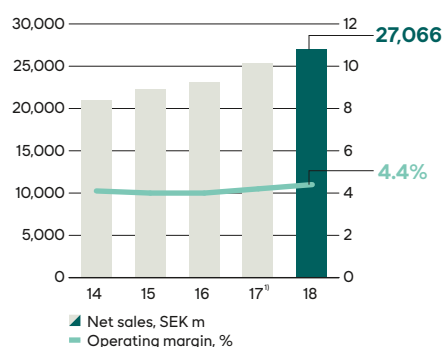
<sup>1)</sup> Excluding joint-Group earnings.

# Willys – Sweden's cheapest bag of groceries

The Willys segment comprises the discount chains Willys and Eurocash. Willys is Sweden's leading discount chain offering a wide assortment in 200 stores. During 2018 Willys and Eurocash showed continued strong performance both in terms of sales and profitability.



Net sales and operating margin



Key ratios

SEK m	2018	2017 <sup>1)</sup>	Change
Net sales	27,066	25,415	6.5%
Like-for-like sales growth, %	4.3	4.3	0.0
Operating profit	1,197	1,059	13.1%
Operating margin, %	4.4	4.2	0.3
Number of Group-owned stores	208	207	1
Average number of employees during the year	5,337	5,070	5.3%
Private label share, %	30.8	29.9	0.9
Share of organic products, %	5.9	6.0	-0.1
Growth in vegetarian products, %	25	33	-8

<sup>1)</sup> Pro forma

## WILLYS



### Business concept

Willys is the market challenger 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 chain.

### Store facts – Willys

- 200 wholly owned stores, of which 151 Willys stores, 49 Willys Hemma stores
- Retail area in Willys stores: Willys: 1,100–4,700 sq. m., approx. 9,000 items, Willys Hemma: 300–1,200 sq. m., approx. 5,000 items.

### Store facts – Eurocash

- Eight partly owned Eurocash stores
- Retail area in Eurocash stores: 1,200–3,200 sq. m., approx. 10,000–15,000 items.



For more than 40 years Willys has been driven by its passion to offer Swedish consumers good food at low prices. Through its business concept – Sweden's cheapest bag of groceries – Willys is doing its part to put good food on more tables.

### **Cheapest bag of groceries online**

At year-end Willys offered e-commerce at 56 stores in 30 cities. No matter if a product is offered at a physical store or online, the prices and promotional campaigns are the same. However, a fee is charged for e-commerce – for putting together orders and delivering them to customers. Customers can choose to pick up their grocery orders themselves from lockers at stores or have them delivered home. Just like in its stores, Willys pledges to have the cheapest bag of groceries online.

Willys also includes the Willys Hemma concept, consisting of stores with a smaller assortment located in city centres or in smaller towns.

At year-end 2.5 million customers were enrolled in the Willys Plus customer programme, which features relevant, special price offers.

### **Good and sustainable food for everyone**

Willys strives for the right balance of popular products in all product categories. Customers should be able to choose meat or veg, Swedish or foreign, brand-name or private label products. Historically both organic and vegetarian options have been expensive, which is something Willys wants to change. More people should have the opportunity to eat good and sustainable food.

All Willys stores bear the Swedish Society for Nature Conservation's Bra Miljöval ("Good Environmental Choice") marking for grocery stores. This is one of the most rigorous environmental certifications in the market and requires, among other things, that the stores have a large selection of organic products, that they avoid particularly environmentally hazardous products, and that they actively work with energy efficiency and waste sorting. Low prices and sustainability go hand-in-hand.

Willys is a main sponsor for Save the Children Sweden. Since 2010 customers have donated more than SEK 20 m to Save the Children by pressing a special "donate" button on bottle and can deposit machines at Willys stores.

### **Waste-smart for reduced food waste**

Food waste is an issue close to heart for Willys, since it represents an unnecessary cost and carbon footprint. The goal is to cut the chain's food waste in half by 2025. Towards this end Willys has created Svinnsmart ("Waste-smart"), to take care of food that otherwise would be tossed out. Day-old store-baked bread and products that are nearing their best-before date are highlighted and marked down. During the autumn, cooperation was also begun with a restaurant in Stockholm that prepares food exclusively using ingredients that have been "rescued" from grocery stores. In addition, at year-end 2018, 89 Willys stores were involved in partnerships with local charities that accept food donations.

### **Efficiency for low costs**

Being able to offer low prices requires an efficient organization with low costs. It also 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 – the border's best grocery chain**

Eurocash serves the cross-border shopping segment along the Norwegian border. The chain's eight stores extend from Storlien in the north to Strömstad in the south. Integration with Axfood has increased Eurocash's profitability, and the chain had strong performance in 2018.

Eurocash has been part of Axfood since 2017 and operates in the discount segment together with Willys. Cross-border shopping is a discount business by its nature through large volumes and a narrower assortment than the traditional grocery segment.

Eurocash is jointly owned with the Norwegian grocery group NorgesGruppen. This joint ownership is a strength, with Willys as the expert in Swedish food retailing and NorgesGruppen sharing knowledge about Norwegian consumers.

### **Norwegian customers**

Eurocash's target group consists primarily of Norwegians, who are drawn to the considerably lower prices in Sweden, especially for meat, tobacco and sugary products.

Approximately 2 million Norwegians live less than a 90 minute drive from a Eurocash store. To attract these customers Eurocash focuses on high quality and tempting prices.

### **High service level and low prices**

Eurocash stores offer a modern and pleasant in-store experience with a high level of service. The chain's stores have staffed meat counters, where the meats are cut and packaged on site. The average Eurocash store offers a comprehensive grocery assortment of more than 10,000 items. Overheads are kept down through cost efficiency, simplicity and smart store solutions.

### **Good and sustainable food**

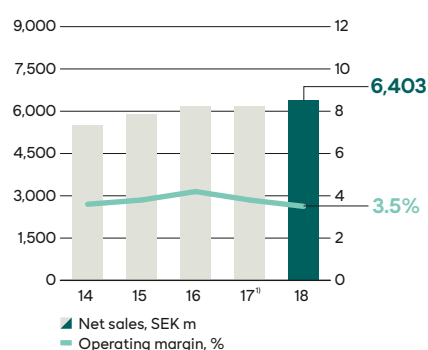
Eurocash offers a large selection of good and sustainable products, including hypoallergenic products, for example. Further efforts are being made to increase the offering of gluten- and lactose-free products. The chain also works actively on reducing food waste.

# Hemköp – passion for sustainable food

Hemköp offers an attractively priced, wide assortment with a rich offering of fresh products. The chain aspires to stimulate customers' passion for sustainable foods and help them find inviting meal solutions. The past year can be summed up with growth in line with the market, but slightly lower profitability than a year ago.



Net sales and operating margin



Key ratios

SEK m	2018	2017 <sup>1)</sup>	Change
Net sales	6,403	6,199	3.3%
Like-for-like sales growth, %	1.1	2.1	-1.0
Operating profit	227	234	-2.8%
Operating margin, %	3.5	3.8	-0.2
Number of Group-owned stores	70	67	3
Average number of employees during the year	1,798	1,800	-0.1%
Private label share, %	25.1	24.0	1.1
Share of organic products, %	9.3	9.5	-0.2
Growth in vegetarian products, %	16	23	-7

<sup>1)</sup> Pro forma

## Hemköp

## tempo

### Business concept

The personal food store, which in a simple and 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 – Hemköp

- 187 Hemköp stores, of which 70 are Group-owned
- Store retail area 400–4,000 sq. m., 10,000–12,000 items.

### Store facts – Tempo

- 134 Tempo stores
- Store retail area 300–500 sq. m.
- Approximately 4,500 items.



Hemköp celebrated 60 years in 2018, which was commemorated with activities throughout the year. For Hemköp, the meeting with customers and inspiration for sustainability are in focus. All store employees complete training in customer service and how to engage with customers.

The Hemköp chain combines Group-owned stores with stores that are owned by private retailers. This combination of ownership forms is a strength that is driving the chain forward. It gives Hemköp an opportunity to have a presence in many locations in Sweden at the same time that the combination of chain operation and entrepreneurship spur and create growth.

### **E-commerce and customer programme**

At year-end 18 stores offered e-commerce. These offer the same prices, campaigns and wide assortment online as Hemköp's physical stores. As part of Hemköp's sustainability work, all home deliveries are climate compensated. Customers who shop online have a higher average ticket value and choose a higher share of Axfood's private label products and organic products.

Hemköp continues to develop its cardless customer programme. Based on the extensive customer insights provided by the programme's data, Hemköp can devise even more relevant and personalized offers. At year-end approximately 1.5 million customers were enrolled in the programme.

### **Inspiring meal solutions**

Hemköp offers a large selection of prepared foods in its stores. At larger stores in central locations, staff are hired with specialist expertise to handle, inspire and provide advice on matters such as fresh fish, 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. Customers must always feel confident that the fish they buy comes from sustainable stocks. Hemköp is the only grocery chain in Sweden with MSC and ASC certified fish counters.

Every year Hemköp records more than 105 million customer visits. This gives the chain an opportunity to inspire and influence people to make more sustainable choices. Having a responsible approach to environmental and sustainability issues is important for Hemköp – and for its customers.

### **Plastics an important sustainability issue**

Plastics are an important symbolic issue, and Hemköp was first in Sweden to introduce a deposit for plastic shopping bags. All surpluses from the project are donated to the Swedish Society for Nature Conservation's work with sustainable oceans. Hemköp is also unique with its Variera med vego ("Vary with veggie") concept, where vegetarian alternatives are displayed next to popular meat products, such as halloumi burgers next to ordinary beef burgers and vegetarian pâté next to liver pâté. Hemköp is also a partner with SOS Children's Villages. In January 2019 it was noted that a total of SEK 12 m has been collected during the ten years of this partnership.

### **Price value and quality**

To show it is constantly providing price value, Hemköp has created the Alltid bra pris ("Always good price") concept, which is communicated through shelf signs and other promotional store signage. The concept includes roughly 900 products, about a hundred of which are organic.

## **Tempo – the good neighbour**

At Tempo's 134 stores, customers are met by a familiar commitment to good food and service. Tempo stores serve as a local meeting place, whether it be in a countryside community or suburb outside a major city.

Since 1 January 2018 the Tempo brand has been operated by Hemköp, after previously having been part of Axfood Närlivs. Hemköp maintains and develops the Tempo profile by delivering the greatest possible value added to affiliated retailers. Axfood has no Group-owned Tempo stores. Instead, the stores are owned and run by independent retailers, who follow set guidelines and criteria for the Tempo profile, but also have great freedom to develop and adapt their stores to the local market's demand and conditions.

### **Nearby and personal**

Tempo is a mini-mart format with a specialized assortment of some 4,500 items. Tempo's strength lies in its proximity to people's homes and its personal touch. Many Tempo stores offer a range of services such as package pick-up, betting/lottery agent services, and the ability to buy and pick up medicines. A number of stores have introduced the option to pay by phone for customer convenience.

# Axfood Snabbgross – Sweden's best restaurant wholesaler

**Axfood Snabbgross is the Group's restaurant wholesaler with a customer base of restaurants, fast food operators and cafés. At 24 Group-owned stores and online customers are offered personal service, accessibility and quality. The segment had growth of 9% in 2018, with stable profitability.**

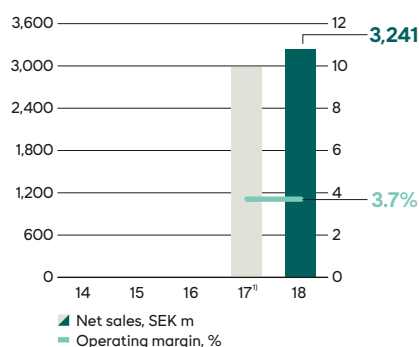
Axfood Snabbgross is addressing the trend of the rapidly growing café and restaurant market.

Priority target groups are cafés, fast food restaurants, neighbourhood pubs and lunch restaurants – a segment that is experiencing steady growth. Axfood Snabbgross works nationwide in Sweden, with stores located from Luleå in the north to Malmö in the south and an e-commerce operation that covers most parts of the country.

## Modern and attractively priced assortment

Axfood Snabbgross is unique in the market, distinguished by accessibility at all levels, including generous business hours, nationwide store coverage, extensive e-commerce and knowledgeable employees. Every store is adapted to serve the needs of its local market.

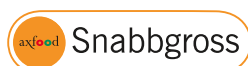
Net sales and operating margin



Key ratios

SEK m	2018	2017 <sup>1)</sup>	Change
Net sales	3,241	2,984	8.6%
Operating profit	121	110	9.9%
Operating margin, %	3.7	3.7	0.0
Group-owned stores, number	24	24	0
Average number of employees during the year	401	384	4.4%
Share of organic products, %	1.6	1.9	-0.3
Growth in vegetarian products, %	30	n.a.	n.a.

<sup>1)</sup> Pro forma



## 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.



By offering an extensive and modern assortment of products in varying price and quality classes, the company has a large and growing customer base.

Axfood Snabbgross has both total customers who buy all their products from its stores and occasional shoppers who need help quickly when they've run out of stock.

### **Knowledgeable and multilingual employees**

Success factors for Axfood Snabbgross 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 and future success for both parties.

Good language skills are viewed as a key competence among employees. Being able to engage with customers in their own languages is one way of reflecting diversity in society and allows employees to provide even better service. Employees speak everything from Southern Sámi to Arabic. Store staff are easily identifiable for customers by wearing nametags that indicate which languages they speak. In all, some 30 languages are spoken within the company.

### **E-commerce across Sweden**

Axfood Snabbgross has a modern e-commerce platform that makes it easy for customers to search for items and shop more efficiently. The goal is that e-commerce will grow in step with each individual store's local conditions.

### **Sustainability – a given**

Axfood Snabbgross's stores are working continuously to upgrade and adapt for greater sustainability. 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.

At present, demand for sustainable products from restaurant owners is not as high as from ordinary grocery customers. Axfood Snabbgross is preparing itself for the future – where increasingly discerning restaurant patrons have higher demands on the food they eat – by inspiring customers to make sustainable choices and clarifying the connection between sustainability and profitability. Suggestions and good examples are shared with customers, such as about sustainable products in the assortment, how to reduce food waste and on energy-saving measures.

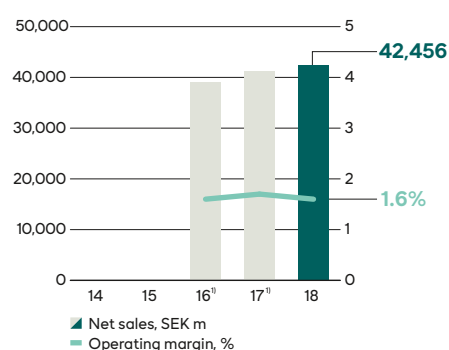


# Dagab – efficient and innovative operation

The support company Dagab is responsible for the assortment, purchasing and logistics for all of Axfood's food concepts as well as for other business customers. Dagab posted growth in total sales by 3% in 2018. Profitability was level with the preceding year.



Net sales and operating margin



Key ratios

SEK m	2018	2017 <sup>1)</sup>	Change
Net sales	42,456	41,128	3.2%
Operating profit	685	699	-2.0%
Operating margin, %	1.6	1.7	-0.1
Average number of employees during the year	2,301	2,278	1.0%
Delivery reliability, %	96.1	96.9	-0.8
Private label share, % (Axfood Group)	29.2	28.2	1.0
CO <sub>2</sub> emissions, kg/tonne goods <sup>2)</sup>	16.6	7.3	9.3

<sup>1)</sup> Pro forma

<sup>2)</sup> Total volume for transports from warehouses to stores using own fleet. For more information, see p. 134.

**dagab**

**mat.se**

**MIDDAGS  
FRID**

## 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.

## Brief facts – Mat.se

- Mat.se is an online store serving the Stockholm, Gothenburg and Malmö areas
- Three dark stores
- Fleet of 131 own light trucks and vans
- More than 9,000 items.

## Brief facts – Middagsfrid

- Composes and delivers meal kits complete with recipes
- Five standard meal kit options plus two special variants
- Pioneer – established 2007.

As a support company and partner to Axfood's food concepts, Dagab plays a key role. Dagab aims to steadily improve the efficiency of the supply chain from the assortment and purchasing to warehousing and distribution.

### Attractively priced assortment

Dagab creates an attractive assortment and also the successful development of Axfood's private label products. The assortment is one of Axfood's most important cornerstones. All supplier agreements are negotiated centrally by Dagab, creating the best conditions for Axfood's various food concepts. By coordinating purchases of the Group's total volumes, Dagab gains strong purchasing power that translates to price value – enabling more people to eat good and sustainable food.

### Smooth product flow

It is important that Dagab can deliver store orders at the designated time, which is measured in terms of delivery reliability. During 2018 delivery reliability was slightly lower than the 97% target on account of the summer's extreme demand for selected frozen and refrigerated products. Inventory efficiency is measured in terms of the turnover rate, which was 32 times in 2018.

The first automated warehouse was inaugurated during the year and supplies the entire Group with perishables. Through automation, efficiency in warehousing can be increased significantly. This is especially important for perishables, which are to spend 80% of their shelf life in stores.

### Extensive distribution

Dagab delivers to some 7,000 stores and customers across Sweden. Apart from the Group's own food concepts, this includes deliveries to stores operating under the Handlar'n and Direkten concepts and a large number of foodservice operators. To contribute to even more efficient transports and increase capacity utilization, Dagab is striving to increase stores' purchases from the Group's own warehouses. During 2018 the purchasing rate increased to 96%. For more information about the delivery fleet, see p. 134.



### Brief facts – Urban Deli

- Urban Deli is a mix of market hall, food store and restaurant
- Vision: Contribute to a better, simpler and happier life around food
- Five locations in Sweden with approximately 400 employees.

## Mat.se – smooth online shopping

Mat.se is a grocery store that exists only online and serves customers in the Stockholm, Gothenburg, Malmö and Helsingborg areas. The store is at customers' fingertips and offers convenient terms and fast delivery. To help customers make more sustainable choices in the future, work is currently under way on compiling carbon footprinting data for the product offering.

## Sustainable menus from Middagsfrid

Middagsfrid was a pioneer in offering home delivery of meal kits in Sweden. The menu ingredients are selected with great care for health and the environment. The share of organic products is high, additives are avoided, and to the greatest extent possible, ingredients are used that are in season as well as Swedish meat and poultry.

## Expansion – Apohem and Urban Deli

At the end of 2018 Axfood increased its ownership in Urban Deli to just over 90%. Urban Deli is a mix of restaurant and market hall with own production of innovative foods, see p. 25.

In January 2019 Apohem launched its online pharmacy in the Swedish market. With prescription drugs and an offering of approximately 5,500 self-care products, Apohem is seeking to challenge the online pharmacy market, see p. 25.

"Changes require clarity of focus – in part surrounding the business's growth and in part surrounding the Group's financial position. It is a delicate balance between today's profitability and tomorrow's returns. To dare make decisions that can weigh down profitability in the near term, but which are beneficial in the long term."

Mia Brunell Livfors  
*Chairman of the Board*



# Corporate Governance Report 2018



# The store of the future requires adaptation

**The Board's duty is to ensure Axfood's development and a good, sustainable return for the shareholders while maintaining continuity and long-term perspective. The Board's decision to build a highly automated warehouse in Stockholm for both e-commerce and physical stores is a bold decision to embrace change and create future value in a balanced manner.**

## Focus on the power of change

Axfood's development has been amazing, and today Axfood has a strong starting point for the future – a future with challenges. Technological development is accelerating, the market is becoming more unpredictable, and the competition is steadily growing. Daring to change and adapt operations to the operating environment is a necessity. This is a precept that Axel Johnson – the principal owner of Axfood and company that I represent – lives by. Changes require clarity of focus – in part surrounding the business's growth and in part surrounding the Group's financial position. It is a delicate balance between today's profitability and tomorrow's returns. Daring to make decisions that can weigh down profitability in the near term, but which are beneficial in the long term.

## Logistics solution of the future

Axfood's decision to overhaul its entire logistics operation is one of the most significant changes in the Group's history. Highly automated warehousing – not only for e-commerce but for the entire inventory operation – will result in a lower cost level in a few years. It will also increase Axfood's competitive strength. With more efficient handling, Axfood can continue to develop attractively priced food for customers and ensure an attractive return for the shareholders – and without setting rigid structures based on estimates of how fast e-commerce will develop. This gives us valuable flexibility in a changing market.

## High dividend level

A strong financial position has always been a guiding principle at Axfood. Thanks to a relatively low level of tied up capital and a good and stable cash flow, Axfood is seldom in need of bank borrowing. The shareholders are the Group's primary source of funding. It is therefore important to maintain the high dividend level that Axfood has historically offered its shareholders. To invest in the future's customer offering, the Board believes that it is acceptable at times to carry a certain level of net debt. This enables continued high manoeuvrability.

## Adaptations in the organization

Technological development puts other demands on the organization's resources and ways of working. Operations must be made more agile to be able to shift in pace with developments. This is even more apparent against the backdrop of the rising unpredictability. We must develop and test with small steps, on a broad front. More and new technology also requires competence renewal – existing employees who receive training or new talents who need to be recruited. This applies for the entire operational organization – not least in view of the future logistics solution and ongoing digitalization – but also for the Board.

With the two new board members that the AGM elected to the Board in 2018, we have been able to both deepen and broaden the Board's competence with experience in areas such as e-commerce, the Internet of Things, and international trade.

## Good corporate governance

Good corporate governance ensures effective decision-making and increases the chances of capitalizing on new business opportunities. Within Axfood this is taking place through conditions for an active and responsible ownership role, a clear division of roles and responsibilities between the management and control bodies, good order and structure in the internal systems, and transparency vis-à-vis the owners and capital market.

## A Group at the vanguard

Growth is important for development of any business, not least a volume-based business like food retail. Axfood's ambition is to continue taking market shares. With a dual purpose highly automated warehouse for e-commerce and store orders, and a house of clearly positioned brands, Axfood has favourable conditions to continue building a Group at the vanguard. With a set of strategic targets in place, we are ensuring sustainable value creation so that the shareholders can feel that their capital is being managed securely.

## 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 has been audited by the Company's auditors. The audit is described in the Audit Report on page 68.

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

## External governance instruments

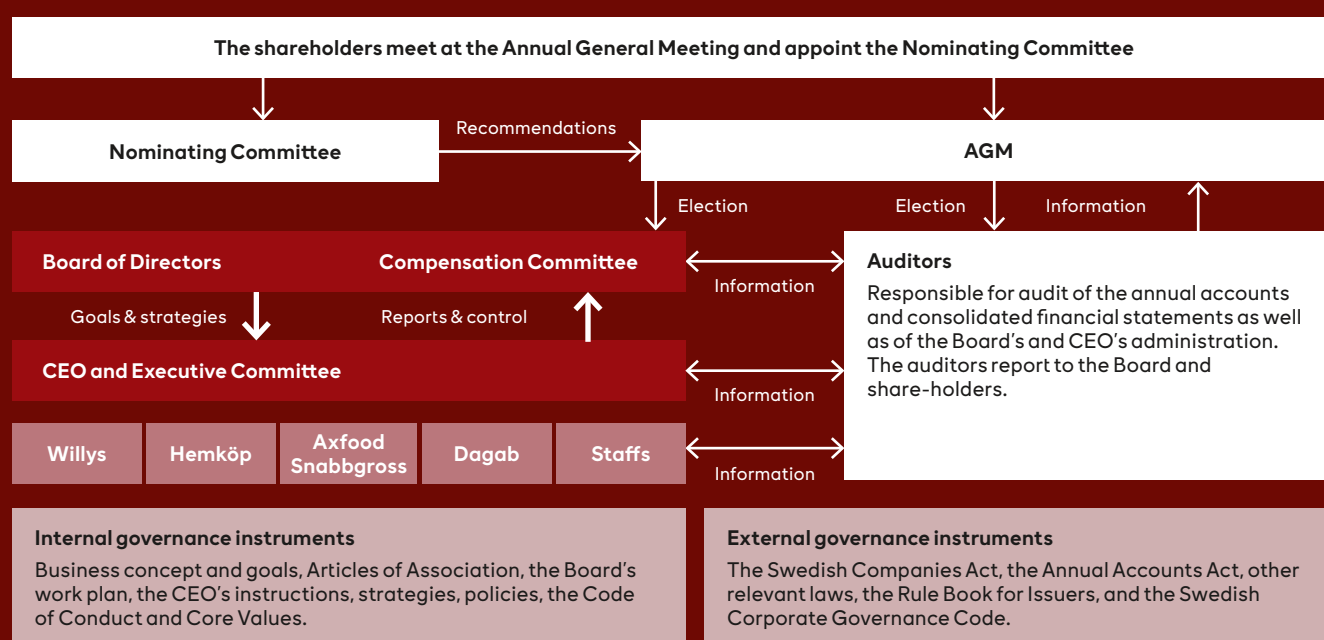
The external governance instruments that make up the framework of Axfood's corporate governance activities include the Swedish Companies Act, the Swedish Annual Accounts Act, other relevant laws, Nasdaq Stockholm AB's Rule Book for Issuers and the Swedish Corporate Governance Code (bolagsstyrning.se).

## Internal governance instruments

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

## Governance model

Governance, management and control at Axfood are divided among the shareholders (via the AGM), the Board of Directors and the President pursuant to Swedish corporate law, the Swedish Corporate Governance Code and the Company's Articles of Association.



## Swedish Corporate Governance Code

Axfood applies the Swedish Corporate Governance Code ("the Code") and in 2018 departed 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 2 October. 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 has still been considered by the AGM to be sufficient time for the Nominating Committee to perform its duties.

## 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, the diversity policy, and 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](mailto: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 four 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 Axfood's board shall be

## 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 209,494,712 shares outstanding.

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 nor 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 nor – to the Company's knowledge – in shareholder agreements regarding shareholders' rights.

## *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. Reporting is conducted in accordance with the GRI Standards, Core level.

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 by the Head of Sustainability.

Sustainability work is reported on as an integral part of this document, the Annual and Sustainability Report 2018.





composed of members who possess a well-balanced mix of the competences that are 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 competence. 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 most importantly by 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% to 60%. No board member shall be discriminated against on the basis of 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 directors elected by a general meeting of shareholders with a maximum of two deputy directors. The Articles of Association do not contain any stipulations on the appointment or dismissal of board members.

### *The Board's work*

Every 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 President, 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 executive 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.

A store establishment and financing committee is tied to the Executive Committee and 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 various representatives from the Executive Committee. The companies have board meetings at least four times a year.



# Year in review

## Shareholders

Axfood had 52,202 (49,292) shareholders as per 31 December 2018. At year-end, ownership by Axel Johnson AB, the largest single shareholder, was unchanged at 50.1%. The second largest shareholder was Swedbank Robur funds, whose shareholding was 2.3% of the shares and votes at year-end. Private persons and closely held companies held 62.9% (63.8%) of the shares at year-end, and foreign shareholders held 24.3% (17.6%) of the shares.

Axfood AB owns 376,000 treasury shares, or 0.2%, to secure delivery of shares coupled to Axfood's long-term share-based incentive programmes.

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. 72.

## Annual General Meeting 2018

Axfood's Annual General Meeting (AGM) was held in Stockholm on Wednesday, 14 March 2018. A total of 336 shareholders and representatives were in attendance, representing 146,134,661 shares, corresponding to 69.7% of the number of shares and votes in the Company.

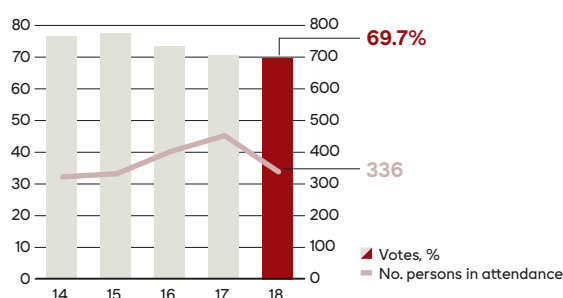
## Resolutions at 2018 AGM

The 2018 AGM made the following resolutions, among others:

- In accordance with the Board's proposal, to pay an ordinary dividend of SEK 7 per share (6) for the 2017 financial year
- That the Board shall consist of eight members without deputies. That directors' fees shall be payable in a combined amount of SEK 3,745,000 (3,225,000), in accordance with the Nominating Committee's recommendation.
- The directors' fees are apportioned as follows:
  - SEK 675,000 for the Chairman
  - SEK 520,000 for the Vice Chairman
  - SEK 425,000 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, Lars Olofsson, and Christer Åberg, and election of Stina Andersson and Jesper Lien as new directors

- To adopt guidelines for appointment of the Nominating Committee, in accordance with the Board's recommendation. These guidelines entail that:
  - The Nominating Committee shall include one member representing each of the four largest shareholders in the Company in terms of votes based on ownership statistics from Euroclear Sweden AB as per 31 August
  - 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 Nominating Committee's composition shall be made public not later than in connection with the Company's publication of the interim report for the third quarter
- 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](http://axfood.se).

## AGM attendance



## Composition of Nominating Committee

Name	Representing	Share of votes as per 31/8/2018, %
Caroline Berg	Axel Johnson AB, committee chair	50.1
Liza Jonson	Swedbank Robur funds	2.3
Rune Selmar	ODIN funds	1.9
Johan Strandberg	SEB funds	1.7



## Nominating Committee ahead of the 2019 AGM

According to the principles for appointment of the Nominating Committee that were adopted by the 2018 AGM, the four shareholders with the most shares and votes shall appoint the Nominating Committee.

The largest owners as per 31 August 2018 represented on the Nominating Committee are Axel Johnson AB, Swedbank Robur funds, ODIN funds and SEB funds. Changes in Axfood's ownership structure since then have not given rise to a need to adjust the Nominating Committee's composition. All of these are considered to be independent in relation to the Company and the Executive Committee. The Nominating Committee ahead of the 2019 AGM held two meetings and also maintained regular contact. 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 above.

## Board of Directors

Following the 2018 AGM Axfood's board consisted of eight directors elected by a general meeting of shareholders and no deputy directors. In accordance with the Nominating Committee's proposal, Stina Andersson and Jesper Lien were elected as new directors at the 2018 AGM. Prior to the 2018 AGM the Board consisted of six directors elected by a general meeting of shareholders. Each of these directors has important competences for Axfood, and their experience amply covers the areas considered to be important for the Company. Three directors and three deputy directors are appointed by the employees. As a whole Axfood has good breadth on the Board from a diversity perspective. Of the directors elected by a general meeting of shareholders, 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. 60.

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

At the statutory board meeting on 14 March 2018, Lars Olofsson was elected as Vice Chairman of the Board.

## Directors' independence

The Code stipulates that a majority of the directors elected by a general meeting of shareholders 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 directors elected by a general meeting of shareholders are independent in relation to the Company and the Executive Committee.

Four of the directors, Stina Andersson, Fabian Bengtsson, Jesper Lien 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 2018, 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. The second board meeting, in March, addressed establishment matters. In April the Board adopted the work plan for the Board and 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 2018, updating of the strategy for 2019 was begun.

## 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	5/5
Lars Olofsson (Vice Chairman)	2013	No	520,000	Yes	7/8	4/5
Antonia Ax:son Johnson	2000	No	425,000	–	6/8	–
Stina Andersson <sup>1)</sup>	2018	Yes	425,000	–	7/7	–
Fabian Bengtsson	2016	Yes	425,000	–	8/8	–
Caroline Berg	2014	No	425,000	Yes	8/8	5/5
Jesper Lien <sup>1)</sup>	2018	Yes	425,000	–	7/7	–
Christer Åberg	2017	Yes	425,000	–	6/8	–
Anders Helsing (Employee representative)	–	–	–	–	8/8	–
Michael Sjören (Employee representative)	–	–	–	–	7/8	–
Lars Östberg (Employee representative)	–	–	–	–	7/8	–
<b>Total</b>			<b>3,745,000</b>			

<sup>1)</sup> As from the 2018 AGM.

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 the future logistics structure, which is based on a planned, highly automated warehouse in Stockholm, customer and growth strategies, efficiency improvements, the digital strategy and the employee survey.

The Company's auditors attended two board meetings during the year and reported on the audit plan and on their observations from the 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 described in the illustration.

### Compensation Committee

The members of the Compensation Committee as from 14 March 2018 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 an additional long-term share-based incentive programme for key persons in Axfood.

The Compensation Committee held five meetings in 2018. No fees have been paid to committee members for their work on the Committee.

### Evaluation of the Board's work

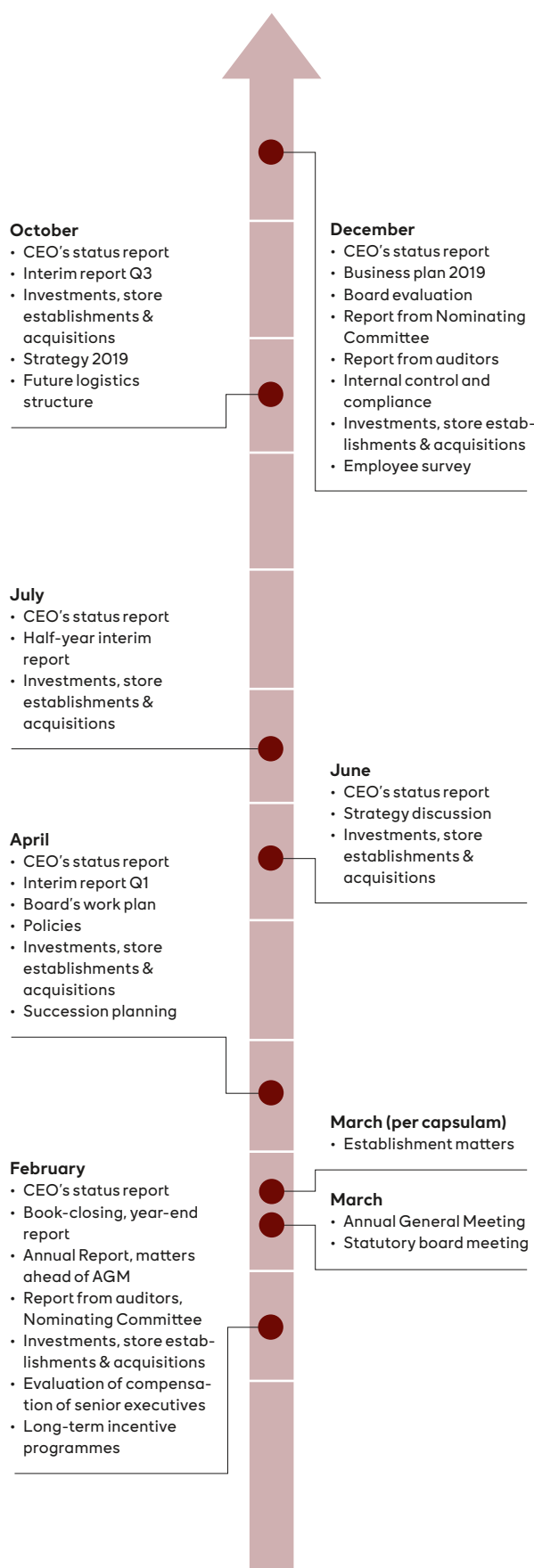
Mia Brunell Livfors, Chairman of the Board, is responsible for evaluation of the Board's work and for presenting this evaluation to the Nominating Committee. The aim of the evaluation is to gain insight into the directors' views on how the board work is conducted and on which measures can be taken to 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 2018 the Chairman conducted an electronic questionnaire for all of the board members and also received oral comments. The results showed continuous improvement and were very good in all categories. The evaluation indicated a strong coupling of the Board's work with Axfood's strategy and that a clear business plan is in place and that operations are being followed up. There is a strong level of engagement among the Company's board members. The results of this evaluation were reported to both the Board and the Nominating Committee in December 2018.

### Auditors' fees 2016–2018

SEK m	Group			Parent Company		
	2018	2017	2016	2018	2017	2016
Auditing fees, Deloitte AB	5	5	4	1	1	1
Consulting fees, Deloitte AB	7	0	0	1	0	0
<b>Total</b>	<b>12</b>	<b>5</b>	<b>4</b>	<b>2</b>	<b>1</b>	<b>1</b>

## The Board's work in 2018



## Auditors

At the 2018 AGM the auditing firm Deloitte AB was elected as auditor for term extending until the 2020 AGM. Hans Warén, Authorized Public Accountant and Chairman of Deloitte in Sweden, is chief auditor. In addition to his assignment with Axfood, he is chief auditor for Castellum, Gunnebo, Lindab and Trelleborg.

## Executive Committee

Axfood's Executive Committee in 2018 was made up of Axfood's President along with the presidents of four operating companies and five heads of staff. During the year Carl Stenbeck took office as Head of Strategy and Business Development, and Sara Kraft Westrell took office as Head of Corporate Communications. A more detailed presentation of the members of the Executive Committee is provided on p. 62.

## 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 Annual General Meeting on 14 March 2018. Since 2017, 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.

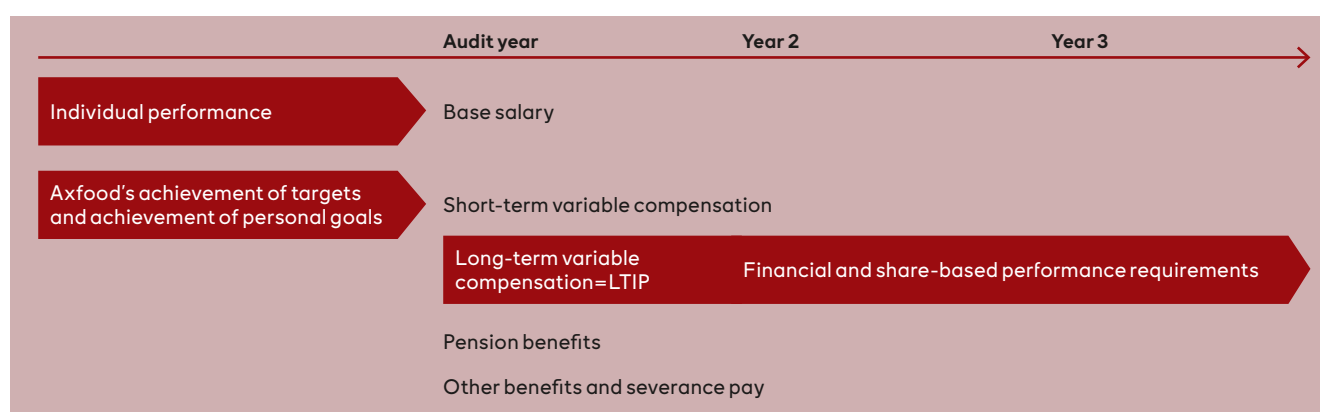
The sum of short-term variable compensation for the President and the other members of the Executive Committee can amount to a maximum of approximately SEK 14.8 m. If the Executive Committee is expanded, the level of variable compensation may exceed this amount. No variable salary is paid out in the event an executive gives notice prior to payment.

## 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 the programmes, 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 two members of the Executive Committee, for this part, have a solution corresponding to ITP1. 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 in certain cases. 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 next 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. Short-term variable compensation is expensed during the financial year and is paid out after the Annual Report has been adopted by the Annual General Meeting. The guidelines adopted by the 2018 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 2019 Annual General Meeting, no major changes are proposed in the principles for compensation and other terms of employment for members of the Executive Committee.

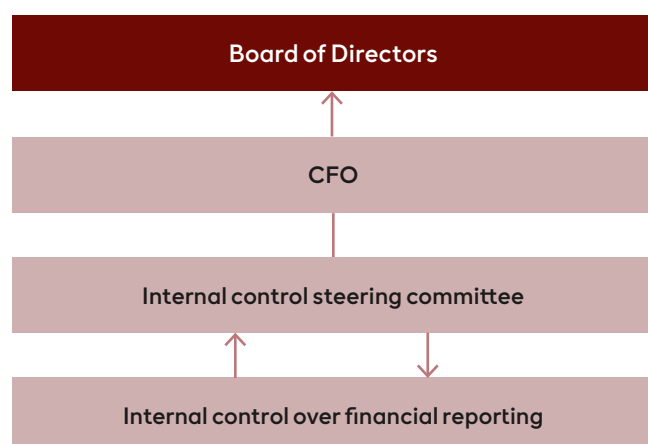
# The Board's report on internal control

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 audited 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 (Axecon), 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. Axecon also includes links to other areas, such as security/insurance, HR/personnel and IT.

## Work during the year

In 2018 an annual revision was performed of Axecon 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

Axfood is working continuously on strengthening internal control coupled to risk areas. Risk reviews conducted in 2018 identified the following areas, among others: robotic processes in financial flows, and financial reporting related to acquired companies, to organizational changes and transfers of work duties, and new flows such as the impact of fruits and vegetables on reporting in the business system.

#### 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

##### November

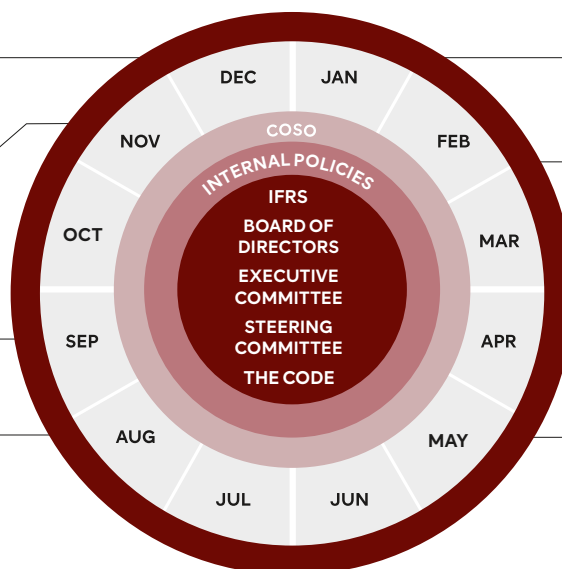
Follow-up of reporting  
Company feedback

##### September

Reports from subsidiaries

##### August

Follow-up with heads of the respective priority areas 2018  
Update of reporting pack  
Compilation of status report for overall internal control



##### February

Start-up meeting, setting of timetable and review of priority areas for 2018

##### March

Steering committee meets and discusses which areas in addition to the ordinary ones should be the focus of special review during the year  
Meeting with risk manager  
Revision of control verification

##### April

Review of risks and risk management with SSC functions

##### May

Auditors review and revise, administrative review  
Review of risks/risk management with process owners  
Review of risks/risk management with respective financial managers  
Start-up meeting with heads of respective priority areas 2018



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. The basic platform in SAP was modernized with the new technology's database generation (inmemory), and the Group is well equipped for the future and new technology in the SAP family.

### 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 the functions in Axfood's Shared Services Centre (SSC), and also of individual companies at the subsidiary level.

### Work during the year

During 2018, the control activities and accompanying reporting pack were revised to include the most important controls. A focus area for expanded review was selected to strengthen internal control specifically in this area. During 2018, reporting of non-current assets was chosen as a focus area.

### 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. A project to modernize the financial manual is planned for 2019. 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.

Stockholm, 20 February 2019  
The Board of Directors of Axfood AB



*Further information can be found at [axfood.se](http://axfood.se)*

- Articles of Association
- Code of Conduct
- Information from previous AGMs, starting in 2001 (notices, minutes, resolutions)
- 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 2019 AGM

# Board of Directors



1

## 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  
*Director:* Efva Attling Stockholm AB, Martin & Servera AB, Stena AB och Svensk Handel  
*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

*Shareholding in Axfood:* 0

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, and Vice Chairman since 2014

*Vice Chairman:* Smart Eye AB and TCC Global N.V.

*Director:* Axel Johnson AB

*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

*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.



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## 3. Stina Andersson

Director since 2018

COO of Axel Johnson AB

*Director:* Fram Skandinavien AB

*Education:* M. Sc. Business and Economics, Stockholm School of Economics; CEMS Master's in International Management from HEC Paris and the Stockholm School of Economics

*Professional experience:* EVP Strategy and Business Development and responsible for Tele2 IoT, Investment Director and Head of Strategy for Investment AB Kinnevik, many years of experience from e-commerce companies. Also former management consultant for McKinsey

*Shareholding in Axfood:* 1,200 shares

Independent in relation to the Company and the Executive Committee. Non-independent in relation to major shareholders of the Company (since 1 January 2019).

## 4. 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



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*Professional experience:* Active in the family-owned company Axel Johnson Group since the 1970s

*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.

## 5. Fabian Bengtsson

Director since 2016

CEO of Remvassen AB

*Chairman:* Waldir AB and Företagarnas Riksstyrelse AB

*Director:* NetOnNet Group Aktiebolag, Svensk Fastighetsförmedling AB, Tipser AB and Irootfor AB

*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; as Chairman of NetOnNet AB; and as a director/Chairman of CE-Konsumentelektronikbranschen AB

*Shareholding in Axfood:* 7,050 shares

Independent in relation to the Company and the Executive Committee, and to major shareholders of the Company.



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**6. Caroline Berg**

Director since 2014

*Chairman:* Axel Johnson AB, Martin & Servera 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 and the Stockholm School of Economics Advisory Board

*Education:* 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

*Committee membership:* Compensation Committee

*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.

**7. Jesper Lien**

Director since 2018

CEO of Silvan A/S, Denmark

*Other assignments:* Operating partner of Aurelius Investment Group

*Education:* Engineer, Technical University of Denmark; Business Administration (financial management), Copenhagen Business School



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*Professional experience:* CEO and other leading positions in Coop Denmark, with many years of experience from the retail, digital and food retail trade, including as CCO of the do-it-yourself chain B&Q

*Shareholding in Axfood:* 0 shares

Independent both in relation to the Company and Executive Committee, and to major shareholders of the Company.

**8. Christer Åberg**

Director since 2017

Acting CEO, Plantasjen AS

*Chairman:* Apoex AB

*Director:* Plantasjen AS

*Education:* IHM Business School Stockholm

*Professional experience:* President and CEO of Food Folks AS/McDonald's Norden; President and CEO Hilding Anders International AB; CEO Orkla Confectionery & Snacks; CEO Arla Foods AB; CEO Atria Scandinavia AB; various positions at Unilever

*Shareholding in Axfood:* 4,800 shares

Independent in relation to the Company and the Executive Committee, and to major shareholders of the Company.



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**9. Anders Helsing**

Employee representative, Director since 2016

*Other assignments:* Employee representative on the board of directors of Axfood Johnson AB and Axfood IT AB

*Professional experience:* Axfood employee since 1998

*Shareholding in Axfood:* 59 shares

Non-independent in relation to the Company and the Executive Committee.

**10. Michael Sjören**

Employee representative, Director since 2010

*Other assignments:* Employee representative on the board of directors of Axfood Snabbgross and Dagab Inköp & Logistik AB

*Professional experience:* Axfood Group employee since 1995

*Shareholding in Axfood:* 0 shares

Non-independent in relation to the Company and the Executive Committee.

**11. 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

*Shareholding in Axfood:* 0 shares

Non-independent in relation to the Company and the Executive Committee.

All shareholdings reported as per 31 December 2018.



# Executive Committee



## 1. Klas Balkow

President and CEO, Axfood AB  
Member of Axfood's Executive Committee since 2017  
*Axfood employee since:* 2017  
*Other assignments:* Chairman, Swedish Food Retailers Federation; Vice Chairman, Swedish Trade Federation; Director, Confederation of Swedish Enterprise  
*Education:* Secondary School Engineering, SSE Executive Education  
*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  
*Shareholding in Axfood:* 15,000 shares.

## 2. Anders Lexmon

Chief Financial Officer  
Member of Axfood's Executive Committee since 2017  
*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  
*Shareholding in Axfood:* 2,000 shares.

## 3. Sara Kraft Westrell

Head of Corporate Communications  
Member of Axfood's Executive Committee since 2018  
*Axfood employee since:* 2018  
*Education:* M. Sc. Business Administration, Lund University and National University of Singapore  
*Professional experience:* Director of Information, Clas Ohlson AB and Hexagon AB; Marketing and Communications Director, JB Education; Communications Adviser, Kream and Brunswick  
*Shareholding in Axfood:* 850 shares.

## 4. Jan Lindmark

Head of IT  
Member of Axfood's Executive Committee since 2007  
*Axfood employee since:* 2001  
*Education:* M.Sc. Econ., Stockholm University  
*Professional experience:* IT Director, Fritidsresor; IT Manager, Posten Brev; Consultant, Enator.  
*Shareholding in Axfood:* 4,000 shares.

## 5. Louise Ring

Head of Human Resources (through 31 January 2019)  
Member of Axfood's Executive Committee since 2005  
*Axfood employee since:* 2003

*Other assignments:* Director of the Umeå School of Business and Economics (USB), Member of the Program Committee for USB's Master's Programs, member of the Equality Ombudsman's Committee  
*Education:* University studies in behavioural sciences, Umeå University; SSE Executive Education 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.  
*Shareholding in Axfood:* 1,869 shares.

## Monica Långbo

Head of Human Resources (since 1 February 2019)  
Member of Axfood's Executive Committee since 2019  
*Axfood employee since:* 2019  
*Education:* Executive MBA; secondary teaching certificate, Stockholm University; board, leadership and strategic HR courses  
*Professional experience:* Head of HR Sweden and Denmark, HR Director & Head of Information/PR/Communication, Head of Leadership Development & Executive Recruitment, Manpower Group; executive management consultant, own firm  
*Shareholding in Axfood:* 0 shares.



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**6. Nicholas Pettersson**

President, Dagab Inköp & Logistik AB  
Member of Axfood's Executive Committee since 2009

*Axfood employee since:* 2004

*Other assignments:* Chairman of Urban Deli Holding AB; Chairman of Hall Milba 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.

*Shareholding in Axfood:* 2,800 shares.

**7. Thomas Gäreskog**

President, Hemköp AB  
Member of Axfood's Executive Committee since 2012

*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

*Shareholding in Axfood:* 2,700 shares.



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**8. Carl Stenbeck**

Head of Strategy and Business Development  
Member of the Executive Committee since 2018

*Axfood employee since:* 2018

*Education:* M.Sc., Chalmers University of Technology; M.Sc., School of Business, Economics and Law at the University of Gothenburg

*Professional experience:* Global Head of Digital Development, H&M; management consultant, Boston Consulting Group and Accenture; Programme Manager, Papyrus

*Shareholding in Axfood:* 850 shares.

**9. Thomas Evertsson,**

President of Willys AB  
Member of Axfood's Executive Committee since 2008

*Axfood employee since:* 2008

*Other assignments:* Chairman of Eurocash Food AB and director, Julia AB

*Education:* M.Sc. Econ., School of Business, Economics and Law at the University of Gothenburg

*Professional experience:* Hypermarket Manager, Head of Chain Operations, Coop Supermarkets; President, Coop Sverige AB; Vice President, Coop Norden AB.

*Shareholding in Axfood:* 16,000 shares.



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**10. Eva Pettersson**

President, Axfood Snabbgross AB  
Member of Axfood's Executive Committee since 2014

*Axfood employee since:* 2004

*Education:* M.Sc. Econ., Linköping University; studies at the University of East Anglia; management training at Novare

*Professional experience:* President, Axfood Närlivs; Head of Business Development, Dagab; Systems Manager, Axfood IT; food retailing consultant, Accenture AB

*Shareholding in Axfood:* 1,700 shares.

All shareholdings reported as 'per 31 December 2018.





# Fish in the sea

Axfood advocates for more sustainable fishing practices. Many fish populations are overfished at the same time that massive, efficient fishing vessels, growing populations, pollution and poaching are putting a strain on supply. Axfood therefore does not sell any fish or shellfish on WWF's red list. By 2022 all seafood sold in Axfood stores must be able to be traced to its population, fishing zone or farm as well as harvest date – and be green-listed. Axfood is working together with WWF to inform about harmful fishing methods that are energy-intensive and contribute to overfishing.



# Risks and risk management

**Like all business activities, Axfood's business is exposed to risks. Risks can be broken down into operational, strategic and financial risk. 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. Strategic risks, such as increased competition, sector convergence, a changed assortment and other changes in the operating environment that can affect Axfood's strategic objectives are managed and are also a natural part of the Board's and management's continuing work. To illustrate risks, they are categorized based on their level in risk maps, see the illustration on p. 66 on risk documentation. Risks are also classified according to how well countermeasures are implemented, and are colour-coded into red, yellow and green categories. 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. Through these systems Axfood also gains control over losses 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 directors and officers liability. Axfood renewed all of its insurances prior to 2019.

## Crisis management and continuity plans

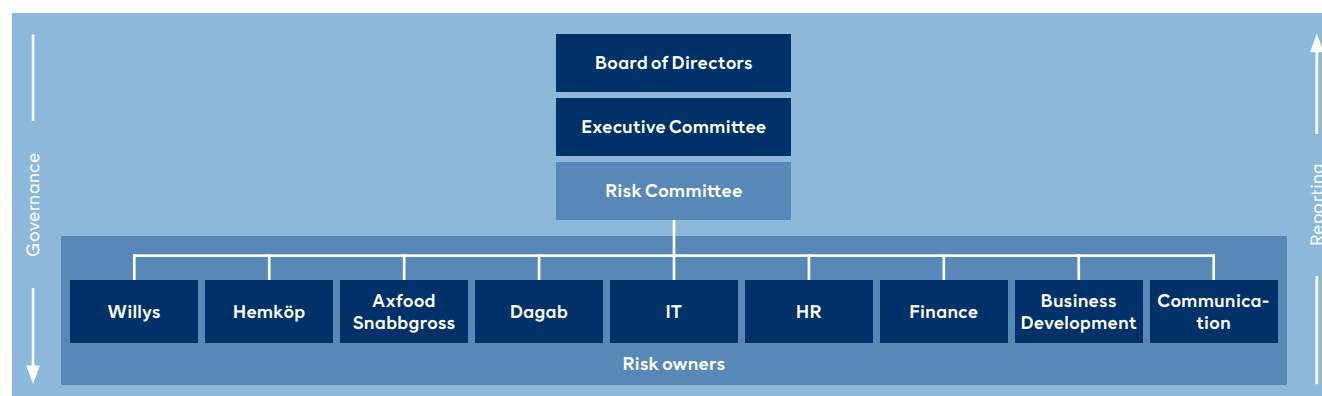
Crisis management and communication plans are in place within the Axfood Group, and drills were conducted during the year by all of the companies' crisis management organizations. These plans and drills are designed to ensure preparedness for a crisis and that the right actions are taken at the right time 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 continuity plans to minimize the duration of any business interruption.

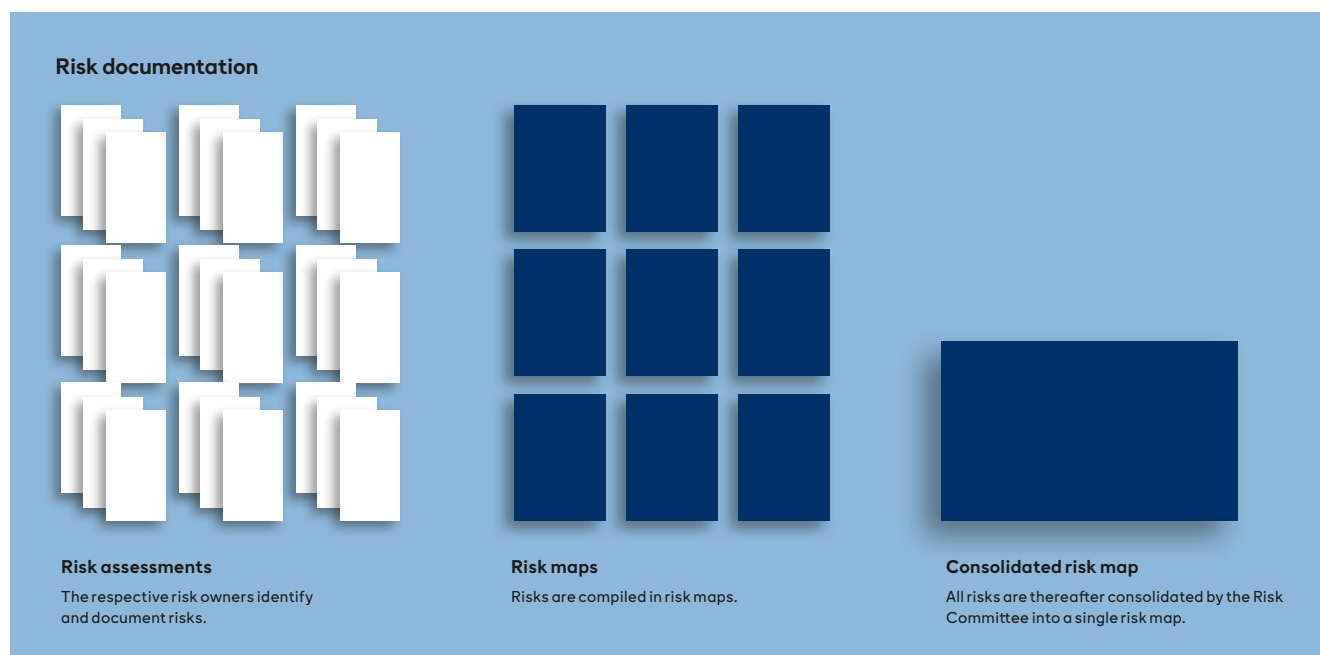
## Operational and strategic risks

### (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 strong 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 pertinent routines, adapted technical fire safety meas-

## Risk organization





ures 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 a 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 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 today are safeguarded through duplicate resources and geographic spread of operations. Parallel with this, Axfood continuously reviews what can be done to further mitigate risks, among other things by adopting new technologies, such as artificial intelligence, to more effectively prevent virus attacks and intrusions. Axfood has implemented a cloud strategy aimed at considering cloud solutions in new projects and constantly monitoring developments in the external operating environment. 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. Mapping 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. Human rights challenges may arise in certain supplier countries. 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 developed 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. Negotiation 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 levels of pesticides in foods or unsuitable chemicals in other products could undermine 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, undermine 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, availability of 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 far ahead of their competitors in addressing the risks. Within Axfood it is not mainly the physical risks for impacts from more extreme weather events that are the dominant risks, even though in connection with e.g., new investments in warehouses, assurances must be made that buildings can withstand such situations. On the other hand, the risk is significant that more extreme weather could impede purchasing work. Another risk that should be taken into account is a failure to be sufficiently dynamic and develop the assortment if customers' growing awareness about climate factors were to change their consumption habits. This risk is just as much an opportunity if the Group is well-advanced in developing the assortment in comparison with its peer competitors. Axfood does not conduct any food production of its own. Agricultural companies are considerably more physically exposed to extreme weather, but all operations are affected to some degree. For example, as a result of the hot summer weather in 2018, electricity use in warehouses and stores was higher than it would have been during a normal year.

Climate change can no longer be prevented through climate policy measures, even through the opportunities to mitigate it is great. This means that an increase in extreme weather is presenting an ever-greater challenge to food production. Drought, heat, storms, floods and extreme cold can significantly reduce agricultural production in critical food producing areas. This can lead both to higher prices that affect sales and difficulties in sourcing 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.

Axfood will be gradually giving greater consideration to climate change in its purchasing work, which at the very least will entail striving for greater diversification of risk.

### **(H) Risks associated with acquisitions and new establishment**

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 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, integration work continued for previously acquired companies, such as Mat.se and Saba's fruit and vegetable warehouse operation, covering routines, IT processes and organizational changes, among other measures.

### **(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 counter 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. 123 and is available in its entirety on [axfood.se](http://axfood.se).

In connection with new laws or regulations, measures are decided on well in advance of enactment. Examples of this include the EU's new General Data Protection Regulation (GDPR), Sweden's complementary data protection law, and a new Swedish video surveillance law. For Axfood it is important that customers and employees alike hold trust in the Company and in how their personal information is handled. Axfood has therefore actively participated in work being conducted by the Swedish Trade Federation to formulate recommendations for the entire industry. Axfood began working with these issues internally in late 2016 and has since then carried out a Group-wide project to shed light on its internal processes and carry out necessary changes in operations. Among other measures, Axfood has appointed data protection officers and has also recruited a person who works with data protection issues full-time. Other measures that have been carried out include training and information for everyone from cashiers and customer service staff to members of management and the Board of Directors. Where necessary Axfood has updated its processes with, for example, routines for clearing and erasing personal data, and automating these processes as far as possible in its IT systems. Axfood has more clearly stated the terms for the chains' customer programmes, and has produced and communicated updated information texts on how customers' employees' and vendors' personal data is processed.



**(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. 46.

**Financial risks**

The Axfood Group is exposed to financial risks in the form of financing and liquidity risks, interest rate risks, currency risks and credit risks. Every year the Board adopts a Group-wide finance policy that regulates the division of responsibility on financial matters among the Board of Directors, the Group CEO, the CFO, the central finance department and other Group companies. The Group's finance department regularly reports on the follow-up of the finance policy to the CFO and Board of Directors. For further information about financial risks, see Note 27.

**Strategic and operational risks**

Risk	Main risks	Risk level		Risk management	Insured <sup>1)</sup>
		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, pertinent routines, technical fire safety, and recurring controls and follow-up. With respect to IT disruptions, see risk B.	✓
B	IT and information security risks			Major emphasis is put on preventive work and continuity planning. Operations are secured through redundant systems with geographic spread of operations. 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. A number of preventive projects are currently in progress in the area of sustainability.	✓
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 takes 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

<sup>1)</sup> Fully or in part.

**The auditor's examination of the Corporate Governance Report**

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

**Engagement and responsibility**

The Board of Directors is responsible for that the corporate governance report of the fiscal year 2018-01-01 – 2018-12-31 has been prepared in accordance with the Annual Accounts Act.

**The scope of the audit**

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.

**Opinion**

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.

Stockholm 20 February 2019  
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.

A portrait of Anders Lexmon, Chief Financial Officer of Axfood. He is a middle-aged man with light-colored hair, wearing glasses, a blue shirt, a dark tie, and a dark suit jacket. He is smiling slightly and looking towards the camera. The background is a blurred office setting. A dark blue diagonal graphic element is present in the bottom right corner of the page.

"Axfood had a successful year in 2018, with high growth and improved profitability. Operating profit exceeded SEK 2 bn and cash flow was positive, despite investments of approximately SEK 1 bn during the year in operations. At year-end we had a net receivable and high equity ratio, which puts Axfood in a strong position ahead of investments for the future.

During 2019 we expect capital expenditures to amount to approximately SEK 1.5-1.6 bn, including approximately SEK 600 m for the planned, highly automated warehouse in Stockholm.

During 2019, new accounting policies for leases will result in a significant increase in the balance sheet and a change in our key ratios, but they will not affect our cash flow."

Anders Lexmon  
*Chief Financial Officer*

# Financial statements

# 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 2018 financial year.

### Operations

Axfood conducts food retail and wholesale business in Sweden. Retail business is conducted through the Willys, Hemköp and Eurocash chains, and the online store Mat.se. At year-end the number of Group-owned stores was 302 (298). In addition to Mat.se, Willys and Hemköp also offer e-commerce at numerous locations. B2B sales are conducted by Axfood Snabbgross through its 24 stores throughout Sweden and online.

In 2018, six stores were established or acquired, and two 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 Tempo, Handlar'n and Direkten brands. In all, Axfood collaborates with more than 900 retailer-owned stores.

Dagab is responsible for Axfood's assortment, purchasing and logistics, and approximately 75% of sales are made to Group-owned stores. Dagab also conducts B2B sales to mini-marts, service stations and other convenience retailers.

The assortment that Axfood offers its customers also includes private label products. Garant is the Group's brand with the largest product assortment and has the greatest customer recognition. Private label products as a share of net sales amounted to 29.2% (28.2%) in 2018.

### Pro forma

Effective 1 January 2018 Axfood carried out a reorganization of Axfood Närlivs, entailing that operations in Axfood Snabbgross are reported as a new segment. Customer responsibility for Tempo was transferred to Hemköp, and other operations in Axfood Närlivs were transferred to Dagab. In connection with this reorganization, Dagab carried out a price adjustment based on its updated cost structure. This gave rise to a change in the net sales and operating profit for the segments. All historical segmental information for 2017 is reported pro forma.

### Market

Food retail sales (excluding alcoholic beverages) in Sweden developed in a positive direction in 2018. Measured in current prices, sales rose 3.2% (2.3%), based on preliminary data from Statistics Sweden. At constant prices, volume increased by 0.8% (0.6%). Total food retail sales in 2018 are estimated at approximately SEK 268 bn (260).

According to the new index from the Swedish Food Retailers Federation, the market grew by 3.0% in current prices in 2018.

### Employees

Axfood had an average of 10,215 employees in 2018 (9,903). The employee breakdown was 53% women (53%) and 47% men (47%). The share of employees who work in the retail operations was 74% (73%), while the share who work in the logistics operations was 23% (23%).

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 2018, 24% (22%) of Axfood's employees and 13% (13%) 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

## Important events 2018 by quarter

### 01

- A reorganization was carried out at the start of the year, entailing that responsibility for Tempo was transferred to Hemköp, Axfood Snabbgross began reporting as a separate segment, and other customers of Axfood Närlivs were transferred to Dagab.
- Hemköp introduced digital receipts and ASC certified seafood counters.

### 02

- Axfood took a step into the pharmacy market with the launch of the online pharmacy Apohem. Apohem is jointly owned with Novax and members of Apohem's management.
- Axfood reported on its carbon footprint for 2017. Since 2009 Axfood has reduced its footprint by 84%. The use of refrigerants in the Group account for the largest carbon footprint.

### 03

- Axfood unveiled plans to realize its logistics vision by establishing a highly automated warehouse in Stockholm to fulfil orders both to stores and e-commerce customers.
- Axfood was the first food retail company in Sweden to buy biogas powered trucks for fossil-free deliveries between warehouses and stores. The trucks run on liquid biogas.

### 04

- Axfood increased its ownership in Urban Deli from 50% to just over 90% and deepened its collaboration.
- In Jönköping the Group's first automated warehouse was inaugurated. The automation solution will be fully operational during the first quarter of 2019 and will supply perishables to Axfood's store chains around Sweden.





in management positions. In 2018 the share of women in management positions was 30% (30%).

The work attendance rate increased by 0.1 percentage point to 94.4% in 2018, which is slightly below the 95% target, but reflects the trend in society as a whole. For more information about employees and statistics, see p. 141.

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 prescribe the importance of performance reviews for identifying needs for competence-raising measures. At present a three-year pay agreement is in effect between the parties, entailing a combined pay increase of approximately 6.5% during the period 2017–2020.

Every year a mapping of salaries is conducted within the Group to prevent inequitable differences in salary and benefits. The year's mapping did not show any inequitable differences.

With respect to guidelines for compensation and other terms of employment for the President and other senior executives, see p. 55.

### 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. 65, together with the risk management process. Axfood's financial risks are described in Note 27.

### Events after the reporting period

For significant events after the reporting period, see Note 31.

### Corporate governance report and sustainability report

In accordance with Ch. 6 § 8 and 11 of the Annual Accounts Act, Axfood has chosen to prepare the statutory corporate governance report and sustainability report separately from the legal annual report. The corporate governance report is provided on pp. 46–68, and the statutory sustainability report's scope is provided in the table on p. 156.

### Future outlook

In a changing market that is characterized by fierce competition, Axfood stands on solid ground to build further upon. To meet tomorrow's customers Axfood will continue to invest in the future. Axfood plans to invest in a highly automated warehouse in Stockholm, which is expected to be operational in 2023. The warehouse will fulfil orders both to stores and e-commerce customers through automation that can handle picking for both stores' orders and online shoppers. Over a four-year period the yearly capex need for automation will amount to approximately SEK 400–600 m.

Investments in 2019 are expected to amount to SEK 1,500–1,600 m excluding acquisitions and right-of-use assets. Expected investments in 2019 include approximately SEK 600 m for automation in the planned new warehouse.

As a consequence of changed accounting rules in IFRS 16, the equity ratio target has been adjusted from 25% during every quarter to 20% at year-end. The target for organic sales has also been updated to include sustainability certified products. The goal is that by 2025, sustainability certified products will account for at least 25% of sales.

### Proposed disposition of the Company's profit

The Board of Directors proposes that, of the retained profits of KSEK 2,530,641, SEK 7.00 per share be paid out in ordinary dividend. Retained profits will be distributed as follows:

	SEK 000s
Dividend	1,466,463
To be carried forward	1,064,178
	2,530,641

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.

# 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 28 December 2018, which was SEK 151.70, Axfood's market capitalization was SEK 31,837 m (33,181).

## Share performance 2018

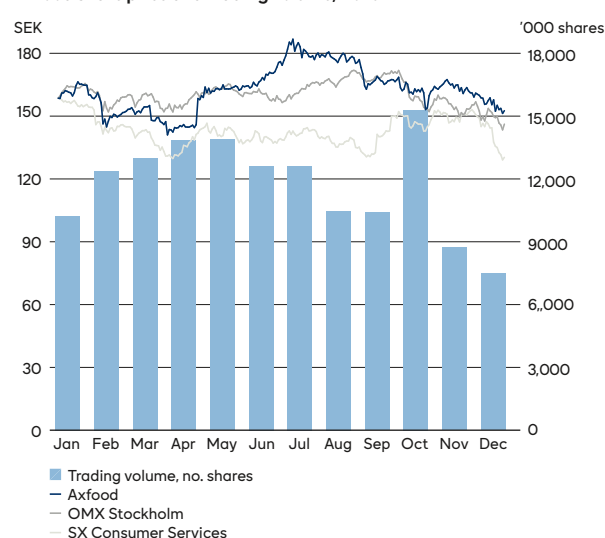
Axfood's share price decreased by 3.8% in 2018, while the Consumer Services index fell by 17.8%. The Nasdaq Stockholm composite index fell by 7.8% in 2018. The total return for Axfood's shares in 2018 including reinvested dividends was 0.8%. The highest closing price quoted during the year was SEK 185.70, on 12 July, and the lowest closing price was SEK 140.20, on 28 March.

## Trading volume

In 2018 a total of 147.7 million (131.5) Axfood shares were traded in all marketplaces, with average daily trading volume of 590,680 shares (523,785). Trading on Nasdaq Stockholm accounted for 70% (71%) of total trading volume in Axfood shares.

In 2018 the average turnover rate for shares listed on Nasdaq Stockholm increased to 67%, from 63% in 2017. The average turnover rate for Axfood shares on Nasdaq Stockholm in 2018 increased to 50%, from 45% in 2017. The total average turnover rate for Axfood shares in 2018, based on trading in all marketplaces, was 70% (63%).

Axfood share price and trading volume, 2018



## Ownership structure

The number of shareholders increased in 2018 to 52,202 at year-end (49,292). 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 shareholding was unchanged in 2018.

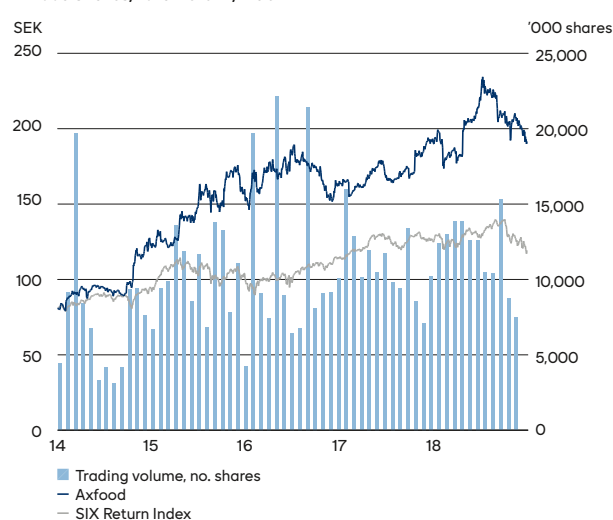
Axfood AB owns 376,000 treasury shares, 0.2%, which are designated to ensure delivery of shares coupled to Axfood's long-term share-based incentive programmes. Of Axfood's share capital, 75.7% (82.4%) is owned by Swedish investors and 24.3% (17.6%) is owned by foreign investors. Swedish ownership is dominated by private individuals and companies, with 62.8% (63.8%) of the capital, while mutual funds own 10.9% (13.0%) and institutions 1.8% (5.6%). The largest foreign ownership is in the USA and the UK.

## 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 2018 financial year the Board has proposed an ordinary dividend of SEK 7.00 per share (7.00), corresponding to 94% (100%) of profit after tax. Based on 209,494,712 shares, the dividend will amount to SEK 1,466 m. Based on the last price paid on 28 December 2018, SEK 151.70, the proposed dividend represents a dividend yield of 4.6%.

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 88% of profit after tax.

Axfood shares, total return, index



## Breakdown of ownership, 31 December 2018

Size class	No. shareholders	Shareholders, %	No. of shares	Share of votes and capital, %
1 – 500	43,095	82.6	4,472,564	2.1
501 – 1,000	4,567	8.7	3,643,704	1.7
1,001 – 5,000	3,553	6.8	7,962,727	3.8
5,001 – 10,000	451	0.9	3,280,754	1.6
10,001 – 15,000	121	0.2	1,496,611	0.7
15,001 – 20,000	86	0.2	1,521,348	0.7
20,001 –	329	0.6	187,493,004	89.3
<b>Total</b>	<b>52,202</b>	<b>100.0</b>	<b>209,870,712</b>	<b>100.0</b>

## Ten largest shareholders at 31 December 2018

Name	No. of shares	Share of capital and votes, %
Ax:son Johnson (family and companies)	105,080,264	50.1
State Street Bank and Trust <sup>1)</sup>	6,304,463	3.0
BNY Mellon <sup>1)</sup>	5,505,027	2.6
Swedbank Robur funds	4,867,006	2.3
Nordea Investment Management	4,173,636	2.0
Odin funds	3,499,589	1.7
SEB Investment Management	3,426,841	1.6
BPSS LUX/PARVEST	3,288,049	1.6
JP Morgan Chase NA	3,078,070	1.5
Skandia Mutual Life Insurance Company	2,658,564	1.3
<b>Total</b>	<b>141,881,509</b>	<b>67.6</b>
Others	67,989,203	32.4
<b>Total</b>	<b>209,870,712</b>	<b>100.0</b>

<sup>1)</sup> Custodial bank. The holding pertains to several, smaller shareholders.

## Key data per share

Amounts in SEK	2018	2017	2016	2015	2014 <sup>2)</sup>
Ordinary dividend	7.00 <sup>3)</sup>	7.00	6.00	5.00	4.25
Extra dividend	–	–	–	4.00	–
Dividend as % of net profit	94.4 <sup>3)</sup>	100.0	85.5	138.8	81.4
Number of shares outstanding	209,494,712	209,676,712	209,870,712	209,870,712	52,467,678
Share price at year-end	151.70	158.10	143.20	146.80	116.63
Market cap at year-end, SEK m	31,837	33,181	30,053	30,809	24,476
Highest/lowest price paid	185.70/140.20	161.00/133.30	164.20/131.40	165.70/110.68	121.45/78.50
Dividend yield, %	4.6 <sup>3)</sup>	4.4	4.1	6.1	3.6
Earnings per share	7.41	6.98	7.02	6.48	5.22
Shareholders' equity per share	20.54	20.35	19.62	21.58	19.20
P/E multiple	20.5	22.7	20.4	22.6	22.3
Turnover rate, %	50	45	43	30	23
Volatility, standard deviation	20.37	15.98	20.82	20.99	19.10
Beta	0.42	0.41	0.61	0.73	0.54
Number of shareholders	52,202	49,292	33,164	19,888	16,191

<sup>2)</sup> In 2015 Axfood carried out 4:1 stock split. In accordance with the split, the comparison figures have been adjusted. <sup>3)</sup> Proposed by the Board of Directors.

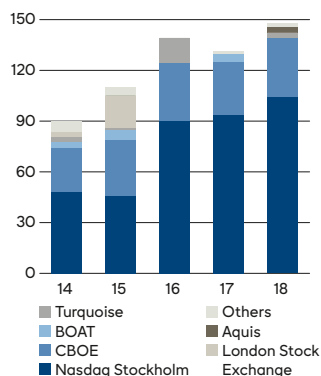
## Analysts who continuously cover Axfood

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

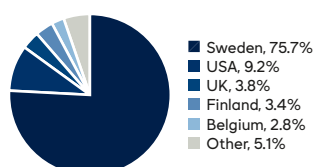
## Financial calendar 2019

Report	Date
Interim report January–March	25 April 2019
Half-year interim report January–June	15 July 2019
Interim report January–September	24 October 2019

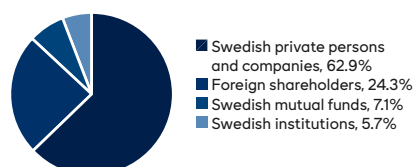
## Trading volume for Axfood shares on various marketplaces



## Geographic distribution of shareholders



## Breakdown of ownership



## Share data

All time high 16/7/2018  
**SEK 191.65**  
 Trading block  
**1 share**  
 Listing  
**Nasdaq Stockholm**  
**Large Cap list**  
 Abbreviation  
**AXFO**  
 Sector classification  
**Consumer Services**  
 ISIN CODE  
**SE0006993770**



# Axfood as an investment

**Axfood is a large cap company listed on Nasdaq Stockholm. The largest owner since the Company's founding is Axel Johnson AB, which today owns 50.1%. By Axfood's assessment, there are a number of value drivers that affect the stock's performance.**

## House of well-positioned, strong brands

Axfood is a house of brands with a refined focus on food. The food concepts have strong positions in their respective segments. For example, Willys is Sweden's leading discount chain, with a market share of 12%. Distinctive food concepts are a way of diversifying risk, and through Axfood Snabbgross, Axfood also has a leg in the fast-growing café and restaurant segment and is thereby addressing sector convergence. Operations in the supporting functions, such as purchasing and logistics, are conducted jointly for all the concepts, which creates economies of scale and cost efficiency.

## High cash flow generation

Axfood's business model generates a high and stable cash flow. This cash generation gives access to substantial internal funds to finance the Group's growth. Axfood has a solid balance sheet and low level of debt. Historically, after payment of the dividend during the year Axfood has built up a net debt receivable. During the last five years the dividend has amounted to 88% of profit after tax. During 2019, as a result of the changed accounting policies for leasing and assuming all else equal, Axfood's equity ratio will decrease and the net debt receivable will change over to a net debt position.

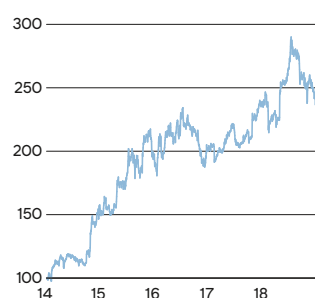
## Focus on sustainability

For a long time Axfood has striven to be a positive force in society with focus on sustainability – with respect to the product selection, offering good and sustainable food, and conducting business in a sustainable manner. Major emphasis is put on maintaining good relationships with suppliers and increasing control over the supply chain. There are many challenges in the value chain, such as animal care, the use of additives, and social aspects. Through private labels Axfood is launching innovative products and creating price pressure in the market. Axfood's private labels proudly lead the charge with respect to sustainability and health. With high growth ambitions, it is extra important to work for energy-efficient operations and toward the Group's clear environmental targets.

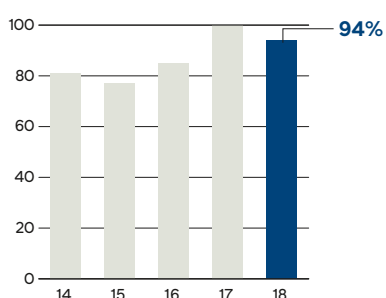
## Strategy that meets the market's drivers

The food retail sector is relatively insensitive to economic swings and is driven largely by population growth and inflation. On top of this, a number of trends influence the market's growth in various segments, including digitalization, discounting and convenience. Axfood has a clear strategy for embracing these trends and, by extension, for outpacing growth in the market with a long-term operating margin of at least 4%. For example, Axfood aims to increase its productivity by building a logistics solution of the future with high automation and joint warehousing for stores and e-commerce.

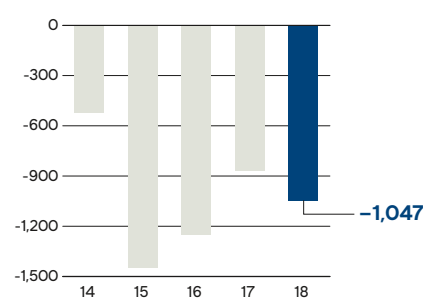
Total return, Axfood share, index



Ordinary dividend as % of profit after tax



Net receivable, SEK m





# Anti antibiotics for healthy animals

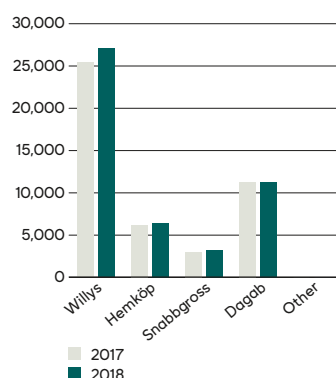
For Axfood, good animal care is important. The use of antibiotics in healthy animals is therefore a problem that Axfood takes seriously, since it contributes to greater antibiotic resistance. Swedish livestock breeders have a long tradition of good animal care and use the least amount of antibiotics in the EU. In its choice of suppliers Axfood puts high demands on the animals' well-being. Axfood is also driving the issue of lower antibiotic use at the EU level and has voiced its opposition to veterinarians profiting from prescribing antibiotics. Healthy animals don't need medicine.

## Statement of profit or loss and other comprehensive income Group

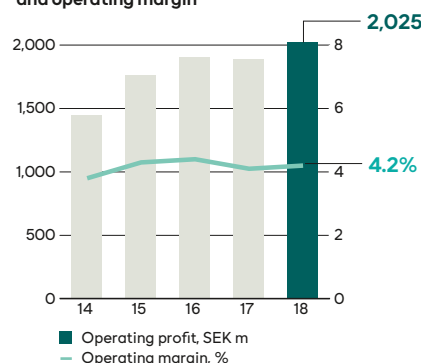
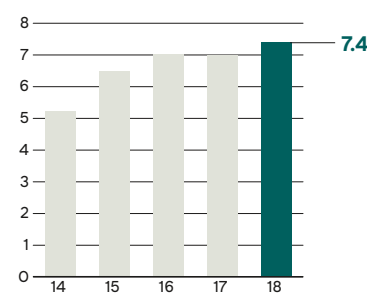
SEK m	Note	2018	2017
Net sales	2, 5	48,085	45,968
Cost of goods sold	6, 8	-40,904	-39,306
<b>Gross profit</b>		<b>7,181</b>	<b>6,662</b>
Selling expenses	6, 8	-2,991	-2,819
Administrative expenses	6, 8, 9	-2,618	-2,422
Share of profit in associated companies and joint ventures	22	-17	-3
Other operating income	5	491	483
Other operating expense	6	-21	-15
<b>Operating profit</b>	<b>2</b>	<b>2,025</b>	<b>1,886</b>
Interest income and similar profit/loss items	13	5	8
Interest expense and similar profit/loss items	13	-14	-13
<b>Net financial items</b>		<b>-9</b>	<b>-5</b>
<b>Profit before tax</b>		<b>2,016</b>	<b>1,881</b>
Current tax	15	-385	-375
Deferred tax	15	-54	-39
<b>Net profit for the year</b>		<b>1,577</b>	<b>1,467</b>
<b>Other comprehensive income</b>			
<i>Items that cannot be reclassified to profit or loss for the period</i>			
Revaluation of defined benefit pension plans	25	-21	-15
Tax attributable to items that cannot be reclassified to profit or loss for the period	15	3	3
<i>Items that can be reclassified to profit or loss for the period</i>			
Translation differences during the year upon translation of foreign operations	27	0	0
Change in fair value of forward contracts	27	1	0
Change in fair value of available-for-sale financial assets	26	-	-6
Tax attributable to items that can be reclassified to profit or loss for the period	15	0	1
<b>Other comprehensive income for the year</b>		<b>-17</b>	<b>-17</b>
<b>Comprehensive income for the year</b>		<b>1,560</b>	<b>1,450</b>
<b>Profit for the year attributable to:</b>			
Owners of the parent		1,553	1,463
Non-controlling interests		24	4
<b>Profit for the year</b>		<b>1,577</b>	<b>1,467</b>
<b>Comprehensive income for the year attributable to:</b>			
Owners of the parent		1,536	1,446
Non-controlling interests		24	4
<b>Comprehensive income for the year</b>		<b>1,560</b>	<b>1,450</b>
Earnings per share before dilution, SEK	16	7.41	6.98
Earnings per share after dilution, SEK	16	7.40	6.98
Operating profit includes depreciation/amortization of	10	760	744



Consolidated external net sales per segment, SEK m



Consolidated operating profit and operating margin

Earnings per share, SEK<sup>1)</sup>

<sup>1)</sup> In 2015 Axfood carried out 4:1 stock split. Comparison figures have been adjusted.

## Net sales and operating profit

### Group

Consolidated net sales totalled SEK 48,085 m (45,968), an increase of 4.6% (6.0%) compared with 2017.

Net sales for the Group consist to 76% (75%) of store sales and 24% (25%) of external wholesale volume and store compensation. Retail sales for Group-owned stores increased by 5.9% for the year (7.7%), with a 3.7% rise (3.8%) in like-for-like sales. A breakdown of sales per chain is shown in the table below.

The Group's gross margin was 14.9% (14.5%). Operating profit totalled SEK 2,025 m (1,886), corresponding to an operating margin of 4.2% (4.1%). Operating profit included SEK 760 m (744) in depreciation and amortization.

### Willys

Willys' sales grew 6.5% (9.7%) to SEK 27,066 m (25,415). The strong performance is mainly attributable to good like-for-like growth driven by a higher number of customer visits and higher average ticket value. Sales in like-for-like stores increased by 4.3% (4.3%).

Three new stores were opened in 2018, and 21 were refurbished. The total number of stores was 208 (207), including 151 (151) Willys, 49 (48) Willys Hemma and 8 (8) Eurocash. E-commerce continues to grow, and in total Willys offers e-commerce at 56 stores in 30 cities. The number of members in the Willys plus customer programme increased to 2.5 million (2.3).

Willys' operating profit was SEK 1,197 m (1,059), corresponding to an operating margin of 4.4% (4.2%). The private label share in 2018 was 30.8% (29.9%).

### Hemköp

Hemköp's sales grew 3.3% (0.3%) to SEK 6,403 m (6,199), with a 1.1% rise (2.1%) in like-for-like sales.

E-commerce is now offered by 18 stores in eight cities, which is one city/store fewer than a year ago due to the conversion of the Hemköp store in Eskilstuna to Willys. Store sales including Hemköp franchises totalled SEK 13,691 m (13,291), an increase of 3.0% (4.6%) compared with the preceding year. The number of stores at year-end was 187 (187), of which 117 (120) were retailer-owned and 70 (67) were Group-owned.

Hemköp's operating profit was SEK 227 m (234), corresponding to an operating margin of 3.5% (3.8%). The private label share in 2018 was 25.1% (24.0%).

### Axfood Snabbgross

Axfood Snabbgross's sales rose 8.6% (3.5%) to SEK 3,241 m (2,984).

Axfood Snabbgross succeeded in retaining many of the new customers it attracted during the summer period. Sales also increased as a result of a higher average ticket value. The number of stores at year-end was 24 (24).

Operating profit was SEK 121 m (110), corresponding to an operating margin of 3.7% (3.7%).

### Dagab

Dagab includes the Group's logistics function and the assortment and purchasing function. During the year Dagab increased its ownership in Urban Deli to 90.7%.

Sales totalled SEK 42,456 m (41,128), representing a change of 3.2% (5.2%). Growth was mainly affected by favourable sales in the Group's own food concepts – mainly Willys and Axfood Snabbgross – but also by e-commerce via mat.se. External sales amounted to SEK 11,327 m (11,327). Delivery reliability was 96.1% (96.9%). Operating profit decreased slightly to SEK 685 m (699), corresponding to an operating margin of 1.6% (1.7%).

### Net financial items

Net financial items changed by SEK –4 m during the year, from SEK –5 m to SEK –9 m.

### Tax, profit for the year and earnings per share

The tax expense was SEK 439 m (414), corresponding to an effective tax rate of 21.8% (22.0%). Profit for the year after tax was SEK 1,577 m (1,467), or SEK 7.41 per share before dilution (6.98).

### 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 Hemköp franchises

SEK m	2018	2017	Change, %	Like-for-like stores, 2018	Like-for-like stores, 2017	Change, %
<b>Willys total</b>	<b>27,066</b>	<b>25,415</b>	<b>6.5</b>	<b>26,420</b>	<b>25,334</b>	<b>4.3</b>
Hemköp	6,268	6,071	3.2	5,934	5,871	1.1
Hemköp franchises	7,423	7,220	2.8	7,323	7,054	3.8
<b>Hemköp total</b>	<b>13,691</b>	<b>13,291</b>	<b>3.0</b>	<b>13,257</b>	<b>12,925</b>	<b>2.6</b>
<b>Store sales, Axfood Group</b>	<b>40,757</b>	<b>38,706</b>	<b>5.3</b>	<b>39,677</b>	<b>38,259</b>	<b>3.7</b>
<b>Axfood Snabbgross</b>	<b>3,241</b>	<b>2,984</b>	<b>8.6</b>	<b>3,185</b>	<b>2,960</b>	<b>7.6</b>

## Statement of financial position Group

SEK m	Note	31/12/2018	31/12/2017
<b>Assets</b>			
<b>Non-current assets</b>			
<i>Intangible assets</i>	17		
Goodwill		2,767	2,671
Other intangible assets		682	717
		<b>3,449</b>	<b>3,388</b>
<i>Property, plant and equipment</i>	18, 20		
Land and buildings		146	41
Equipment, tools and fixtures		1,901	1,877
Construction in progress		155	114
		<b>2,202</b>	<b>2,032</b>
<i>Financial assets</i>			
Participations in associated companies and joint ventures	22	21	19
Other long-term securities holdings	26	0	48
Other non-current receivables	26	6	17
		<b>27</b>	<b>84</b>
Deferred tax assets	15	141	131
<b>Total non-current assets</b>		<b>5,819</b>	<b>5,635</b>
<b>Current assets</b>			
<i>Inventories</i>			
Finished products and goods for resale		2,340	2,263
		<b>2,340</b>	<b>2,263</b>
<i>Current receivables</i>			
Accounts receivable – trade	26, 27	1,102	954
Other current receivables		51	101
Prepaid expenses and accrued income	23	1,257	1,140
		<b>2,410</b>	<b>2,195</b>
<i>Cash and cash equivalents</i>	26		
Cash and bank balances		1,571	1,376
		<b>1,571</b>	<b>1,376</b>
Assets held for sale	24	104	–
<b>Total current assets</b>		<b>6,425</b>	<b>5,834</b>
<b>Total assets</b>		<b>12,244</b>	<b>11,469</b>

### Financial position

#### Non-current assets

The Group's non-current assets increased during the year by SEK 184 m, from SEK 5,635 m to SEK 5,819 m. Non-current assets consist primarily of goodwill, SEK 2,767 m (2,671), and machinery and equipment, SEK 1,901 m (1,877).

#### Capital expenditures

The Group's total capital expenditures in intangible assets and in property, plant and equipment amounted to SEK 1,021 m (1,934). Of these, SEK 116 m (1,106) pertained to investments in operations, SEK 439 m (479) to investments in retail operations, SEK 237 m (138) to investments in wholesale operations and SEK 221 m (203) to investments in IT.

During 2018 Axfood acquired shares in Urban Deli, bringing the Group's ownership to 90.7%. The combined purchase consideration for acquisitions in 2018 amounted to SEK 90 m (1,064), of which SEK 46 m was paid in 2018. The consideration was paid in cash.

For further information about acquisitions, see Note 3.

### Working capital

Of current assets, inventories make up the single largest item, SEK 2,340 m (2,263). Trade payables make up the single largest item in current liabilities, totalling SEK 3,836 m (3,458).

### Shareholders' equity and liabilities

Shareholders' equity amounted to SEK 4,528 m (4,478), including non-controlling interests of SEK 224 m (212), which is a net increase of SEK 50 m.

During the year SEK 1,485 m (1,259) was distributed to the Company's shareholders.

Provisions for pensions and similar obligations pertain mainly to liabilities in the FPG/PRI system. Interest-bearing liabilities including interest-bearing pension provisions decreased from SEK 528 m to SEK 524 m. The interest-bearing net debt receivable increased from SEK 871 m to SEK 1,047.

The equity ratio was 37.0% (39.0%), and the net receivable equity ratio was 0.2 (0.2).

SEK m	Note	31/12/2018	31/12/2017
<b>Shareholders' equity and liabilities</b>			
<b>Shareholders' equity</b>	27		
Share capital		262	262
Other capital contributions		496	496
Reserves		2	5
Profit brought forward		3,544	3,503
		<b>4,304</b>	<b>4,266</b>
Non-controlling interests		224	212
<b>Total shareholders' equity</b>		<b>4,528</b>	<b>4,478</b>
<b>Non-current liabilities</b>			
Provisions for pensions and similar obligations	25, 28	411	418
Other interest-bearing liabilities	26, 27, 28	61	61
Deferred tax liability	15	832	784
Other non-current liabilities	26	50	29
<b>Total non-current liabilities</b>		<b>1,354</b>	<b>1,292</b>
<b>Current liabilities</b>			
Other interest-bearing liabilities	26, 27, 28	52	49
Accounts payable – trade	26, 27	3,836	3,458
Current tax liabilities		–	27
Other current liabilities	26	247	245
Accrued expenses and deferred income	19, 29	2,227	1,920
<b>Total current liabilities</b>		<b>6,362</b>	<b>5,699</b>
<b>Total shareholders' equity and liabilities</b>		<b>12,244</b>	<b>11,469</b>

## Reconciliation of liabilities attributable to financing activities

SEK m					
			Non-cash changes		
	31/12/2017	Cash flow	Acquisitions of subsidiaries	Other changes	31/12/2018
Non-current interest-bearing liabilities	61			0	61
Current interest-bearing liabilities	49			3	52
<b>Reconciliation of liabilities attributable to financing activities<sup>1)</sup></b>	<b>110</b>			<b>3</b>	<b>113</b>
Interest-bearing pension liabilities	418	–23		16	411
Cash and cash equivalents	1,376	195			1,571
Non-current interest-bearing receivables	23		–23		0
<b>Interest-bearing net debt receivable</b>	<b>871</b>	<b>218</b>	<b>–23</b>	<b>–19</b>	<b>1,047</b>

## Reconciliation of liabilities attributable to financing activities

SEK m					
			Non-cash changes		
	31/12/2016	Cash flow	Acquisitions of subsidiaries	Other changes	31/12/2017
Non-current interest-bearing liabilities	41	–43	57	6	61
Current interest-bearing liabilities	39	–54	58	6	49
<b>Reconciliation of liabilities attributable to financing activities<sup>1)</sup></b>	<b>80</b>	<b>–97</b>	<b>115</b>	<b>12</b>	<b>110</b>
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
<b>Interest-bearing net debt receivable</b>	<b>1,249</b>	<b>–231</b>	<b>–115</b>	<b>–32</b>	<b>871</b>

<sup>1)</sup> Included in the reconciliation of liabilities attributable to financing activities in the Statement of cash flows, Group, see p. 80.



## Statement of cash flows Group

SEK m	Note	2018	2017
<b>Operating activities</b>			
Operating profit		2,025	1,886
Depreciation/amortization		724	712
Interest paid		-17	-5
Interest received		5	6
Adjustments for non-cash items		34	-5
Paid tax		-434	-382
<b>Cash flow from operating activities before changes in working capital</b>		<b>2,337</b>	<b>2,212</b>
<b>Cash flow from changes in working capital</b>			
Change in inventories		-69	26
Change in current receivables		-179	4
Change in current liabilities		613	292
<b>Cash flow from operating activities</b>		<b>2,702</b>	<b>2,534</b>
<b>Investing activities</b>			
Acquisitions of intangible assets		-129	-114
Acquisitions of property, plant and equipment		-711	-651
Acquisitions of businesses	3	-45	-746
Sales of businesses	4	2	0
Sales of property, plant and equipment		12	17
Acquisitions of financial assets		-17	-6
Acquisitions of assets held for sale		-104	-
<b>Cash flow from investing activities</b>		<b>-992</b>	<b>-1,500</b>
<b>Financing activities</b>			
Amortization of debt		-	-97
Share repurchases		-30	-28
Shareholder dividend		-1,485	-1,259
<b>Cash flow from financing activities</b>		<b>-1,515</b>	<b>-1,384</b>
<b>Cash flow for the year</b>		<b>195</b>	<b>-350</b>
Cash and cash equivalents at start of year		1,376	1,726
Cash and cash equivalents at year-end		1,571	1,376

### Group cash flow from operating activities

The Group's cash flow from operating activities before changes in working capital increased by SEK 125 m to SEK 2,337 m (2,212) and consisted mainly of the net sum of purchases and sales of food retail items. Excluding paid tax of SEK -434 m (-382), cash flow from operating activities before changes in working capital increased by SEK 177 m (22). Reversed depreciation and amortization have been adjusted with the portion that pertains to leased assets, totalling SEK 36 m (32). Adjustment for non-cash items amounted to SEK 34 m, net (-5), and pertains mainly to a change in provisions for pensions, share profit in associated companies and obsolescence. Interest received during the year totalled SEK 5 m (6), and interest paid totalled SEK 17 m (5).

### Investments and divestments

The Group's total investments in intangible assets and in property, plant and equipment amounted to SEK 1,021 m (1,934). Investments in intangible assets and in property, plant and equipment excluding acquisitions amounted to SEK 905 m (828). In cash flow these investments have been adjusted by SEK -59 m (-63) pertaining to finance leases. Investments in intangible assets and in property, plant and equipment attributable to acquired operations amounted to SEK 116 m (1,106). Acquisitions in operations affected cash flow by a total of SEK 45 m (746). The difference is explained by acquired working capital.

### Financing activities

The Group's change in interest-bearing liabilities affected cash flow by SEK - m (-97). The dividend paid to the owners of the Parent Company totalled SEK 1,468 m (1,259), corresponding to SEK 7.00 per share in ordinary dividend (7.00).

For a reconciliation of liabilities attributable to financing activities, see p. 79.

# Statement of changes in equity Group

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	Profit brought forward			
Opening shareholders' equity 2017	262	496	1	9	0	3,349	4,117	1	4,118
<b>Comprehensive income for the year</b>									
Profit for the year	–	–	–	–	–	1,463	1,463	4	1,467
Other comprehensive income for the year	–	–	0	–5	0	–12	–17	–	–17
<b>Comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>0</b>	<b>–5</b>	<b>0</b>	<b>1,451</b>	<b>1,446</b>	<b>4</b>	<b>1,450</b>
Shareholder dividend	–	–	–	–	–	–1,259	–1,259	–	–1,259
Share repurchases	–	–	–	–	–	–28	–28	–	–28
Share-based payments	–	–	–	–	–	4	4	–	4
Transactions with non-controlling interest	–	–	–	–	–	–14	–14	207	193
<b>Closing shareholders' equity 2017</b>	<b>262</b>	<b>496</b>	<b>1</b>	<b>4</b>	<b>0</b>	<b>3,503</b>	<b>4,266</b>	<b>212</b>	<b>4,478</b>
Opening shareholders' equity 2018	262	496	1	4	0	3,503	4,266	212	4,478
Adjustment to IFRS 9, after tax	–	–	–	–4	–	–1	–5	–	–5
Opening shareholders' equity 2018 – adjusted	262	496	1	–	0	3,502	4,261	212	4,473
<b>Comprehensive income for the year</b>									
Profit for the year	–	–	–	–	–	1,553	1,553	24	1,577
Other comprehensive income for the year	–	–	0	–	1	–18	–17	–	–17
<b>Comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>0</b>	<b>–</b>	<b>1</b>	<b>1,535</b>	<b>1,536</b>	<b>24</b>	<b>1,560</b>
Shareholder dividend	–	–	–	–	–	–1,468	–1,468	–17	–1,485
Share repurchases	–	–	–	–	–	–30	–30	–	–30
Share-based payments	–	–	–	–	–	10	10	–	10
Transactions with non-controlling interests	–	–	–	–	–	–5	–5	5	0
<b>Closing shareholders' equity 2018</b>	<b>262</b>	<b>496</b>	<b>1</b>	<b>–</b>	<b>1</b>	<b>3,544</b>	<b>4,304</b>	<b>224</b>	<b>4,528</b>

## Shareholders' equity

Shareholders' equity in the Group, which is defined as total, reported shareholders' equity, amounted to SEK 4,528 m (4,478) at year-end, including non-controlling interests of SEK 224 m (212). Profit for the year attributable to non-controlling interests amounted to SEK 24 m (4).

The equity ratio was 37.0% (39.0%) at year-end 2018. Return on equity was 36.2% (34.9%).

## Share capital

The share capital as per 31 December 2018 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 209,494,712 (209,676,712) on 31 December 2018. 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

In the preceding year the fair value reserve included the accumulated net change in the fair value of available-for-sale financial assets until such time the asset is eliminated from the statement of financial position. The change in the fair value reserve of SEK –4 m pertains to a reclassification of financial assets in connection with the transition to IFRS 9 Financial Instruments.

## 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 1 m (0), and deferred tax, totalling SEK 0 m (0). A compilation of the change in value of the hedging reserve during the year is provided in Note 27.

## 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. An important parameter is the Group's equity ratio target of at least 25% at any point in time. (This target has been revised to 20% at year-end in connection with the transition to IFRS 16.)

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.

## Income statement Parent Company

SEK m	Note	2018	2017
Net sales		3	1
Selling expenses		-1	-1
Administrative expenses	7, 8, 9, 10	-375	-363
Other operating income	7	248	241
<b>Operating result</b>		<b>-125</b>	<b>-122</b>
Profit from participations in Group companies	13	18	1
Interest income and similar profit/loss items	13	5	4
Interest expense and similar profit/loss items	13	-2	-2
<b>Result after financial items</b>		<b>-104</b>	<b>-119</b>
Appropriations	14	1,681	1,737
<b>Profit before tax</b>		<b>1,577</b>	<b>1,618</b>
Current tax	15	-355	-361
Deferred tax	15	2	2
<b>Profit for the year</b>		<b>1,224</b>	<b>1,259</b>

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

Other operating income for the Parent Company amounted to SEK 248 (241) for the year. After selling and administrative expenses of SEK -376 m (-364) and net financial items of SEK 21 m (3), profit totalled SEK -104 m (-119). Appropriations totalled SEK 1,681 m (1,737). Of appropriations, SEK 1,920 m (2,010) pertains to Group contributions received and rendered. Capital expenditures totalled SEK 4 m (0). Cash and cash equivalents held

by the Parent Company totalled SEK 848 m (804). At year-end the Parent Company had no interest-bearing receivables outside the Group. The interest-bearing net debt receivable changed from SEK 241 m at the start of the year to SEK 246 m at year-end. The Board of Directors proposes an ordinary dividend of SEK 7.00 per share for 2018. Based on 209,494,712 shares, the total dividend will amount to SEK 1,466 m.





## Balance sheet Parent Company

SEK m	Note	31/12/2018	31/12/2017
<b>Assets</b>			
<b>Property, plant and equipment</b>			
Equipment, tools and fixtures	18	5	12
		<b>5</b>	<b>12</b>
<b>Financial assets</b>			
Participations in Group companies	21	3,386	3,338
Other long-term securities holdings		–	3
Deferred tax assets	15	8	7
Other non-current receivables		–	6
		<b>3,394</b>	<b>3,354</b>
<b>Total non-current assets</b>		<b>3,399</b>	<b>3,366</b>
<b>Current assets</b>			
<i>Current receivables</i>			
Accounts receivable – trade		2	2
Receivables from Group companies		2,854	3,076
Prepaid expenses and accrued income	23	10	11
		<b>2,866</b>	<b>3,089</b>
<i>Cash and cash equivalents</i>			
Cash and bank balances		848	804
<b>Total current assets</b>		<b>3,714</b>	<b>3,893</b>
<b>Total assets</b>		<b>7,113</b>	<b>7,259</b>
<b>Shareholders' equity and liabilities</b>			
<b>Shareholders' equity</b>			
<i>Restricted shareholders' equity</i>			
Share capital		262	262
Revaluation reserve		25	25
		<b>287</b>	<b>287</b>
<i>Unrestricted shareholders' equity</i>			
Profit brought forward		1,307	1,536
Profit for the year		1,224	1,259
		<b>2,531</b>	<b>2,795</b>
<b>Total shareholders' equity</b>		<b>2,818</b>	<b>3,082</b>
<b>Untaxed reserves</b>	14	<b>2,639</b>	<b>2,400</b>
<b>Provisions</b>			
Provisions for pensions and similar obligations	25, 28	24	28
		<b>24</b>	<b>28</b>
<b>Non-current liabilities</b>			
Other non-current liabilities		2	2
		<b>2</b>	<b>2</b>
<b>Current liabilities</b>			
Accounts payable – trade		19	20
Liabilities to Group companies	28	1,512	1,594
Current tax liability		30	72
Other current liabilities		6	5
Accrued expenses and deferred income	19, 29	63	56
		<b>1,630</b>	<b>1,747</b>
<b>Total shareholders' equity and liabilities</b>		<b>7,113</b>	<b>7,259</b>

### Interest-bearing net debt receivable, Parent Company

SEK m	31/12/2018	31/12/2017
Interest-bearing portion of Receivables from Group companies	920	1,019
Cash and cash equivalents	848	804
Provisions for pensions and similar obligations	–24	–28
Interest-bearing portion of Liabilities to Group companies	–1,498	–1,554
<b>Interest-bearing net debt receivable</b>	<b>246</b>	<b>241</b>

## Cash flow statement and shareholders' equity Parent Company

### Cash flow statement

SEK m	2018	2017
<b>Operating activities</b>		
Result before financial items	-125	-122
Interest paid	-2	-2
Interest received	5	4
Dividend from participations in Group companies	18	-
Depreciation/amortization	11	10
Adjustments for non-cash items	2	9
Paid tax	-397	-373
<b>Cash flow from operating activities before changes in working capital</b>	<b>-488</b>	<b>-474</b>
<b>Cash flow from changes in working capital</b>		
Change in current receivables	113	-304
Change in current liabilities	-55	-256
<b>Cash flow from operating activities</b>	<b>-430</b>	<b>-1,034</b>
<b>Investing activities</b>		
Acquisitions of property, plant and equipment	-4	0
Acquisitions of subsidiaries	-43	-706
Sales of property, plant and equipment	9	-
Sales of subsidiaries	0	556
Acquisitions of financial assets	0	-3
<b>Cash flow from investing activities</b>	<b>-38</b>	<b>-153</b>
<b>Financing activities</b>		
Shareholder dividend	-1,468	-1,259
Share repurchases	-30	-28
Group contribution received	2,044	1,975
Group contribution rendered	-34	-
<b>Cash flow from financing activities</b>	<b>512</b>	<b>688</b>
<b>Cash flow for the year</b>	<b>44</b>	<b>-499</b>
Cash and cash equivalents at start of year	804	1,303
Cash and cash equivalents at year-end	848	804

### Shareholders' equity

SEK m	Restricted shareholders' equity		Unrestricted shareholders' equity	Total shareholders' equity
	Share capital	Revaluation reserve	Profit brought forward	Total
Opening shareholders' equity 2017	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
<b>Closing shareholders' equity 2017</b>	<b>262</b>	<b>25</b>	<b>2,795</b>	<b>3,082</b>
Profit for the year	-	-	1,224	1,224
Shareholder dividend	-	-	-1,468	-1,468
Share repurchases	-	-	-30	-30
Share-based payments	-	-	10	10
<b>Closing shareholders' equity 2018</b>	<b>262</b>	<b>25</b>	<b>2,531</b>	<b>2,818</b>

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



# Convenient meal solutions

Simple and convenient meal solutions are becoming increasingly important for Swedish consumers. This can be seen especially in the growth in popularity for prepared foods and the steady rise in restaurant visits. To address this trend Axfood is upgrading its stores with the addition of warm lunch buffets, salad bars, more prepared foods and cafés. Axfood has also increased its ownership in Urban Deli, which is catering to urban customers' tastes with rooftop bar, café, restaurant, lounge, market hall, food store and food studio. Since previously Axfood has had a strong position through Axfood Snabbgross, which serves the growing restaurant and café segment.



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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 and President on 20 February 2019. 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 21 March 2019.

### 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 measured at fair value. Financial assets and liabilities measured at fair value consist of derivative instruments and contingent consideration. 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 (SEK). All amounts are rounded off to the nearest million kronor (SEK m), unless stated otherwise.

### Estimations and judgments in the financial statements

In order to prepare the financial statements in accordance with IFRS, the Board and the Executive Committee make estimations and judgments that affect the Company's result and position as well as other disclosures in general. The actual outcome may deviate from these estimations and judgments. Estimations and judgments are reviewed on a regular basis. Changes in estimations are reported in the period in which the change is made if the change has only affected that period, or in the period in which the change is made and future periods if the change affects both the current period and future periods.

Estimations made by the Executive Committee in the application of IFRS that have a material impact on the financial statements, and estimations made that may entail material adjustments in subsequent years' financial statements, are described in more detail in Note 33.

### Significant accounting policies applied

The accounting policies presented below are applied consistently in the Company's published financial statements, unless stated otherwise. In addition, the Group's accounting policies have been applied consistently by the Group's companies. With respect to associated companies, where necessary their accounting has been adapted to the Group's policies.

### Changed accounting policies

#### Changed accounting policies as a result of new or amended IFRSs

The Group applies IFRS 15 and IFRS 9 for the first time starting on 1 January 2018. Other changes in IFRS with application as from 2018 have not had any significant effect on the Group's accounting.

### IFRS 9 Financial Instruments

IFRS 9 sets out policies for recognition and measurement of financial assets, financial liabilities and certain contracts related to purchases and sales of nonfinancial instruments. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The following table summarizes the effect, net after tax, of the transition to IFRS 9 on opening balances of reserves and profit brought forward.

	Closing balance 31 Dec. 2017 before transition to IFRS 9	Adjustments for transition to IFRS 9	Adjusted opening balance 1 January 2018
Reserves	4	(4)	–
Profit brought forward	3,621	(1)	3,620

### Classification and measurement of financial assets and financial liabilities

IFRS 9 includes three principle classification categories for financial assets: Measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss. Classification of financial assets according to IFRS 9 is generally based on the company's business model for management of its financial assets and characteristics of the contractual cash flows from the financial assets. The previous IAS 39 categories – investments held to maturity, loan receivables and trade receivables, and available-for-sale financial assets – are no longer used.

IFRS 9 essentially retains the existing requirements in IAS 39 for classification and measurement of financial liabilities. Application of IFRS 9 has not had any significant effect on the Group's accounting policies related to financial liabilities and derivative instruments. For an explanation of how the Group classifies and measures financial instruments and accounts according to IFRS 9, see Note 26.

### Impairment of financial assets

IFRS 9 replaces the incurred loss event model from IAS 39 with a model based on expected credit losses. The new impairment model is applied for financial assets measured at amortized cost. According to IFRS 9, credit losses are recognized earlier than under IAS 39. The Group has determined that implementation of the IFRS 9 requirements for impairment will result in further provisions for impairment losses, but in insignificant amounts.

### Hedge accounting

The Group has chosen to use a general hedge accounting model according to IFRS 9. This requires that the Group ensures that relations in the hedge accounting are in line with their objectives and strategies for risk management, and that the Group applies a qualitative and forward-looking approach to assess the effectiveness of hedges.

### Transition

The Group has used the exemption to not recalculate comparative figures for previous periods. Differences in the reported value of financial assets and financial liabilities that have arisen upon application of IFRS 9 are recognized in profit brought forward and reserves as per 1 January 2018. Thus the figures for 2017 do not reflect the requirements of IFRS 9, but the requirements of IAS 39.

**Note 1. Significant accounting policies, cont.**

All hedge relationships identified according to IAS 39 as per 31 December 2017 satisfy the criteria for hedge accounting according to IFRS 9 as per 1 January 2018 and are therefore regarded as continued hedge conditions.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 is a comprehensive standard for determining how much revenue is to be recognized and when this revenue is to be recognized. It replaces IAS 18 Revenue and IAS 11 Construction Contracts, with related interpretations. According to IFRS 15, revenue is recognized when the customer gains control over the product or service. Determining the point in time of transfer of control, i.e., at a specific point in time or over time, requires assessments.

The Group applies IFRS 15 retrospectively (without practical solutions), with the combined effect recognized in equity as per 1 January 2018 (using the cumulative method). Thus the information reported in 2017 has not been recalculated, i.e., it is reported as previously in accordance with IAS 18 and IAS 11, with related interpretations. In addition, the disclosure requirements in IFRS 15 have not been used for comparative information.

The transition has not had any effect on the point of time for Axfood's revenue recognition, since the point in time at which control over the products is passed on 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, have not been 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 has not affected revenue recognition for these parts.

Adoption of IFRS 15 has not had any effects on the opening balances.

**New IFRSs that have not yet begun to be applied**

New or amended IFRSs that take effect in coming financial years 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 16 Leases**

The Group will apply IFRS 16 Leases, starting on 1 January 2019. IFRS 16 introduces a uniform lease recognition model for lessees. A lessee recognizes a right-of-use asset, which represents a right to use the underlying asset, and a lease liability, which represents an obligation to make lease payments. Exceptions are made for short-term leases and low value leases. For lessors, recognition is similar to the current standard, i.e., the lessor continues to classify leases as finance or operating leases. IFRS 16 replaces IAS 17 Leases.

During 2018 a project group worked with preparations ahead of application of the new standard together with external accounting specialists. The project involved compiling and reviewing the Group's leases, updating systems, and workshops and training for employees affected by IFRS 16.

**Leases where the Group is lessee**

The Group will report new assets and liabilities for operating leases for store premises, warehouses and offices, and vehicles. The costs for these leases will change, since the Group will recognize depreciation of the right-of-use assets and interest expenses for the lease liabilities.

Previously the Group recognized operating lease expenses on a linear basis over the lease term and recognized assets (prepaid lease payments) and liabilities (accrued lease payments) only to the extent that there was a difference between the actual lease payments and the recognized cost. In addition, the Group will no longer report provisions for operating leases that are considered to be loss contracts. No significant effect is expected for the Group's finance leases. According to IAS 17, a residual value guarantee is included in the calculation, but according to IFRS 16, only the amount that is expected to be paid out by the lessee will be included.

**Leases where the Group is lessor**

No significant effect is expected for leases where the Group is lessor. All leases are classified as operating leases.

**Transition and relief rules**

The Group will apply the modified retrospective approach. This entails that the accumulated effect of adoption of IFRS 16 will be recognized in retained earnings in the opening balance as per 1 January 2019 without recalculation of comparative figures. Right-of-use assets attributable to

previous operating leases will mainly be recognized at their depreciated value from commencement of the lease and to lesser extent at the value of the liability on 1 January 2019 after deducting advance payments recognized on the balance sheet as per 31 December 2018.

Leases with a low value will not be included in the lease liability but will continue to be reported with a linear expensing over the lease term. The existence of leases with a maximum lease term of 12 months, so-called short-term leases, is considered to be insignificant in the Group.

**Reconciliation of assumptions for operating leases (SEK bn)**

Assumptions for operating leases, 31 December 2018	6.3
Discounting using the Group's incremental borrowing rate	-0.4
Liabilities for finance leases, 31 December 2018	0.1
Contracts pertaining to short-term leases that are expensed	-0.0
Contracts pertaining to leases of assets with a low value that are expensed	-0.0
Adjustment for extension options or termination clauses	0.2
<b>Lease liability on 1 January 2019</b>	<b>6.2</b>

**Estimated effects on balance sheet 1 January 2019 (SEK bn)**

Right-of-use asset	5.9
Prepaid expense	-0.2
Deferred tax asset	0.1
Shareholders' equity	0.4
Accrued expense	0.0
Lease liability – current	-1.5
Lease liability – non-current	-4.7

The Group expects that operating profit for 2019 will increase compared with the use of the previous accounting policies on account of the fact that part of the lease expenses will be recognized as an interest expense. Cash flow from operating activities is expected to increase, and cash flow from financing activities is expected to decrease on account of the fact that the amortization portion of lease payments will be recognized as payments in the financing activities.

Other new and amended IFRSs with future application are not expected to have any significant effect on the Group's financial statements.

**Classification of current and non-current items**

In the Axfood Group's accounting, assets and liabilities are classified as current and non-current. Non-current receivables and liabilities consist in all essential respects of amounts that are expected to fall due for payment after one year from the end of the reporting period. Current receivables and liabilities fall due for payment within one year from the end of the reporting period.

**Operating segment reporting**

An operating segment is a component of the Group 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 and business combinations****Subsidiaries**

Subsidiaries are all companies in which the Parent Company, Axfood AB, 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.

Subsidiaries are reported in accordance with the purchase method. This entails that 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 of the business acquisition, the fair value is determined of acquired identifiable assets and liabilities.



ties taken over on the acquisition date, as well as of any non-controlling interests. Transaction costs that arise, with the exception of transaction cost attributable to an equity or debt instrument, 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 is measured at fair value at the date of the acquisition. In cases where the contingent consideration is classified as an equity instrument, no remeasurement is done, and settlement is done in equity. Other contingent consideration is remeasured at every reporting date, and the change is recognized in profit or loss for the year.

Acquisitions from non-controlling interests are reported as a transaction within equity, i.e., between the Parent Company's owners (within retained profits) and non-controlling interests. As a result, no goodwill arises in such transactions. The change in non-controlling interests is based on its proportional share of net assets. For acquisitions carried out in stages, goodwill is determined on the day that control was obtained. Previous holdings are measured at fair value, and the change in value is reported in profit or loss for the year.

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

Associated companies are companies in which Group has a non-controlling interest over their operational and financial management, typically through a holding of between 20% and 50% of the votes. From the point in time at which the non-controlling interest was obtained, participations in associated companies are reported in accordance with the equity method. The equity method entails that Group's share of the associated company's equity including Group goodwill and remaining Group deficit and surplus values is reported as shares and participations in associated companies. The equity method is applied from the point in time at which the non-controlling interest arises until the point in time that the non-controlling interest 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 venture

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







## Note 1. Significant accounting policies, cont.

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.

### Revenue

Note 5

See description in Note 5.

### Leases

#### Operating leases

Note 11

Costs for operating leases are recognized in profit or loss for the year on a linear basis over the lease term. Benefits received in connection with the signing of a lease are recognized in profit or loss for the year as a reduction of lease payments 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 commencement of the lease. The corresponding obligation to make future lease payments 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 term of the lease 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 primarily of interest income from invested funds and dividend income. 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 or losses 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, or that have been paid and are part of the effective interest.

### Receivables and liabilities in foreign currency

Note 27

Business-related receivables and liabilities in foreign currency are translated to the functional currency at 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 Group goodwill, nor in differences attributable to participations in subsidiaries or associated companies that are not expected to be taxed in the foreseeable future. Measurement of deferred tax is based on how the underlying assets or liabilities are expected to be realized or settled.

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. The value of deferred tax assets is reduced when it is no longer determined probable that they can be utilized.

Any income tax that arises on dividends is reported at the same point in time as when the dividend is reported as a liability.

## Intangible assets

### Goodwill

In connection with business combinations, goodwill is reported in the statement of financial position in cases where the consideration paid, any non-controlling interests and the fair value of previously owned interests (for business combinations achieved in stages) exceed the fair value of acquired identifiable assets and liabilities taken over.

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.

### Development

Costs for development of software for internal use are recognized as an asset in the statement of financial position if the product or process is technically and commercially useable and the company has sufficient resources to complete development and thereafter use or sell the intangible asset. The carrying amount includes all directly attributable costs, e.g., for material and services, employee remuneration, registration of a legal right, amortization of patents and licences, and borrowing costs according to IAS 23. Other development costs are recognized in profit or loss for the year as an expense as they are incurred. In the statement of financial position, recognized development costs are state at cost less accumulated depreciation and any impairment.

### Other intangible assets

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

Trademarks are measured 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 <sup>1)</sup>	Remaining lease period
Customer relationships <sup>2)</sup>	Length of customer relationship/agreement
Other intangible assets	20% – 33%

<sup>1)</sup> Leaseholds currently have a remaining amortization period of 3 years.

<sup>2)</sup> Customer relationships have a remaining amortization period of 4 years.

Goodwill and trademarks are not amortized, but are tested for impairment annually, or more frequently if factors indicate that the asset in question has decreased in value.

Useful life is reassessed every year.

## Property, plant and equipment

Property, plant and equipment are 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. Borrowing costs that are directly attributable to the purchase, design or production of assets that take a substantial time to complete for their intended use are included in the cost.

Gains or losses that arise upon the sale or disposal of property, plant and equipment consist of the difference between the sales price and the carrying amount less direct costs associated with the sale. This profit/loss item is reported among Other operating income/expenses.

### Leased assets

Leases are classified either as a finance or operating lease. For finance leases, the financial risks and benefits associated with ownership are in all essential respects passed on to the lessee. Other leases are classified as operating leases.

Assets that are leased under financed leases are reported as a non-current asset in the Group's statement of financial position and are initially measured at the lower of the leased asset's fair value or the present value of the minimum lease payments upon commencement of the lease. The obligation to make future lease payments 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.

Assets leased under operating leases are not reported as an asset in the statement of financial position. Nor do operating leases give rise to a liability.

Assets leased out under finance leases are not reported as tangible assets, as the risks associated with ownership are passed on to the lessee. Instead, a financial receivable is booked for the future minimum lease payments.

### Depreciation of property, plant and equipment

Depreciation is done on a straight-line basis over the estimated useful life of the assets. Land is not depreciated. Leased assets are depreciated over their estimated useful life, if this is shorter than the contracted lease term. The following percentages have been applied:

Equipment, tools, fixtures and fittings	10% – 33%
Store equipment	15%
Buildings	2% – 5%
Land improvements	5%

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

Axfood applies component depreciation. 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

Notes 26, 27, 28

### Recognition and initial measurement

Trade receivables and issued debt instruments are recognized when they are issued. Other financial assets and financial liabilities are recognized when the Group becomes party to the instrument's contractual terms and conditions. A financial asset (with the exception of trade receivables that do not have a significant financing component) or financial liability is measured on the initial reporting occasion at fair value plus – with respect to financial instruments that are not measured at fair value through profit or loss – transaction costs that are directly attributable to the acquisition or issue. A trade receivable with a significant financing component is measured at the transaction price.

### Financial assets

#### Classification and subsequent measurement

On the initial reporting occasion, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income, or fair value through profit or loss. Financial assets are not reclassified after the initial reporting occasion except for in cases where the Group changes its business model for management of financial assets.

A financial asset shall be measured at amortized cost if it satisfies both of the following conditions and is not identified as measured at fair value through profit or loss:

- it is held within the framework of a business model whose goal is to hold financial asset for the purpose of receiving contractual cash flows, and
- the contracted terms for the financial asset give rise at set points in time to cash flows that only are payments of principal and interest on the outstanding principal balance.





### Note 1. Significant accounting policies, cont.

A debt instrument shall be measured at fair value through other comprehensive income if it satisfies both of the following conditions and has not been identified as being measured at fair value through profit or loss:

- it is held under a business model whose goal can be achieved by receiving contractual cash flows and selling financial assets, and
- the contracted terms give rise at set points in time to cash flows that only are payments of principal and interest on the outstanding principal balance.

All financial assets that are not classified as measured at amortized costs or at fair value through other comprehensive income are measured at fair value through profit or loss.

#### Subsequent measurement and gains and losses

##### Financial assets measured at fair value through profit or loss

Subsequent measurement of these assets is done at fair value. Net gains and losses, including all interest and dividend income, is recognized in profit or loss. However, see Note 27 for derivatives identified as hedge instruments.

##### Financial assets measured at amortized cost

Subsequent measurement of these assets is done at amortized costs using the effective interest method. The amortized cost is reduced by impairment. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Gains and losses that arise from derecognition are recognized in profit or loss.

#### Financial liabilities

##### Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortized cost or at fair value through profit or loss. A financial liability is classified as measured at fair value through profit or loss if it is classified as held for trading, as a

derivative, or if it was identified as such on the initial reporting occasion. Financial liabilities measured at fair value through profit or loss are measured at fair value, and net gains and losses, including interest expenses, are recognized in profit or loss. Subsequent measurement of other financial liabilities is done at amortized cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognized in profit or loss. Gains and losses upon derecognition are also recognized in profit or loss. See Note 27 for financial liabilities identified as hedge instruments.

#### Derecognition from the statement of financial position

##### Financial assets

The Group derecognizes a financial asset from the statement of financial position when the contractual rights to the cash flows from the financial asset cease or if it transfers the right to receive the contractual cash flows.

##### Financial liabilities

The Group derecognizes a financial liability from the statement of financial position when the obligations stated in the contract are fulfilled, cancelled or cease.

When a financial liability is derecognized, the difference between the carrying amount that has been derecognized and the compensation paid (including transferred nonmonetary assets or liabilities taken over) is recognized in profit or loss.

#### Offsetting

Financial assets and financial liabilities shall be offset against each other and reported in a net amount in the statement of financial position only when the Group has a legal right to offset the reported amounts and intends to settle the items in a net amount or at the same time realize the asset and settle the liability.

### Financial derivative instruments and hedge accounting

The Group holds financial derivative instruments to hedge its foreign currency. Derivatives are stated on the initial reporting occasion at fair value. After the initial reporting occasion they are measured at fair value, and changes in this are generally reported in profit or loss. The Group identifies certain derivatives as hedge instruments to hedge the variability of cash flows associated with highly probable transactions that arise from changes in foreign exchange rates. When the Group initially identifies a hedge condition, the goals of risk management and the strategy of the hedge are documented. The Group also documents the financial relationship between the hedged item and the hedge instrument, including whether changes in cash flow of the hedged item and hedge instrument are expected to offset each other.

### Cash flow hedges

When a derivative is identified as a cash flow instrument, the effective portion of changes in the fair value of the derivative is reported in other comprehensive income and is accumulated in the hedging reserve. Ineffective portions of changes in the fair value of the derivative are recognized immediately in profit or loss. When hedged, prognosticated transactions subsequently lead to recognition of a nonfinancial item such as inventory, the accumulated amount is included in the hedging reserve at the initial cost of the nonfinancial item. For all other hedged, prognosticated transactions, the accumulated amount in the hedging reserve and the hedge expense reserve is reclassified to profit or loss in the same period or periods that the hedged, anticipated cash flow affects profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedge instrument is sold, expired, discontinued or redeemed, the hedge accounting ceases going forward. When hedge accounting for cash flow hedges has ceased, the amount that has accumulated in the hedging reserve is retained in shareholders' equity until – for a hedge of a transaction that results in reporting of a nonfinancial item – it is included in the nonfinancial item's cost on the initial reporting occasion or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods that the hedged, anticipated cash flow affects profit or loss. If the hedged cash flow is no longer expected to arise, the amount that has accumulated in the hedging reserve and hedge expense reserve is reclassified immediately to profit or loss.

Forward exchange contracts are used to hedge a receivable or liability against exchange rate risk. Hedge accounting is not used to protect against currency risk, since a financial hedge is reflected in the reporting since both the underlying receivable or liability and the hedge instrument are reported at the exchange rate in effect on the balance sheet date, and changes in exchange rates are reported in profit or loss for the year. Changes in exchange rates pertaining to business-related receivables and liabilities are reported in operating profit or loss, while exchange rate changes pertaining to financial receivables and liabilities are reported net financial income/expense.

### Inventories

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

Cost consists of the purchase price less supplier discounts attributable to articles in stock. In addition to the purchase price, the cost also includes other direct 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. Inventory consists of finished products and goods for resale.

### Assets held for sale

A non-current asset is classified as held for sale when its carrying amount will be recovered mainly through a sale and not through use. An asset is classified as held for sale when it is available for immediate sale in existing condition and according to normal terms, and it is highly probable that the sale will be carried out. Such assets are reported on a separate line as a current asset in the statement of financial position. Non-current assets are reported at the lower of their carrying amount and fair value less costs to sell.

### 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 deter-

mine 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 or loss. Impairment of assets pertaining to a cash-generating unit is applied primarily to goodwill. Thereafter, a proportional write-down is made of other assets included in the unit.

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

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

### Provisions

Provisions differ from other liabilities in that there is uncertainty surrounding the date of payment or the amount needed to settle the obligation. Provisions are reported in the statement of financial position when Axfood has a legal or constructive obligation as a result of a past event and when it is probable that an outflow of resources will be required to settle the obligation and that it is possible to make a reliable estimation of the amount. The provision is reported in an amount that corresponds to the best estimate of the payment required to settle the obligation. When the outflow of resources is expected to take place a long time in the future, the anticipated future cash flow is discounted, and the provision is reported at present value. The discount rate corresponds to the market rate of interest before tax and the risks associated with the liability. Provisions are reported in the statement of financial position under other current and non-current liabilities.

Notes 8, 25

### Employee benefits

#### 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 or loss 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 or loss 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 or loss.



**Note 1. Significant accounting policies, cont.**

The special employer's payroll tax is reported separately from the net obligation/asset as an other non-current liability. 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. The Group does 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 25.

**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**

The Axfood Group has share-based incentive programmes 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 programmes cover three-year periods and require 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 options. The fair value of the granted options 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.

Share repurchases carried out to fulfil the delivery obligation under outstanding share-based programmes are reported in equity.

**Contingent liabilities**

Note 30

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 (*Årsredovisningslagen (1995:1554)*) 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 2018**

No changes were made in the Parent Company's accounting policies for 2018, other than application of the principles for credit loss provisions.

**Classification and presentation format**

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

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

**Subsidiaries and associated companies**

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

**Employee benefits/defined benefit pension plans**

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

**Financial instruments**

In view of the connection between reporting and taxation, the rules on financial instruments in IFRS 9 are not applied for financial instruments in the Parent Company as a legal entity. Financial non-current assets are measured at cost less 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 IFRS 9. The relief rule pertains to



financial guarantee agreements pledged for 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 leases are reported in accordance with the rules for operating leases.

#### Taxes

In the Parent Company, in contrast to the Group, untaxed reserves are reported without a breakdown into shareholders' equity and deferred tax liability. In the income statement, in a similar manner, no breakdown is made of parts of appropriations to deferred tax liability.

#### 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 BFNR 1999:1 Mergers of Wholly Owned Stock Companies. The so-called consolidated value method is applied, which means that the assets and liabilities of the merged subsidiaries are reported in the respective companies' parent companies at the values these had in the consolidated accounts. During the year, two mergers took place within the Group, neither of which was with Axfood AB.

#### Changed accounting policies 2018 and later

See the changed accounting policies for the Group above.

### Accounting policies 2017

#### Financial instruments – Group

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 measurement

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 that 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 comprehensive income is recognized in profit or loss for the year. On each reporting occasion Axfood evaluates whether there is objective evidence that a financial asset is in need of impairment. Assets are assessed individually. Objective evidence consists of observable conditions that have occurred and which have a negative impact on the opportunity to recover the cost, as well as of material or prolonged decreases in the fair value of a financial investment that is classified as an available-for-sale financial asset. A 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

**Note 1. Significant accounting policies, cont.**

financial liabilities". Trade payables have a short anticipated duration and are measured without discounting at 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.

**Income**

Income is measured based on the consideration that is specified in the agreement with the customer. Income from sales of products is recognized in profit or loss when control over a product or service has been passed on to the buyer, which for retail means when the product is paid for in a store and for wholesale when the product is delivered. Sale are reported net after VAT and discounts. 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 brands. The grocers pay an annual sales-based fee to Axfood for participation in marketing programmes, purchasing coordination and support in such areas as technical support, administration and store operations. Franchise 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 lease. Similarly, rental costs are reported over the term of the lease.

**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.



## 2 Operating segments

Axfood's operating segments have been determined based on the information considered by the 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 such manner that 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.

No significant impairment losses affected profit for 2018 or 2017. No impairment losses were reversed in 2018 or 2017. No significant non-cash items other than depreciation and amortization arose during 2018 and 2017.

Effective 1 January 2018 Axfood carried out a reorganization of Axfood Närlivs, entailing that the operations of Axfood Snabbgross are reported as a new segment. Customer responsibility for Tempo was transferred to Hemköp, and other operations in Axfood Närlivs were transferred to Dagab. In connection with the reorganization, Dagab carried out a price adjustment based on its updated cost structure. This entailed a change in

net sales and operating profit for the segment. All historical segmental data below for 2017 have been recalculated according to the new segmental breakdown.

Axfood's operating segments have been identified as follows:

**Willys.** Sales of food retail products at discount prices.

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

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

**Axfood Snabbgross.** Business-to-business sales to restaurants, food-service operators and cafés.

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 Snabbgross		Dagab		Joint-Group		Eliminations		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<b>Result of operations</b>														
External net sales	27,066	25,415	6,403	6,199	3,236	2,977	11,327	11,327	54	50			48,085	45,968
Internal net sales					5	7	31,130	29,802	775	720	-31,910	-30,529	-	-
Net sales	27,066	25,415	6,403	6,199	3,241	2,984	42,456	41,128	830	770	-31,910	-30,529	48,085	45,968
Depreciation/amortization	-269	-276	-122	-108	-20	-21	-109	-101	-241	-238			-760	-744
Share of profit in associated companies							-17	-3					-17	-3
Operating profit	1,197	1,059	227	234	121	110	685	699	-206	-216			2,025	1,886
Financial items, net													-9	-5
Consolidated profit before tax													2,016	1,881
<b>Other disclosures</b>														
Investments in non-current assets <sup>1)</sup>	269	235	110	203	10	41	237	138	273	211			899	828

<sup>1)</sup> Property, plant and equipment and intangible non-current assets, excluding acquisitions of operations. Figures for 2017 have not been recalculated according to the new segmental breakdown.

## 3 Acquired operations

Axfood acquired four stores in 2018 and shares in Urban Deli Holding AB.

Since 2014 Axfood's holding in Urban Deli Holding AB amounted to 50% of the shares and was reported as a joint venture. Control was obtained on 27 December 2018 when an additional 36% of the shares were acquired. On 31 December 2018 Axfood's ownership in Urban Deli Holding AB amounted to 90.7% of the shares. The increase is due to a directed new issue that was carried out after control was obtained. Axfood's share of ownership in stores acquired in 2018 is 100% after the acquisitions. All of the stores have been converted to Hemköp.

Acquired assets and liabilities are reported in Axfood's statement of financial position at fair value. No acquisition was individually significant; consequently, all of them are reported together in the presentation below.

The following assets and liabilities were acquired in 2018 <sup>1)</sup>

	Fair value reported in Group
Intangible assets	39
Property, plant and equipment	26
Deferred tax assets	14
Current assets	27
Interest-bearing non-current liabilities	-20
Interest-bearing current liabilities	-6
Other current liabilities	-70
<b>Total identified net assets</b>	<b>10</b>
Previously owned share	23
Non-controlling interests	0
Goodwill	57
<b>Purchase price</b>	<b>90</b>
Cash and cash equivalents in acquired companies	-1
Contingent consideration	-15
Consideration paid in preceding year	-29
<b>Impact on cash and cash equivalents since the start of the year</b>	<b>45</b>

<sup>1)</sup> The table is based on preliminary purchase price allocation, since the integration of Urban Deli will not be completed until 2019.

Acquired goodwill in 2018 amounted to SEK 96 m (807), of which approximately SEK 4 m (81) is expected to be tax-deductible.

During the months following the acquisitions of operations, the acquired operations contributed SEK 130 m (1,462) to consolidated net



### Note 3. Acquired operations, cont.

sales. If the acquisitions had been carried out as per 1 January 2018, Axfood estimates that consolidated income would have been approximately SEK 315 m higher (395), i.e., a total of approximately SEK 48,400 m (46,363). The profit/loss effect is difficult to assess, as the operations were initially charged with one-time costs.

Part of the purchase price for Urban Deli is contingent and can amount to a maximum of SEK 15 m, and is dependent on the Urban Deli group's sales and earnings performance, among other things. A provision for the maximum outcome has been made. The Axfood Group has chosen to report non-controlling interests at their proportional share of the identified net assets.

No amounts remain to be paid from previous years' acquisitions.

Acquisition-related expenses attributable to the year's acquisitions amount to SEK 0 m (8.3).

#### Acquisitions in the preceding year

During the preceding year Axfood acquired Matse Holding AB. Control was obtained on 31 January 2017 when Axfood completed its public cash offer and received 98.8% of the shares, and during 2017 Axfood acquired the remaining shares through compulsory redemption process. Acquired assets and liabilities are reported in Axfood's statement of financial position at fair value.

#### Matse Holding AB acquired assets and liabilities 2017

	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
<b>Total identified net assets</b>	<b>127</b>
Goodwill	429
<b>Purchase price</b>	<b>556</b>
Cash and cash equivalents in acquired companies	-25
Consideration paid in preceding year	-49
<b>Impact on cash and cash equivalents since the start of the year</b>	<b>482</b>

Also during 2017, 100% of the shares were acquired in Eurocash Food AB, and on a later occasion 49% of the shares were sold to Norgesgruppen; control over the company remained. On 31 May 2017, the shares in Mid-dagsfrid AB were acquired by the Axfood Group through Matse Holding AB. Control was obtained as per 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.

Acquired assets and liabilities are reported in Axfood's statement of financial position at fair value.

#### Other acquisitions, acquired assets and liabilities 2017

	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
<b>Total identified net assets</b>	<b>130</b>
Goodwill	378
<b>Purchase price</b>	<b>508</b>
Cash and cash equivalents in acquired companies	-51
Non-controlling interests	-193
<b>Impact on cash and cash equivalents since the start of the year</b>	<b>264</b>

## 4 Discontinued operations

### Sold operations

During the year, no (four) store operations were sold. Of the divestments in the preceding year, three 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 - m (0). The purchase price for one of the sales in 2017 was settled in 2018.

## 5 Revenue

The Group conducts retail trade through the Hemköp, Willys, Eurocash and Axfood Snabbgross chains. Income from sales of products is recognized when the Group company sells a product to a customer. The transaction price is due for payment immediately when the customer buys the product and takes possession of the product in the store.

Hemköp has a customer loyalty programme in which retail customers collect points for purchases made. The points give them discounts on future purchases. A contractual liability for the points is recognized at the point in time the sale was made. Income is recognized when the points are used or when they expire. All chains offer discounts - in customer loyalty programmes or other discounts - which reduces the amount of income at the transaction date.

In Axfood Snabbgross, some sales are made with delivery to customers, with payment by invoice and discounts that are regulated subsequently. These transactions are handled in the same way as in Dagab, see the description below.

The Group conducts wholesale trade through Dagab. Income from a sale is recognized when control of the products has been transferred, which takes place when the products have been delivered to the customer. Discounts are usually recognized through a deduction on the invoice, which reduces the income at the transaction date. Volume discounts are offered, based on accumulated sales over a period of time. Income from the sale of products is recognized based on the price in the agreement, less calculated volume discounts. Historical data is used to estimate the discounts' anticipated value, and income is recognized only to the extent that it is highly probable that a significant reversal will not arise. A liability is recognized for anticipated volume discounts in relation to sales through the balance sheet date. Invoicing is done in connection with delivery, and the terms of payment are normally 10 to 30 days.

Franchise fees in Hemköp and other services pertain to services that are performed during the contract period. The income is thereby recognized on a linear basis over the contract period. The services' share of Axfood's total sales is not significant.

## 6 Breakdown of expenses

Group	2018	2017
Cost of goods for resale	34,985	33,267
Payroll costs	6,307	5,909
Depreciation/amortization	760	744
Other	4,482	4,642
<b>Total</b>	<b>46,534</b>	<b>44,562</b>

## 7 Information on intra-Group income and expenses

The Parent Company's income from Group companies amounted to SEK 223 m (220). The Parent Company's expenses from Group companies amounted to SEK 60 m (54). The Parent Company's sales to Group companies consist mainly of compensation to cover shared costs for rents, central administration and shared systems. The Parent Company's compensation to Group companies consists mainly of compensation for system support and rents.





# The fight against waste

The fact that as much as a third of all food is tossed out is something that has engaged Axfood for many years. It is a waste of resources when food ingredients are produced, transported, refined and prepared without being eaten. Systems for optimizing purchasing and deliveries, new packaging for better shelf life and food donations help reduce food waste, but these are not enough. Axfood is advocating for adoption of a national food waste target that includes a uniform definition of food waste. Uniform methods for measuring and monitoring waste are also needed.



## 8

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

Average number of employees<sup>1)</sup>

	2018	Of whom, men	2017	Of whom, men
<b>Parent Company</b>				
Average number of employees	158	42	164	49
<b>Subsidiaries</b>				
Average number of employees	10,057	4,805	9,739	4,633
<b>Total, Group</b>	<b>10,215</b>	<b>4,847</b>	<b>9,903</b>	<b>4,682</b>

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

## Gender breakdown, number

	Board of Directors Group		Other senior executives Group		Board of Directors Parent Company		Other senior executives Parent Company	
	2018	2017	2018	2017	2018	2017	2018	2017
Men	91	97	32	31	4	3	7	7
Women	14	18	14	16	4	3	3	3
<b>Total</b>	<b>105</b>	<b>115</b>	<b>46</b>	<b>47</b>	<b>8</b>	<b>6</b>	<b>10</b>	<b>10</b>

## Expensed wages, salaries and other compensation, and social security charges

	2018			2017		
	Wages, salaries and other compensation	Social security charges	Of which, pension costs	Wages, salaries and other compensation	Social security charges	Of which, pension costs
Parent Company	130	68	27	123	68	29
Subsidiaries	4,063	1,616	324	3,836	1,509	297
<b>Total, Group</b>	<b>4,193</b>	<b>1,684</b>	<b>351</b>	<b>3,959</b>	<b>1,577</b>	<b>326</b>

## Expensed salaries, other compensation and benefits paid to senior executives, Parent Company

	2018						
KSEK	Base salary	Variable compensation	Other benefits	Pension cost	Other compensation	Share-based payments <sup>2)</sup>	Total
President	7,057	3,366	158	2,455	–	2,079	15,115
Other senior executives, Parent Company <sup>1)</sup>	21,042	9,752	961	6,230	46	2,942	40,973
<b>Total</b>	<b>28,099</b>	<b>13,118</b>	<b>1,119</b>	<b>8,685</b>	<b>46</b>	<b>5,021</b>	<b>56,088</b>

	2017						
KSEK	Base salary	Variable compensation	Other benefits	Pension cost	Other compensation	Share-based payments <sup>2)</sup>	Total
President	6,659	3,316	204	2,680	–	704	13,563
Other senior executives, Parent Company <sup>1)</sup>	21,391	8,769	978	9,622	55	1,146	41,961
<b>Total</b>	<b>28,050</b>	<b>12,085</b>	<b>1,182</b>	<b>12,302</b>	<b>55</b>	<b>1,850</b>	<b>55,524</b>

<sup>1)</sup> Of base salaries, variable compensation and other compensation paid out by the Parent Company, KSEK 22,633 (18,430) pertains compensation that the senior executives received from other Group companies. Of the Parent Company's other benefits, KSEK 616 (586) pertains to compensation from other Group companies.

<sup>2)</sup> Pertains to calculated outcome of incentive programmes (LTIP), which will be settled in 2020 and forward.

## Expensed salaries, other compensation and benefits paid to senior executives, Group

KSEK	2018	2017
Salaries and other compensation	95,092	93,702
(of which, bonuses)	(20,258)	(18,819)
Share-based payments, incl. social security costs	11,403	4,405
Pension costs, incl. special employer's payroll tax	27,492	32,603
<b>Total</b>	<b>133,987</b>	<b>130,710</b>



## Note 8. Information on employees and compensation of directors, the President and other senior executives, cont.

### Share-based payments

On 12 May 2017 and 14 May 2018, the Group started long-term share-based incentive programmes (LTIP) following a resolution by the respective years' Annual General Meetings.

LTIP 2017 and LTIP 2018 were 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 programmes each stretch over three years starting in May of the respective years. Participation 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 vesting period exceeds 0%.

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 remains, 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 programmes are equity-settled, and grants will be made through delivery of shares.

### Group

	LTIP 2018	LTIP 2017
Vesting conditions	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 2018-2020 accumulated up to 10% better than same period	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	161.75	143.50
Number of participants upon grant	59	59
Number of participants on balance sheet date <sup>1)</sup>	60	51
Savings shares, number <sup>2)</sup>	24,550	21,650
Grants of matching shares, number <sup>2)</sup>	24,550	21,650
Grants of performance shares, number <sup>2)</sup>	147,300	129,900
Maximum number of matching shares and performance shares	197,628	174,283
Weighted average fair value at measurement date for entire term <sup>3) 4)</sup>	33.2	20.6
Cost for the year	7.4	6.3
Accumulated cost	7.4	11.5
Maximum cost for entire term	58.2	45.0
Liability (social security charges) 2018	2.0	3.4
Vesting period	3 yrs	3 yrs
Term	May 2018–May 2021	May 2017–May 2020

<sup>1)</sup> Of whom, senior executives, nine persons for LTIP 2017 and 10 persons for LTIP 2018.

<sup>2)</sup> Of the savings shares and matching shares, 23,850 pertain to senior executives.

Of the performance shares, 143,100 pertain to senior executives.

<sup>3)</sup> Of fair value, SEK 28 m pertains to senior executives.

<sup>4)</sup> Of which, matching shares SEK 8.1 m and performance shares SEK 45.7 m.

The fair value of services performed by 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 measured using the share price on the balance sheet date as the base. The calculated 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 have been affected by the number of persons who have left the programmes (seven persons).

### Parent Company

The same terms that apply for the Group apply for the Parent Company.

	LTIP 2018	LTIP 2017
Weighted average fair value at measurement date for entire term <sup>1)</sup>	16.7	10.2
Cost for the year	3.7	3.2
Accumulated cost	3.7	5.6
Liability (social security charges) 2018	1.0	1.6

<sup>1)</sup> Of fair value, SEK 7 m pertains to senior executives for LTIP 2017 and SEK 11 m for LTIP 2018.

### Repurchased shares

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. To secure the Company's obligation for conditional matching and performance shares under LTIP 2018, during the second quarter of 2018 Axfood repurchased 182,000 shares for a total of SEK 30 m at an average price of SEK 162.89 per share. The holding of treasury shares thereby amounts to 376,000 shares and secures delivery of shares to all programmes.

**Note 8. Information on employees and compensation of directors, the President and other senior executives, cont.****Fees and other benefits paid to members of the Board of Directors, KSEK**

	2018		2017	
	Directors' fees	Other compensation	Directors' fees	Other compensation
Parent Company				
Mia Brunell Livfors (Chairman)	675	–	675	–
Lars Olofsson (Vice Chairman)	515	–	500	–
Other board members:				
Antonia Ax:son Johnson	421	–	408	–
Fabian Bengtsson	421	–	408	–
Caroline Berg	421	–	408	–
Ann Carlsson	–	–	271	–
Christer Åberg	421	–	307	–
Stina Andersson	319	–	–	–
Jesper Lien	319	–	–	–
Michael Sjöén	–	–	–	–
Anders Helsing	–	–	–	–
Lars Östberg	–	–	–	–
<b>Total</b>	<b>3,512</b>	<b>–</b>	<b>2,977</b>	<b>–</b>

**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 2018 AGM, the annual fee payable to directors was set at KSEK 3,745 (3,225), of which KSEK 675 (675) is payable to the Chairman. Seventy-five per cent of the fees were paid out in 2018, with the remainder being paid out after year-end. Expensed fees paid to the board members are shown in the table.

**President**

Axfood's president, Klas Balkow, received expensed, contractual salary and other compensation amounting to SEK 13.7 m (9.2) in 2018, of which variable salary amounted to SEK 3.4 m (2.6) and share-based payments SEK 2.1 m (0.7). The President's variable compensation is based on the performance and development of the business. 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 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 retirement pension provisions corresponding to 35% of his yearly cash salary. 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 35.0 m (31.9), including SEK 9.8 m (8.8) in variable compensation and SEK 2.9 m (1.1) in share-based payments. By other senior executives is meant the nine persons (nine) who together with the President make up the Axfood's Executive Committee. See p. 62 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 in certain cases, 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 two members of the Executive Committee on this part have 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 and 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	
	2018	2017	2018	2017
<b>Deloitte</b>				
Auditing fees	5	5	1	1
Auditing activities in addition to the audit assignment	1	0	1	0
Other services	6	0	0	0
<b>Total</b>	<b>12</b>	<b>5</b>	<b>2</b>	<b>1</b>

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. Other services pertain to auditing activities in addition to the audit assignment, tax consulting and other consulting.



## 10 Depreciation/amortization

Group	Other intangible assets		Land and buildings		Equipment, tools, fixtures and fittings		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Cost of goods sold	150	159	2	1	474	459	626	619
Selling expenses	4	1	0	0	45	44	49	45
Administrative expenses	10	7	0	0	75	73	85	80
<b>Total depreciation/amortization</b>	<b>164</b>	<b>167</b>	<b>2</b>	<b>1</b>	<b>594</b>	<b>576</b>	<b>760</b>	<b>744</b>

The Parent Company's depreciation of SEK 11 m (10) pertains to equipment, tools, fixtures and fittings and is reported under administrative expenses.

## 11 Operating leases

	Group		Parent Company	
	2018	2017	2018	2017
Minimum lease payments during the financial year	1,536	1,492	32	33
Variable charges	14	14	–	–
<b>Total leasing costs during the financial year<sup>1)</sup></b>	<b>1,550</b>	<b>1,506</b>	<b>32</b>	<b>33</b>
Leasing income pertaining to sublet premises	137	120	24	23
Contracted future minimum lease payments				
Within one year	1,481	1,408	34	33
Between one and five years	3,976	3,689	116	119
Longer than five years	861	1,411	10	29
<b>Total future lease payments</b>	<b>6,318</b>	<b>6,508</b>	<b>160</b>	<b>181</b>

<sup>1)</sup> Of which, rents for premises SEK 1,489 m (1,430) for the Group and SEK 32 m (28) for the Parent Company.

Axfood rents warehouse and store premises. Premises are rented from external parties, while premises are sublet mainly to Group companies and to franchisees. The terms of rental agreements are in line with the going

rate in the market with respect to price as well as duration. The variable charge consists of an arrangement whereby certain rental agreements have minimum rents plus a sales-based portion.



## 12 Related party transactions

The Axfood Group's transactions with related parties, aside from those covered by the consolidated accounting, consist of transactions with associated companies and joint ventures, and with subsidiaries within the Axel Johnson Group. All prices are set on an arm's length basis. During the year, purchases from associated companies and joint ventures totalled SEK 4 m (5). Sales to associated companies and joint ventures totalled 27 m (16). Axfood's associated companies and joint ventures owned no shares in Axel Johnson AB as per 31 December 2018.

Axfood AB is 50.1%-owned by Axel Johnson AB.

Martin & Servera AB, a company in the Axel Johnson Group, delivers foodservice products to Axfood companies. Purchases from Martin & Servera amounted to SEK 54 m (49) during the year. Axfood's sales to

Martin & Servera during the year amounted to SEK 14 m (15). As per 31 December 2018, the Axfood Group's current liabilities to Martin & Servera amounted to SEK 12 m (7), and current receivables amounted to SEK 2 m (1).

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 16 m (25) in rents to AxFast AB. All rents are set on an arm's length basis. Åhléns AB, a subsidiary in the Axel Johnson Group, runs department stores and boutiques. The Axfood Group leases premises from Åhléns, among other things. During the year, Axfood's profit was charged with SEK 24 m (25) in rents for premises. As per 31 December 2018, the Axfood Group's current liabilities to Åhléns amounted to SEK 7 m (0) and current receivables to SEK 4 m (0).

## 13 Net financial items

	Group		Parent Company	
	2018	2017	2018	2017
Interest income from trade receivables	4	6	0	0
Dividends from participations in Group companies	–	–	18	–
Interest income from Group accounts	–	–	5	4
Other financial income	1	2	0	0
	<b>5</b>	<b>8</b>	<b>23</b>	<b>4</b>
Interest expenses on borrowings (bank loans and lines of credit)	–1	–2	–1	0
Interest expenses for trade payables and other current liabilities	–3	–1	0	0
Interest expenses on pension liability	–9	–8	–1	–1
Other financial expenses	–1	–2	0	–1
	<b>–14</b>	<b>–13</b>	<b>–2</b>	<b>–2</b>
<b>Net financial items</b>	<b>–9</b>	<b>–5</b>	<b>21</b>	<b>2</b>

Interest income in the Parent Company from Group companies amounted to SEK 5 m (4). Interest expenses in the Parent Company to Group companies amounted to – (–).

## 14 Appropriations and untaxed reserves

	Parent Company	
	2018	2017
<b>Appropriations</b>		
Group contribution received	1,934	2,044
Group contribution rendered	–14	–34
Provision to tax allocation reserve	–532	–546
Dissolution of tax allocation reserve	289	274
Change in accumulated excess depreciation	4	–1
<b>Total</b>	<b>1,681</b>	<b>1,737</b>
<b>Untaxed reserves</b>		
Tax allocation reserves	2,639	2,396
Accumulated excess depreciation	0	4
<b>Total</b>	<b>2,639</b>	<b>2,400</b>

## 15 Taxes

	Group		Parent Company	
	2018	2017	2018	2017
<b>Current tax</b>				
Current tax on profit for the year	–385	–375	–355	–361
Adjustment of current tax from previous years	0	0	0	0
	<b>–385</b>	<b>–375</b>	<b>–355</b>	<b>–361</b>
<b>Deferred tax</b>				
Deferred tax on temporary differences	–54	–39	2	2
	<b>–54</b>	<b>–39</b>	<b>2</b>	<b>2</b>
<b>Total reported tax charge</b>	<b>–439</b>	<b>–414</b>	<b>–353</b>	<b>–359</b>

## Note 15. Taxes, cont.

## Group – reconciliation of applicable tax rate and effective tax rate

	2018	%	2017	%
Reported profit before tax	2,016		1,881	
Tax based on applicable tax rate for Parent Company	-444	-22.0	-414	-22.0
Tax effect of:				
Other non-deductible expenses	-11	-0.5	-10	-0.5
Other tax-exempt revenues	11	0.5	9	0.4
Adjustments of current tax pertaining to previous years	0	0.0	1	0.1
Adjustments of deferred tax pertaining to previous years	0	0.0	-	-
Adjustments of deferred tax pertaining to changed tax rates	5	0.2	0	0.0
<b>Reported tax charge/effective tax rate</b>	<b>-439</b>	<b>-21.8</b>	<b>-414</b>	<b>-22.0</b>
Tax attributable to other comprehensive income <sup>1)</sup>	3		4	

<sup>1)</sup> Of which, attributable to changed tax rates SEK -2 m (0).

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

	2018	%	2017	%
Reported profit before tax	1,577		1,618	
Tax based on applicable tax rate for Parent Company	-347	-22.0	-356	-22.0
Tax effect of:				
Other non-deductible expenses	-5	-0.3	-3	-0.2
Other tax-exempt revenues	0	0.0	0	0.0
Adjustments of current tax pertaining to previous years	0	0.0	-	-
Adjustments of deferred tax pertaining to previous years	0	0.0	-	-
Adjustments of deferred tax pertaining to changed tax rates	-1	-0.1	0	0.0
<b>Reported tax charge/effective tax rate</b>	<b>-353</b>	<b>-22.4</b>	<b>-359</b>	<b>-22.2</b>
Current and deferred tax items reported directly against shareholders' equity	-		-	

## Reported deferred tax assets and tax liabilities

	Group		Parent Company	
	2018	2017	2018	2017
Intangible assets	-99	-96	-	-
Equipment, tools, fixtures and fittings	10	10	-	-
Financial assets	0	0	-	-
Deficit	77	63	-	-
Other receivables	-2	4	-	-
Untaxed reserves	-729	-676	-	-
Provisions	38	35	8	7
Other liabilities	9	7	0	0
Effect of changed tax rates	5	-	0	-
<b>Total deferred tax asset (+)/deferred tax liability (-), net</b>	<b>-691</b>	<b>-653</b>	<b>8</b>	<b>7</b>
Deferred tax asset	141	131	8	7
Deferred tax liability	-832	-784	-	-

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

Tax attributable to other comprehensive income<sup>1)</sup>

	2018			2017		
Group	Before tax	Tax	After tax	Before tax	Tax	After tax
Translation differences	0	0	0	0	0	0
Fair value currency forward contracts	1	0	1	0	0	0
Available-for-sale financial assets	-	-	-	-6	1	-5
Actuarial gains and losses	-21	5	-16	-15	3	-12
Effect of changed tax rates	-	-2	-2	-	-	-
<b>Other comprehensive income</b>	<b>-20</b>	<b>3</b>	<b>-17</b>	<b>-21</b>	<b>4</b>	<b>-17</b>

<sup>1)</sup> The Parent Company has no taxes attributable to other comprehensive income.

## Note 15. Taxes, cont.

## Group, change in deferred tax

	2018				
	Amount at start of year	Recognized in profit for the year	Effect of divested/acquired companies	Recognized in other comprehensive income	Amount at end of year
Intangible assets	-96	-3	-	-	-99
Equipment, tools, fixtures and fittings	10	0	-	-	10
Financial assets	0	0	-	-	0
Deficit	63	-	14	-	77
Other receivables	4	-6	-	0	-2
Untaxed reserves	-676	-53	-	-	-729
Provisions	35	0	-	5	40
Other liabilities	7	2	-	-	9
Effect of changed tax rates	-	5	-	-2	3
<b>Total</b>	<b>-653</b>	<b>-55</b>	<b>14</b>	<b>3</b>	<b>-691</b>

	2017				
	Amount at start of year	Recognized in profit for the year	Effect of divested/acquired 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
<b>Total</b>	<b>-613</b>	<b>-39</b>	<b>-5</b>	<b>4</b>	<b>-653</b>





## 16 Earnings per share

Dilution due to long-term share-based incentive programmes (LTIP) is shown in the table below.

	2018	2017
Earnings per share before dilution, SEK	7.41	6.98
Earnings per share after dilution, SEK	7.40	6.98
Number of shares outstanding end of the period	209,494,712	209,676,712
Average number of shares outstanding before dilution	209,563,072	209,748,468
Average number of shares outstanding after dilution	209,867,642	209,872,801

## 17 Intangible assets

Group	Goodwill		Intangible assets in progress		Other intangible assets <sup>1)</sup>	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Opening cost	2,671	1,864	49	25	1,880	1,634
Increase through acquisitions	96	807	–	–	0	156
Investments	–	–	123	101	6	13
(of which, internally developed)	–	–	(123)	(101)	(6)	(13)
Reclassifications	–	–	–94	–77	94	77
(of which, internally developed)	–	–	(–94)	(–77)	(94)	(77)
<b>Closing accumulated cost</b>	<b>2,767</b>	<b>2,671</b>	<b>78</b>	<b>49</b>	<b>1,980</b>	<b>1,880</b>
Opening amortization	–	–	–	–	–1,136	–969
Amortization for the year	–	–	–	–	–164	–167
<b>Closing accumulated amortization</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–1,300</b>	<b>–1,136</b>
Opening impairment	–	–	–	–	–76	–76
<b>Closing accumulated impairment<sup>2)</sup></b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–76</b>	<b>–76</b>
<b>Closing planned residual value</b>	<b>2,767</b>	<b>2,671</b>	<b>78</b>	<b>49</b>	<b>604</b>	<b>668</b>

<sup>1)</sup> Of other intangible assets, SEK 132 m (132) pertains to trademarks, SEK 11 m (15) pertains to leaseholds, and SEK 17 m (22) to customer relationships. The remainder, SEK 444 m (499), pertains to IT development.

<sup>2)</sup> Pertains to impairment of trademarks.

### Goodwill

The Group's reported goodwill as per 31/12/2018 is broken down per segment as follows:

	31/12/2018	31/12/2017
Hemköp	617	628
Willys	899	884
Snabbgross	57	57
Dagab	1,194	1,102
<b>Total</b>	<b>2,767</b>	<b>2,671</b>

### Other intangible assets

The Group's intangible assets under development consist exclusively of capitalized costs for IT development. Other intangible assets consist of IT development, trademarks, customer relationships and leaseholds.

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 2019 for the respective units. Thereafter, the cash flows are based on assumed annual growth of 2.0% (1.5%). The prognosticated cash flows have been discounted to present value using a discount rate of 6.8% after tax (6.8%), which corresponds to a discount rate before tax of approximately 8.2% (8.4%).

The discount rate corresponds to Axfood's weighted 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 0.5% (1.3%), a company-specific premium of 1.4% (0.2%), and a beta coefficient of 0.4 (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% (6.8%), value in use exceeds the carrying amount for all tested units. Thus there is no need to recognize impairment as per 31 December 2018 (31 December 2017).

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 2019 business plan, which forms the basis for cash flow calculations, the Executive Committee has made an assumption on price and volume growth of approximately 2.0% (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		Equipment, tools, fixtures and fittings		Construction in progress	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Opening cost	46	66	7,068	6,679	114	46
Increase through acquisitions	2	–	22	142	2	1
Investments	89	–	468	508	213	206
Sales and disposals	–4	–20	–385	–400	–	–
Reclassifications	20	–	173	139	–174	–139
<b>Closing accumulated cost</b>	<b>153</b>	<b>46</b>	<b>7,346</b>	<b>7,068</b>	<b>155</b>	<b>114</b>
Opening depreciation	–5	–14	–5,190	–4,977	–	–
Sales and disposals	–	10	340	363	–	–
Depreciation for the year	–2	–1	–594	–576	–	–
<b>Closing accumulated depreciation</b>	<b>–7</b>	<b>–5</b>	<b>–5,444</b>	<b>–5,190</b>	<b>–</b>	<b>–</b>
Opening impairment	–	–	–1	–1	–	–
Sales and disposals	–	–	–	–	–	–
<b>Closing accumulated impairment</b>	<b>–</b>	<b>–</b>	<b>–1</b>	<b>–1</b>	<b>–</b>	<b>–</b>
<b>Closing planned residual value</b>	<b>146</b>	<b>41</b>	<b>1,901</b>	<b>1,877</b>	<b>155</b>	<b>114</b>

Parent Company	Equipment, tools, fixtures and fittings	
	31/12/2018	31/12/2017
Opening cost	73	73
Investments	4	0
Sales and disposals	–20	0
<b>Closing accumulated cost</b>	<b>57</b>	<b>73</b>
Opening depreciation	–61	–51
Sales and disposals	20	–
Depreciation for the year	–11	–10
<b>Closing accumulated depreciation</b>	<b>–52</b>	<b>–61</b>
<b>Closing planned residual value</b>	<b>5</b>	<b>12</b>

## 19 Government grants

Government grants in the form of labour market policy grants amounted to SEK 1 m (4) in the statement of financial position (reported under pre-paid income) and SEK 48 m (51) in the statement of profit or loss, which reduced payroll costs.

No other unfulfilled conditions or contingent liabilities exist.

## 20 Finance leases

Group	Equipment, tools, fixtures and fittings	
	31/12/2018	31/12/2017
Opening cost	168	120
Increase through acquisitions	3	20
Investments	59	63
Sales and disposals	–47	–35
<b>Closing accumulated cost</b>	<b>183</b>	<b>168</b>
Opening depreciation	–52	–40
Sales and disposals	27	20
Depreciation for the year	–36	–32
<b>Closing accumulated depreciation</b>	<b>–61</b>	<b>–52</b>
<b>Closing planned residual value</b>	<b>122</b>	<b>116</b>

## 21 Participations in Group companies

	Parent Company	
	2018	2017
Opening cost	3,688	3,486
Acquisitions during the year	43	507
Shareholder contribution	5	394
Divestment	0	-748
Reclassification	-	49
<b>Closing accumulated cost</b>	<b>3,736</b>	<b>3,688</b>
<b>Opening accumulated impairment</b>	<b>-350</b>	<b>-350</b>
<b>Closing accumulated impairment</b>	<b>-350</b>	<b>-350</b>
<b>Closing accumulated book value</b>	<b>3,386</b>	<b>3,338</b>

### 2018

Parent Company	Reg. no.	Registered office	Share of capital, %	Book value
Willlys AB	556163-2232	Gothenburg	100	427
Hemköpskedjan AB	556113-8826	Stockholm	100	581
Hemköp i Jönköping AB	556785-7973	Jönköping	91	-
Hemköp i Farsta AB	556961-7490	Farsta	91	-
Hemköp i Ludvika AB	559019-8841	Ludvika	100	-
Hemköp i Alfta AB	559019-8858	Alfta	91	-
Hemköp i Avesta AB	559019-8825	Avesta	91	-
Hemköp i Värnamo AB	559019-8833	Värnamo	91	-
Hemköp i Västerås City AB	559019-8783	Västerås	91	-
Hemköp i Torslanda AB	559064-0941	Torslanda	91	-
Hemköp i Härnösand AB	559069-0854	Stockholm	91	-
Hemköp i Tallboda AB	559067-5467	Linköping	100	-
Hemköp i Östervåla AB	559155-7862	Stockholm	100	-
Hemköp i Östermalm AB	559067-5616	Stockholm	100	-
Hemköp 117 AB	559155-7854	Stockholm	100	-
Dagab Inköp & Logistik AB	556004-7903	Stockholm	100	2,131
Axfood i Lund AB	556807-5310	Stockholm	100	-
Axfood i Sköndal AB	556838-6501	Stockholm	100	-
Axfood i Malmö AB	556950-1199	Stockholm	100	-
Axfood i Backa AB	556742-7942	Stockholm	100	-
Axfood Närlivs AB	556742-7074	Stockholm	100	-
Cold Cargo Sweden AB	556930-9460	Gothenburg	100	-
Kokaihop Media AB	556752-4953	Gothenburg	100	-
Spisa Nu i Göteborg AB	556200-9794	Gothenburg	100	-
Falkenberg Seafood AB	556353-8973	Falkenberg	100	-
Hall Miba AB	556865-8149	Alvesta	100	-
Basta Active Car Care A/S	26125405	Gentofte, Denmark	100	-
Tempo AB	556261-6838	Stockholm	100	-
Urban Deli Holding AB	556958-4781	Stockholm	91	-
Urban Deli AB	556773-1228	Stockholm	100	-
Urban Deli Sickla AB	556908-1465	Stockholm	100	-
Urban Deli Bageri AB	556810-5638	Stockholm	100	-
Urban Deli Projekt AB	556901-8970	Stockholm	100	-
Urban Deli S44 AB	556966-6984	Stockholm	100	-
Axfood IT AB	556035-6163	Stockholm	100	3
Dagab AB	556070-3166	Stockholm	100	0
Axfood Snabbgross AB	556000-3575	Stockholm	100	44
NAX AB	559029-7809	Stockholm	51	200
Eurocash Food AB	556503-6141	Strömstad	100	-
Strömstad Supermarket AB	556909-4237	Strömstad	100	-
EC i Åmål AB	559161-9498	Stockholm	100	-
<b>Total, Group companies</b>				<b>3,386</b>



## 22 Participations in associated companies and joint ventures

Group	Associated companies		Joint ventures	
	2018	2017	2018	2017
Opening cost	6	2	29	29
Acquisition of associated companies	4	4	-	-
New issue	17	-	-	-
Shareholder contribution paid	4	-	-	-
Reclassification to subsidiary	-	-	-29	-
<b>Closing cost</b>	<b>31</b>	<b>6</b>	<b>-</b>	<b>29</b>
Adjustments of shareholders' equity pertaining to investments in associated companies				
Opening carrying amount	2	2	-18	-15
Share in profit after tax <sup>1)</sup>	-12	0	-5	-3
Reclassification to subsidiary	-	-	23	-
<b>Closing carrying amount</b>	<b>-10</b>	<b>2</b>	<b>-</b>	<b>-18</b>
<b>Total</b>	<b>21</b>	<b>8</b>	<b>-</b>	<b>11</b>

<sup>1)</sup> Corresponds to total comprehensive income.

### 2018

Associated companies, Group	Reg. no.	Registered office	Number of shares	Share of voting capital, %	Book value
United Nordic Inc AB	556043-4606	Solna	250	25	0
Direktbutikerna Scandinavia AB	556535-8826	Stockholm	105,360	50	5
Apothem AB	559094-8401	Stockholm	114,544	50	16
<b>Total</b>					<b>21</b>

### 2017

Associated companies, Group	Reg. no.	Registered office	Number of shares	Share of voting capital, %	Book value
United Nordic Inc AB	556043-4606	Solna	250	25	0
Direktbutikerna Scandinavia AB	556535-8826	Stockholm	105,360	50	4
Apothem AB	559094-8401	Stockholm	7,500	28	4
<b>Total</b>					<b>8</b>

### 2017

Joint ventures, Group	Reg. no.	Registered office	Number of shares	Share of voting capital, %	Book value
Urban Deli Holding AB	556958-4781	Stockholm	500	50	11
<b>Total</b>					<b>11</b>

Axfood is not bound by any limitations to transfer dividends in associated companies. Nor are there any unrecognized losses. The financial years correspond to the Axfood Group's financial year.

## 23 Prepaid expenses and accrued income

	Group		Parent Company	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Prepaid rents	387	353	-	-
Accrued bonuses and similar	690	579	5	6
Delivered, uninvoiced	1	1	-	-
Other prepaid expenses	146	166	5	5
Other accrued income	33	41	0	-
<b>Total</b>	<b>1,257</b>	<b>1,140</b>	<b>10</b>	<b>11</b>

## 24 Assets held for sale

### Assets classified as held for sale

During 2018 the Group acquired a site leasehold, which pursuant to the signed agreement, will be sold further for development.

## 25 Provisions for pensions and similar obligations

### Group

Defined benefit pension plans	2018	2017
Present value of funded obligations	9	9
Present value of unfunded obligations	410	418
Total present value of obligations	419	427
Fair value of plan assets	-8	-9
Present value of net obligations	411	418
<b>Net liability in statement of financial position</b>	<b>411</b>	<b>418</b>
Amounts reported in statement of financial position		
– provisions	411	418
– assets	–	–
<b>Net liability in statement of financial position</b>	<b>411</b>	<b>418</b>

Of Axfood's net liability for defined benefit pension plans in Sweden, SEK 385 m (382) consists of obligations within the FPG/PRI system. Of these obligations, SEK 385 m (382) 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 former president. These are unfunded plans and are reinsured with FPG/PRI and amount to SEK 24 m (23).

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 1 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 1 m (0) was received in compensation from the foundation.

The defined benefit plans are exposed to actuarial risks such as longevity, and currency, interest rate and investment risks. All unfunded plans are reinsured with FPG/PRI. See also Note 33.

Changes in the present value of defined benefit obligations	2018	2017
Obligations for defined benefit plans as per 1 January	427	427
Benefits paid	-23	-22
Current service cost	1	5
Interest expense	9	8
Reclassification	-11	-3
Remeasurements:		
Actuarial gains and losses on changed financial assumptions	14	11
Experience-based adjustments	2	1
<b>Obligations for defined benefit plans as per 31 December</b>	<b>419</b>	<b>427</b>

The present value of obligations is distributed among the plans' members as follows:	2018	2017
Active	1	0
Persons on disability pensions	9	8
Owners of paid-up policies	621	678
Retirees	1,369	1,391
<b>Total number of pledges included in the obligation</b>	<b>2,000</b>	<b>2,077</b>



## Note 25. Provisions for pensions and similar obligations, cont.

Change in net liability during the year	2018	2017
Net liability at start of year	418	418
Compensation from pension foundation	1	0
Defined benefit direct pensions	0	3
Net expense in profit for the year	10	10
Pension disbursements	-23	-22
Actuarial gains/losses reported as a liability	16	12
Reclassification	-11	-3
<b>Net liability at year-end</b>	<b>411</b>	<b>418</b>

Costs recognized in profit for the year	2018	2017
<i>Defined benefit pension plans</i>		
Earned benefits	1	5
Interest expense	9	8
Actual return on plan assets	0	0
<b>Total</b>	<b>10</b>	<b>13</b>
<i>Defined contribution pension plans</i>		
Costs during the period	343	320
<b>Total pension cost</b>	<b>353</b>	<b>333</b>

Pension insurance premiums paid during the year to Alecta for pension insurance under the ITP plan amounted to SEK 118 m (110). Alecta's surplus can be apportioned among the policyholders and/or the insureds. As per 30 September 2018, Alecta's surplus in the form of its collective funding ratio was 159% (158%). 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 2018.

Pension costs are broken down per function in profit for the year as follows	2018	2017
Cost of goods sold	190	181
Selling expenses	75	74
Administrative expenses	79	70
Interest expense	9	8
<b>Total</b>	<b>353</b>	<b>333</b>

Income and expenses reported in other comprehensive income	2018	2017
<i>Defined benefit pension plans</i>		
Remeasurements:		
Net actuarial gains/losses reported for the year <sup>1)</sup>	-21	-15
<b>Net income and expenses reported in other comprehensive income</b>	<b>-21</b>	<b>-15</b>

<sup>1)</sup> Including special employer's payroll tax.

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

	2018	2017
Discount rate	2.00%	2.19%
Future annual pension increases	2.00%	1.90%
Duration <sup>1)</sup>	13.0 yrs	14.2 yrs
Longevity assumption after 65 years		
- men	22 yrs	22 yrs
- women	24 yrs	24 yrs

<sup>1)</sup> Corresponds to the average remaining duration of the obligations.

## Effects on future cash flows

The Group estimates that approximately SEK 28 m (23) will be paid towards defined benefit plans in 2019.

## 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.

	Increase	Decrease
Discount rate (-/+ 0.5% change)	30	26
Inflation (+/- 0.5% change)	29	26
Longevity (+/- 1 year change)	18	18

## Parent Company

The Parent Company's reported pension liability amounted to SEK 24 m and pertains to obligations to the former president. All pension obligations to 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	2018	2017
Reported capital value on 1 January	28	22
Benefits paid	0	0
Defined benefit direct pensions	-	3
Cost excluding interest expense	1	2
Interest expense	1	1
Reclassification	-6	-
<b>Reported capital value of pension obligations on 31 December</b>	<b>24</b>	<b>28</b>

Of the Parent Company's reported pension liability, SEK 24 m (22) is covered by credit insurance via PRI.

Pension costs	2018	2017
<i>Own undertakings</i>		
Liability indexing of undertakings	1	2
Interest expense	1	1
<b>Total</b>	<b>2</b>	<b>3</b>
<i>Undertakings through insurance</i>		
Insurance premiums <sup>1)</sup>	20	21
Special employer's payroll tax on pension contributions	5	5
Cost of credit insurance premiums	0	0
<b>Total</b>	<b>25</b>	<b>26</b>
<b>Pension costs for the year</b>	<b>27</b>	<b>29</b>

<sup>1)</sup> Of which, premiums paid to Alecta for pension insurance according to the ITP plan, totalling SEK 12 m (8).

## 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 indexed upward each year by an average of approximately 0% (0%). It is estimated that approximately SEK 5 m will be paid out in pensions by the Parent Company in 2019.



## 26 Financial assets and liabilities

Group	2018				
	Fair value hedge instruments	Mandatory measured at fair value through profit or loss	Financial assets measured at amortized cost	Other financial liabilities	Total
<b>Financial assets not measured at fair value</b>					
Other long-term securities holdings			0		0
Other non-current receivables			6		6
Accounts receivable – trade			1,102		1,102
Cash and bank balances			1,571		1,571
<b>Total financial assets</b>	<b>–</b>	<b>–</b>	<b>2,679</b>	<b>–</b>	<b>2,679</b>
<b>Financial liabilities measured at fair value</b>					
Other non-current liabilities					
– Contingent consideration (Level 3)		15			15
Other current liabilities					
– Currency forward contracts (Level 2)	0				0
<b>Financial liabilities not measured at fair value</b>					
Other non-current interest-bearing liabilities				61	61
Other current interest-bearing liabilities				52	52
Accounts payable – trade			3,836		3,836
<b>Total financial liabilities</b>	<b>0</b>	<b>15</b>	<b>3,836</b>	<b>113</b>	<b>3,964</b>

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	Non-financial assets and liabilities	Total, Statement of financial position
Other long-term securities holdings		10	13	25		48		48
Other non-current receivables			17			17		17
Accounts receivable – trade			954			954		954
Cash and bank balances			1,376			1,376		1,376
<b>Total financial assets</b>	<b>–</b>	<b>10</b>	<b>2,360</b>	<b>25</b>	<b>–</b>	<b>2,395</b>	<b>–</b>	<b>2,395</b>
Other non-current interest-bearing liabilities					61	61		61
Other current interest-bearing liabilities					49	49		49
Other current liabilities	0					0	245	245
Accounts payable – trade					3,458	3,458		3,458
<b>Total financial liabilities</b>	<b>0</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3,568</b>	<b>3,568</b>	<b>–</b>	<b>3,813</b>

### Fair value of financial instruments

Currency forward contracts are measured at fair value based on the Central Bank of Sweden's prices on the balance sheet date. Contingent consideration is reported at fair value based on an assessment of future sales and earnings performance for the Urban Deli Group.

For other financial assets and liabilities, the carrying amount represents a reasonable approximation of fair value.

## 27 Financial risks

### Framework for financial risk management

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, the CFO, the central finance department and other Group companies. The Group's external financial management is centralized in the central finance department of the Parent Company, Axfood AB. 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.

### 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 200 m (200). The refinancing risk reserve may be used during individual weeks in the event of short-term movements in liquidity. Responsibility for monitoring and overseeing the refinancing risk reserve rests with the finance department.

Granted credit lines are to have a minimum average remaining contract term of at least 12 months. Apart from granted, short-term overdraft facilities of SEK 200 m (200), the Group had a revolving credit facility of SEK 100 m as per 31 December 2018. The Axfood Group's investment principles aim to ensure the Axfood Group's ability to pay in the short and long term. In addition, the investment principles are intended 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. As per 31 December 2018 the Axfood Group had only account holdings in Swedish banks with a K-1 rating, which are approved counterparties in the finance policy.

	Group	
	31/12/2018	31/12/2017
<b>Granted credit lines</b>		
Bank overdraft facilities	200	200
Revolving credit facility	100	–
<b>Total granted credit lines</b>	<b>300</b>	<b>200</b>
Drawn bank overdraft facilities	–	–
<b>Total unutilized credit lines</b>	<b>300</b>	<b>200</b>
Available bank balances	925	902
<b>Refinancing risk reserve</b>	<b>1,225</b>	<b>1,102</b>

### Group

Maturity structure for financial liabilities	<1 yr	1–2 yrs	3–5 yrs	>5 yrs
Contingent consideration	–	–	15	–
Forward contracts	0	–	–	–
Trade payables	3,836	–	–	–
Finance lease liabilities	52	15	46	–
<b>Total</b>	<b>3,888</b>	<b>15</b>	<b>61</b>	<b>–</b>

### Interest rate risks

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 2018 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 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 2018 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 1 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 +/-9.3 m (8.9).

As per the end of the reporting period, a 1 percentage point change in interest rates would not entail any significant change in the fair value of financial assets.

### Currency risks

Transaction exposure in foreign currency arises in connection with the import of goods paid for in foreign currency and in connection with cross-border sales in Norwegian kroner (NOK).

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 2018 hedges were taken out using these instruments.

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

## Note 27. Financial risks, cont.

## Sensitivity analysis regarding currency risk 2018

Net outflow per currency	SEK m	%	10% change in exchange rate vs. SEK, SEK m
EUR	4,559	93.1	+/- 455.9
USD	278	5.7	+/- 27.8
DKK	52	1.1	+/- 5.2
GBP	10	0.2	+/- 1.0
<b>Total</b>	<b>4,898</b>	<b>100.0</b>	
NOK	-157	100.0	+/- 15.7
<b>Total</b>	<b>-157</b>	<b>100.0</b>	

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.

## Reported fair value of outstanding currency hedges

Currency	2018	2017
EUR	0	0
USD	0	0
Others	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

The reported values of total hedge reserves are presented in the summary pertaining to changes in shareholders' equity. The ineffective portion of cash flow hedges that has been recognized in profit for the year amounts to SEK - m (-).

## 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 expected credit losses. 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. The Parent Company did not have any significant external credit risks at the end of the year.

To limit the maximum credit risk in trade receivables, Axfood has received collateral which on the balance sheet date covered SEK 66 m (69) of outstanding trade receivables. Collateral received consists mainly of chattel mortgages, bank guarantees and guarantee commitments. During 2018 a total of SEK 1 m (1) of collateral received was used to settle unpaid trade receivables. The credit quality of unimpaired receivables is considered to be good.

The Group has prepared a loss reserve matrix to measure expected credit losses for trade receivables. The matrix is based on an analysis of actual bad debts during the last three years and is broken down into retail and wholesale companies.

The provision for expected bad debts amounted to SEK 1 m at the start and end of the year.

## Disclosures 2017 according to IAS 39

Trade receivables	31/12/2017
Trade receivables, gross	967
Provision for bad debts	-13
<b>Trade receivables, net</b>	<b>954</b>

Provision for bad debts	31/12/2017
Provision at start of year	-16
Provision/reversal for possible credit losses	3
Confirmed and recovered credit losses	0
<b>Provision at year-end</b>	<b>-13</b>

Maturity analysis of trade receivables	31/12/2017
Trade receivables not due	786
Trade receivables past due 0-30 days	149
Trade receivables past due >30-90 days	16
Trade receivables past due >90-180 days	3
Trade receivables past due >180-360 days	5
Trade receivables past due >360 days	8
<b>Total</b>	<b>967</b>

## 28 Non-current and current interest-bearing liabilities

	Group		Parent Company	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
<b>Non-current interest-bearing liabilities</b>				
Finance leases	61	61	-	-
Provisions for pensions and similar obligations	411	418	24	28
<b>Total non-current interest-bearing liabilities</b>	<b>472</b>	<b>479</b>	<b>24</b>	<b>28</b>
<b>Current interest-bearing liabilities</b>				
Finance leases	52	49	-	-
Liabilities to Group companies <sup>1)</sup>	-	-	1,498	1,554
<b>Total current interest-bearing liabilities</b>	<b>52</b>	<b>49</b>	<b>1,498</b>	<b>1,554</b>

<sup>1)</sup> Reported on the Parent Company balance sheet as part of liabilities to Group companies.



## 29 Accrued expenses and deferred income

	Group		Parent Company	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Payroll-related items	1,314	1,195	54	54
Accrued bonuses and similar	152	131	–	–
Accrued real estate costs	64	50	–	–
Received, uninvoiced	319	244	–	–
Other accrued expenses	230	184	5	2
Other deferred income	149	116	4	–
<b>Total</b>	<b>2,227</b>	<b>1,920</b>	<b>63</b>	<b>56</b>

## 30 Contingent assets, pledged assets and contingent liabilities

	Group		Parent Company	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
<b>Pledged assets</b>				
Chattel mortgages as collateral for bank guarantees	6	6	–	–
<b>Total</b>	<b>6</b>	<b>6</b>	<b>–</b>	<b>–</b>

	Group		Parent Company	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
<b>Contingent liabilities</b>				
Guarantees for subsidiaries	–	–	309	287
Guarantees for others	5	2	–	–
FPG/PRI	6	6	–	–
Other contingent liabilities	10	9	–	–
<b>Total</b>	<b>21</b>	<b>17</b>	<b>309</b>	<b>287</b>

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 expected loan losses.

Other contingent liabilities consist primarily of counterbonds for bank guarantees that have been made for the Axfood Group.

For further information on financial risks, see Note 27.

## 31 Events after the reporting period

As a consequence of adoption of IFRS 16, Axfood's equity ratio target has been adjusted to an equity ratio of at least 20% at year-end.

Monica Långbo took office as Head of HR and member of the Executive Committee on 1 February 2019.

## 32 Information about the Parent Company

Axfood AB is a Swedish-registered limited liability company domiciled in Stockholm. The Parent Company's shares are registered with Nasdaq Stockholm. The address of the head offices is SE-107 69 Stockholm.

The consolidated financial statements for 2018 cover the Parent Company and its subsidiaries, jointly referred to as the Group. The Group also includes ownership stakes in associated companies and joint venture companies.

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.

## 33 Critical judgments 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 2018 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 25. 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 13 years.

All of the assumptions described in Note 25 do not deviate materially from what can be regarded as standard practice in the Swedish market.

## 34 Proposed disposition of the Company's profit

The Board of Directors proposes that, of the retained profits of KSEK 2,530,641, SEK 7.00 per share be paid out in ordinary dividend. Retained profits will be distributed as follows:

	KSEK
Dividend	1,466,463
To be carried forward	1,064,178
	<b>2,530,641</b>

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.



# Less and better plastic

Plastic is a common material in food retail on account of its usefulness and the role it plays in extending shelf life. At the same time, fossil fuel-based plastics have negative environmental impacts, and it is hard to recycle all of the packaging. Axfood is continuously developing new packages that contain less plastic and use a steadily growing share of renewable and recycled content. The goal is that all packaging for private label products will be recyclable by 2022. By 2030, the goal is that only recycled or renewable content will be used. Axfood sees a need for greater initiatives and research in order to increase the supply of fossil-free plastic and is therefore urging politicians to accelerate this development.

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 20 February 2019. 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 21 March 2019.

Stockholm, Sweden, 20 February 2019

Mia Brunell Livfors  
*Chairman of the Board  
Director*

Lars Olofsson  
*Vice Chairman of the Board  
Director*

Stina Andersson  
*Director*

Antonia Ax:son Johnson  
*Director*

Fabian Bengtsson  
*Director*

Caroline Berg  
*Director*

Jesper Lien  
*Director*

Christer Åberg  
*Director*

Anders Helsing<sup>1)</sup>

Michael Sjören<sup>1)</sup>

Lars Östberg<sup>1)</sup>

Klas Balkow  
*President and CEO*

Our audit report was submitted on 20 February 2019  
Deloitte AB

Hans Warén  
*Authorized Public Accountant*

<sup>1)</sup> 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 2018-01-01–2018-12-31. The annual accounts and consolidated accounts of the company are included on pages 70–118 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 2018 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 2018 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. 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 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 sells groceries through the store chains Willys, Hemköp, Eurocash, Mat.se and a large number of collaborating stores. Wholesale trading is conducted through Axfood Snabbgross. Dagab holds the responsibility for assortment, purchasing and logistics. 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 cash handling system and the accounting system as well as between the inventory system and the purchasing system is of particular significance for revenue recognition, cost of goods sold and valuation of inventory.

For further information, please refer to note 1 regarding the group's accounting policies on page 87 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 cash handling system and accounting system as well as the inventory and purchasing system with the involvement of IT specialists, and
- Auditing transfer of data between critical IT-systems with the involvement of IT specialists. In the audit we have used technical analytic tools to enable the audit of large sample selections.

### Valuation of goodwill

#### Description of risk

Axfood reports goodwill in the consolidated accounts of MSEK 2 767 as of 31 December 2018. 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 a key audit matter due to the risk of inaccurate judgements 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. Management has not identified any need for impairment for 2018.

For further information, please refer to note 1 the group's accounting policies on page 87, note 3 of acquired operations on page 97, note 17 of intangible assets on page 107 and note 33 of critical judgments and estimates on page 116.

### *Our audit procedures*

Our audit included but was not limited to the following audit procedures:

- Auditing Axfood's impairment test of goodwill and evaluating 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.

### *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 1-69 och 122-160. The Board of Directors and the Managing Director 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 Managing Director**

The Board of Directors and the Managing Director 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 Managing Director 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 Managing Director 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 Managing Director intend to liquidate the company, to cease operations, or have 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 assur-

ance, 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.

A further description of our responsibility for the audit of the annual accounts and the consolidated accounts is available on the website of the Swedish Inspectorate of Auditors: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the audit report.

### **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 Managing Director of Axfood AB (publ) for the financial year 2018-01-01 - 2018-12-31 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 Managing Director 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 Managing Director**

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 Managing Director 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 Managing Director 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.

A further description of our responsibility for the audit of the annual accounts and the consolidated accounts is available on the website of the Swedish Inspectorate of Auditors: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the audit report.

Deloitte AB, Stockholm, was appointed auditor of Axfood AB by the general meeting of the shareholders on 14 March 2018 and has been the company's auditor since 16 March 2016.

Stockholm 20 February 2019  
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 events of any differences between this translation and the Swedish original, the latter shall prevail.





"Since 2009 we have reduced our carbon footprint by 78% – an achievement we are proud of. Last year we opted out of using biodiesel that contains an ingredient from oil palms to avoid any further rain forest deforestation. This decision was important for the environment, but it increased our carbon footprint, since we had to use more fossil-based diesel. To reduce our future carbon footprint we are changing over to a fossil-free vehicle fleet, replacing refrigeration systems, reducing food waste, installing solar panels, launching more plant-based products and developing climate-smart packaging."

Åsa Domeij  
Head of Sustainability

# Sustainability governance

# Governing documents and principles

## Sustainability driving Axfood's value

Sustainability has long been a natural part of Axfood's business model and strategy, since sustainability creates value. Axfood's ability to generate future financial value is underpinned by the Group's ability to also deliver social and environmental value. Financial stability is needed to be able to invest and drive social issues and environmental improvement measures. At the supplier level, it is especially important to drive social issues, such as the right to fair working conditions, for example. Food production is a large source of carbon emissions in the world. As a producer of private label products and through its store operations, Axfood has a great responsibility for sustainability issues related to the environment, social issues and animal welfare. Axfood is driving this work across a broad front, both by developing a sustainable assortment for our customers and ensuring that operations are conducted as sustainably as possible. Axfood works with sustainability issues in all parts of operations in an integrated and business-driven manner.

Axfood's core values serve as the foundation for sustainability work and the Group's sustainability programme. Governance shall ensure the Group's obligations to its stakeholder groups. Axfood carries on an open dialogue with its stakeholders to ensure that expectations of people in the world around us are aligned with the Group's development. This dialogue is based on the materiality analysis that was carried out in 2015.

For Axfood's core values, see p. 31, and for a description, see [axfood.se](http://axfood.se).

## Code of Conduct guides work

The Group-wide Code of Conduct serves as the foundation for all activities and lays out the requirements and expectations that Axfood has on its suppliers of products and services. The Code of Conduct also drives sustainability issues forward in line with a vision for good and sustainable food. All contract suppliers must sign Axfood's Code of Conduct, and suppliers in risk categories must show that they adhere to the Code through systematic work practices. The Code is based on recognized conventions for human rights, working conditions and the environment. It lays out Axfood's positions and requirements regarding legal requirements, conditions in the workplace, use of resources and impacts on local communities, the environment, animal welfare, and ethical behaviour and anti-corruption. The Code of Conduct is integrated with Amfori BSCI's (Business Social Compliance Initiative) code of conduct. Amfori BSCI is an organization in which more than 2,000 companies collaborate for improved working conditions in their global supply chains. The Code of Conduct is revised roughly every five years or when necessary in response to new or amended international frameworks, for example. The most recent revision was made in 2015.

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 of private label products – receive detailed training from sustainability officers in what the Code of Conduct entails. All employees are informed about parts of the Code of Conduct through e-learning. Suppliers sign Axfood's Code of Conduct in connection with purchasing, 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 monitors work along the supply chain. Axfood's Code of Conduct is available in Swedish and English at [axfood.se](http://axfood.se). Its content can also be conveyed to suppliers in another some 20 languages.

## Sustainability policy

Axfood's sustainability policy is part of the sustainability programme and describes the focus of and principles for sustainability work. The policy stipulates that it should be possible for the Group's stakeholders to follow this work. The overarching ambition of the work is to be the industry leader in sustainability and dare be a forerunner with respect to new technical solutions and ways of working. Axfood shall be perceived as a positive force in society and driving food actor that takes a position, inspires and offers guidance towards good and sustainable food.

A fundamental factor is to work preventively to the greatest extent possible and adhere to the precautionary principle. Environmental work is focused on reducing the carbon footprint and emphasising efficient use of resources in the handling of products, recycling systems, transports, energy and use of premises. Prior to major structural changes, statutory environmental impact studies are performed, but Axfood goes even further to analyse how new store establishment by the Group can improve conditions in the area in question. In stores the goal is to increase customer awareness and facilitate conscious choices. This is to be done by offering a carefully selected assortment of sustainability certified products and through clear consumer information.

In the social area, work involves promoting good working conditions – both for people who work within the Axfood Group and those who produce and deliver the Group's products. In its work on ensuring good working conditions in the supply chain, Axfood applies the UN's "Protect, Respect and Remedy" framework along with the UN's Guiding Principles on Business and Human Rights. Axfood is a signatory of the UN Global Compact, a member of Amfori BSCI and partner in the Global Deal, and through all these undertakings has promised to adhere to the UN's fundamental human rights framework.

Work with animal welfare entails both increasing the supply and sales of the best products, such as KRAV-marked meat, and elevating the standards of the broader offering. This can be achieved through fundamental certifications that cover animal welfare and requirements for limiting the use of antibiotics.

#### International frameworks that serve as the basis for the Code of Conduct

- The UNGPs (the UN's Guiding Principles for Business and Human Rights)
- The Universal Declaration of Human Rights
- The ILO's core conventions
- The OECD Guidelines for Multinational Enterprises
- Global Compact
- The UN Convention on the Rights of the Child

### Sustainability programme

The sustainability programme describes concrete goals and key performance indicators for monitoring progress in the areas of sustainable products, transports, climate and energy, responsible suppliers, and employees. The programme includes both short-term and long-term targets and measures. The targets are followed up at least once a year and are updated in pace with the work's progress. All sustainability targets adhere to a clear division of responsibility and process for implementation and continuous follow-up.

Axfood's sustainability programme is coupled to several of the UN's Sustainable Development Goals (SDGs) and Sweden's national environmental objectives. Based on the programme's some 70 targets, Axfood has emphasised three strategic sustainability targets, see p. 33.

See the entire sustainability programme including the coupling to the UN's SDGs and Sweden's Environmental Objectives on p. 149.

### Ethical guidelines

At the time of their hiring, all newly hired salaried employees certify in writing that they have acknowledged Axfood's ethical guidelines, which include rules prohibiting the offering and accepting of bribes and corruption. The ethical guidelines are updated every year and are also to be signed yearly by employees who have the right to authorize payments or who in some other way can influence purchasing decisions.

#### Joint-Group policy documents

- Ethical guidelines concerning the offering or accepting of bribes and corruption
- Equal treatment policy, guidelines and routines for equal treatment and objectionable special treatment
- Guidelines and routines for distance work
- Environmental policy
- Work environment and health policy
- Sustainability routine/assessment
- Living wage strategy
- Purchasing policy
- Seafood policy, etc.

By signing them the employees personally certify that they will comply with the rules they lay out. The employee's immediate manager and the companies' respective HR departments are responsible for answering questions about the ethical guidelines. In 2018 the annual send-out of the ethical guidelines included considerably more employees than the preceding year and 1,378 employees signed under the guidelines (2017: 829).

Axfood has an employee manual on the intranet that, among other things, lays out a policy, guidelines and routines for equal treatment that clarifies the Axfood Group's position to be offer a workplace that is free from all forms of discrimination, objectionable special treatment, bullying, harassment and reprisal. These governance documents also describe in more detail how all people who work within the Group are to conduct themselves and thereby apply the guidelines in reality. They also describe our routines for cases in which an employee feels that he or she has been discriminated against, victimized, harassed, bullied or subject to reprisal.

### Whistleblower service

Axfood promotes an open and tolerant company culture with respect for all people affected by our operations. To help uphold this Axfood has a whistleblower service, through which everyone who performs work at any of Axfood's workplaces or are suppliers to Axfood – in a secure and structured manner and without the risk of reprisal – can report improprieties, poor conditions or fears that could seriously harm the Company or an individual's life or health, or something that is incongruent with our ethical guidelines or Code of Conduct.

Reports can be made anonymously and are addressed via an external site separate from Axfood's various web platforms. Reports and any subsequent dialogue in the whistleblower system are securely encrypted.

Handling of a report is done confidentially by a whistleblower committee that is made up of a handful of Axfood managers appointed by the Group CEO. Only the persons responsible for the whistleblower service have access to reports filed through the reporting channel. Reports and any messages conveyed through the whistleblower service are received simultaneously by all members of the committee. If a whistleblower's filing involves any member of the whistleblower committee, the Group CEO shall be informed.

When a report has been submitted through the whistleblower service, the committee decides how the matter will be handled – as a whistleblower case or in some other way. All matters are considered seriously and in accordance with applicable legislation and the Group-wide guidelines and routines that have been decided by the whistleblower committee.

During the year, all matters brought before the whistleblower committee were addressed. In most cases the matter was transferred to the company's HR department for further consideration. During the year the whistleblower service did not receive any reports about serious improprieties, such as with respect to suspicions of corruption.

In 2018 Axfood also introduced a whistleblower service for vendors. The service, which gives vendors the opportunity to anonymously report improprieties, can be reached by all contract vendors – both of products and services. The whistleblower service for vendors works in a similar manner as the one for employees.



## Organization

Axfood's board of directors addresses sustainability issues from a strategic perspective. Responsibility for Axfood's sustainability work lies with the Executive Committee and Head of Sustainability, and covers overarching strategies, goals and measures, and follow-up. Aside from decision-making meetings on updates to the sustainability programme, the Head of Sustainability – together with management – handles current issues in a sustainability forum that is held once every quarter.

To simplify and ensure uniform cross-functional cooperation between the Group's companies and departments, a number of topic-related networks or steering committees have been established within Axfood.

- A business policy council coordinates and argues the Group's position on matters that are important for Axfood based on the Group's strategy and positioning.
- A so-called energy challenge leads the work on increasing the efficiency of energy use.
- A steering committee for work with food waste is currently being formed.

By integrating sustainability issues in the business activities, engagement is created throughout the organization. The individual companies and departments in the Axfood Group have operational responsibility for their own sustainability

work. The operational head is the respective company's president or departmental manager. Dagab has its own sustainability steering committee, which includes a large part of Dagab's management and Axfood's Head of Sustainability. One of Dagab's three sustainability heads works from the purchasing office in Shanghai. Sustainability coordinators have been appointed in all segments (Willys including Eurocash, Hemköp, Axfood Snabbgross, and Dagab including Mat.se and Middagsfrid) as well as in the larger departments (quality, purchasing, IT and HR). The sustainability coordinators recommend goals and activities, and make sure that these are carried out. Their work is led by the Head of Sustainability through an ongoing dialogue, meetings with parts of the network based on specific topic areas, and at least one annual larger strategic review. Additionally, environmental ambassadors are designated in all Willys and Axfood Snabbgross stores. These assist their respective organizations in achieving the set goals.

Axfood conducts continuous competence initiatives to raise employees' knowledge about sustainability issues. New acquisitions are gradually integrated into the sustainability work.



# Stakeholder and materiality analysis

Through an open dialogue in which Axfood is receptive to the surrounding world's expectations and its stakeholders' needs, the Group can continue to develop its business in the desired direction. This dialogue is a prerequisite for achieving our ambition to be a leader in sustainability and dare be a fore-runner 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, such as non-profit or political organizations.

## Materiality analysis

### Implementation

A yearly validation of the materiality analysis guides Axfood in its sustainability reporting and forms the basis of reporting in accordance with the GRI Standards 2016.

Through an ongoing dialogue with the Company's stakeholder groups during the year and a discussion focused on Sweden's Environmental Objectives and the UN's SDGs, among other things, Axfood was able to validate the previous materiality analysis. This validation largely confirmed the results from the more extensive materiality analysis performed in 2015.

The materiality analysis process in 2015 involved an internal workshop with representatives from Axfood's operations. With the UN's SDGs as the starting point, Axfood's most relevant sustainability issues from a strategic perspective were identified and discussed.

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

This web-based questionnaire was responded to 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. The source of products is important for customers, which is reflected in the strong interest in Swedish products. 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.

## Stakeholder overview

	Stakeholders	Channels for dialogue	Key issues
<b>Customers</b>	<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 p. 17 and Customer meeting p. 22.</i></p>	<ul style="list-style-type: none"> <li>• The meeting with customers in stores</li> <li>• Consumer contact</li> <li>• Focus groups</li> <li>• Consumer surveys conducted with Nepa</li> <li>• Social media</li> <li>• Leaflets, customer magazines, information on websites.</li> </ul>	<ul style="list-style-type: none"> <li>• Use of pesticides and chemicals</li> <li>• Animal welfare</li> <li>• Anti-corruption and bribery</li> <li>• Work environment, working conditions and health</li> <li>• Certification of critical ingredients</li> <li>• Country of origin and traceability.</li> </ul>
<b>Employees</b>	<p>Axfood wants proud and committed employees, and to be a collaborative and effective organization.</p> <p><i>Read more under Strategy – Employees p. 30.</i></p>	<ul style="list-style-type: none"> <li>• Daily status meetings and interaction</li> <li>• Employee get-togethers and conferences</li> <li>• Training</li> <li>• Regularly recurring employee surveys, including EI (Engagement Index) and LSI (Leadership Index)</li> <li>• Annual performance reviews.</li> </ul>	<ul style="list-style-type: none"> <li>• Work environment, working conditions and health</li> <li>• Organic food</li> <li>• Attract and develop employees</li> <li>• Use of pesticides and chemicals</li> <li>• Anti-corruption and bribery.</li> </ul>
<b>Suppliers</b>	<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. 26.</i></p>	<ul style="list-style-type: none"> <li>• Separate meetings in the purchasing process</li> <li>• Supplier assessments within the framework of business networks, such as "Sustainable food chain"</li> <li>• Special dialogue projects, e.g., with Oxfam and QuizRR</li> <li>• Annual supplier meetings with Axfood's management for all suppliers</li> <li>• Training of suppliers' employees in risk countries</li> <li>• Social audits. A total of 95 audits were carried out in 2018 (77).</li> </ul>	<ul style="list-style-type: none"> <li>• Anti-corruption and bribery</li> <li>• Use of pesticides and chemicals</li> <li>• Healthy food</li> <li>• Work environment, working conditions and health</li> <li>• Country of origin and traceability.</li> </ul>
<b>Owners</b>	<p>Axfood shall create enduring value for its shareholders by exercising corporate social responsibility.</p>	<ul style="list-style-type: none"> <li>• One-on-one investor meetings</li> <li>• Webcasts/conference calls in connection with interim reports</li> <li>• Presentations at investor luncheons, seminars, capital market days and other gatherings</li> <li>• Road shows in Sweden, the UK, France, Finland and Norway.</li> </ul>	<ul style="list-style-type: none"> <li>• Anti-corruption and bribery</li> <li>• Attract and develop employees</li> <li>• Use of pesticides and chemicals</li> <li>• Organic and healthy food</li> <li>• Energy consumption</li> <li>• Favourable, sustainable return</li> <li>• Food waste.</li> </ul>
<b>Society</b>	<p>Axfood shall actively strive to contribute to society by influencing and being receptive. Axfood is engaged in ongoing dialogues and partnerships 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>	<ul style="list-style-type: none"> <li>• Personal meetings with decision-makers in Sweden and the EU</li> <li>• Presentations at conferences and other gatherings</li> <li>• Membership in trade organizations, such as the Swedish Trade Federation, Swedish Food Retailers Federation and Hållbar livsmedelskedja</li> <li>• Collaboration with stakeholders through membership in the Global Deal, the Swedish Association of Environmental Managers, and ENACT's Human Rights &amp; Business Network</li> <li>• Since 2015 an employee has been working specifically with public affairs.</li> </ul>	<ul style="list-style-type: none"> <li>• Use of pesticides and chemicals</li> <li>• Anti-corruption and bribery</li> <li>• Animal welfare</li> <li>• Country of origin and traceability</li> <li>• Work environment, working conditions and health</li> <li>• Healthy food</li> <li>• Certification of critical ingredients.</li> </ul>



## 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 illustration below.

## 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, greater traceability, and actively strive for 100% sustainability certification of selected risk products, such as tea, coffee and bananas.

### Efficient use of energy

Axfood shall have energy-efficient stores, such as by investing in energy-efficient refrigerators 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

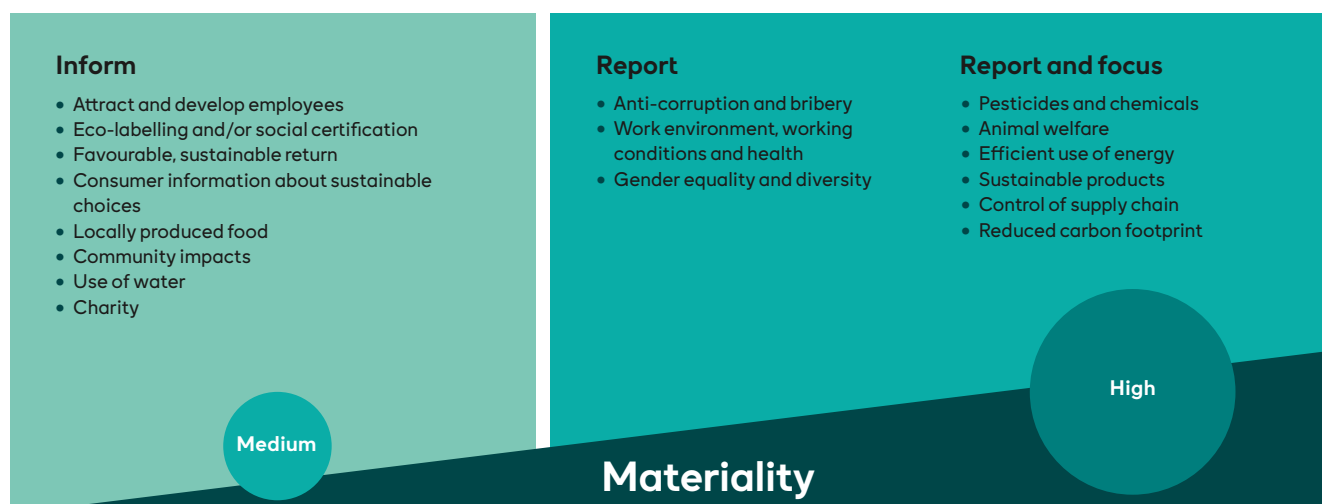
Axfood shall have efficient transports and sorting systems, use innovative solutions for preventing food waste, and advocate for climate-smart food production.

### Sustainable products

Axfood shall offer healthy and organic foods in which critical ingredients such as coffee, cacao, palm oil, soy and tea 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.



# About this report

For the 11th consecutive year, Axfood is reporting its sustainability work in accordance with the Global Reporting Initiative (GRI) Guidelines. The reporting has been prepared in accordance with the GRI Standards 2016, Core level.

## Scope and overarching principles

The sustainability reporting coincides with Axfood's financial year and covers the period 1 January–31 December 2018. Sustainability work pertains to all companies in the Group. For the companies acquired in 2017 – Eurocash, Mat.se and Middagsfrid – integration with the sustainability work is in progress and thus these units are not included in the qualitative results unless expressly stated.

The quantitative reporting covers both Group-owned retail operations, with 278 stores (Willys and Hemköp), and wholesale operations with eight warehouses (Dagab) and 24 stores (Axfood Snabbgross). At present, franchise stores do not report sustainability data centrally to Axfood and are therefore not included in the reporting. In this respect the report does not differ from previous years' reports and methodologies.

The report is structured in accordance with the GRI Standards, 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. 126 has served as the basis for the choice of GRI disclosures, where every material aspect has been matched against at least one GRI disclosure, which is shown in the GRI Index on p. 153. Exceptions or deviations from the GRI Standards are indicated in the reporting of the respective GRI disclosures. This report is not subject to external certification. The preceding report was published in February 2018.

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.

## Data collection

The data provided in the report has been gathered with the help of various internal systems, depending on the nature of the information. Financial data is based on Axfood's consolidated accounts and pertain to the Axfood Group. Employee-related data comes from Axfood's HR system and covers the Axfood Group, unless indicated otherwise.

## Measurement and calculation methods

### Fuel

Fuel consumption is measured via information from fuel retailers. The carbon footprint is estimated based on the indicated share of fossil-free fuel from retailers and via own system support.

### Electric power

Axfood obtains data on its actual electricity consumption from the companies with which the Group has signed a central contract for electricity supply.

For the few stores that are not included in the central electricity contract, information is obtained from the respective property owners. There is one Willys store where the property owner does not have green electricity. This also applies for the eight Eurocash stores, which have not been able to switch to the central contract due to a several-year contract that began before the acquisition. The carbon footprint from these nine stores is based on the emissions factor for the most recently published residual mix, i.e., for 2018 the mix for 2017 is used. For the carbon footprint for previous years, since this has been reported in the half-year report in the following year, the residual mix from the reporting year has been used.

In the cases where Axfood is not the sole tenant, an estimate is made of Axfood's consumption.

Electricity generated by the Group's own solar panels is read directly from the respective solar panel systems.

### Heat

Information about actual heat consumption is obtained from the power companies. In cases where the heat is not included in the rent, the information is obtained from the respective property owners.

For certain units, recovered surplus heat is read in internal system support (IWMAC), while for others an estimate is used.

### Carbon footprint

Axfood's carbon footprint is reported in accordance with the GHG protocol's guidelines, and the calculations are made using the market-based method. Emissions are based on activity data that is recalculated to emissions of CO<sub>2</sub> equivalents for the respective emissions source. Axfood uses 2009 as the base year – the year in which Axfood set the target to be climate-neutral by 2020.

Had Axfood calculated its Scope 2 carbon footprint using the location-based method, the carbon footprint in 2018 would have been 17,681 tonnes CO<sub>2</sub> equivalents.

### Business travel

The carbon footprint from business travel is calculated based on all defined modes of transport: air (booked via travel agencies), rail, airport coach, taxi, company car, rental car and personal car. Axfood travel policy stipulates that travel shall be booked via a contracted travel agency. The carbon footprint from hotels and travel using local public transport is not included. Business travel in Mat.se including Middagsfrid is not included in the key ratios.

### Refrigerants

Refrigerant emissions are reported by the contractors through the end of March in the year after refill. To be able to report the carbon footprint for 2018 in February 2019, the

actual refill volume from 2017 is used. The calculation assumes that the refill volume corresponds to the emissions during the year. For the carbon footprint for previous years, since this has been reported in the half-year report in the following year, refill volume for the reporting year has been used.

### Waste for incineration

Information on waste volumes is obtained from the various waste management companies. Waste that is sent off for incineration is reported on a moving 12-month basis from 1 October in the preceding year through 30 September of the current year.

### Sustainable products

Axfood strives to offer sustainable products in its assortment. Examples of more sustainable products are organic products, plant-based protein substitutes and healthy products, but also products certified by, for example, Rainforest Alliance, UTZ, Fairtrade, and IP or Global GAP. This work entails increasing the share of good products and raising the standards for the entire assortment. Healthy products are Keyhole-labelled products.

Axfood measures the share of organic sales in relation to total food sales within the Group. Organic products include both EU-organic and KRAV-labelled products. Vegetarian products consist of refrigerated or frozen plant-based protein substitutes, i.e., ready-made food products such as tofu and Quorn. They do not include, for example, frozen or refrigerated vegetables, legumes or bread.

### Employees

The average number of employees measures all time present at work including paid absences less overtime divided by that yearly working time of 1,920 hours.

The number of employees does not include employees from Hall Miba AB, Axfood i Sköndal AB, Cold Cargo Sweden AB, Spisa Nu i Göteborg AB, Mat. se, Middagsfrid, Urban Deli and the six employees in Shanghai.

The compilation of new hires and employee turnover pertains to Axfood's employees at year-end.

The average service period is calculated as the sum of permanent employees' service periods in years (31 December of current year – original hire date) divided by the number of permanent employees.

The number of employees divided by the contract area is calculated at year-end. Stores include all employees working under the retail trade agreement, warehouses include all employees working under the warehousing and e-commerce agreement, and salaried employees include all salaried employees in stores and warehouses.

Employee turnover is calculated as the number of permanent employees and probationary employees who have ended their employment during the year in relation to the number on 31 December. Ended employment does not include deaths, terminations and retirements.

The work attendance rate is calculated as the number of hours worked in relation to the planned work time.

By senior executive is meant that the leader has directly subordinate employees.

One measure of diversity is international background. Axfood uses the same definition as Statistics Sweden, i.e., that the employee him-/herself or both parents were born outside of Sweden. Diversity has been calculated with the help of Statistics Sweden.

### Quality assurance/product safety

Product recalls are made when a product has been determined to pose a risk to health or the environment. Recalls from stores are reported and communicated to the public via press release.

### Significant changes since the preceding reporting period or explanations

Due to changed disclosure requirements in connection with the changeover from GRI G4 to the GRI Standards, Axfood no longer reports labelling of products and services. Information is provided about work with product specifications, but due to the nature of Axfood's business, the information requested in GRI 417 cannot be provided.

Today Axfood cannot report the information requested about environmental impact of materials (301) or improvements regarding health and safety impacts of products (416-1). However, system support will be implemented to be able to report similar data in the future.



# GRI 200: Economic impact

Having long-term sustainable profitability is entirely decisive for Axfood's ability to contribute to sustainable development. For more information on how Axfood ensures its competitiveness, see p. 15.

Apart from corruption, the materiality analysis does not identify the economic impact of a material sustainability issue since this is a prerequisite for all business activity. However, since previously Axfood reports the economic value the Group generates as well as which defined benefit obligations the Company has.

## 201-1: Economic value generated and distributed

The economic value added that Axfood creates is spread to various stakeholders. Axfood contributes to suppliers' business activities through its purchases and to its employees when they receive remuneration for their services. The state receives revenue through payment of social security charges, pension contributions and withholding tax for employees and income taxes, value added taxes and alcohol taxes. The Group reinvests part of its economic value in maintenance and new investments to develop Axfood's ability to generate value. Through dividends, the shareholders receive their share of the economic value that is not used to run the business or is not reinvested. For a breakdown of Axfood's economic value added, see p. 35.

## 205-1: Operations assessed for risks related to corruption

Axfood strives to combat and prevent corrupt conduct. Corruption and unethical conduct risk harming Axfood's reputation and undermine all other aspects of sustainability. For example, food safety can be jeopardized through food fraud and hindrances to the follow-up of good working conditions through fraud surrounding social audits. Corrupt and unethical behaviour can arise both in Axfood's organization through own employees (direct harm) and in the many and long supply chains of the thousands of products sold by the Group (indirect influence). The risk for corruption among own employees is greatest where large amounts of money are involved, i.e., in purchasing. The risk increases for buyers who work in markets with a high level of corruption.

### Employees

At the time of their hiring, all newly hired salaried employees certify in writing that they have acknowledged Axfood's

By 2019 at the latest, Axfood shall identify purchasing markets for private label products with large corruption risk and address these with a specific programme.



ethical guidelines, which include rules prohibiting the offering and accepting of bribes and corruption, among other things. The ethical guidelines are also to be signed yearly by persons who have an authorization right or who can in some other way influence purchasing decisions.

Employees and others who perform work at Axfood's workplaces can use the Group's whistleblower service.

During 2018 Axfood held training in corruption risks among suppliers for the Group's buyers and quality assurance staff. A total of 90 persons participated in the training, which was conducted by an external lawyer specialized in preventing corruption risks in global companies.

Follow-up of anti-corruption work as well as information on identified deviations and any actions taken are reported on a continuing basis to both the Executive Committee and Board of Directors.

#### 205-2: Training in anti-corruption policies and procedures

	2018	2017
Total number (percentage) of governance body members that the organization's anti-corruption policies and procedures have been communicated to	21 (100%)	n.a.
Total number (percentage) of employees that the organization's anti-corruption policies and procedures have been communicated to	1,378 (77%)	n.a.
Total number (percentage) of business partners that the organization's anti-corruption policies and procedures have been communicated to		
Asia	20 (95%)	n.a.
Europe	1,165 (90%)	n.a.
North and South America	28 (70%)	n.a.
Africa	40 (83%)	n.a.
Oceania	2 (100%)	n.a.
Total number (percentage) of governance body members who have received training in anti-corruption	4 (100% <sup>1)</sup> )	n.a.
Total number (percentage) of employees who have received training in anti-corruption	90 (n.a.%)	n.a.

<sup>1)</sup> Of newly elected board members/new members of Executive Committee.

### Suppliers

Through its Code of Conduct Axfood puts demands on all contract suppliers to prevent corrupt conduct. Local suppliers who are dealt with directly by store managers are not included. All contract suppliers sign the Code of Conduct, which is confirmed in the contract database. The respective purchasing managers for the categories are responsible for ensuring that contracts are signed. Contract suppliers thereby certify that they have anti-corruption policies and routines for monitoring corruption and unethical behaviour, also among their sub-suppliers. Axfood's Code of Conduct prescribes zero tolerance in two relevant areas: (1) Suppliers are not permitted to present untruthful oral or written information (2) Suppliers are not permitted to offer or receive bribes or engage in any other corrupt conduct. If a supplier is in violation of either of these two, it is sufficient grounds for terminating the arrangement.

The risk for unethical behaviour where suppliers consciously provide false information, such as by showing forged certificates or bookkeeping, is much greater than outright bribes. During 2018 Axfood did not terminate any business relationship due to false information.

Monitoring of corruption risk in the supply chain is done primarily among suppliers of private label products that produce in risk countries, since Axfood has product liability for such products and since the risk for corruption is greatest in risk countries. Monitoring is done through social audits and

dialogue with suppliers. This work is made more difficult since it is hard to gain insight into the sub-supplier level, especially finding out whether sub-suppliers are engaging in corrupt conduct. Dagab's sustainability manager is responsible for following up social audits. For information about Axfood's whistleblower service, see p. 124.

Amfori BSCI, which performs social audits for Axfood and many other companies, also conducts extensive integrity work including spot checks and reviews of the entire database of social audits to detect any improprieties in audit documentation. Among the auditors who have audited Axfood's suppliers, none were suspended in 2018. Among the suppliers that are audited by Amfori BSCI, the supplier's employees shall be able to submit comments or complaints anonymously, and a process must be in place for how these are to be received.

During 2018 a total of 95 (77) social audits were performed of producers that produce products or parts of products for Axfood in risk countries. Of these, 81% were entirely without remarks concerning corruption/ethical business. 15% had minor deviations that required minor adjustments to routines. 4% had major deviations that needed to be remedied. Ongoing action plans are in progress for all of these cases, most of which involve the discovery of inconsistent or unreliable information in connection with the audit.

#### 205-3: Corruption incidents

	2018	2017
Total number (and nature) of confirmed incidents of corruption	4 (contradictory info)	n.a.
Total number of confirmed incidents of corruption in which employees were dismissed or disciplined for	0	0
Total number of confirmed incidents of corruption when contracts with business partners were terminated or not renewed due to violations related to corruption	0	1
Public legal cases regarding corruption brought against the organization or its employees	0	0

## GRI 300: Environmental impact

Axfood's most material sustainability issues concerning environmental impact concern good and sustainable food by avoiding hazardous pesticides, improving animal welfare and offering organic alternatives, for example. Good and sustainable food also encompasses climate-smart packaging. Apart from the assortment, Axfood focuses on fossil-free energy, efficiency use of electricity in stores and warehouses, waste sorting and efficiency of transports. Axfood also performs checks to ensure that suppliers of private label products in risk countries follow up their own environmental impacts and have adequate waste handling and treatment of emissions and effluents.

### 301-2: Use of materials

System support for extensive information about Axfood's private label products is being implemented in 2019. Once the system's database has been established, it will be possible to report quantifiable data on the type of materials used, such as the type of plastic used in packaging.



By 2022 all plastic packaging shall be recyclable, and by 2030 it shall also be produced using renewable or recycled content.

### Industry-wide goal for plastic packaging

Plastic is a common material used in food retail since it has good properties and extends products' shelf life, which helps reduce food waste. Together with industry colleagues in the Swedish Food Retailers Federation, Axfood has set goals for sustainable plastic packaging.

Axfood has committed itself to increasing its purchases of recycled material, increasing the share of products designed for recycling, and to helping shape opinion and advocacy work intended to help regulations and incentives drive a transition to circular material flows.

The fossil-free plastic that exists today (mainly based on sugar cane) is considerably more expensive than the fossil-based plastic that is imported mainly from Brazil. Hopes are that in the future, there will be a large availability of fossil-free plastic based on Swedish ingredients.

### Climate-smarter private label product packaging

For Axfood's brands, such as Garant and S  klart, environmental aspects are extra important to consider in product design, especially in the choice of material. Axfood is constantly

finding new material for its private label product packaging in an effort to reduce fossil-based ingredients and change over to renewable ingredients.

Following are a few examples of private label products that obtained more climate-smart packaging in 2018:

- Expanded selection of products in the S  klart range, whose packaging is made of either recycled plastic or plastic made from renewable content.
- New packaging for a number of Garant meat products, consisting of a tray made of FSC-labelled cardboard that is sealed with a thin plastic film, thereby reducing the amount of plastic used by 70%.
- Black plastic trays for poultry and meat products from Garant have been replaced with smaller, transparent plastic trays that are easier to recycle and use less plastic.
- For Eldorado drinkable yoghurt, the previous aluminium lid was removed, saving several tonnes of aluminium yearly.
- Fixa launched a new line of environment-friendly household items:
  - The canisters used for tea lights are now made of recycled plastic from DVD cases.
  - Freezer storage bags are now made of 90% sugar cane-based plastic and are produced in Sweden with green electricity from wind power.
  - Trash bags are made entirely of recycled plastic.
  - The wrap used to package toilet paper and kitchen towels has been replaced from fossil-based to sugar cane-based plastic.





### 302-1: Energy consumption within Group-owned stores and wholesale operations

Axfood's operations are energy-intensive, and energy is consumed by all of Axfood's companies and operations. Energy consumption consists mainly of electricity used for refrigeration of products, lighting and ventilation in stores, and fuel consumption for transports of products. Stores and warehouses are heated to a great extent through recycling of the heat generated from refrigeration and freezer units. In certain cases, surplus heat is even sold back to district heating networks. Energy use in stores is dominated by electricity. The Group has an electricity contract that covers a large part of operations and consists of renewable electricity. Willlys stores have environmentally certified (Bra Miljöval, "Good environmental choice") electricity. For own product transports, work is under way on gradually making these entirely fossil-free, see p. 27.

#### 302-1: Energy consumption

	2018	2017
<b>Fuel, litres</b>		
Non-renewable fuel	3,092,411	993,173
Renewable fuel	1,970,183	3,754,087
<b>Total fuel consumption, litres</b>	<b>5,062,594</b>	<b>4,747,260</b>
<b>Electric power, heat, cooling and steam</b>		
Purchased electricity, MWh		
Retail operations	237,036	232,536
Wholesale operations	32,146	30,004
Purchased heat <sup>1)</sup>	970,048	1,032,095
<b>Total energy purchased</b>	<b>1,239,230</b>	<b>1,294,635</b>
Self-generated heat from refrigeration, MWh	10,207	7,752
Self-generated electricity from solar panels, MWh	89,011	85,169
<b>Total self-generated energy, MWh</b>	<b>99,218</b>	<b>92,921</b>
<b>Total energy consumption, gross, MWh</b>	<b>1,338,448</b>	<b>1,387,556</b>
<b>Sold heat, MWh</b>	<b>6,400</b>	<b>4,000</b>
<b>Renewable fuels, litres</b>	<b>1,970,183</b>	<b>3,754,087</b>

<sup>1)</sup> Self-generated heat pertains only to wholesale operations.

#### Fuel consumption

More than half of products are distributed to stores via any of the Group's warehouses and using Axfood's own trucks. At present, fuel consumption for transports from warehouses to stores is reported.

Axfood also puts demands on external hauliers. During 2018 Axfood created clear routines for reporting and used the Swedish Association for Road Transport Companies' programme for measuring the environmental impact of external distributors. Through this measurement the Group aims to influence external hauliers' fuel consumption. During 2018, distribution carried out by external firms had a carbon footprint per delivered tonne of 20.2 kg, compared with the Group's own distribution, which had a footprint of 16.6 kg. During 2019, environmental targets will be drawn up to measure carbon footprint improvements of external transports.

Axfood's deliveries from stores to e-commerce customers are not included in fuel consumption data, since e-commerce still accounts for only a small share of total sales.

Axfood has a vehicle monitoring system to optimize loads and driving. All trucks have an eco-driving system to minimize environmental impact. The system is also used for load planning and optimization of transports, since capacity utilization plays a decisive role in lowering environmental impact. The

trucks also have three temperature zones, which enables deliveries using one truck instead of three separate trucks with separate temperature zones.

#### Influencing vehicle manufacturers

To reduce the carbon footprint of fuel consumption from Axfood's operations, a concerted effort is needed with respect to vehicle manufacturers and fuel companies. The Group is working to influence both truck manufacturers and fuel companies to develop environmentally adapted alternatives in the market. During 2018 the Group continued its work on increasing the share of trucks whose refrigeration systems are powered by the truck's own diesel engine. This results in a lower environmental impact, since the trucks' engines have better combustion efficiency and emissions cleaning than separate diesel-powered generators.

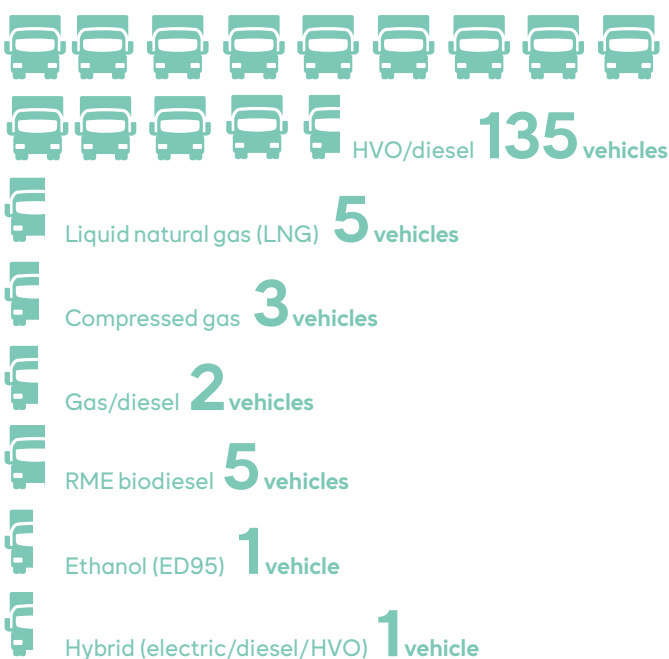
The Group is working together with vehicle manufacturers to increase the use of fossil-free fuels. During the year Axfood invested in biogas trucks and took steps to ensure that new trucks are RME-adapted, to allow them to run on RME biodiesel where the product is available.

#### Influencing fuel companies

Choosing the right fuel today is a challenge, as the conditions are constantly changing and there are many aspects to take into consideration in order to act sustainably. Previously, by powering its own trucks with synthetic biodiesel (HVO), Axfood was successful in achieving significant reductions in its carbon footprint.

### Axfood's delivery fleet

#### For deliveries to stores



#### For deliveries to e-commerce customers



In 2017 Axfood decided to stop using HVO where possible, since it is no longer possible to buy HVO that is free of palm oil and PFAD (palm fatty acid distillate), the production of which contributes to deforestation of rain forests. Axfood has taken the decision to instead drive development of sustainable transports in society, even though this has increased the carbon footprint in the near term.

However, trucks that are run on a biodiesel blend still use a certain amount of HVO, since it is often an ingredient in renewable diesel. During 2018 Axfood actively participated in the public debate to convince politicians that PFAD is not a renewable ingredient that should be included in biodiesel. At the end of the year, the Swedish government made a decision that will lead to PFAD being replaced by other fossil-free compounds in biodiesel.

### *Focus on diversification*

A lot of work remains on developing trucks and fuels that are more environmentally adapted and free from fossil fuels. Today there is no single solution for the vehicle or fuel problem. Instead, the Group is focusing on diversifying its delivery fleet and using different fuels and electricity to diversify risk and be flexible so as to be able to embrace the technology that is developed to provide the best solution in the future. For targets, see p. 151. The Group's head of transports is responsible for the choice of vehicle type.

At year-end Axfood had a fleet of 152 trucks. Of these, ten were gas-powered (of which five used liquid natural gas, three used compressed gas, and two used a mix of gas and diesel), and five were powered by RME biodiesel, which is made primarily from vegetable oils. The fleet also included one ethanol-powered truck, which uses Swedish-produced ethanol, and one electric hybrid that features quieter operation.

The focus on a diversified fleet had no major effect on carbon emissions in 2018, since the decision to stop using HVO has resulted in a significant jump in the carbon footprint.

At year-end Axfood had 131 small trucks or vans for delivery of products from stores or dark stores home to customers.

### *Transport by rail*

Where possible, Axfood prefers to transport goods by rail to reduce the carbon footprint. Every month approximately 85,000–90,000 kg of fruits and vegetables are shipped by rail to Skellefteå, Piteå, Luleå, Kalix and Boden. However, the rail line that was previously used to transport an average of three to four trailers of food from Skåne to Stockholm was discontinued in 2018.

## **Energy consumption**

Perishable food needs refrigeration and sometimes freezing to extend its shelf life. This represents an unbroken cold chain from suppliers via warehouses and stores to consumers. At the same time, the ambient environment for workers and customers needs to be near room temperature. In pace with expansion and the need to refrigerate or freeze a growing array of products, the Group's energy consumption is rising.

Energy consumption in the Group is monitored, measured and followed up through a Group-wide control system that is coupled to the Group's stores and warehouses. Approximately 90% of stores and warehouses are included in this central system. Excluded from this are a few stores – often in shopping centres – where the electricity is included in the rent, and the fruits and vegetables warehouse that was

acquired in 2017. In these cases, Axfood is putting pressure on the property owners to use renewable electricity. At year-end 2018, nine stores or dark stores were using electricity from non-renewable sources.

The control system facilitates frequent and uniform analyses of energy consumption, but also signals an alarm if, for example, the temperature zones deviate from the desired limit values.

The respective companies are responsible for following up and working actively to reduce energy consumption. This work is evaluated quarterly by Axfood's Head of Sustainability.

The Axfood Group's target is to reduce its electricity consumption by 15% per square metre by year-end 2020 (base year 2015).

### *Choice of energy source*

Axfood's operations require that refrigeration and freezer systems run around the clock in warehouses and stores. The choice of energy source is therefore just as important and reducing the need for energy. The Group is working actively to review its energy sources and to determine how surplus heat can be recovered in a sustainable manner. The main source of energy in warehouses and stores is electricity. District heating is also used in warehouse operations. Refrigeration for trucks is provided by the trucks' refrigeration units, which are often powered by the truck's engine. To ensure the right temperature, the trailers are precooled using electricity. The respective companies are responsible for their energy consumption and measures for reducing consumption.

All electricity the Group uses is green electricity, i.e., electricity generated from the sun, wind or water, and has no carbon emissions. Energy saving measures such as retrofitting refrigerator displays with doors, replacing light bulbs with LEDs and climate considerations in new store development, had a positive impact on Axfood's energy consumption. The record-warm and long summer in 2018 required extra refrigeration.

The Axfood Group plans to invest in solar panels on 25% of the rooftops that have been shown to be suitable in the Group's mapping.

Even though Axfood uses only green electricity, a plan has been drawn up to use more solar energy generated from the rooftops of operating facilities. In this way, Axfood will take further responsibility by generating its own green electricity from solar panels, which can benefit society as a whole.

During 2017 and 2018, pre-studies were conducted to analyse the opportunity to install solar panels on warehouses and stores. Solar energy offers major potential, as the Group has a total of nearly 23 hectares of area available for solar panel installations. Axfood has also drawn up an electricity purchase agreement that can be used to buy electricity from solar panels owned by other property owners. The Group has the ambition in 2019 to buy electricity generated by solar panels from a number of properties in which Axfood has operations.

### Energy recycling

Refrigeration systems, both in warehouses and stores, generate a lot of heat. Recycling this results in highly efficient energy use and lower overall energy costs. Today 126 GWh of heat is recycled from Axfood's warehouses. There is currently no data on the extensive recovery of heat in stores.

### 302-3: Energy intensity

Mainly in warehouses, but also in a few stores, so much heat is recycled that a surplus is created. To improve the efficiency of its heat consumption, Axfood has signed contracts with electricity distributors to deliver surplus heat back to the district heating network. It is estimated that this surplus energy from warehouses provides district heating networks with approximately 7,000 MWh.

#### 302-3: Energy intensity

	2018	2017
<b>Energy consumption</b>		
Total energy consumption, MWh/net sales, SEK m	27.0	30.0
Self-generated energy, MWh/total energy consumption, net MWh	0.07	0.06
<b>Electricity consumption</b>		
Purchased electricity MW/net sales	5.6	5.7
Purchased electricity kW/sq.m., stores	342.6	346.0
Purchased electricity kW/sq.m., warehouses	223.8	216.0
<b>Fuel consumption</b>		
Total fuel consumption, l/net sales SEK m	105	n.a.
Renewable fuel/total fuel consumption	39%	n.a.

### 305-1: Direct GHG emissions

Axfood's target to be climate-neutral is described on p. 33. The Group's carbon footprint comes from refrigerants, own transports from warehouses to stores, electricity use and business travel.

Scope 1 emissions, direct GHG emissions, are emissions from Axfood's own operations and include refrigerants, own transports and own company cars.

#### 305-1: Direct GHG emissions

CO <sub>2</sub> equivalents, tonnes	2009 (base year)	2018	2017
<b>Scope 1</b>			
Own transports	10,531	10,557	4,321
Refrigerants	15,212	6,429	6,429
Business travel	851	420	430
<b>Total Scope 1</b>	<b>26,593</b>	<b>17,406</b>	<b>11,180</b>

#### Direct GHG emissions (Scope 1) – Own transports

See fuel consumption, p. 134.

#### Direct GHG emissions (Scope 1) – Refrigerants

Refrigerants make up Axfood's second largest source of GHG emissions, accounting for approximately 29% of the Group's carbon footprint. The refrigerants used in refrigerator and freezer systems have a certain amount of unavoidable leakage. As older systems are replaced, the carbon footprint decreases, since the new displays use more natural refrigerants. The challenge is presented by the older systems that use

refrigerants that have a substantial carbon footprint. After 2020 it will not be allowed to refill newly produced refrigerants with a high carbon footprint. Axfood has made good progress in phasing out its older systems, which is being handled within the framework of the normal capex plan. The measures entail either switching to more modern systems (often with carbon dioxide) or using alternative refrigerants in the systems than what is specified – so-called drop-in refrigerants. The drop-in variants have not been tested and risk damaging the systems. In the warehouse operations, Axfood has entirely environmentally classed refrigeration and freezer systems. Eurocash stores have only modern freezer and refrigerator systems. Other companies have made great progress in the changeover. A special challenge is posed by the refrigeration systems in delivery trucks, where it is hard to find a technical solution at the same time that they are not covered by EU regulations.

Measured in terms of CO<sub>2</sub> equivalents, Axfood's refrigerant emissions from stores, warehouses and its own fleet in 2018 amounted to approximately 6,400 tonnes CO<sub>2</sub> equivalents.

#### Direct GHG emissions (Scope 1) – Business travel

Axfood has approximately 450 company cars. It is mainly regional and store managers who use company cars, to visit stores around the country. The Group also has a pool of company cars that can be booked and used by employees at the head office.

The Group also has a dozen or so bikes at the head office that employees can use for local errands.

Starting in 2020, all new company cars and service vehicles are to be reclassified from being environmental cars according to the old definition to be so-called bonus cars.

### 305-2: Indirect GHG emissions

Scope 2 emissions, indirect GHG emissions, come from energy purchased for operations. See energy consumption, p. 134.

#### 305-2: Indirect GHG emissions

CO <sub>2</sub> equivalents, tonnes	2009 (base year)	2018	2017
<b>Scope 2</b>			
Purchased energy	61,647	88,770	96,017
Reduction through purchases of source-labelled energy	0	-84,754	-91,847
<b>Total Scope 2</b>	<b>61,647</b>	<b>4,016</b>	<b>4,170</b>

### 305-3: Other GHG emissions

Scope 3 emissions pertain to both upstream and downstream emissions in the value chain. Today Axfood measures Scope 3 emissions only for business travel (excluding travel using company cars). The greatest Scope 3 emissions pertain to food production. Even though Axfood does not measure the impact of food production, the Group is working actively to reduce emissions, such as by reducing food waste, promoting consumption of plant-based products and highlighting



climate-smart alternatives and sustainability certified products, see Axfood's strategy, p. 17.

Development of e-commerce entails both opportunities and risks for measures to abate climate change. If the Company succeeds with its logistics, emissions from customers' transports (Scope 3) can decrease more than the increase in the companies' emissions (Scope 1), but the opposite is also possible. The outcome depends on e-commerce volume, innovative solutions and coordination of distribution. Axfood is striving to reduce the number of trips made on business to save time and money, and at the same time reduce its carbon footprint, such as by using digital meeting platforms. With today's digital meeting forms, there is not a big difference in quality between a digital and physical meeting. During 2018 the share of travel-free meetings increased by 20%. Rail or coach is to be prioritized over air travel. All air travel is to be climate-compensated.

Axfood has set a target that 50% of business travel between Stockholm and Gothenburg shall be made by rail, however, in 2018 the number of trips taken by air on that route increased. It is a challenge to get employees to act in accordance with the travel policy and choose travel by train.

Draw up a strategy by 2020 to choose more environment friendly air travel where alternatives exist.

### 305-3: Other GHG emissions

CO <sub>2</sub> equivalents, tonnes	2009 (base year)	2018	2017
<b>Scope 3</b>			
Business travel	770	773	658
<b>Total Scope 3</b>	<b>770</b>	<b>773</b>	<b>658</b>

## Total GHG emissions

Axfood has reduced its carbon footprint by 78% since 2009. The largest decrease has been achieved in energy consumption through the changeover to green electricity and efficiency improvement measures.

Axfood's total carbon footprint in 2018 corresponded to 22,195 tonnes CO<sub>2</sub> equivalents (16,008). Compared with 2017 this is an increase of 39%. The increase is attributable to the decision to not use renewable HVO fuel, since it is based on palm oil and PFAD. By using HVO during 2016 and 2017, the Group's carbon footprint from transports decreased significantly during those years. For more information on the decision, see p. 134. Transports thereby are once again Axfood's largest source of carbon footprint (2018: 48% of Axfood's total carbon footprint; 2017: 27%). Refrigerator and freezer systems are the second largest source of carbon footprint (2018: 29% of Axfood's total carbon footprint; 2017: 40%). Electricity consumption was the third largest contributor to the Group's carbon footprint, accounting for approximately 18% of Axfood's footprint in 2018 (2017: 26%). The carbon footprint from purchased electricity decreased slightly in 2018 despite the negative impact on electricity consumption caused by the long and warm summer. Business travel accounted for 5% of the Group's total carbon footprint in 2018 (2017: 7%).



**305: Total GHG emissions**

CO <sub>2</sub> equivalents, tonnes	2009 (base year)	2018	2017
<b>Direct GHG emissions (Scope 1)</b>			
	26,593	17,406	11,180
<b>Indirect GHG emissions (Scope 2)</b>	61,647	4,016	4,170
<b>Other GHG emissions (Scope 3)</b>	770	773	658
<b>Total GHG emissions</b>	<b>89,010</b>	<b>22,195</b>	<b>16,008</b>

**The Haga Initiative**

Since 2010 Axfood has been a member and co-founder of the Haga Initiative, a network of companies in Sweden that is working to reduce carbon emissions from the business sector and highlight the climate issue. Within the framework of the Haga Initiative, every year Axfood submits a carbon footprint report. The Haga Initiative adheres to the so-called Carbon Law roadmap, which translates the Paris Agreement into a roadmap for decreased emissions needed to limit global warming to between 1.5 and 2 degrees Celsius. See the Haga Initiative's GHG emissions disclosure for emissions by all members compared with the Carbon Law, [hagainitiativet.se](http://hagainitiativet.se).

**306-2: Waste**

Recycling plays a central role in an increasingly circular economy and is crucial for reducing Axfood's carbon footprint. Sorting of various material fractions is done in stores, warehouses and offices. Axfood sorts nine different fractions: soft plastic, hard plastic, glass, metal, corrugated board, paper, organic material, combustible material and hazardous waste.

In terms of volume, containerboard and soft plastics dominate. Material fractions that cannot be recycled are sent off for incineration. Axfood strives to ensure that as little material possible will end up in the fraction sent off for incineration. The weight of material for incineration in relation to net sales indicates the degree to which Axfood sorts. A low share of material for incineration entails a high level of sorting and recycling. Sorting work is more labour-intensive at stores and warehouses due to the size of the packaging.

During 2018 Willys had roughly the same volume of material for incineration in tonnes as in the preceding year. Since sales increased for the year, this means that the share in relation to sales decreased. Dagab had the same share of material sent for incineration in 2018 as a year ago. Axfood Snabbgross increased its share of waste for incineration during the year. The reporting system for waste sent off for incineration at Hemköp was not able to provide satisfactory documentation for calculations, which is why Hemköp has not yet reported this key ratio.

**306-2: Waste for incineration 2018**

	Willys		Axfood Snabbgross		Dagab	
	2018	2017	2018	2017	2018	2017
Waste for incineration from stores/warehouses, tonnes	8,799	8,805	773	544	1,280	1,414
Waste for incineration (tonnes) in relation to the respective segments' sales (SEK m), %	35	37	24	18	3	3

**308-1: Supplier screening**

The largest carbon footprint from food products arises in the production of food in agriculture. Examining the carbon footprint of suppliers is therefore an important, but complex and complicated undertaking. There is seldom a simple answer to questions about climate aspects. This is made even more difficult by the large number of suppliers and sub-suppliers, and Axfood's large assortment. The ability to ensure that all steps in the supply chain live up to sustainable production is a challenge for the Group as well as for the entire industry. For a more detailed description of these challenges, see p. 145, since environmental aspects among suppliers are addressed in connection with social audits.

Axfood works continuously and in a structured manner on assessing suppliers with respect to their responsibility for sustainability.

Axfood performs audits mainly of its private label products, since the Group has direct product liability for these. But in the fresh fruit and vegetables category, Axfood has chosen to review both brand-name products and its private label products, since customers cannot determine who has the product liability. The review covers risk products or products that are produced in or include ingredients or material from risk countries. For a more detailed description of risk countries and handling, as well as the scope of audits, see p. 145.

Axfood is working to find a method for improving the opportunity to audit suppliers based on expanded climate aspects, such as by requiring them to begin reporting climate impact measures.

Axfood conducts a sustainability assessment focusing on social and environmental responsibility in all new procurement processes for its private label products associated with rising risks, see p. 144. Thus far this assessment has focused on social responsibility, since it follows up Axfood's Code of Conduct, where the focus is on social issues, even though environmental issues and animal welfare also play a role. However, suppliers of private label products and own stores that make their own purchases from risk countries are assessed also with respect to their knowledge about and actions taken regarding environmental risks in the supply chain. Starting in 2020, aspects surrounding water and GHG emissions will be increased in the routine. Existing suppliers also undergo the same sustainability assessment process over time.

**308-1: Supplier screening**

	2018	2017
Share of new suppliers that have been assessed according to environmental criteria	17%	22%

**308-2: Negative environmental impacts in the supply chain and actions taken**

Axfood conducts social audits to find out if any requirements are not being met in accordance with the Code of Conduct, see p. 146. The Code of Conduct prescribes how suppliers are to take environmental impacts into account. The audits check to see that suppliers have suitable effluent cleaning, waste management and legal environmental permits, and if suppliers have control over any hazardous compounds used in production.

During 2018, 95 (77) social audits were performed via Amfori BSCI, approximately 24% of the total number of suppliers of private label products. The outcome in the table below is based on these audits. Five of the suppliers had some minor deviation regarding follow-up of environmental requirements, but still at an acceptable level (C-level). Action plans have been drawn up for these deviations.



### 308-2: Negative environmental impacts in the supply chain and actions taken

	2018	2017
Number of suppliers assessed for environmental impact	95	77
Number of suppliers identified as having significant actual and potential negative environmental impacts	0	n.a.
Environmental impacts identified in the supply chain	0	n.a.
Percentage of suppliers identified as having potential negative environmental impacts with which improvements were agreed upon	0%	n.a.
Percentage of suppliers identified as having potential negative environmental impacts with which relationships were terminated	0%	n.a.

Negative environmental impacts pertain to significant actual and potential environmental impacts.

### List of banned pesticides

Axfood is working with a number of priority areas based on environmental criteria. One example entails analysing and influencing how Axfood's suppliers can reduce their use of pesticides.

Since 2015 Axfood has been advocating for reduced use of chemical pesticides in imported fruits and vegetables. In 2017 Axfood prepared a list of compounds that suppliers are urged to phase out. The compounds are banned in the EU, but permitted in the countries where the suppliers grow the product. The list is being revised continuously and is signed by the suppliers. Axfood requires that suppliers of fruits and vegetables adhere to the list of banned pesticides by 2020 at the latest. Based on a review of the largest fruit and vegetable suppliers, Axfood estimates that its most important suppliers were in compliance with the list already in 2018.

Axfood is working to have the Group's list of banned pesticides transformed into a Swedish industry-wide agreement to phase out the most hazardous pesticides. The hopes are that such an industry-wide agreement will be reached in 2019.

Axfood's suppliers of fruits and vegetables shall comply with the list of banned pesticides, and Axfood shall strive to make the list an industry standard by 2020 at the latest.

### Use of water by suppliers

The issue of water stress is current, especially in view of the drought during the past summer in Sweden. During 2018 Axfood worked on analysing how the Group can best reduce suppliers' water footprint.

In collaboration with Martin & Servera, Axfood and the Stockholm International Water Institute (SIWI) have prepared a checklist and battery of questions that can be asked of suppliers in order to map out their water use. The project also included an analysis of the water impact of a number of crops, depending on which country or region they are purchased from. Examples of crops analysed in the project are avocados, rice, almonds and tomatoes.

Fresh water supply is a problem in large parts of the world. One example is Peru, where in 2018 Axfood analysed the



current problem in the country, specifically in the Ica region. In 2019 a trip is planned to Peru with Swedwatch, a human rights and environmental organization, to discuss with local organizations and Axfood's suppliers how Axfood can best improve the water situation in the country and at the same time take responsibility for the growers' situation.

Axfood has also participated in another project with SIWI. The project evaluated which existing certification best certifies water use among suppliers. The conclusion was that the Global GAP certification best certifies water use by growers based on standards analysed by the project. It was also noted that there are areas in Global GAP that warrant further development in order to strengthen issues coupled to water consumption in an entire region. One of Global GAP's strengths is that it is used globally.

In 2019 Axfood will further develop the Group's strategy and method for measuring and monitoring water use by suppliers in order to reduce their water footprint.

### SIN list

The non-profit organization ChemSec maintains the SIN list ("Substitute It Now!"), which includes chemicals that may be mutagenic, carcinogenic, persistent and/or bio-accumulative and that may be found in packaging and other non-food items. Buyers and category managers at Axfood have previously received training in the SIN list, with the goal being to phase out all of the chemicals on the list by 2022 at the latest. This applies both to private label products and brand-name products. The requirements have been communicated to all suppliers, and for all new suppliers, the requirements apply from the start. Owing to Axfood's active work with various ecolabels, such as Bra miljöval, several potentially controversial chemicals have already been phased out.

### Sustainable seafood

Axfood is working together with WWF to ensure that customers feel confident about the fish they buy. In connection with every procurement, a check is made of WWF's database to ensure that the fish is as sustainable as possible even if it is not on WWF's green list. Checks are performed for every single component in all of Axfood's products that contain fish or shellfish.

Axfood's seafood policy entails that fish and shellfish from threatened stocks are not to be sold in any of the Company's stores. All fish sold in Axfood's store chains must be traceable to their stock, fishing zone/farm and harvest date. Customers shall also be provided information about the species, fishing zone and fishing method. Purchases of fish or shellfish that have been caught with environmentally disruptive methods, such as harmful trolling methods, shall be avoided. Products that do not meet these requirements are removed from the assortment.

Since 2008 Axfood's chains do not sell red-listed fish. The goal is to only sell fish and shellfish that are classified as "green" by WWF, which includes products certified according to the requirements of MSC, ASC or KRAV, or that are in some other way classified as green on account of sustainable stocks and approved catching methods. During 2018 the goal was pushed back until 2022, since it proved to be difficult to meet the original target year of 2020. The biggest challenges were related to tuna and farmed Norwegian salmon. The supply of ASC certified salmon is insufficient, however, volumes will increase as more fish farms adapt their practices. At year-end the compliance rate was roughly 65%. The entirely dominant volume of the remainder, which is yellow-listed, consists of Norwegian salmon.

By 2022 at the latest, Axfood's store chains shall only sell green-listed fish and shellfish products.

Thanks to clear requirements in procurement processes and a long-term approach, Axfood has neared its target to sell only green-listed fish. Since February 2018, all smoked and cured salmon sold under the Falkenberg Seafood private label is ASC certified. In all this includes some 20 products.

During 2018 all of Hemköp's seafood counters were ASC certified. Axfood stopped selling red-listed fish back in 2008, and in 2013 Hemköp's staffed fish counters were MSC certified. Training activities have been conducted to raise knowledge about MSC among employees.

### Good animal care and low use of antibiotics

Axfood chooses to sell Swedish meat to a great extent. Sweden's animal welfare laws are at a high level compared with most other countries. Moreover, Swedish farmers have a long tradition of good animal care with low use of antibiotics resulting in healthy animals and safe foods. Axfood believes this provides strong value-added to Swedish food production.

Good animal husbandry applies not only to Swedish animals. It is just as important that healthy pigs and cows from other countries have not been medicated with antibiotics for preventive purposes. Axfood supports the Swedish model in which individual animals, not entire groups, are treated with antibiotics when needed. This is an important issue that Axfood has advocated for at the EU level to influence and drive development in the right direction in countries where the Group purchases meat. Axfood is therefore in favour of the EU's declared intent to sharpen legislation in the future against the use of antibiotics in healthy animals.

Since previously Axfood has mapped out the animal protection certifications that exist in various countries. In addition, Axfood sets high standards for imported meat and views it as a competitive advantage when a supplier has chosen to go beyond the legal requirement. The Group's basic requirement is that all new procurement of meat and processed meats as well as private label products with meat ingredients shall have third-party certification of animal welfare. This routine has been implemented for approximately 85% of all affected products throughout the processing chain. A supplier that produces hamburger patties for Axfood has a food certification, while the supplier that slaughters and butchers the meat is third-party certified, and the animal comes from a certified farm.

To assess compliance in animal care, the external certification company Kiwa performed an audit in 2018. In addition, an external audit was performed by another external company. The audits of cattle breeding in France and pig farming in the Netherlands showed that all practices were in compliance with applicable laws.

## GRI 400: Social impact

Axfood's most material sustainability issues from the employer perspective are coupled to its ability to attract and

develop employees, a good working environment and health, and the opportunities to create an equal opportunity organization characterized by diversity.

Social issues in the supply chain are coupled to quality-assured products, decent working conditions, greater traceability and more sustainable production.

## 102-8: Employees

Axfood's operations are personnel-intensive. As an employer the Group therefore has a large impact on many people's lives. In order for Axfood to be able to achieve its strategic targets, its employees must know what is expected of them and what they can do in their daily work. Work with employees is one of six strategic areas for developing Axfood of the future, see p. 15.

All employees are employed by companies in the Group and are covered by Swedish collective agreements. A marginal share of operations are performed by hired-in personnel or consultants. They are covered by Axfood's work environment responsibility as well as the laws and regulations that apply at the workplaces in question.

### 102-8: Employees broken down by form of employment

31 Dec.	Men		Women		Total	
	2018	2017	2018	2017	2018	2017
No. employees (permanent and probationary employees)	5,027	4,627	5,807	5,445	10,834	10,072
No. employees (time-limited employment)	570	422	864	698	1,434	1,120
<b>Total</b>	<b>5,597</b>	<b>5,049</b>	<b>6,671</b>	<b>6,143</b>	<b>12,268</b>	<b>11,192</b>

Includes one employee who has not indicated a binary gender affiliation and thus is not included in the total breakdown of men/women.

### 102-8: Employees broken down by contract area

31 Dec.	Retail		Warehouses and e-commerce		Salaried employees		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
No. employees (permanent and probationary employees)	7,066	6,497	2,095	1,905	1,673	1,671	10,834	10,073
No. employees (time-limited employment)	1,269	968	115	99	51	53	1,435	1,120
<b>Total</b>	<b>8,334</b>	<b>7,465</b>	<b>2,210</b>	<b>2,004</b>	<b>1,724</b>	<b>1,724</b>	<b>12,269</b>	<b>11,193</b>

### 102-8: Employees broken down by full- and part-time

31 Dec.	Men		Women		Total	
	2018	2017	2018	2017	2018	2017
No. employees - full time	3,881	3,577	3,101	2,854	6,982	6,431
No. employees - part-time	1,716	1,472	3,570	3,289	5,286	4,761
<b>Total</b>	<b>5,597</b>	<b>5,049</b>	<b>6,671</b>	<b>6,143</b>	<b>12,268</b>	<b>11,192</b>

Includes one employee who has not indicated a binary gender affiliation and thus is not included in the total breakdown of men/women.

Since Axfood's operations are conducted throughout Sweden, the number of employees per region is not reported. The compilation includes six employees in Shanghai. They are not covered by Swedish collective agreements but have favourable terms of employment. The share of time-limited employees is higher in the warehouse and store operations during vacation periods, since some of these employees fill in for permanent employees during these periods.

Axfood aspires to attract, recruit and develop the industry's best employees. This requires an attractive and long-term

sustainable workplace. Key components are the ability to create an engaging culture with a clear customer focus. This is the foundation for both the employees' and Axfood's development. Basic prerequisites are the ability to act in accordance with laws and statutes coupled to labour law and work environment, and the four collective agreements. The Group's strategic employee work is driven by Axfood's central HR function. Strategic goals, policies, processes, guidelines and routines coupled to recruiting, development and succession of employees are formulated at the Group level. Within the respective companies are local HR functions that handle local issues and processes. The continuing and daily work with employees is conducted by the Group's managers and leaders. For examples of joint-Group policies and guidelines, see p. 124.

Axfood has identified three strategic employee areas – gender equality, diversity and work attendance rate – as important for developing. These areas developed in a positive direction in 2018, and Axfood is of the opinion that governance of strategic employee issues has been suited for its purpose.

## 401-1: New employee hires and employee turnover

Axfood's employer brand is strong, and many people apply for work within the Group, see p. 31. It is important for Axfood to employ people based on their competence and to avoid subjective values. Extensive work has been carried out to centralize and professionalize the recruitment process. Among other things, a digital online application process has been developed and is being implemented during the first quarter of 2019. Axfood strives for objectivity in its recruitment. It is the candidate who best meets the requirement profile who shall be employed.

Axfood aspires to be an attractive employer that attracts new employees, and develops and retains existing ones. The recruitment process is a valuable opportunity to present a positive picture of Axfood as an employer. Recruiting managers are responsible for the decisions that are made in connection with recruitment and for conducting recruitment in accordance with an established process. The view of internal recruitment is positive, and all positions are advertised internally.

There is a clear connection between good managers and employees who stay on a long time. It is important for Axfood to develop the industry's best employees. All of the Group's leaders take the Axfood Academy's leadership courses to develop their leadership skills. Employees attend performance reviews with their immediate managers at least once a year, and together they draw up and establish the respective employees' development plans. Follow-up of the preceding year's development plan is done at the same time. All employees have the right to training and competence development. The Axfood Academy is the Group's own centre for continuing education and competence development, see p. 31. The work on establishing a digital identity for all employees entails that all employees – even those working in warehouses and stores – now have access to e-learning. The Group has the ability to direct relevant training to specific employees. It is the employees' themselves who are responsible for their own competence development.

To ensure success in the work on developing and attracting employees it is important to look at the development of new hires and employee turnover.

Axfood believes its employee turnover is aligned with the Group's overall goals and ambitions.

**401-1: New employee hires, broken down by men and women**

	Men		Women		Total	
	2018	2017	2018	2017	2018	2017
Number of new employees (hires)	813	694	917	684	1,730	1,382
New hires as share of total number of employees (hiring turnover)	18%	16%	17%	13%	17%	15%
Number of employees who have left (departures)	780	680	1,061	957	1,841	1,637
Departed employees as share of total number of employees (employee turnover)	17%	16%	19%	18%	18%	17%

**401-1: Employee turnover, men and women**

	~29 yrs		30–49 yrs		≥50 yrs	
	2018	2017	2018	2017	2018	2017
Number of new employees (hires)	1,049	822	563	470	118	90
New hires as share of total number of employees (hiring turnover)	32%	31%	12%	10%	6%	4%
Number of employees who have left (departures)	1,041	919	640	576	160	142
Departed employees as share of total number of employees (employee turnover)	32%	34%	14%	13%	8%	8%

**401-1: Employee turnover, form of work**

	Retail		Salaried employees		Warehouses and e-commerce	
	2018	2017	2018	2017	2018	2017
Number of new employees (hires)	1,198	879	165	144	366	359
New hires as share of total number of employees (hiring turnover)	17%	14%	10%	9%	17%	21%
Number of employees who have left (departures)	1,292	1,252	260	119	289	266
Departed employees as share of total number of employees (employee turnover)	18%	20%	16%	7%	14%	16%

Axfood does not report per region, but per contract area, which is more relevant for the operations.

**401-2: Benefits**

To attract and retain employees, Axfood offers employment terms that are in line with the going rate in the market and competitive.

Employment terms are set mainly through collective agreements for the retail trade, warehouse and e-commerce, and salaried employees. Benefits such as employee discounts, salary exchange, pensions advice and fitness subsidies apply equally for all employees regardless of their company affiliation, form of employment and percentage of employment. Certain benefits are conditional upon a minimum service period.

The collective agreements regulate, among other things, salaries and terms of employment, such as notice periods. 2018 was the second year of a three-year pay agreement.

For Axfood it is important to attract and engage employees. The Group's managers and leaders have continuing responsibility for this work, the result of which is monitored through performance scores in the leadership index and engagement index. In the Group's most recent survey, which was conducted in 2018, the leadership index increased. The results of the engagement index also showed a higher employee engagement than previously, see p. 31.

**403-2: Incidents, injuries and sickness-related absences**

A workplace free from accidents and occupational illness is a strategically important target area for the Group. Other important conditions for the company's success are that Axfood's employees are healthy, feel good and enjoy their work.

To achieve this, Axfood therefore works to help managers act on early signs of ill-health among employees. Leadership is also important for health work, and as part of the work on increasing the work attendance rate in the Group, managers attend training in sickness-related absenteeism and rehabilitation, and a web-based work environment training for managers has also been developed. This training is a complement to the existing instructor-led training courses and focuses on the work environment, responsibility, systematic work environment measures, the physical work environment, the organisational and social work environment, and sickness-related absenteeism and rehabilitation. The training can be customised based on the area that is most current at the time. In addition, Axfood has a goal that all managers will participate in training in organizational and social work environment by year-end 2019. At present more than 60% have completed the training.

Work environment initiatives within Axfood are governed, run and monitored through work environment committees. At the Group level there is a work environment group made up of union representatives, a chief occupational safety officer and Axfood's various work environment functions. At the company level, work environment committees are normally established at three different levels: a central safety committee, a regional safety committee, and a local safety committee. The local safety committees cover operations in warehouses and stores. All employees are included in organizations that are covered by the local, regional or central safety committees (403-1 Occupational health and safety management system). At smaller workplaces without an own local safety committee, work environment activities are conducted in the form of safety inspections and employee meetings. This entails that even employees at these workplaces have influence over their local work environment activities.

To achieve Axfood's highly set standards for a good work environment, it is important to monitor the trend of incidents and related injuries as well as the work attendance rate, as these are clear indicators of the effectiveness of Axfood's work with health and the work environment.

Axfood has a clear illness and rehabilitation procedure that is initiated when an employee falls ill. Already from the first day of absence due to illness, contact shall be made between the employee and manager. A rehabilitation process can be started in the event of recurring short-term absences. If an employee is sick on three occasions within six months, the manager has a health talk with the employee to detect signs of ill-health at an early stage.

Axfood also monitors the trend in reported incidents and accidents at work based on a system applied in the retailing and warehouse operations. Measures are taken to reduce risks for work environment incidents. During 2018 the number of reported incidents decreased compared with 2017 from 4,041 to 3,493. At the same time, the number of reported accidents increased from 445 to 549. During the same period the total work time increased by 7%. Whether the increase in accidents is due to improved quality in reporting or an actual increase in accidents is hard to say.





# Organic leads to ripple effect

Axfood helps advocate for organic farming, which offers a host of benefits for the environment, nature and animals. With a wide range of organic products, consumers can make more sustainable choices. It is therefore a serious issue that the EU's rules for organic farming risk making Swedish organic production more costly and complicated. As an example, growing in pots may be banned, which could knock out Swedish greenhouse growing. Axfood believes that a new organic regulation is needed that takes into account Swedish farming conditions.



## 405-1: Diversity in the Board of Directors, management and employees

Gender equality is important for Axfood's development and for meeting various needs in society. For targets and outcome, see p. 32.

For many years the Group has conducted long-term work on creating an inclusive work climate to increase diversity. The ambition is that the employees in the organization will reflect society at large. A good mix of competences and perspectives creates better results for the entire operation.

Examples of measures to increase diversity include writing advertisements for vacant positions in an inclusive manner, conducting recruitment tests in various languages, and the Group's use of religion-neutral "squeeze days" for salaried employees. Owing to its many stores, Axfood can offer job opportunities even to individuals without a perfect command of the Swedish language. During 2018 Axfood started an apprentice programme for newcomers, consisting of a 12-month programme in which work is mixed with training.

Continuous follow-up of gender equality and diversity performance among employees serves as the basis for designing specific actions in the form of initiative and programmes.

For a description of the Board's composition, see p. 53, and for information on the respective board members, see p. 60. The Executive Committee is balanced in terms of gender equality and age. The management teams in all companies have an even gender balance.

### 405-1: Gender equality, %

31 Dec.	Men		Women	
	2018	2017	2018	2017
Board of Directors	50	50	50	50
Executive Committee	70	70	30	30
Management teams all companies incl. Executive Committee and staff management	66	65	34	35
Employees, salaried employees	54	55	46	45
Employees, warehouses	82	83	18	17
Employees, stores	36	35	64	65

### 405-1: Age distribution, %

31 Dec.	-29 yrs		30-49 yrs		≥50 yrs	
	2018	2017	2018	2017	2018	2017
Board of Directors	n.a.	n.a.	38	17	62	83
Executive Committee	n.a.	n.a.	30	n.a.	70	n.a.
Management teams all companies, incl. Group and staff managements	n.a.	n.a.	49	n.a.	51	n.a.
Employees, salaried employees	10	9	61	60	28	31
Employees, warehouses	40	35	42	44	18	21
Employees, stores	48	43	37	40	15	17

### 405-1: Diversity, %

31 Dec.	International background		Swedish background	
	2018	2017	2018	2017
Management teams all companies, incl. Group and staff managements	6	8	94	92
Employees, salaried employees	12	11	88	89
Employees, warehouses	32	30	68	70
Employees, stores	25	23	75	77

It has not been possible to measure international background among Executive Committee members and company managements individually, since the groupings are too small (integrity).

The first step consists of Axfood considering the risk analyses of ingredients in the actual procurement process. The mapping of risks in the supply chain takes into account a number of different dimensions such as climate concerns, water, child labour and union rights. Some one hundred ingredients have been mapped to date, and the information is continuously updated in a database.

In the next step, the supplier must show that they have a systematic approach to adhering to Axfood's Code of Conduct in areas where the risks are greatest. This can be done by sending in social audit reports or showing a credible collective agreement with an approved trade union.

Suppliers must also show transparency and be able to report on their supply chain and demonstrate a reasonable understanding of the environmental and social risks that may exist in their respective supply chains. The sustainability heads compare their answers with the information in the risk analyses and determine on a three-level scale of the supplier's offering can be accepted, accepted with certain conditions, or if the offering must be disqualified from the continued procurement process.

## 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.



### Requirements on suppliers regarding work conditions

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

## 405–2: Pay differences

From a gender equality perspective, but also from a legal perspective, it is important to monitor the development of pay differences between men and women. Every year Axfood maps out salaries within the Group to prevent inequitable differences in pay and benefits between men and women. Salaries and terms of employment are set in accordance with collective agreements. For salaried employees, annual measurements are conducted to ensure that pay levels are correct. During 2018 no inequitable differences were discovered.

## 406–1: Incidents of discrimination and corrective actions taken

During the year, an equal treatment policy was drafted. The goal is to ensure that no employees are discriminated against and that, in perceived cases of discrimination, employees will know whom to turn to for support, investigation and any correction. During the year, no cases of discrimination were investigated by the whistleblower committee.

## 414–1: Supplier screening

Social responsibility is exercised mainly in the process and cultivation stages of food products and in the process and content stages for non-food products. The supplier stage has a large impact on workers' and small farmers' working and living conditions, especially in risk countries<sup>1)</sup> where government control and functioning systems and union are lacking. Moreover, many workers in these countries are not aware of their

rights and thereby have little opportunity to express their voices in a dialogue with their employers. Control of the supply chain with respect to social and environmental effects is exercised in purchasing and in part through social audits performed on-site at suppliers.

Axfood's and the food retail industry's greatest challenge is the often long and complex purchasing chains. Axfood requires its contract suppliers to have knowledge about and to address the various problems that may exist in the various supply chains. The scope is too great for Axfood on its own to be able to exercise control furthest down all parts of the chain. Since the Group's contract suppliers pledge to do this, through this approach Axfood adheres to the UN's guidelines for companies and human rights, which stipulate that companies always have the responsibility to know, minimize, address, remedy and prevent.

Axfood has limited its assessment of social responsibility compliance mainly to its private label products, since the Group has product liability for these products. Among its private label products, the assessment covers risk products and products produced in risk countries. Approximately 400 suppliers contribute all or parts of Axfood's private label products. Approximately 150 of these work in some 30 risk countries. This limitation entails that Axfood assesses all products that are either made in or include content/material from risk countries, or certain identified risk products, such as wild berries from Sweden and Finland and crushed tomatoes from Italy. These risk products are assessed based on an analysis that large numbers of guest workers are used during the growing season, where there are known social risks vis-à-vis our Code of Conduct.

<sup>1)</sup> The definition of risk country used by Axfood is the same as the one used by Amfori BSCI, the organization that Axfood works with for supplier assessment issues.

### 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 Axfood's continuous sustainability assessment work, suppliers' work with social responsibility is always weighed against the risks in the specific supply chains. The logic is that it should be possible to show the most work where the greatest risks exist, which is not necessarily in the closest link in the supply chain. The challenges are that the supply chains are long and not always transparent, which makes it hard to guarantee that the entire supply chain is covered.

Since 2015 a sustainability assessment is performed with focus on social and environmental responsibility in all new procurement of Axfood's private label products associated with elevated risks. Existing suppliers are also subjected to the same sustainability assessment process over time. When a risk origin has been identified, the procurement process is reviewed by a product sustainability officer in the quality department. The sustainability officer has a mandate to disqualify suppliers in new procurement processes if they cannot show they have systematic work routines in place to follow up social responsibility in the supply chain.

In addition to the continuous sustainability assessments in all new procurement, the product sustainability officer conducts annual supplier assessments in which Axfood's existing suppliers are assessed on a three-degree scale from green to red. This assessment is relayed to the affected buyers and purchasing managers, and key performance indicators for shifting Axfood's existing purchases to a majority of "green" suppliers have been formulated.

#### 414-1: Supplier screening

	2018	2017
Percentage of new suppliers that were screened using social criteria (refers to launched products)	17%	22%

## 414-2: Negative social impacts in the supply chain and actions taken

In all risk countries, Axfood performs social audits to determine if any requirements are not being met in accordance with the Code of Conduct. As from 2015, most of the social audits are conducted via Amfori BSCI. During 2018, 95 (77) audits were conducted through Amfori BSCI. The outcome in the table below is based on these audits. One criterium that is assessed in the social audits is if the supplier has the required grievance mechanism coupled to the workplace.

With respect to Axfood's private label products that are composed of more ingredients than one, the audit focuses on the ingredients that have the greatest risk for defects vis-à-vis Axfood's Code of Conduct.

BSCI audits are broken down into five levels on a scale of A to E, where E is unacceptable and A is excellent. In addition, they include a zero tolerance level that is triggered for particularly urgent cases of serious human rights violations such as child labour, forced labour or immediate danger to people's health and safety. This entails that Axfood is immediately called to a meeting with all BSCI buyers by the supplier, where an agreement is reached on a joint action plan that sets any victims as the top priority (for example, child labour or victims of compulsory labour). Axfood is of the opinion that only in exceptional cases and as a last resort is it right to terminate a business relationship due to a violation of the Code of Conduct. The focus is primarily to work together with the supplier to achieve the improvements that are needed to be in compliance with the

Code. What is not accepted is corruption, false oral or written representations, and an unwillingness to make improvements.

Of Axfood's total of 121 suppliers and sub-suppliers that were included in BSCI's audits, the largest group was at the C-level, which means that they have an "acceptable" level. The most common deviations were excessive working hours and various health and safety defects. Axfood works continuously on following up all deviations that are discovered. This is done in dialogue with the suppliers. They are required to submit action plans and explain the root causes of any deviations in order to avoid recurring deviations. During the year Axfood had ten suppliers who were graded at the D-level. They all have action plans, and follow-up audits are performed within 12 months to check that the measures have been carried out.

During the year Axfood sharpened its internal routine for compensation, making it possible to cover any claims for necessary improvements for serious violations in the supply chain.

#### 414-2: Negative social impacts in the supply chain and actions taken

	2018	2017
Number of suppliers assessed for social impacts	95	77
Number of suppliers identified as having negative social impacts	10	9
Negative social impacts identified in the supply chain	10	9
Percentage of suppliers identified as having negative social impacts with which improvements were agreed upon	100%	33%
Percentage of suppliers identified as having significant negative social impacts with which relationships were terminated	0%	22%

Negative social impacts pertain to significant actual and potential negative impacts.

Apart from audits, Axfood also works proactively with a number of initiatives, described below. Several of the initiatives are defined in the sustainability programme.

### IP Arbetsvillkor

In 2015 Axfood, Martin & Servera and Axfoundation took the initiative to create IP Arbetsvillkor, a labour rights standard that ensures safer working conditions for guest workers in the agricultural sector in Sweden. IP Arbetsvillkor is a certification standard within Sigill Kvalitetssystem AB.

By applying IP Arbetsvillkor, Axfood is more secure in its follow-up of the Code of Conduct's requirements for working conditions. Relevant suppliers for this standard are the fruit and vegetable suppliers in Sweden that use foreign guest workers. IP Arbetsvillkor is an important part of the work on focusing on risk sectors as a complement to risk countries. Social risks exist also in other countries, including Sweden.

By 2020, all relevant suppliers shall be approved according to IP Arbetsvillkor.

### Living wage

Axfood stands behind the principle of everyone's right to a wage that is sufficient to support oneself on. The legal minimum wage in many countries is not the same as a wage that covers a family's basic costs, i.e., a living wage. As things stand today, a minimum wage serves more as a ceiling, rather than a minimum level, in most production countries.

One of the overarching goals in Axfood's sustainability programme is to eradicate poverty in Axfood's supply chain for private label products by 2030. This supports the UN's Social Development Goal of no poverty. Axfood's living wage strategy is one step towards achievement of this goal. The strategy describes seven different activities at three levels: fundamental, developed and advanced. As a first step, in 2018 Axfood carried out a prioritization analysis with the assistance of Oxfam, a global organization working to end poverty in more than 190 countries, often with a focus on agriculture and food. Oxfam has also provided training for all quality assurance staff and buyers of private label products.

Axfood is working actively with the right to a living wage since inadequate pay can lead to child labour, extreme overtime, ill-health and accidents. Axfood cannot set or regulate any exact minimum levels for employees or small farmers in the supply chain. But it can take initiatives to influence and drive development among suppliers, such as by advocating for a greater dialogue between workers and employers and enabling wage negotiations. Within Axfood, a review is conducted of purchasing methods and the number of intermediaries. Since Axfood is a relatively small player in a global context, priorities must be made to be able to make a difference and create change where the problems are the worst.

By 2020 at the latest, the living wage strategy will result in Axfood being able to measure and follow up work focusing on living wages. The strategy applies primarily for purchasing of ingredients for Axfood's private label products.

### Supplier training

Axfood has implemented a digital training tool, QuizRR, at suppliers in China, Bangladesh and Thailand. The aim is to train managers as well as employees in labour law issues in an effort to improve workplace conditions. Informing about the right to social dialogue in China is particularly relevant, since free unions are prohibited and employee representatives are typically appointed by company management. The training tool educates employees and management alike through short films in the local language that are complemented with questions for follow-up discussions to assess the level of knowledge at various factories.

The project shows that it is possible to work progressively with social dialogue even at Chinese workplaces. In 2018 Axfood began a course at one supplier that combines instructor-led training with e-learning. The course focuses on social dialogue and aims to install democratically elected employee representatives and establish a functioning social dialogue between employees and employers. The project will be concluded in 2019.

During 2018 seven suppliers and 498 persons in China completed three training modules: Fundamental rights & obligations, Employee participation & social dialogue, and Handling of wages. This corresponds to 72% of the suppliers' employees.

Axfood initiated a similar, modified e-learning course that focuses on ethical recruitment of migrant workers in Thailand's food industry. The initiative was conducted in collaboration with eight food companies in the Nordic region and

Axfood, and was launched in Bangkok in 2018. Five of Axfood's suppliers in Thailand are participating in the project, which is expected to be concluded in June 2019.

### Sustainability certified products

A sustainability certified product is a good and sustainable product. Axfood is working to offer a growing assortment of certified products to create security for the people working in production and improve the environment.

The share of sustainability certified products shall amount to at least 25% by 2025 and 30% by 2030.

Axfood is also working actively to certify its private label products. All crops with a clear coupling to social and environmental challenges are to be sustainability certified. This applies especially for commodities such as coffee, tea, cacao and bananas.

Starting at the end of 2018, coffee, green tea, black tea and chocolate/cacao sold under the Garant, Eldorado and Dazzley private labels will be sourced from Rainforest Alliance, Fairtrade or UTZ certified suppliers. In addition, since 2017 all bananas sold throughout the entire Group are Rainforest Alliance or Fairtrade certified. During 2018 Axfood expanded its Fairtrade certification to three new product categories: coconut oil, raw sugar and confectioners' sugar.

In 2009 Axfood began purchasing certificates for the palm oil used in its private label products that are not certified. Since then, the Group has gradually changed over to certified palm oil. The next step will be to use RSPO-Next. Since 2015 Axfood compensates through certificate offsets for all use of soy, both in food and in animal feed, that is not certified soy. The dominant volume is soy that is used in feed for animals that are subsequently used in food production.

A number of projects to improve social aspects are being conducted among suppliers of private label products. Read more about a few of these at [axfood.se](http://axfood.se):

- Reduced exploitation of guest workers in Thailand
- Improved conditions for rice farmers in Pakistan and Cambodia, in partnership with Oxfam
- Training in labour law issues in China
- Measures to improve conditions for migrant workers in Turkey.

### The Global Deal

During 2018 Axfood joined the Global Deal, since decent working conditions for suppliers' employees is a priority area.

The Global Deal is a global partnership with the objective of encouraging labour market parties and governments to engage in an improved dialogue on decent working conditions. The aim is that well-working relationships in the labour market will contribute to greater equality and economic development that benefit workers, companies and society. More than a hundred governments, companies, labour unions and other organizations have joined the Global Deal. This gives Axfood access to a broad international network in which to address joint challenges.

The Global Deal consists of a declaration with commitments for enabling countries of the world to realize the UN's global Sustainable Development Goals for decent work and economic growth as well as reducing inequality. The projects focusing on social dialogue between the labour market parties

in China and the training being conducted in ethnical recruitment in Thailand are initiatives being conducted within Axfood's participation in the Global Deal. Axfood has also initiated a dialogue with selected labour unions for the purpose of increasing the exchange in particularly challenging purchasing regions.

## 416-1: Customer health and safety

### Quality assurance of private label products

Sweden has far-reaching laws and standards for food safety. To ensure the continuing safety work for private label products, every year Axfood's quality assurance staff conduct an extensive analysis programme in which microbiological and chemical analyses are conducted of products in the assortment, based on the current risks for each individual product. Quality assurance of brand-name products is the responsibility of the respective brand suppliers.

According to Axfood's policy, food suppliers are to be certified according to a standard approved by the Global Food Safety Initiative (GFSI).

For Axfood's household chemical products, cosmetics and skin care products, the suppliers must be certified according to ISO 9001 and GMP. In addition, a safety assessment of the products is performed by an external expert. Axfood's non-food products must be certified according to ISO 9001.

Today Axfood does not have system support to report the percentage of improvement work in accordance with Disclosure 416-1, however, a database for this and similar analyses will be developed.

### Health

Customer surveys show that the impact of food on consumers' health is becoming increasingly important and that large parts of the world are struggling with the problem of obesity. Axfood is working actively to cut back on ingredients that have a large impact on health. Where possible, levels of salt and sugar in private label products are being reduced if this can be done so without compromising on flavour.

The "Green keyhole" is a well-recognized label for sound food and certifies adherence to rules for salt, sugar, dietary fibre, whole grain and fat. When a product has values that are close to the limits for allowing it to be Keyhole-labelled, the product is modified to make it meet the criteria. Axfood continuously reviews its assortment based on the health aspect and looks at sugar content in particular when launching new products. At year-end Axfood had 880 products certified with the Green keyhole label.

A few examples of products in which the sugar or salt content have been reduced:

- Garant flavoured crushed tomatoes (Keyhole-labelled)
- Garant organic taco and fajita spice (100% salt-free)
- Garant taco sauce and salsa (100% sugar-free)
- Garant organic spice mixes for tacos and fajitas (100% sugar-free)
- Garant dehydrated blueberries and cranberries (sugar substituted with juice)
- Premier soda pop (30% lower sugar, corresponding to 150 tonnes of sugar per year).

Axfood's basic rule is to not use unnecessary additives. For example, chemical azo dyes are not used. Any additives used fulfil important functions and have been assessed as being unhazardous.

## 417-1: Product specifications

The quality assurance department assesses all private label products and checks them against their respective product specifications. Information on products' ingredients and composition is examined both in reference to internal policies and applicable laws. Only products that meet the criteria – both internal and external – may be sold by the Axfood Group. Among other things, requirements are set to ensure that products do not include azo dyes or added trans-fats. Through these assessments, assurance is made of the product content and food safety, ensuring that the products sold in stores are safe for consumption

### Quality standards

Type of product	Supplier requirement <sup>1)</sup>
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

<sup>1)</sup> Suppliers that have not completed certification can request dispensation if they can present a credible timetable for certification.

### Quality assurance of private label products

	2018	2017	2016
Private label product recalls from stores	32	29	24
Other product recalls from stores	78	107	76
Share of private label product suppliers approved according to GFSI, %	99	99	99

### Key data per store chain

	Hemköp		Willys		Willys Hemma		Mat.se		Eurocash	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Number of organic products	1,489	1,424	988	999	759	737	2,058	1,700	810	1,066
Organic products as % of total food sales	9.3	9.5	5.8	5.9	7.3	7.6	16.2	16.6	2.3	2.4
Number of Fairtrade Certified products	168	140	102	94	77	82	168	124	95	120
Fairtrade Certified products as % of total food sales	0.74	0.81	0.87	0.90	1.18	1.31	0.97	0.84	0.34	0.36
KRAV certified meat, % of total meat sales	9.0	8.9	2.4	2.9	4.7	5.3	n.a.	n.a.	0.6	0.6
Number of hypoallergenic products	966	943	798	779	589	527	n.a.	n.a.	655	892

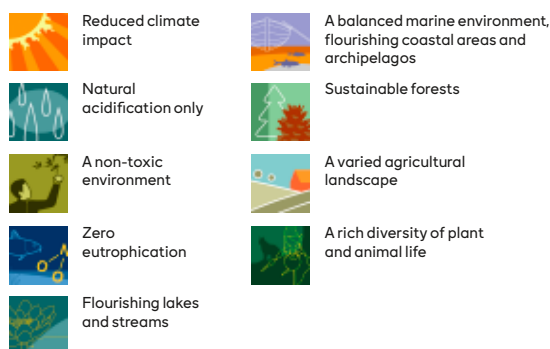


# Sustainability programme

## – Goals and outcome

Axfood's sustainability programme encompasses 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

Goals	Coupling to Sweden's Environmental Objectives	Coupling to the UN's Sustainable Development Goals	Results and comments 2018	Status
<b>Sustainable products.</b> Axfood shall facilitate shopping for conscious customers through an environmentally adapted assortment of sustainability certified products, practical solutions and good consumer information. Animal care shall be ensured in all steps of production of animal products.				
By 2020 at the latest, Axfood's store chains will sell only green-listed seafood products.			The volume of green-listed fish and shellfish is growing steadily through an action plan with many activities.	●
Axfood's store chains will work actively to highlight good sustainability choices.			Campaigns such as "Vary with veg" (Hemköp) and "Veg for everyone" (Willys) have been carried out.	●
Axfood Snabbgross will develop a communication plan focusing on sustainability for customers and employees alike.			New target adopted in November 2018.	●
Customers will gradually be provided with better information about which fruit and vegetable products have been transported by air, mainly by improving packaging information.			New target adopted in November 2018.	●
Willys and Axfood Snabbgross will strive for changes in the assortment by conducting a review of the number of fruit and vegetable products that are transported by air.			New target adopted in November 2018.	●
Axfood will increase sales of frozen products.			Sales doubled in 2018 as a result of campaigns and new products.	●
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 than contain vegetable ingredients.			An action programme featuring many activities is being devised.	●
By 2020 at the latest, Axfood's private label products will include information about the main ingredients' country of origin in all categories with certain exceptions, such as composites without a clear primary ingredient.			To date, roughly a third of products have information about the main ingredients' country of origin.	●

● Achieved ● In progress ● Target not achieved

Goals	Coupling to Sweden's Environmental Objectives	Coupling to the UN's Sustainable Development Goals	Results and comments 2018	Status
Axfood's suppliers of fruits and vegetables will live up to Axfood's list of banned, hazardous pesticides, and Axfood will strive to make the list of banned substances an industry standard by 2020 at the latest.			The goal to establish an industry standard was adopted in November 2018.	●
Dagab will avoid SIN-listed chemicals in products and packaging (e.g., Bisphenol A). The goal shall be achieved by 2022.			Packaging and non-food products are being successively reviewed.	●
Since 2009 all palm oil included in private label products has been compensated for via certificates. This offsetting will gradually be changed over to the use of certified palm oil. All palm oil used in the Garant, Eldorado and Fixa private labels is today certified. By 2020 the goal is to buy certified palm oil affiliated with RSOP-Next.	 		A total of 158 tonnes of palm oil are used in Axfood's private label products.	●
Suppliers of products will use certified palm oil by 2020 at the latest or, alternatively, compensate 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. Garant products preferably according to Fairtrade, Fairtrade's ingredient programme, or Rainforest Alliance; Eldorado and Dazzley through Fairtrade's ingredient programme or UTZ/Rainforest Alliance.				●
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.			Nuts, confectioners' sugar and coconut oil.	●
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). By 2022 packaging for private label products will be recyclable.	 	 	The target that packaging for private label products will be recyclable was adopted in November 2018.	●
By 2030, plastic packaging for Axfood's private label products will be made of renewable or recycled content.			In cooperation with the Swedish Food Retailers Federation, Axfood started the "Toward fossil-free" programme focusing on 100% recyclable plastic packaging by 2030 within the framework of "Fossil-free Sweden".	●
Axfood's store chains will reduce sales of plastic shopping bags by 20% by 2022 and by 50% by 2025 (base year 2016).			New target adopted in November 2018. To date, sales have decreased by approximately 6%.	●
Initiation begun of a project to be able to offer digital receipts in Axfood's stores (cashier receipts, bottle and can deposits, self-checkout)	 	 	New target adopted in November 2018. Hemköp and Willys offer digital cashier receipts.	●
Axfood's companies will reduce the share of combustible residual products in relation to sales.				●
Willys will continue to offer the cheapest bag of organic groceries.	  			●
Axfood will increase its share of organic food sales to 10% by 2020.	  	 	Sales of organic foods today account for approximately 6.7% of total.	●
Hemköp will increase its share of organic food sales to 15% by 2020.	  	 	Sales of organic foods today account for approximately 10% of total.	●
Hemköp's retailer-owned stores will adhere to sustainability decisions like the Group-owned stores.	  			●
Tempo will increase its share of organic food sales to 6% by 2020.	  	 	Sales of organic foods today account for approximately 5% of total.	●
Axfood Snabbgross will increase its sales of Swedish meat by 25% by 2020 (base year 2018).		 	New target adopted in November 2018. The share of Swedish meat sold is increasing steadily.	●
The share of sustainability certified products (sum of certifications that improve the environment and/or social sustainability) will amount to at least 25% by 2025 at the latest and 30% by 2030.	  		New target adopted in November 2018.	●
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 will include information on the country of origin of meat ingredients.				●
By 2025 at the latest, all suppliers of private label meat and meat products will meet the requirement for animal welfare certification or equivalent. 90% will meet this requirement by 2020 at the latest.			Approximately 85% of suppliers meet this requirement.	●

● Achieved ● In progress ● Target not achieved

Goals	Coupling to Sweden's Environmental Objectives	Coupling to the UN's Sustainable Development Goals	Results and comments 2018	Status
Meat from pigs that are castrated without anaesthetics will be discontinued from Axfood's private label products by 2019.				●
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.				●
Hemköp's sales of organic meat will amount to 15% of total meat sales by 2020.			The share is currently approximately 9%.	●
<b>Transports.</b> Axfood shall reduce its carbon footprint and strive for efficient use of resources in its own operations with respect to handling of products, transports, energy and use of premises.				
Dagab's vehicle fleet will be differentiated step-by-step to include more environment-friendly solutions such as electricity, electric hybrids, biogas, ED95 and other sustainably produced biofuels. By 2025 at the latest, no vehicle type will make up more than half of the fleet.			New target adopted in November 2018. Investments were made during the year in vehicles powered by biogas, RME biodiesel and ED95.	●
Drafting of a plan to change over to gas, electricity or electric hybrid operation for e-commerce, to take effect in 2020.			New target adopted in November 2018.	●
Dagab will begin measuring CO <sub>2</sub> emissions also from subcontracted transports from warehouses to stores.			Emissions from approximately 90% of external transports were reported in 2018.	●
By 2022 at the latest, Dagab will conduct carbon footprint reporting also for transports in to Dagab's warehouses.				●
Dagab will reduce CO <sub>2</sub> emissions from its delivery fleet by 20% by 2020 (base year 2015).			Axfood avoids using biodiesel fuel containing palm oil derivatives and has therefore temporarily increased its use of standard diesel fuel (p. 27).	●
The Axfood Group will reduce the number of business trips by air by 15% by 2018 at the latest (base year 2015).			No change in 2018.	●
Devise a strategy by 2020 to choose more environmentally adapted air travel (e.g., low-flying aircraft) when the alternative is available.			New target adopted in November 2018.	●
All new company cars and service cars will be changed over from being environmental cars according to the old definition to being so-called bonus cars by 2020.			New target adopted in November 2018.	●
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			The use of these alternatives increased by 27% in terms of the number of hours compared with the base year.	●
<b>Climate and energy.</b> Axfood shall reduce its carbon footprint and strive for efficient use of resources in its own operations with respect to handling of products, transports, energy and use of premises.				
The Axfood Group will reduce the carbon footprint from its own operations by 75% by 2020 and be climate-neutral.				●
By 2025 the Axfood Group will invest in solar panels on 25% of the rooftops that have been shown to be suitable in the Group's mapping.			New target adopted in November 2018.	●
The Axfood Group will reduce its electricity consumption by 15% per square metre by the end of 2020 (base year 2015).			To date, electricity consumption has decreased by approximately 3%.	●
For investments in store refrigeration systems, climate-friendly refrigerants will be used.				●
By 2020 at the latest, Dagab will reduce its electricity consumption in relation to sales by 15% (base year 2015).			Electricity consumption in 2018 was at the same level as the base year. The hot summer and high level of use made an impact in 2018.	●
The Axfood Group will use ecolabelled office machines (computers, printers and copying machines) when such alternatives exist.				●
When newly establishing stores and warehouses, sustainability performance with respect to energy and choice of materials shall maintain a high commercially available standard. The goal is to cut electricity use per square metre in stores by half compared with the industry average.			New target adopted in November 2018.	●
Food waste from Hemköp, Willys, Axfood Snabbgross and Dagab will be halved by 2025 at the latest (base year 2015).			New target adopted in 2018. Food waste shall not exceed 0.9% of food sales by 2025 at the latest. Food waste was 1.5% at year-end 2018.	●



● Achieved ● In progress ● Target not achieved

Goals	Coupling to Sweden's Environmental Objectives	Coupling to the UN's Sustainable Development Goals	Results and comments 2018	Status
Axfood Snabbgross will devise an action plan to reduce food waste, with special focus on restaurant customers.			New target adopted in November 2018.	●
Reduce the number of local servers in stores by 50% by 2021.			New target adopted in November 2018.	●
New IT products and office machines will have 15% higher energy efficiency than the ones they replace.			New target adopted in November 2018.	●
Axfood IT will use systematic tools to ensure a sustainable supply chain for selected, existing suppliers of services, hardware and software.			New target adopted in November 2018.	●
By 2020, all suppliers of private label products shall report on climate measures yearly.				●
<b>Responsible suppliers. Axfood shall advocate for human rights, workers' conditions and environmental protections among suppliers and business partners.</b>				
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 production and farming earn above 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 ingredients for Axfood's private label products.			Analysis performed and ingredients identified.	●
By 2019 at the latest, Dagab will identify purchasing markets for private label products with an elevated corruption risk and address this with a specific programme.				●
For all purchasing of private label products in risk countries/risk categories, the screening process for suppliers shall include sustainability aspects.			Routine for sustainability introduced.	●
By 2020 at the latest, all relevant suppliers of private label products and their sub-contractors will be included in an accredited social follow-up system (BSCI, SA8000, 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.		 	Projects have been completed to date in Cambodia and Pakistan.	●
By 2020 at the latest, Axfood will have methods for evaluating how suppliers in regions with water shortages are reducing their water footprint.				●
By 2022 at the latest, Axfood will have integrated elevated sustainability criteria for e.g., water and for the chemical and carbon footprint of products in the procurement process.				●
By 2020 all relevant suppliers (growers and guest workers) of fruits and vegetables will be certified according to IP Sigill working conditions.				●
<b>Employees. Axfood shall be a good employer that promotes commitment and diversity.</b>				
By 2020 at the latest, 20% of Axfood's senior executives will come from an international background.			At year-end 2018, 13% had an international background.	●
A minimum of 75% of Axfood's managers will be recruited internally, and a minimum of 10% will be recruited externally.			46% were recruited internally and 54% externally.	●
Have a high work attendance rate of at least 95%.			At year-end 2018 the work attendance rate was 94,4%.	●
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.			31% women, 69% men.	●
All employees will have completed basic environmental training.			During 2018, 64% of all new employees attended environmental training.	●
By 2020, all of the Group's managers will have completed training in organizational and social work environment.			New target adopted in November 2018.	●
All pertinent employees will have completed an activity coupled to Axfood's ethical guidelines, with focus on corruption.				●
System support shall be developed, which with the help of data and self-service, will enable staffing that meets the customers', store's and employees' needs.			New target adopted in November 2018.	●

# 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.

**102-XX** = \*Indicator marked in red is included in Nasdaq Stockholm's sustainability guide.

## Standard Disclosures

GRI Standards	Disclosure	Content	Page reference	Comment/Omission
GRI 102: General disclosures 2016	102-1	Name of the organization	70	
	102-2	Activities, brands, products and services	2-3	
	102-3	Location of headquarters	70	
	102-4	Location of operations	2-3, 70, 141	
	102-5	Ownership and legal form	70, 72-73	
	102-6	Markets served	2-3	
	102-7	Scale of organization, including number of employees, operations, sales, capital	2-3, 70-71, 100, 140-142	
	102-8	Information on employees and other workers	140-141	
	102-9	Sustainability in supply chain	12, 18-19, 34-35, 66, 74-75, 123-124, 132, 138-140, 144-147	
	102-10	Significant changes to the organization's size, structure, ownership, supply chain during the reporting period	129-130	
	102-11	Precautionary principle or approach	123	
	102-12	External sustainability principles and initiatives that the organization supports	124, 127, 129-130, 149-155	
	102-13	Membership of associations	18, 21, 127, 130, 147	
	102-14	Statement from CEO	6-7	
	102-16	The organization's values and ethical guidelines	123-124	
	102-18	Governance structure	48-49, 123-125	
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	102-49	Changes in reporting	130	

## Standard Disclosures

GRI Standards	Disclosure	Content	Page reference	Comment/Omission
	102-50	Reporting period	129	
	102-51	Date of most recent report	129	
	102-52	Reporting cycle	129	
	102-53	Contact point for questions regarding report		asa.domeijj@axfood.se
	102-54	Claims of reporting in accordance with the GRI Standards	129	
	102-55	GRI content index	153–155	
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<b>Sustainability governance</b>				
Sustainability governance	103-1	Explanation of the material topic and its boundary	123–125, 131–148	
	103-2	Sustainability governance and its components	123–125, 131–148	
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102-XX = \*Indicator marked in red is included in Nasdaq Stockholm's sustainability guide.

## Specific standard disclosures

GRI Standards	Disclosure	Content	Page reference	Comment/Omission
<b>Economy</b>				
<b>Economic performance</b>				
GRI 201: Economic performance 2016	201-1	Direct economic value generated and distributed	34–35, 131	
	201-3	Scope of the organization's defined benefit obligations	111	
<b>Corruption</b>				
GRI 205: Anti-corruption 2016	205-2	Training in anti-corruption	131	
	205-3	Confirmed incidents of corruption	132	
<b>Material</b>				
GRI 301: Materials 2016	301-2	Use of materials	132–133	
<b>Energy</b>				
GRI 302: Energy 2016	302-1	Energy consumption within the organization	133–135	
	302-3	Energy intensity	135–136	
<b>Emissions</b>				
GRI 305: Emissions 2016	305-1	Direct GHG emissions	136	
	305-2	Energy indirect GHG emissions	136	
	305-3	Other relevant indirect GHG emissions	136–137	
<b>Effluents and waste</b>				
GRI 306: Effluents and waste	306-2	Waste by type and disposal method	137–138	
<b>Supplier environmental assessment</b>				
GRI 308: Supplier environmental assessment	308-1	New suppliers screened	138	
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GRI Standards	Disclosure	Content	Page reference	Comment/Omission
<b>Social standards</b>				
<b>Employment</b>				
GRI 401: Employment 2016	401-1	New employee hires and employee turnover	141-142	
	401-2	Benefits provided to full-time employees	142	
<b>Occupational health and safety</b>				
GRI 403: Occupational health and safety 2016	403-2	Injuries, occupational illnesses, lost working days, absenteeism and total number of work-related deaths	142	
<b>Diversity and equal opportunity</b>				
GRI 405: Diversity and equal opportunity 2016	405-1	Diversity of governance bodies and employees	142, 144	
	405-2	Differences in pay between men and women in % per employment category	144	
<b>Non-discrimination</b>				
GRI 406: Non-discrimination 2016	406-1	Incidents of discrimination and corrective actions taken	144	
<b>Supplier social assessment</b>				
GRI 414: Supplier social assessment 2016	414-1	Screening of suppliers	145	
	414-2	Negative social impacts in the supply chain and actions taken	146	
<b>Customer health and safety</b>				
GRI 416: Customer health and safety 2016	416-1	Customer health and safety	147-148	
<b>Product specifications</b>				
GRI 417: Marketing and labelling 2016	417-1	Requirements for product and service information and labelling	148	

# Sustainability report index – Annual Accounts Act

The following shows where the requirements for sustainability information pursuant to the Annual Accounts Act is reported in this Annual and Sustainability Report.

## Requirements in the Annual Accounts Act on the statutory sustainability report

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General	Business model	34–36
Environment	Policy and environmental issues Risks and their management in regarding environmental issues Goals and results related to environmental issues	123–125 67 132–140, 149–152
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Prevention of corruption	Policy for work with anti-corruption Risks and their management regarding anti-corruption Goals and results related to anti-corruption	123–125 131–132 131–132

## Auditor's statement 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 2018 as defined by the Board of Directors on page 71 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, 20 February 2019

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.

# Definitions and glossary

## Financial key ratio definitions

**Capital employed:** Total assets less noninterest-bearing liabilities and noninterest-bearing provisions. Average capital employed is calculated as capital employed at the start of the year plus capital employed at the end of the year, divided by two.

**Cash flow from operating activities per share:** Cash flow from operating activities for the year divided by the weighted average number of shares outstanding before dilution.

**Cash flow per share:** Cash flow for the year divided by the weighted average number of shares outstanding before dilution.

**Debt-equity ratio:** Interest-bearing liabilities divided by shareholders' equity including non-controlling interests.

**Dividend per cent:** Total dividend divided by profit for the year attributable to owners of the parent.

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

**Earnings per share:** Net profit for the year attributable to owners of the parent divided by a weighted average number of shares outstanding before dilution.

**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 year.

**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.

**Net debt (+)/Net receivable (-):** Interest-bearing liabilities less cash and cash equivalents and interest-bearing receivables.

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

**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 start of the year plus shareholders' equity at the end of the 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 online 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					
	2018	2017	% <sup>1)</sup>	2018	2017	% <sup>1)</sup>
Net sales, Willys	27,066	25,415	6.5	–	–	–
Of which, sales for Group-owned stores <sup>2)</sup>	27,066	25,415	6.5	26,420	25,334	4.3
Net sales, Hemköp	6,403	6,199	3.3	–	–	–
Of which, sales for Group-owned stores <sup>2)</sup>	6,268	6,071	3.2	5,934	5,871	1.1
Store sales, Hemköp franchise stores	7,423	7,220	2.8	7,323	7,054	3.8
Store sales, Hemköp Group-owned and franchise stores	13,691	13,291	3.0	13,257	12,925	2.6
<b>Retail sales, Group-owned stores<sup>2)</sup></b>	<b>33,334</b>	<b>31,486</b>	<b>5.9</b>	<b>32,354</b>	<b>31,205</b>	<b>3.7</b>
<b>Store sales, Axfood Group</b>	<b>40,757</b>	<b>38,706</b>	<b>5.3</b>	<b>39,677</b>	<b>38,259</b>	<b>3.7</b>
Axfood Snabbgross	3,241	2,984	8.6	3,185	2,960	7.6

<sup>1)</sup> Percentage change compared with corresponding period a year ago.

<sup>2)</sup> Summation of sales for Group-owned stores.

# Ten-year overview

SEK m	2018	2017	2016	2015	2014	2013	2012 <sup>1)</sup>	2011	2010	2009
<b>Result of operations</b>										
Net sales	48,085	45,968	43,355	41,247	38,484	37,522	36,306	34,795	34,260	32,378
Operating profit	2,025	1,886	1,902	1,760	1,447	1,302	1,200	1,250	1,209	1,128
Profit after financial items	2,016	1,881	1,894	1,749	1,430	1,278	1,162	1,214	1,172	1,082
Tax	-439	-414	-421	-388	-326	-285	-260	-323	-310	-289
<b>Net profit for the year</b>	<b>1,577</b>	<b>1,467</b>	<b>1,473</b>	<b>1,361</b>	<b>1,104</b>	<b>993</b>	<b>902</b>	<b>891</b>	<b>862</b>	<b>793</b>
<b>Financial position</b>										
Intangible assets	3,449	3,388	2,478	2,528	2,536	2,645	2,642	2,461	2,301	2,143
Property, plant and equipment	2,202	2,032	1,799	1,930	1,894	1,916	1,820	1,801	1,588	1,476
Financial and other non-current assets	168	215	199	155	134	96	83	79	74	68
Inventories and other current assets	4,750	4,458	4,337	3,991	4,019	3,815	3,754	3,620	3,386	3,170
Cash and cash equivalents, and assets held for sale	1,675	1,376	1,726	1,933	1,109	457	521	317	315	316
<b>Assets</b>	<b>12,244</b>	<b>11,469</b>	<b>10,539</b>	<b>10,537</b>	<b>9,692</b>	<b>8,929</b>	<b>8,820</b>	<b>8,278</b>	<b>7,664</b>	<b>7,173</b>
Shareholders' equity	4,304	4,266	4,117	4,530	4,029	3,768	3,398	3,237	2,972	2,635
Non-controlling interests	224	212	1	1	36	34	28	-	0	0
Interest-bearing liabilities and provisions	524	528	498	504	585	535	861	1,042	840	848
Other liabilities	7,192	6,463	5,923	5,502	5,042	4,592	4,533	3,999	3,852	3,690
<b>Shareholders' equity and liabilities</b>	<b>12,244</b>	<b>11,469</b>	<b>10,539</b>	<b>10,537</b>	<b>9,692</b>	<b>8,929</b>	<b>8,820</b>	<b>8,278</b>	<b>7,664</b>	<b>7,173</b>
<b>Cash flow</b>										
Cash flow from operating activities	2,702	2,534	2,241	2,495	2,029	1,596	1,915	1,384	1,365	1,558
Cash flow from investing activities	-992	-1,500	-559	-751	-582	-718	-816	-941	-831	-580
Cash flow from financing activities	-1,515	-1,384	-1,889	-920	-795	-942	-895	-441	-535	-974
<b>Cash flow for the year</b>	<b>195</b>	<b>-350</b>	<b>-207</b>	<b>824</b>	<b>652</b>	<b>-64</b>	<b>204</b>	<b>2</b>	<b>-1</b>	<b>4</b>

SEK m	2018	2017	2016	2015	2014	2013	2012 <sup>1)</sup>	2011	2010	2009
<b>Key ratios</b>										
Operating margin, %	4.2	4.1	4.4	4.3	3.8	3.5	3.3	3.6	3.5	3.5
Margin after financial items, %	4.2	4.1	4.4	4.2	3.7	3.4	3.2	3.5	3.4	3.3
Equity ratio, %	37.0	39.0	39.1	43.0	41.9	42.6	38.8	39.1	38.8	36.7
Net debt (+)/net receivable (-)	-1,047	-871	-1,249	-1,449	-524	78	340	725	525	532
Net debt-equity ratio (+)/net receivable-equity ratio (-), multiple	-0.2	-0.2	-0.3	-0.3	-0.1	0.0	0.1	0.2	0.2	0.2
Debt-equity ratio, multiple	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.3
Capital employed	5,052	5,006	4,616	5,035	4,650	4,337	4,288	4,279	3,812	3,483
Return on capital employed, %	40.4	39.4	39.5	36.5	32.4	30.3	28.2	31.0	33.2	31.8
Return on shareholders' equity, %	36.2	34.9	34.1	31.8	28.1	27.5	27.2	28.7	30.7	32.4
Interest coverage, multiple	145.0	145.7	146.7	103.9	60.6	43.6	26.8	29.9	31.1	22.2
Capital expenditures	1,021	1,934	580	764	643	806	932	993	862	633
Depreciation/amortization	760	744	719	696	693	667	632	588	555	526
Earnings per share before dilution, SEK <sup>2)</sup>	7.41	6.98	7.02	6.48	5.22	4.70	4.30	4.25	4.10	3.78
Earnings per share after dilution, SEK <sup>2)</sup>	7.40	6.98	7.02	6.48	5.22	4.70	4.30	4.25	4.10	3.78
Shareholders' equity per share, SEK <sup>2)</sup>	20.54	20.35	19.62	21.58	19.20	17.96	16.19	15.42	14.16	12.56
Cash flow per share, SEK <sup>2)</sup>	0.93	-1.67	-0.99	3.93	3.11	-0.30	0.97	0.01	0.00	0.02
Cash flow from operating activities per share <sup>2)</sup>	12.89	12.08	10.68	11.89	9.67	7.60	9.12	6.59	6.50	7.42
Number of shares outstanding	209,494,712	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
Average number of employees during the year	10,215	9,903	9,211	8,803	8,481	8,285	8,021	7,062	6,895	6,816
Ordinary dividend, SEK/share <sup>2)</sup>	7.00 <sup>3)</sup>	7.00	6.00	5.00	4.25	3.75	3.00	3.00	3.00	2.50
Extra dividend, SEK/share	-	-	-	4.00	-	-	-	-	-	-

<sup>1)</sup> On account of new accounting policies as from 1 January 2013 regarding pension costs (IAS 19), the comparison figures for 2012 have been adjusted.

<sup>2)</sup> 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.

<sup>3)</sup> Proposed by the Board of Directors.

# Annual General Meeting 2019

The Annual General Meeting (AGM) of Axfood AB (publ) will be held at 5 p.m. (CET) on Thursday, 21 March 2019, at Konserthuset (Stora Salen – main entrance), Hötorget, 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 Friday, 15 March 2019, 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](http://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 Friday, 15 March 2019, and notify the Company of their intention to participate at the AGM by Friday, 15 March 2019 at the latest.

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 Friday, 15 March 2019.

## Recommendation for decision at the 2018 AGM

The Board of Directors proposes an ordinary dividend of SEK 7.00 per share (7.00) for 2018, corresponding to a total dividend of SEK 1,466 m (1,468).

## Notice of Annual General Meeting

Notice of the Annual General Meeting is made 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 – 2019 AGM

- 15 March Record date for 2019 AGM
- 15 March Last day to notify to attend the 2019 AGM
- 21 March Final day of trading in Axfood shares including the right to the dividend
- 21 March 4 p.m., doors open to AGM
- 21 March 5 p.m., 2019 AGM is called to order
- 25 March Record date for payment of dividends
- 28 March Payment date for dividends





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Printed copies of this annual report are distributed only to shareholders upon request, approximately one week before the Annual General Meeting.

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