

A man and a woman are in a kitchen, both wearing aprons and focused on their task. The woman, on the left, is smiling and holding a small object. The man, on the right, is holding a brown egg. In the foreground, there is a metal bowl with a whisk, a glass jar filled with grains, and a tray of brown eggs. The background shows a brick wall and a window.

**Affordable, good
and sustainable
food for everyone**

Axfood





Axfood 20 years

A force for change in society celebrates 20 years in 2020

Axfood was established on 11 May 2000,
but its journey began long earlier.

"The journey towards Axfood's founding began with my family at its largest, gathered around the dinner table, with the children and their friends always nearby. I had taken over responsibility for the old family company a few years earlier, and it was during this time that my husband Göran and I charted out a course for the future with the acquisition of a major trading company. The year was 1988, when Hemköp, Dagab, SABA Trading and several other companies joined the Axel Johnson Group. That was when it dawned on me how clear my mission for the future would take shape as the head of a family business. It was a new view of enterprise – to define a company as the greatest force for change in society, with the opportunity to make a tangible impact on people's daily lives."

Antonia Ax:son Johnson, founder of Axfood.
Read more at axfood.se/20ar

About the Annual Report

Pages 38–80 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. Axfood presents a sustainability report prepared in accordance with the GRI Standards, Core option, and a sustainability report in accordance with the Swedish Annual Accounts Act. Starting in 2019, leasing is reported in accordance with a new standard, IFRS 16. Comparison figures have not been restated.

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

Business review

Axfood at a glance	2
CEO's message	4
Trends and market	8
Targets and outcomes	12
Investment case	14
Strategy	16
Framework	16
Customer offering	18
Customer meeting	21
Expansion	24
Supply chain	26
Work approach	30
Our people	32
Risks and risk management	34

Financial statements

Administration report	38
Willys	40
Hemköp	41
Axfood Snabbgross	42
Dagab	43
Financial statements, Group	44
Financial statements, Parent Company	50
Notes	53
Auditor's report	81

Sustainability

Sustainability report index	
– Annual Accounts Act	83
Overview	84
A sampling – how we made a difference in 2019	86
Stakeholder and materiality analysis	89
Supply chain	92
GRI 200: Economic impact	94
GRI 300: Environmental impact	96
GRI 400: Social impact	103
Sustainability programme	110
Governing documents and principles	114
About the report	116
GRI Index	116
Auditor's statement	119

Corporate governance

Chairman's message	121
Governing bodies, rules and regulations	122
The Board's report on internal control	128
The auditor's examination of the Corporate Governance report	131
Board of Directors	132
Executive Committee	134
Definitions	136
Ten-year overview	137
Share data	138
Annual General Meeting	140

Axfood at a glance

Axfood is a leading food retail group in Sweden and a family of distinctive food concepts working in collaboration.

Together with our companies we create a better day where everyone can enjoy affordable, good and sustainable food. Our house of brands includes the Willys and Hemköp grocery store chains as well as Tempo and Handlar'n. B2B sales are conducted through Axfood Snabbgross, and our support company Dagab is responsible for the Group's product development, purchasing and logistics. The Axfood house of brands also includes Mat.se, Middagsfrid and Urban Deli, and partly owned Apohem and Eurocash.

In all the Group has more than 10,000 employees (FTEs) and sales of over SEK 50 bn. Axfood's shares have been listed on Nasdaq Stockholm since 1997, and the principal owner is the Axel Johnson Group.

>10,000
committed employees

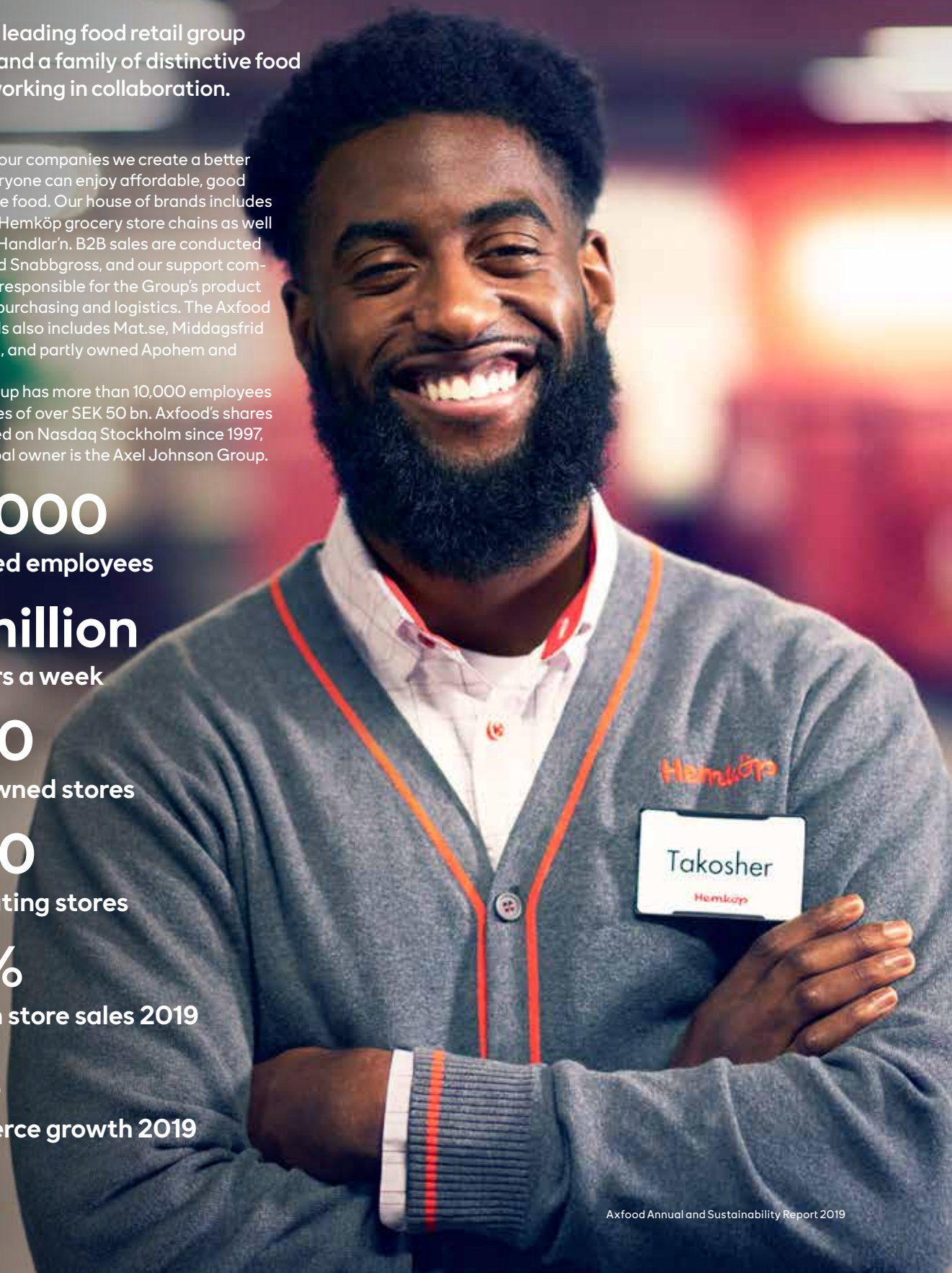
>4 million
customers a week

~300
Group-owned stores

~900
collaborating stores

6.0%
growth in store sales 2019

35%
e-commerce growth 2019



Distinct processes from selection to the customer's shopping cart

Our business model is built upon three processes. Every detail is important, from initial supplier contact to when a product ends up in the customer's shopping cart. At every step, value is created for us and our stakeholders.

The assortment is the foundation

Choice of suppliers, price negotiations and purchasing

Axfood strives for long-term relationships with suppliers committed to sustainability, innovation and affordable products. Our purchasing is done through Dagab, which is the Axfood family's joint assortment and purchasing function.

Logistics are everything

Striving for optimal product flows

Logistics are about optimizing the product flow – from reception of goods to warehousing and order picking, to delivery to stores and customers. Efficient logistics set the stage for profitable growth, energy efficiency and sustainable transports.

Easy choices and passion for food

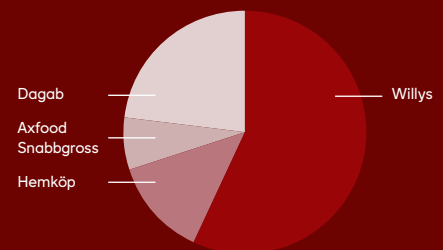
Simplify for customers regardless of channel

Axfood meets its customers where they want – in physical stores or online. Key aspects of an enjoyable customer interaction include inspiring stores, a rich offering of fresh products and functional digital solutions. Having a sustainable business requires active work on minimizing food waste and on inspiring and making it easy for our customers to buy good products.

Net sales

50,740 SEK m

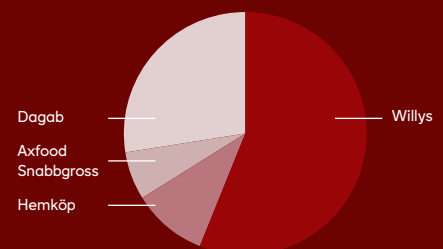
Breakdown



Operating profit

2,288 SEK m

Breakdown



WILLY:S

Hemköp

axfood Snabbgross

dagab

eurocash

mat.se

tempo

MIDDAGS FRID

HANDLARN

UP URBAN DELI

apohem

We are growing with profitability and investing for the future

We are taking market shares in stores and online

Willys continued to impress in 2019, making a strong contribution to our 6.0% growth in store sales in a market that grew by 3.1%. Our e-commerce business grew by 35%, compared with 22% for the market.

Strong earnings once again, and we are investing for the future

We had a successful year, with an improved operating profit and stable profitability, at the same time that we are investing for the future in all parts of operations.

Construction start in Bålsta

During the year we put all agreements in place for the construction of our highly automated logistics centre in Bålsta. Witron is delivering the automation, NREP is building the facility, and a new Transportation Management System from Descartes will be introduced already in 2020.

In the driver's seat for good, affordable and sustainable food

Our activity in sustainability continues to increase. The year involved everything from promoting decent living wages for growers in Asia to Mat.se being the first to carbon footprint 3,000 food products. We have begun reducing our use of plastics, and our food waste continues to decrease.

New family members with inspiration

Urban Deli is contributing to an ever-greater extent to the entire Group's offering of healthy and sustainable food. With attractive prices, Eurocash has hit the mark in the growing Swedish–Norwegian cross-border shopping segment, and Apohem has exciting plans for 2020.

We make a difference for many

Our employees' commitment is the reason why more and more people can eat good food and choose sustainable alternatives. We nurture this commitment every day.



Klas Balkow,
President and CEO

"In a time when preferences are changing at an ever-faster pace, we are holding fast to our mission and purpose to offer good and sustainable food for everyone and take our responsibility across the entire value chain."

Klas Balkow, President and CEO

We are in a time of change, and for me it has never been more rewarding to be a leader and to be able to lead a business that affects so many. We have great opportunities to influence in a positive direction, but we also face challenges. Our customers' consumption patterns are changing constantly, which means we must be increasingly innovative to meet current and future trends. We are therefore relentlessly refining our offering and developing the way we meet our customers online, in stores and for home deliveries.

Digitalization on its own is not a new driving force, but it requires new thinking to create attractive and innovative ways of interacting with our existing and new customers. Moreover, our commitment to work together as a positive force for change with care for the environment, animal welfare and other, urgent sustainability issues has never been greater. All this together requires an ability to swiftly adapt and employ new solutions. For us as at the vanguard in this respect, it also creates opportunities to continue growing sustainably over time.

Consistently strong performance and competitive concepts

In summing up 2019 I can proudly say that we have yet another very strong year behind us, with good sales growth and an improved operating profit. Our store sales grew by 6.0% in a food retail market that grew by 3.1%. Our e-commerce growth was a full 35%, compared with 22% for the market. We have all been able to watch Willys' outstanding growth, but it is important to point out that all our brands are contributing to our continued success at strengthening our position in the market. The positive trend in store sales indicates that both our concepts and our brands are meeting our customers' needs and expectations. I also want to commend Axfood Snabbgross, which delivered strong growth and significantly improved earnings. We thereby continue to translate our insights into experienced customer value and are continuously receiving confirmation that our store modernizations and adoption of a more data-driven work approach – with greater application of customer-centric analyses and other measures – are contributing to internal

efficiency and productivity as well as an elevated customer experience.

The improved operating profit of SEK 2,288 m (2,025) was driven by favourable like-for-like sales growth and generally good cost control in all operations. For Axfood as a whole we once again achieved record earnings, and we did this at a time in which we continued to strengthen our positions in all concepts – at the same time that we are making ambitious investments in future efficiency improvement and greater flexibility. These future-oriented investments weigh upon our profitability in the short-term, but over time they will contribute to sustainable, profitable growth. I see it as a sign of strength that we have been able to uphold our operating margin from 2018.

But it is important to say that none of our chains would be able to grow so well – or maintain such low prices – if Dagab and all the other underlying Group functions were not doing such a good job. Through close collaboration we are creating economies of scale and cost efficiency, which is also reflected in our business model through a high and stable cash flow. It shows that indeed – together we are stronger!

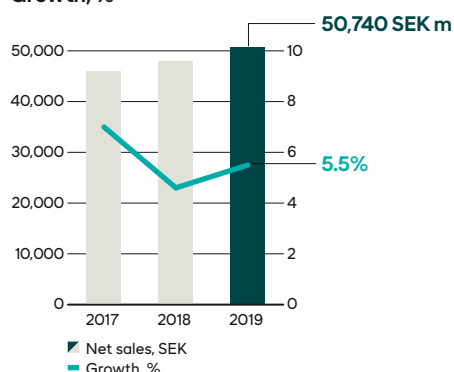
With this summary of our performance for 2019 I can affirm that we have delivered on our long-term financial targets to grow more than the market, and to have a long-term operating margin of at least 4% and an equity ratio of at least 20% at year-end.

All strength directed forward

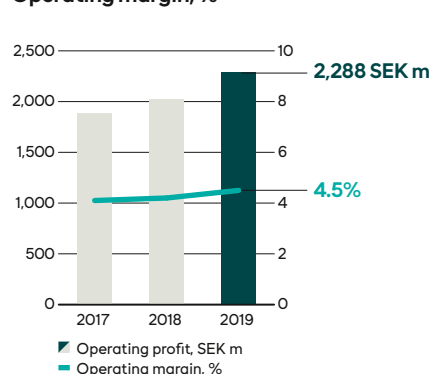
Even though the food retail industry is relatively insensitive to economic swings, we are channelling all our strength towards being able to swiftly meet new customer expectations. Always having a relevant offering of affordable, good and sustainable food is the goal of the day-to-day work of all the employees in the Axfood family. All of our concepts are contributing to our future growth with their own special strengths. This is also reflected in the future-oriented investments that we are making in e-commerce as well as in our focus on developing the assortment and customer meeting in all channels.

We are also continuing to strengthen Hemköp's market position at the same time that we are developing our younger

Net sales, SEK m
Growth, %



Operating profit, SEK m
Operating margin, %



Share of sustainability-labelled products

26.9%

On 25 November 2019 the symbolic ground-breaking was held for the highly automated logistics centre in Bålsta, which will be fully operational by 2023.



concepts. Urban Deli has become somewhat of the Axfood family's incubator for innovative, convenient and healthy meal solutions. Apohem is pushing forward in its exciting journey towards solidifying its position in a rapidly growing market. And Eurocash is going from strength to strength in its distinct niche in cross-border shopping between Norway and Sweden.

Another vital precondition for continued successful development is the strength that exists in Dagab, our central purchasing and logistics function. The future automated logistics centre in Bålsta will be one of the largest and most modern of its kind in Europe for distribution of groceries to stores as well as online customers, and will also lead to higher productivity.

The future is a more sustainable lifestyle

In a time when more and more of our customers are striving to incorporate sustainability into their lifestyles and where awareness is growing about the impact of food on our health and the environment, we see it as our mission to inspire and make it easy for customers to make more engaged and conscious choices. One of our goals is that sustainability-labelled products will account for a third of our sales by 2025. Toward this end, during the year we gave Mat.se customers the ability to choose environmentally smart alternatives along with carbon footprinting data for the products they buy while they are shopping. I feel we have made good progress, but sustainability is a constantly ongoing process and an area where our goal is to be the industry leader.

Our people make a difference every day

It is my conviction that success in the rapidly changing environment we work in today requires a passion for innovation, new thinking and eagerness to change. This applies for the food and other products we offer our customers as well as how we meet them in our stores and online, and how we at

Axfood cooperate in the smartest way possible. Together we engage with more than 4 million customers every week at more than 300 Group-owned stores, online, and in some 900 collaborating stores. Quality in these customer meetings is decisive for our success. It is our employees who engage with our customers every day, who are making sure that our loyal customer base keeps growing, and who recommend our concepts to new customers.

Maintaining a high tempo in a change process that involves more than 10,000 employees throughout Sweden requires a dynamic and collaborative organization. We know that a diversity of personalities, experiences and backgrounds is conducive to involvement and leads to more and better new ideas. When a diversity of thinking is combined with collaboration within a group, when we can use each others' strengths, our entrepreneurship and wealth of ideas to fine-tune our food concepts and improve the customer meeting, then the results are truly amazing. I want to direct great thanks to all our employees for their great commitment and outstanding performance as individuals and as teams.

I want to reiterate what I said at the onset. Working with food has never been more exciting, challenging, or fun! By offering affordable, good and sustainable food, we see how we can truly be a positive force for change in society. We have the power to shape new purchasing patterns, change marketplaces, promote sustainability through healthy lifestyles, and inspire for an affordable feast all while making things a little easier in people's occasionally hectic lives. There are few, if any, industries that affect daily life for so many!

Stockholm, February 2020

Klas Balkow,
President and CEO

Ability to address trends

Digitalization, demographic changes and a heightened focus on sustainability and price value are examples of trends that affect society and our industry. Our ability to understand how these trends affect us and translate them into a long-term strategy and concrete priorities enables us to meet customers' changing needs.

Demographic changes

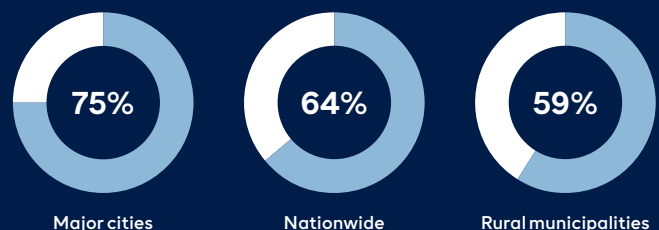
- High population growth
- Aging population
- Income gaps are widening
- Greater diversity
- Continued high pace of urbanization affecting both cities and the countryside

Population growth in Sweden has been significant for a number of years. According to Statistics Sweden's forecast, Sweden's population will increase to more than 11 million by 2030. The share of people born outside of the country will increase to around 22%. Population growth is expected to be strongest in the major cities. Meanwhile, the share of elderly is growing at the same time that the share of people of working age is decreasing. These factors affect what, when and how food is bought and eaten.



Growing population in Sweden ¹⁾



Share of population younger than 55 ¹⁾



Examples of how we are addressing this trend

-  We will offer our customers an attractive, efficient, wide and affordable assortment. Read more on p. 18.
-  We will grow in new and existing markets by establishing stores and developing new segments, categories and services. Read more on p. 24.

¹⁾ Source: Fast moving report 2019/Sverige 2030/WSP Advisory/SCB.

Competition and price value

- Continued growing competition from traditional retailers, but also from new actors
- Discount trend remains strong
- Large, global actors creating ecosystems, and Swedish actors building retail ecosystems with food as a base
- Innovative, small actors seeking partnerships with larger, traditional companies

With digitalization comes greater price transparency, making it easy for customers to compare. 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 customers perceive as value for money. Aspects such as helpful service, attractive peripheral services and a high-quality assortment are key factors in what customers experience as offering price value. To bring down prices for customers, retailers are relying on private labels and large purchasing organizations.

Examples of how we are addressing this trend



We will offer our customers an attractive, efficient, wide and affordable assortment. Read more on p. 18.



We will drive sustainable product supply with high efficiency and quality across the entire chain. Read more on p. 26.



"All food goes in trends! I think the vegan/vegetarian trend, which is good both for your body and nature itself, will get even stronger and that more people will want lactose- and gluten-free products even if they don't have an intolerance."

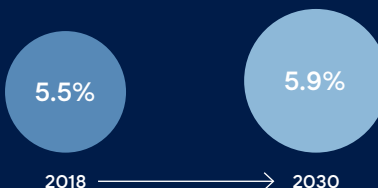
15-year old girl, about what she thinks will be common to eat in the future. (Source: Ungdomsbarometern 2019).

Sector convergence

- Sector convergence is increasing, especially in major cities
- Focus on culinary spaces and meal solutions
- New distribution channels opening up for meal solutions

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 venues. Cafés and pharmacies are sharing premises with grocery stores, and also selling grocery items. Since the turn of the millennium, the share of household expenses that go to groceries has been at around 12%. With rising incomes, a lower share is expected to be spent on groceries. The share of household expenses spent at cafés and restaurants is expected to rise.

Food as a service growing in importance¹⁾



Examples of how we are addressing this trend



We will offer our customers an attractive, efficient, wide and affordable assortment. Read more on p. 18.

¹⁾ Source: Fast moving report 2019/Sverige 2030/WSP Advisory/SCB.





Health and sustainability

- Growing concerns about climate change
- Awareness of the impact of food on the climate and health is rising, especially among young people
- Consumers more prepared to compromise in order to reduce their carbon footprint
- Sustainable global food consumption is putting high demands on changes in consumption and food production

Issues such as responsibility, environmental impact and health are becoming increasingly important, and conscious consumers are manifesting their lifestyles through active food choices. Environmentally adapted packaging, reduced food waste, food in season, ethical aspects and country of origin are becoming increasingly important considerations. Many customers want more information about products' country of origin, quality and ingredients to live healthier lives.



Examples of how we are addressing this trend

-  We will offer our customers an attractive, efficient, wide and affordable assortment. Read more on p. 18.
-  Through our brands and formats we will meet our customers' varying needs – no matter where, when and how the customer meets us. Read more on p. 21.

¹⁾ Source: "Ungdomsbarometern 2019".

Digitalization

- Continued high growth in e-commerce, which is gaining ground in food retail
- Customers who shop online are looking primarily for time savings and convenience
- Large retailers are investing heavily in e-commerce, and growth in the market is being driven by the traditional actors
- The business model is challenging, especially for pure-play online retailers and for home delivery

Digitalization is making an impact in all areas of food retail, from purchasing, logistics, ways of working and marketing to the customer meeting. This means more automation and efficiency, but also a greater need for employee competence development. E-commerce is growing fast, and more people are shopping online. A key factor for the growth in e-commerce is that younger consumers are more digitally literate and shop more online than older ones. According to the Swedish Trade Federation, online food retail is expected to grow from today's share of approximately 2% to a share of between 6%-11% by 2025. Changed shopping behaviours are opening up for new business models and businesses.

Examples of how we are addressing this trend

-  Through our brands and formats we will meet our customers' varying needs – no matter where, when and how the customer meets us. Read more on p. 21.
-  We will be a driver of sustainable product supply with high efficiency and quality across the entire chain. Read more on p. 26.
-  We will develop an innovative, customer-oriented and dynamic organization in which efficiency and cost control are in focus. Read more on p. 30.

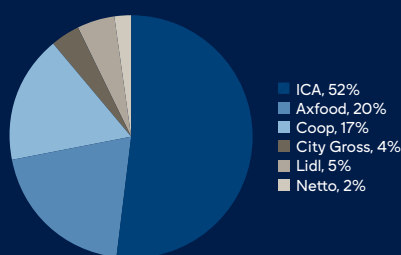


Swedish food retail market 2019

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 countryside, grocery stores often serve as a community hub, offering in addition to groceries, also pharmacy, post and banking services.

The three largest actors in Sweden – ICA, Axfood and Coop – account for roughly 90% of the market. In the hard discount segment, Coop acquired Netto's Swedish store business in 2019.

Market shares, largest competitors in Sweden



Source: Axfood estimates for the full year 2018 based on publicly available information.

According to the Swedish Food Retail Index, the Swedish food retail market grew by 3.1% in 2019, and according to the Swedish Food Retailers Federation, growth for e-commerce was approximately 22%. Estimates indicate that e-commerce accounts for approximately 2% of the food market.



3.1%

growth in food retail market in 2019

22%

growth in e-commerce in 2019

Segmentation of consumer market in Sweden

Hard Discount	Discount	Hypermarkets	Traditional grocery		Mini-marts	Online
Items:	1,500–2,000	5,000–12,000	12,000–20,000	10,000–15,000	1,000–	
Brands:	Coop/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, Pressbyrå, Coop, and others	Mat.se, Willys.se, Hemköp.se, ICA.se, Coop.se, Mathem.se, and others
Locations:	Residential and external	Residential and external	External	City centres, residential	Traffic-oriented or residential	

Targets and outcomes 2019

We manage and continuously monitor our operations in three strategic target areas: employees, sustainability and financial. The targets are designed to create long-term relationships and value for our stakeholders.

Employee targets

Gender equality

Target 40%

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 30%

The share of women in management positions was 30% (31%).



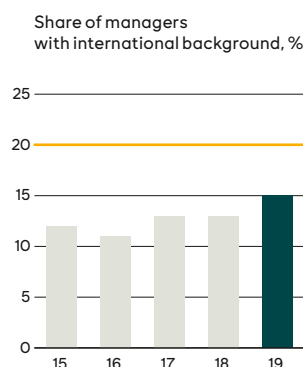
Diversity

Target 20%

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

Outcome 15%

In 2019, 15% (13%) of Axfood's managers and 26% (24%) of employees had an international background. More than 30 languages are spoken within the Group.



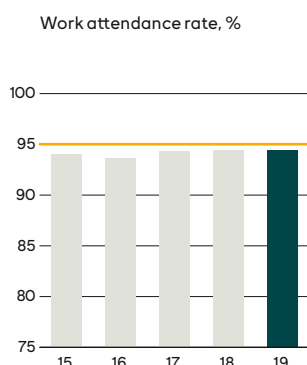
Work attendance rate

Target 95%

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

Outcome 94.4%

The work attendance rate in 2019 was 94.4% (94.4%).



Sustainability targets

Carbon footprint own operations –

Target 0

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

Outcome –76%

From 2009 through 2019 Axfood reduced the carbon footprint of its own operations by 76% (75%). The largest carbon footprint is made by transports (53%) and refrigerants (27%), followed by electricity consumption and business travel.

Change in electricity consumption

Target –15%

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

Outcome –5.6%

Electricity consumption per square metre in 2019 had decreased by 5.6% (2.8%) compared with the base year 2015.

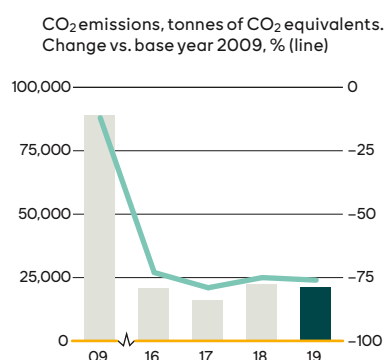
Share of sustainability-labelled

Target 30%

In 2019 a new target was formulated, pertaining to the share of sustainability-labelled products. The target achievement date is 2025.

Outcome 26.9%

Sustainability-labelled products accounted for 26.9% of total in 2019 (27.0%).

CO₂ emissions

Financial targets

Growth

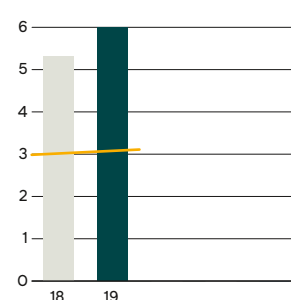
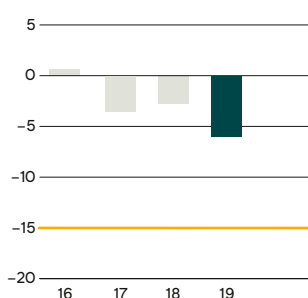
Target

Axfood will grow faster than the market, which is a new target set in 2018.

Outcome 6.0%

During 2019 Axfood's store sales (including Hemköp franchises) increased by 6.0% (5.3%), while growth for the market was 3.1% (3.0%), according to the Swedish Food Retail Index. Axfood thereby grew its market share.

Growth in store sales, %

Accumulated change in electricity consumption, kWh/m², %

Operating margin

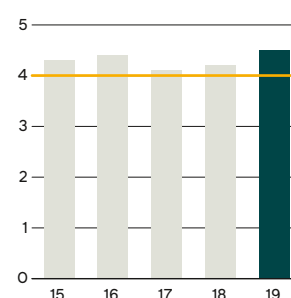
Target >4%

Long-term operating margin of at least 4%.

Outcome 4.5%

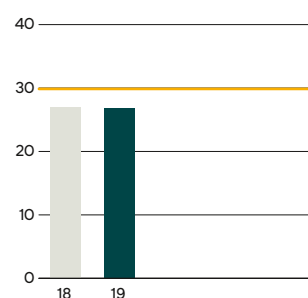
The long-term target was reached in 2019, with an operating margin of 4.5% (4.2%). IFRS 16 had a positive effect on the operating margin of 0.3 percentage points.

Operating margin, %



products

Share of sustainability-labelled products, %



Equity ratio

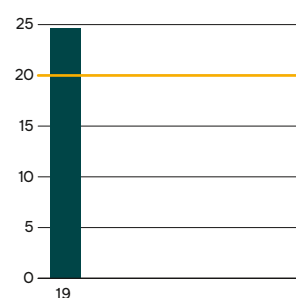
Target 20%

As a consequence of adoption of IFRS 16, the equity ratio shall amount to at least 20% at year-end. Previously the target was an equity ratio of at least 25% during all quarters.

Outcome 24.6%

The equity ratio on 31 December 2019 was 24.6%.

Equity ratio, %



Seven reasons to invest in Axfood

01

More people need to eat – Sweden's population is growing

The food retail market is relatively insensitive to economic swings and is driven largely by population growth and inflation. Sweden's population is one of the fastest growing in Europe and is projected to reach more than 11 million by 2030 and 13 million by 2070. Food price inflation in 2019 was 2.8% according to preliminary data from Statistics Sweden.

02

Our strategy is addressing the market's drivers and generating profitable growth

We have a clear strategy for addressing the most prevalent trends in the market through concrete priorities in our six focus areas – the customer meeting, the customer offering, expansion, the supply chain, work approach and our people. Our goal is to grow more than the market with a long-term operating margin of at least 4%.

03

House of well-positioned brands

Axfood is a house of brands with strong positions in their respective segments. Distinctive food concepts are a way of diversifying risk. Hemköp is an admired brand, and Willys is the leader in Sweden's discount segment. Through Axfood Snabbgross and Urban Deli, Axfood also has inroads into the fast-growing café and restaurant segment. And with Apohem we have also secured a position in the online pharmacy market.



04

Sustainable economies of scale in purchasing and logistics

With Dagab at the heart of the underlying operations – purchasing and logistics – economies of scale and cost efficiency are achieved. With Dagab's position we can also set high demands for price, quality and sustainable solutions. Major emphasis is put on nurturing good relationships with suppliers and increasing control and responsibility across the entire supply chain.

05

Channels and formats that simplify and attract more customers

Our physical stores and meeting places are the core of our business. At the same time, our strong growth online shows that customers appreciate our various e-commerce concepts. With a focused expansion plan, focus on developing the customer meeting regardless of channel, and development of sustainable and easy meal solutions, we are accommodating evolving customer behaviours that are emerging from trends in the food retail market.

06

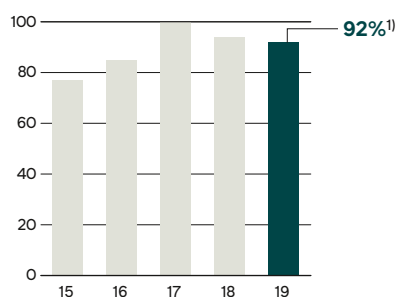
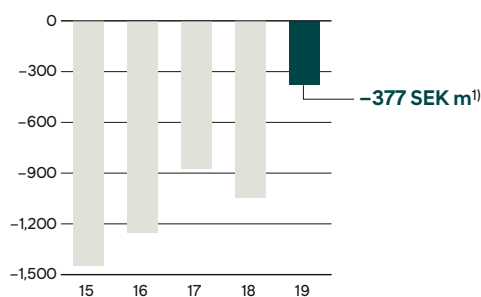
Strong financial position and stable cash flow

Axfood has a solid balance sheet, and our business model generates a stable cash flow. During the last five years, the dividend has on average amounted to 90% of profit after tax. Axfood's dividend policy sets the goal that the shareholder dividend shall be at least 50% of profit after tax. Starting with the 2019 financial year, the dividend is to be split into two payment occasions. Historically, after payment of the dividend, Axfood has built up a net debt receivable during the year. Adoption of IFRS 16 has resulted in an accounting shift from a net receivable to a net debt position.

07

Positive force in society

Axfood has long strived to be a positive force in society. This entails offering good and sustainable food, being an inclusive business and conducting operations in a sustainable way – especially when it comes to our climate impact. Through private labels Axfood is launching innovative products and leading the charge for sustainability and health. We are also engaged in a continuous dialogue with decisionmakers, politicians and authorities on how they can contribute to a positive direction for our industry.

Total return, Axfood shares, index**Dividend payout, %**¹⁾ Board proposal.**Net receivable, SEK m**¹⁾ Excluding IFRS 16.

Clear direction for the future

With a strategic framework, concrete focus areas, a purpose-driven company culture and deep-rooted core values, we offer good and sustainable food for everyone, make a difference and create value for many.

Our vision

Axfood will be the leader in good and sustainable food.

Our mission

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

Our business concept

A family of successful and distinctive food concepts that rest upon close collaboration.

Our strategy

To be the leader in good and sustainable food, Axfood is pursuing a strategy of growth-promoting and efficiency enhancing priorities.



Culture and
core values

Sustainability and
community engagement

Our strategy

To be the leader in good and sustainable food, we are pursuing a strategy of growth-promoting and efficiency enhancing priorities. To drive growth we are developing and offering an attractively priced assortment of good and sustainable food. Our food concepts should give our customers the best shopping experience when and where they want. In addition to growing sales at our existing stores, central fea-

tures include continued expansion through the e-commerce roll-out, and establishment of new formats and stores. Efficient product supply is essential, and we are successively increasing the degree of automation throughout the Group – in everything from administration and offices to warehouses and stores. Read more about our strategic priorities on pp. 18–33.

Growth



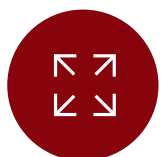
Customer offering

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



Customer meeting

Through our brands and formats we will meet our customers' varying needs – no matter where, when and how the customer meets us.



Expansion

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

Efficiency



Supply chain

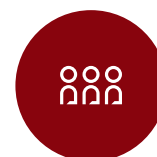
We will be a driver of sustainable product supply with high efficiency and quality across the entire chain.



Work approach

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

Employees



Our people

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

Culture and core values

The store is our stage

Always prioritize the customer and embrace change

Together we are stronger

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

We dare

Strive for constant improvement, lead the way and take initiative

We are aware

Prioritize in order to maintain high quality and use our resources wisely

Sustainability and community engagement

Good and sustainable food is at the heart of our business. For us, acting sustainably means seeing the total picture. Our ambition is to meet the needs of today's consumers without jeopardizing the future for coming generations. Everything we do is driven by concern for the climate, animals and people in production.

To create long-term perspective and predictability for us and the industry, we are driving issues that create conditions to make things easy for customers to choose sustainable and affordable food.

A good assortment for everyone



Customer offering

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

We strive for variety in our assortment that meets the diverse needs and preferences of all our customers – a wide offering that allows everyone to share the passion for affordable, good and sustainable food. To succeed at this we develop our own products and collaborate with external suppliers.

Today's consumers are conscious and put ever-higher demands on quality and sustainability. At the same time they are looking for price value, inspiration and often convenient meal solutions. Our most recent customer survey shows that consumers continue to put high demands on country of origin labelling, reduced use of chemicals and animal welfare. Based on our conviction that food should be sustainable across the entire value chain, we are working closely with suppliers and producers to continuously take important leaps forward.

Strong focus on price value

Price value is important for our customers and something we always take into consideration. Within our respective positions and segments we are building our customer offering upon an efficient and attractive assortment with a distinct price point.

We challenge both ourselves and our suppliers, and we use our strong position and our wide assortment to create sound competition and long-term value across the entire chain. Our assortment and category work is based on our various chains' concepts and their respective customer categories. We are achieving category growth and customer satisfaction by displaying strong, global and national brands side by side our private label products on store shelves. Supported by this mix we are challenging our suppliers as well as ourselves in everything from quality to price.

During 2019 we fine-tuned our purchasing model, implementing a data-driven work approach that ensures an optimized process for planning, procurement and purchasing that ultimately both promotes profitability and creates price value for our customers.

Our ability to plan and channel the right assortment to every store is also helping us minimize our food waste. Together these measures ultimately benefit our customers and partners, and make the entire Axfood family relevant in catering to consumers' constantly changing shopping behaviours.

Distinctive private label products

Our private label products give us a competitive edge. They contribute to profitable growth by presenting an inviting and distinctive assortment while strengthening our food concepts. In 2019 private label products accounted for 30.4% of sales. In development work major emphasis is put on innovation – on developing products that are at the vanguard with respect to food trends, health and the environment. Our assortment developers use emerging trends, niches in the market and

~1,400

negotiations conducted every year with our suppliers.

customer data as a springboard to always stay a step ahead. Product samples are discerningly tested, and mid-range and value-added products are rated by an external consumer panel of 60 persons before advancing to production. We maintain a fast pace of development and launched approximately 290 new products under our private labels in 2019.

Of our 22 private labels, Garant and Eldorado are the most strongly positioned with respect to price and quality. Garant has a distinct sustainability profile and is regarded as a trusted choice also with respect to quality. 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, and virtually all dairy products are sourced in Sweden.

Eldorado is a dependable discount alternative with primary focus on basic and bulk products sourced from a broader base and quality assured according to our principles.

To uphold the distinct profiles of both the Garant and Eldorado brands, we complement these with a number of other private labels that all serve their own distinct functions. One new arrival in 2020 is the Gastrino private label of products specially developed for restaurants and foodservice operators. Gastrino will cater to the needs of Axfood Snabbgross's customers for a reliable foodservice brand at the same time that some of the products will be offered in the Axfood family's other chains.

Collaboration with our two purchasing organizations, European Marketing Distribution (EMD) and United Nordic, gives us economies of scale and contributes to the variety of products we are striving for. In addition, we spur constant collaboration between our chains and suppliers to ensure that together we can optimize placement and exposure of the right products in the right place.

Greater offering of convenient meal solutions

With consumers in search of more and more convenient meal solutions, we are striving to stay a step ahead and exceed their expectations with innovative products. Within our private label offering, leading up to and throughout 2019 we launched some 40 refrigerated meal solutions – such as stews, pizza, mixtures and vegetable medleys that are easy to combine in various ways to quickly compose an exciting meal.

A few examples of how we are showcasing our private labels on social media.



Photo: Mia Sallanto

Eldorado summer collection, June 2019

An exclusive collection of Eldorado apparel was sent out to selected celebrities. Total reach of more than 7 million people on social media.



Eldorado prep kit, February 2019

Sold out in a day on Mat.se, with more than 30 items advertised in the media.



Eldorado pop-up store, August 2019

Total reach of more than 1.8 million people on social media during Way Out West festival.



Garant "Guys with Fish", November 2019

A PR experiment where single guys on Tinder posed for new fish variants in the Garant assortment. The campaign's ads had more than 7.5 million views on Facebook, Instagram and YouTube.



Smart Pet's dog event, October 2019

An event with influencers and their dogs resulted in 56 posts on social media and was featured in the coming season of the Wahlgrens värld reality TV show.



Innovative soups

Rescuing blemished vegetables is reducing mountains of food waste. We therefore applaud the innovative soup kits from Garant, which are made using vegetables that otherwise would have been tossed out!

"I asked an open question to our supplier if there is anything we can do to help reduce their food waste. The supplier explained that what is left over from production is often stalks from vegetables such as cabbage, kale and broccoli. I ordered some stalks to taste and test-prepare vegetables in various ways. Since kale stalks can be a bit difficult to eat raw, I saw that making soup stock would be an ideal and convenient way for customers to make good food from waste-smart vegetables."

Ellinor Puerto, responsible for assortment development at Dagab, developed two innovative and waste-smart soup kits launched by Garant in stores in autumn 2019.

At Hemköp and Urban Deli, customers are offered warm meal solutions prepared in-house by own chefs. In addition, Willys and Hemköp have an expanded range of refrigerated meals, salads and pre-cut vegetables to make cooking easier.

During the year Hemköp pilot-tested Måltidsrummet ("The meal room"), a new way of profiling meal solutions in stores. To make it easier for customers, meal solutions are grouped in flexible modules – such as snacks, heated dishes and salad bars – as well as in shop-in-shop solutions with ready-made meals from suppliers such as Urban Deli. In Willys stores, too, meal solutions are obtaining a more prominent position in the customer flow through the Willys 4.0 concept, which is being successively rolled out in all new stores. Prepared dishes, hot meals and salad bars are showcased close to store entrances, giving customers convenient access to pick together a good lunch or dinner.

Middagsfrid's concept of ready-packed grocery bags is a meal kit solution that is dead-centre in the interface of convenience and full control over quality ingredients. The bags

also include a wide variety of our private label products where the focus of product development has been on organic, plant-based, Swedish-sourced, frozen and sustainable meal solutions.

Everyone wins from greater transparency

To maintain credibility among today's conscious consumers, food suppliers need to be increasingly transparent about the assortment's entire value chain. We are striving to stay at the forefront in this regard and are constantly raising the floor and setting new heights for the industry standard. Our 1,500 suppliers around the world must systematically show that they follow our Code of Conduct for human rights, working conditions, the environment and anti-corruption. We have been working actively together with the global aid organization Oxfam since 2017 to help ensure living wages for workers across the entire supply chain. In 2019 we directed our focus to private label product suppliers to identify the most critical areas where right now we can make the greatest difference for workers in the earliest parts of the value chain.

In response to growing consumer focus on the environmental impact of air travel and as a first step in improving information about air freight, in 2019 we chose to publish a clear list of which products are transported by air within the Axfood family. In addition, our meal kit company Middagsfrid chose to entirely do away with products transported by air, which also Urban Deli did in the spring 2018. Through greater transparency we hope to make it as easy as possible for our customers to make decisions based on facts.

Priorities 2020

- Develop and strengthen the assortment of good and sustainable food
- Strengthen the price position
- Develop offering of meal solutions
- Develop new customer offerings.

Passion for food on the customers' terms



Customer meeting

Through our brands and formats we will meet our customers' varying needs – no matter where, when and how the customer meets us.

No matter where or when, we strive to make it easy and convenient for all our customers to shop for good, affordable and sustainable food. With our house of brands we make sure we are there for all our customers, seamlessly and regardless of channel.

Sweden has a population of more than 10 million, and everyone needs to eat. We are all different in how we go about our everyday lives, routines and food preferences. Demographics, budgets, personality types and family situations are just a few of the factors that affect how we prefer to do our grocery shopping.

At Axfood we therefore take care to offer a variety of brands, price levels and channels that allow our customers' own preferences to steer their food purchases.

Convenient experience shopping at our stores and online

Our online business is growing rapidly, yet 97% of our customer interaction still takes place in our network of own and collaborating stores located throughout Sweden.

One of our core values is "The store is our stage". It permeates our organization in many ways. The aim of our stores is to be where our customers are and make it convenient and easy for them to buy good, affordable and sustainable food. What is easy and convenient for the customer varies, depending on a number of factors. For many of our urban customers, it may be most convenient to shop with us when we are located close to public transportation or in a shopping centre, while customers in the countryside may instead prefer that we are located outside the town centre, close to a motorway exit. With the help of future forecasting, a broad contact network in the real estate sector, own forecasts based on data analytics and our own customer data we seek to identify "white spaces", or market opportunities, where any of our store concepts can add value.

The work on upgrading existing stores is continuously ongoing, with both Willys and Hemköp gearing up to ensure that all our customers have the best possible in-store experience. In addition to continuous improvements to create inspiring store environments, normally our stores are modernized every five to seven years. In 2019 we modernized nearly 40 stores.

Importance of the personal meeting

Just as important as it is that our stores are in the right locations, so is the personal customer meeting. Our employees are our front-line ambassadors, and every customer interaction is equally as important. In 2019 our internally developed digital training course "Det goda kundmötet" ("The good customer meeting") became obligatory for all Hemköp employees to further emphasize a friendly and service-minded



All hands on deck

Twice a year, all staff in Hemköp's support office do practical work in stores to strengthen collaboration and together ensure a world class customer meeting.



customer meeting. At Willys, work with Gilla Willys 2.0 ("Like Willys 2.0") accelerated during the year. This is an internal improvement journey that uses various exercises toward the goal of having even more satisfied customers as well as satisfied and engaged employees.

The digital customer meeting is also being increasingly personalized in our chains, where we are using a data-driven work approach to create a more personalized customer meeting. During the spring, implementation of a new marketing automation system for both Willys and Hemköp was completed. Using data analytics we can help our customers find relevant products and offerings, and ensure that the communication from our chains is tailored to address our customers as individuals instead of as monolithic groups. As the focus in 2019 was on testing and optimizing this system, in 2020 our ambition is to be able to dramatically increase relevant, personalized meetings for members of our customer programmes.

E-commerce for everyone

With e-commerce growth at a full 35% in 2019, which is more than the market, we see that more and more customers appreciate our digital services. We offer online shopping to our customers via four of our brands: Willys, with Sweden's cheapest bag of groceries; Hemköp, the place for inspiration; Mat.se, the innovator; and Middagsfrid, the weekday hero. In addition, we offer online shopping for restaurant proprie-

tors through Axfood Snabbgross. For us it is important that customers feel at home in the respective brands and find the same prices online as in stores. The various food concepts therefore reflect the same market positions online as in physical stores. During the year we also developed distinctive customer strategies for Hemköp and Mat.se to ensure clear positions for the brands and give their customers the experience and offering that suits them specifically.

Most customers today view online shopping as a complement to shopping at a physical store. Since 2016 Axfood has been measuring the share of online shopping compared with shopping in physical stores. The average online shopper buys

"We have offered online sales for just over a month now. Nässjö is surely no big city, so I didn't think there would be as many customers who were interested, but there really have been. We've been maxed every day since the start."

Stefan Arbhede, store manager at Willys Nässjö Almenäs, which in October 2019 was the 73rd Willys store to offer online shopping.

roughly a third of products online and two-thirds in stores. It is therefore important to look at customers' total purchases when we analyse growth and profitability, especially since the service that is offered in e-commerce in the form of order-picking and home delivery is affecting profitability for the food retail industry.

In e-commerce we have adopted an agile work approach with tests and innovation to continuously improve and strengthen our base and to develop cutting edge offerings. For example, we have made it easier for customers to find their favourite products and inspiration through "click and buy" recipes and a broader range of payment options. Going forward we are also focusing further on home deliveries and expanding our click & collect offering nationwide.

Digital tools in stores

Self-scanning, digital signage and Wi-Fi are few examples of how stores are being digitalized. In 2019 Axfood Snabbgross conducted a pilot test of digital shelf labels to seamlessly make price adjustments and in such way ensure that customers are always offered correct prices. Within the Group, cross-functional teams are working on exploring and testing new ways of using digital tools to support customers' in-store experience. In 2019 we tested a number of different solutions for how we can create a more seamless and relevant shopping experience, such as easier scanning and payment, and providing better guidance to customers through stores augmented by recommendations and tips. The tempo of this work is being intensified in 2020 with continued tests and roll-outs.

Facilitating climate-smart choices

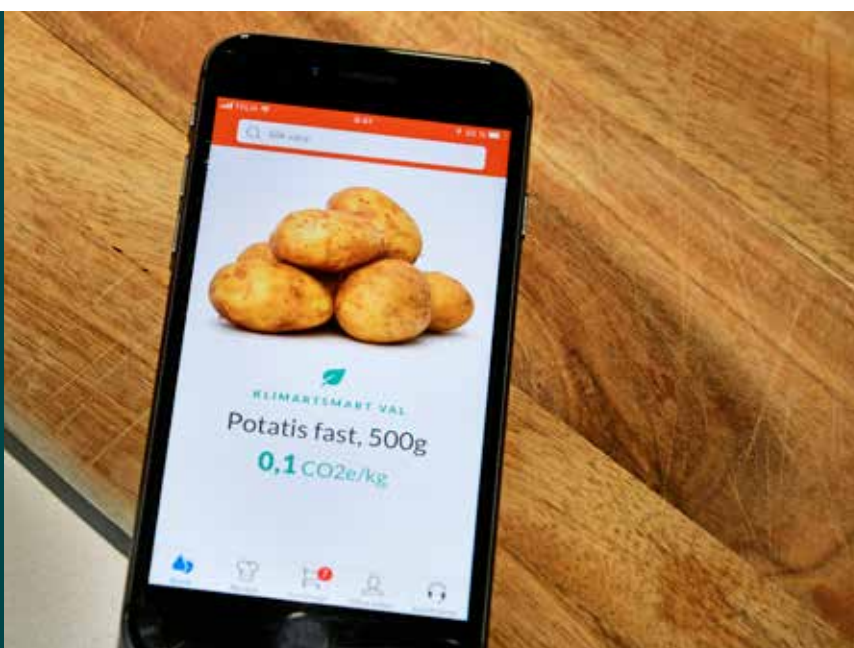
We want to make it easy for our customers to make conscious choices when they shop with us and are therefore making continuous improvements in all channels and concepts. Mat.se's brand promise is to make it "easy to shop right" – something the company further elaborated up during the autumn with its launch of a unique carbon footprinting database in cooperation with Research Institutes of Sweden (RISE). Approximately 3,000 food products in the assortment have now been labelled with carbon footprint data to help customers make climate-smart choices. At Middagsfrid, in 2019 we introduced a weekly vegan special in its vegetarian meal kit as further inspiration for customers to choose a more sustainable diet, while our Garant private label launched the Bra val just nu! ("Good choice right now!") concept to help customers eat more varied foods with a smaller carbon footprint.

Priorities 2020

- Strengthen the digital customer meeting
- Optimize the store network and roll out upgraded store concepts
- Develop and strengthen our customer programmes for greater customer relevance
- Increase the impact of sustainable alternatives.

Carbon labelled

Mat.se has climate-calculated and carbon-labelled the 3,000 food products that account for the largest volume in its assortment. The carbon labelling works roughly like a green comparison price – that is, it states the CO₂ emissions per kilo of product. We have received confirmation that the launch of the site has been well-received by customers, among other things through positive comments and how they are using the site.



With a goal to grow more than the market



Expansion

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

Axfood's growth target is to grow more than the market. This will be achieved through continued establishment of new stores, a broadened e-commerce offering and development of the offering as a whole.

Apart from increasing sales in existing stores we will grow by establishing new stores and expanding the e-commerce roll-out to more cities and stores. Through Urban Deli we offer, among other things, prepared meal solutions for discerning customers, and through Apohem, Axfood even offers prescription drugs.

New establishments in attractive locations

Following 2018, which was a flat year for us in terms of new store establishment, in line with our strategy we opened nine new Group-owned stores and five Tempo stores in 2019 at the same time that we forged an alliance via Hemköp with the Östenssons chain's nine stores. Certain store openings are in municipalities that are new for Axfood, while others are in new and trendy city areas. Geographic location and the infrastructure surrounding a physical store are still crucial for reaching customers. To some extent the growth of e-commerce is affecting the size of new stores.

Conversions

The number of Hemköp franchise stores can vary somewhat from year to year depending on agreements and continuous evaluation of the format in which a particular store can best strengthen Hemköp's position in the market.

>5 million

consumers reached via e-commerce.

"Most important for a successful establishment is to have a clear strategy for identifying the places that make our products easily accessible and easy to find for all customers. We are also careful to analyse movement patterns and purchasing power to establish the right concept – regardless of whether it pertains to more urban locations or smaller towns."



Markus Åberg, Head of Store Establishment, Axfood.



"The store is located at the entry to the Öster Mälarstrand city district in Västerås, one of the most exciting and upcoming parts of the city. It has been an honour to have the opportunity to open this store together with a great team of employees."



Hanna Lundberg, Store Manager, Hemköp Östermälarstrand, Västerås.

To enable select 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 company except for one share, which continues to be owned by Axfood. During 2019 four stores were acquired by store managers and one Tempo store was converted to Hemköp franchise.

Swift e-commerce roll-out

Willys rolled out e-commerce to an additional 22 stores in 2019. At year-end 78 Willys stores in 40 cities and 19 Hemköp stores in nine cities offered online shopping. The pure play online grocery store Mat.se offers home delivery of groceries to consumers in Stockholm and Gothenburg. In total our e-commerce concepts reached more than 5 million consum-



Urban Deli has launched food innovator Anna Lundström's personally developed vegan cheese under the Maisha Deli brand, which features plant-based variants of cheese and butter. Product development has been inspired by genuine food craft using traditional dairy techniques such as fermentation, molding and aging, which have been further developed and adapted to plant-based ingredients.

"The goal is to offer the tastiest and most attractive plant-based products that appeal to everyone, regardless of diet. You shouldn't have to choose between good flavour and care for the climate and animals. We want to make it easy to eat superb food and at the same time contribute to a more sustainable future."

Anna Lundström, developer of vegan food products.

ers at year-end 2019. The meal kit company Middagsfrid, which offers a selection of five pre-packed grocery bags plus a few special offers every week, was named as the best meal kit in the market in 2019 by the consumer testing website Bäst-i-test.se. All Axfood Snabbgross stores offer e-commerce to their business customers.

Broadened offering and new concepts

During 2019 Apohem's wide assortment of pharmacy products was complemented with prescription drugs. The ambition is to be able to help customers take a comprehensive perspective of health to an ever-greater degree. Urban Deli, which has the express vision to make food life easier, tastier and happier, is at the absolute forefront of quickly developing high-quality ready-made meal solutions. It also contributes to the entire Group's offering for the steadily growing customer category of discerning shoppers who make conscious choices with respect to health and sustainability. Urban Deli is a mix of restaurant and market hall with own production of innovative foods. The idea is to let customers decide if they want to eat their food on the spot or take it home. Urban Deli also serves as our incubator for new and innovative products, where new influences are captured.

Priorities 2020

- Expand store network
- Expand e-commerce
- Accelerate pace of establishment for Willys Hemma.



"Right now the pharmacy market is characterized by price and product, but we see a need for having a conversation about health from a broader perspective. Our customers are all looking for knowledge and inspiration, and view life from a holistic perspective. During 2020 we will take the next step and ramp up with an expanded assortment and new, inspiring solutions in the health area."

Gustav Hasselgren, Managing Director, Apothem.

Ready for the logistics of the future



Supply chain

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

Changed consumption patterns, more digitalization and the importance of contributing to a sustainable future are driving our development toward an even more sustainable and efficient supply chain. It is in Dagab's assortment and purchasing department where the work starts to ensure that products will flow the entire path to our stores and customers' homes.

Axfood is currently taking major steps forward in its supply chain to create the best conditions to remain successful and competitive. In autumn 2018 we unveiled our plans to establish a new, highly automated logistics centre in Bålsta, just outside Stockholm, and in 2019 we conducted intensive preparation work.

Logistics vision becoming a reality

Our logistics centre, which will be completed in 2023, will perform order picking and deliveries both to stores and online customers with automation in three temperature zones. Through an omnichannel solution, the underlying processes will be streamlined, helping us to reduce our shrinkage while ensuring higher delivery quality and service both for stores and consumers.

Once completed, the Bålsta logistics centre will handle 60% of Dagab's volumes. And with space to accommodate further expansion, the facility will be able to handle Axfood's total estimated growth in the future. The new capacity will affect the current geographic structure, and our warehouse operations in Skellefteå, Borlänge, Örebro, Sättra, Jordbro and Årsta will all be moved to Bålsta.

Important milestones passed

During the summer we signed a long-term lease with NREP Logicensers, which will build a 100,000 sq.m., 30 metre tall building that will be environmentally certified by Breeam. The building permit was granted in October, and groundwork

has begun. In November another agreement was signed for the automation solution with the German company Witron, which is a market leader in dynamic warehouse and order-picking systems as well as end-to-end logistics solutions. Automating our flows will allow us to dedicate more time to customer-centric analyses and offerings.

A further step toward a more sustainable and efficient transport model was the agreement signed with Descartes on delivery of a new Transport Management System (TMS). The new system will improve our transport optimization, create a greater overview of our transport flows and manage flows to stores and e-commerce customers. The system also offers customers improved order-tracking.

Sustainability incorporated in construction work

Apart from environmental certification of the actual building, our new logistics centre and transport management system will ensure more efficient handling of goods, transports and use of premises. During construction we will work together with our partners to continuously evaluate how we can optimize the new logistics centre's sustainability performance from an overarching perspective.

Automation already part of our daily work

Our automation journey has already begun through Dagab's perishables warehouse in Jönköping. The warehouse now handles 28,000 cases a day during peak periods. The work surrounding this warehouse has given us vital insights into

170 million

cases picked in 2019.

320 million kg

fruits & vegetables handled in 2019.

44,510

temperature controls
of incoming goods
in 2019.

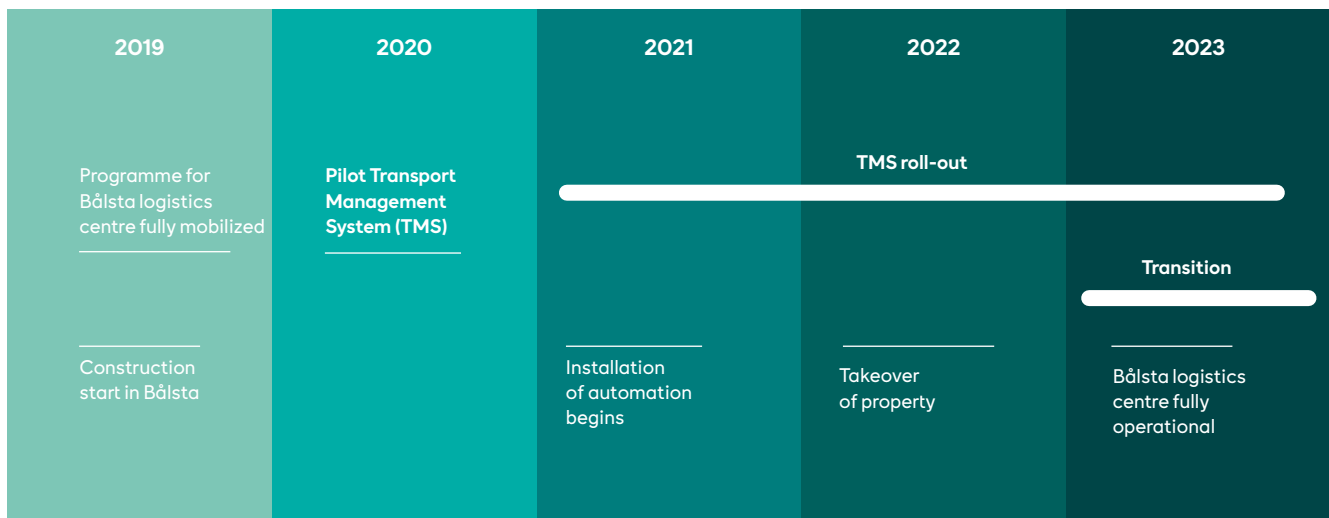
60%

The logistics centre in Bålsta will handle 60% of Dagab's volumes once it becomes operational in 2023.

NREP Logicensers will build a 100,000 sq.m., 30 m. tall building that is environmentally certified by Breeam. The building permit was granted in October, and groundwork has begun.



Our journey to the new logistics centre





Today more than 50% of our heavy trucks can be run on alternative fuels, as long as RME (rapeseed biofuel) is available. HVO fuel is now available without palm oil-based products, which enables fossil-free fuelling.

During 2019 we invested in:
 2 electric hybrid vehicles
 9 LNG (liquefied natural gas) vehicles
 1 CNG (compressed natural gas) vehicle
 2 ED95 (ethanol) vehicles
 11 RME-ready trucks (rapeseed methyl ester)

running an automated solution as well as into new and different professional roles, and has given us valuable experience ahead of our work with the new logistics centre.

More efficient e-commerce logistics introduced in Stockholm

In late 2018/early 2019 Dagab took over operational responsibility for Mat.se's dark stores in Stockholm, Gothenburg and Malmö. The aim is to create synergies in the logistics function and provide effective support to the respective e-commerce concepts' customer offerings.

In a first step, operations in Stockholm were developed to cover, in addition to Mat.se and Middagsfrid, all or parts of Hemköp's and Willys' e-commerce volumes. The next step is to introduce this in Gothenburg. The decision has been made to close the warehouse in Malmö.

Offering a wide range of choices, speed and high quality are challenges to be met in the growing e-commerce business. Today Dagab has a fleet of approximately 120 light trucks and vans that conduct thousands of home deliveries every day, and work has begun on increasing the number of environmentally classed vehicles.

Sustainable transports

Emissions from own transports account for a large share of our total carbon footprint. We put high and clear demands on a safe work environment, safe traffic environment and

910,000

store deliveries in 2019.

smaller carbon footprint by training drivers in eco-driving and using sustainable fuels. We are working closely with the major truck manufacturers to develop the most sustainable transport solutions for tomorrow. Among other things we have invested in CNG (compressed natural gas) vehicles and are working on diversifying the fuels used going forward.

Priorities 2020

- Streamline joint dark store for e-commerce deliveries
- Develop new, automated warehouse and new transport system for store and e-commerce orders
- Evaluate new business models for last-mile deliveries.

3 questions for...



... Helena Blom,
Transport Manager, Dagab



... Per Gifvas, Programme Manager,
new logistics centre in Bålsta



... Wilhelm Berg von Linde, Store
Manager at Hemköp Vällingby

Not just a logistics centre – a total solution for sustainable transports

The logistics in, surrounding, to and from Bålsta are being optimized to strengthen Axfood's competitiveness and sustainability work.

How will the move to Bålsta affect your transports?

We will be able to increase capacity utilization of transports to and from the facility. The new Transport Management System will optimize our entire logistics system from pick-up to final delivery.

Why do you have your own transport firm?

We benefit by owning any problems and opportunities ourselves. We know what it costs to run a transport from point A to point B at the same time that we can test new technologies and new functions ourselves.

What opportunities do you see with e-vehicles?

We have opted to maintain diversity in our fleet and can see that our carbon footprint is moving in the right direction. E-vehicles are an interesting area that we are monitoring closely. Today we have three electric hybrid vehicles in our fleet.

Six warehouses being combined in Europe's most modern logistics centre

Axfood's highly automated logistics centre, which is being established in Bålsta outside Stockholm, will handle approximately 60% of Dagab's volumes.

Why Bålsta?

The location puts us in reach of some three million customers within an hour. We had the opportunity to build a sufficiently large facility that also gives us flexibility for the future.

What is it you are building?

It's a complete highly automated logistics centre that will serve as the hub of our product supply to our stores and for home deliveries for our growing online business. The building is 580 by 180 metres in area and 30 metres tall.

What are the benefits of combining six warehouses into one?

Consolidating operations into a highly automated facility will generate economies of scale in purchasing and other customer benefits, such as high delivery quality and a higher standard of service.

More efficient product flow in the store

Hemköp Vällingby has been working since February 2019 to free up time, achieve a more seamless restocking process and reduce back orders.

How has it gone?

Prior to the pilot we felt the product flow was inefficient. A lot of time was spent getting products in the right place in the store. Complementary orders had to be placed to compensate for this, which was one of our biggest time thieves.

What does your product flow look like today?

We have made a number of major improvements, which is clearly seen in a higher and more steady restocking rate and higher picking efficiency, resulting in less running around in the store. We also have fewer empty spaces on shelves.

What have been the greatest challenges?

Implementing this way of working with the employees and getting everyone to trust the system. Then it's important to create a good main delivery calendar in dialogue with Dagab, which over time may require fine-tuning staff planning in order to gain the best effect.

Higher efficiency through more data-driven decisions



Work approach

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

We are in the midst of an exciting shift, where our traditional industry is undergoing rapid digitalization. This is creating new business opportunities, but also greater competition with the entry of new players. We are therefore continuously developing our way of working no matter where in the Axfood family we work.

To quickly be able to meet the growing competition and new demands from our customers, we need to work both faster and more strategically with our data. Our development of a data-driven work approach permeates the entire organization and is also benefiting our customers down to the individual level. With the help of data and analytics we can make it easier for our customers to find relevant products and offerings, and personalize our communication.

We have invested in building up internal competence surrounding advanced analytics of customer data in our category and purchasing work. Through data analytics we can be better at managing the assortment and prices while making our offers more personalized for customers. In a short period of time we have been able to see clear gains in purchasing, campaigns and the assortment. Through advanced analyses of customer data we can optimize our work based on the respective customer segments. During the year we rolled out our customer-centric work approach across a broad front,

increasing the degree of data-driven decisions and moving from instinct to fact.

Digital employees

All employees in the Group have a digital identity, which creates better conditions for internal communication and governance. During the year a new intranet was launched with target group–steered information based on the user's company affiliation, workplace and role.

Digital tools in stores are becoming more prevalent. During the year a new time and staffing system was rolled out which will optimize staffing in stores with the help of data-driven analytics.

Following a mapping of what a day at work looks like for employees in offices, warehouses and stores, work is now being conducted to draw up a plan for how we can simply and effectively cooperate and communicate in all parts of the company.





In Axfood's 12-month long apprentice programme, 75% of time is spent on the floor doing practical work and 25% on structured training. Those who have worked with the project describe it as "great", "serious", "important", "exciting" and "rewarding", but they also noted problems with language barriers.

During the year Robert Robot performed the general salary review – a process that would have required upwards of 150 hours to perform during a hectic period.

The robots Doris and Robert

Through the use of robots, time-consuming administrative tasks can be automated. This both facilitates work and frees up time for other duties. "Doris the Doer" and "Robert Robot" are two of our digital friends that are lightening the load by automating certain work processes.

Robotic Process Automation (RPA) is giving rise to a host of benefits. Processes can be streamlined and standardized at the same time that employees are relieved of time-consuming tasks and can spend more time on value-creating activities. Next year our robots will be assigned with more tasks, such as employment documentation, quality controls and employer certifications.

Agile organization

Digitalization is putting new and evolving demands on the organization. In order to be agile we need to collaborate cross-functionally between different departments and expert areas. This also requires that teams interact with and learn from each other – and from customers. The rapid technological development and competition also require that we steadily shorten the time from idea to execution. During the year, pertinent employees especially at Axfood IT underwent training in new work methods.

System support for objective process

Through our processes we can bring about systematic change. During the spring we introduced an objective recruiting process with system support. In short, we have strived to put in place a fair and impartial process in which we eliminate unconscious bias as much as possible, enabling us to efficiently find the right candidate for the job.

Priorities 2020

- Improve processes and system support for Axfood's core processes
- Improve efficiency in operations through digital work methods
- Increase degree of data-driven analytics and decisions.

At Axfood everyone can grow



Our people

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

To stay at the forefront amidst the fast pace of development in our business environment and industry, we continue to develop a winning culture in which our people thrive and develop. To attract the right competencies we need to stand out as a great place to work.

We have a passion for the industry and for the job, and we are happy to do “that little extra” for our customers, colleagues, or the environment. This attitude contributes to job satisfaction, a sense of community, and not least an inclusive workplace, which are all becoming increasingly important to both retain and develop the industry's best employees. As more and more becomes digitalized and automated, our employees are still becoming more and more important in the customer interaction and in contributing to a positive customer experience.

Through structured competence development we get the right person in the right place

It is becoming more and more important to find and develop the right competence. As an employer we encourage employees to try various positions and roles within the Group. We also work to enable lifetime learning. It is in this way that we as employers stay attractive and can retain talented people.

Axfood Academy, with both internal and external instructors, is the Group's centre for continuing education and competence development. The academy's courses focus on various roles in stores, warehouses and offices. In our digital Axfood Academy, all training is organized in a single system that gives employees and managers a better overview of the courses they have completed. It also allows us to swiftly pinpoint training activities in response to new legal requirements, for example, or when employees switch companies.

We are a growing group that is in constant need of new leaders. During the year we launched Ledarsteget Teamchef, a management development programme that puts store employees on a track to become team managers. This begins when an employee decides, together with his or her immediate manager, that he or she is ready for a new challenge. A development plan is then drawn up for a progression of different activities including instructor-led training, e-learning, and various exercises to be performed in the store. Axfood's training plan is conducted according to the so-called 70-20-10 model, i.e., 70% of competence development is conducted in the daily work, 20% in reflection and talks with colleagues, and the remaining 10% in formal contexts such as instructor-



led coursework. The work on securing internal competence for critical roles in stores is continuing in 2020, with an emphasis on the team manager and store manager roles. The plan is to identify 400 employees with potential to be future team managers, and to draw up personal development plans for each of these during 2020.

During 2019, 2,736 employees completed a total of 3,547 days in training via Axfood Academy. On top of this, 18,396 e-learning courses were completed for 5,142 employees.

We are a mirror of the communities that we are a part of

Axfood has clear goals to serve as a mirror of the communities in which it works and to have diverse representation at all levels. We see that this is a large competitive advantage in today's heterogeneous society. The employees' varying skills, competences and perspectives create new opportunities and generate better results. This makes Axfood even better at meeting our customers' varying needs. Moreover, this goes very well together with what job candidates are looking for today – a meaningful job fulfilling values that match their own. Many people seek work today with the Axfood Group precisely because of our work with sustainability and diversity. Through a diversity of perspectives and ways of solving problems we become more innovative and knowledgeable.

At Axfood we work with objective and fair processes for finding the talents we need. In this process, age and other variables are not important; rather, it is the individual's competence and potential we are looking at. 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

18,396

e-learning courses completed in 2019.

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%.

A large step in the work on increasing gender equality was the implementation of a new recruitment process with system support. It ensures an objective selection through tests and questions that focus more on attributes than on specific professional knowledge. Axfood can thereby broaden its pool of candidates and recruit the right people. This is expected to lead to higher performance in the organization, fewer sickness-related absences, lower personnel turnover, greater diversity and lower costs for external recruitment consultants.

During 2019 Axfood registered 134,798 applications for the 2,732 jobs in total posted by the Group. This represents an average of 49 applicants per position.

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 further education and development. During 2019, 18 newcomers participated in a job track programme in which they received personalized labour market training mixed with internship positions at Willys and Hemköp stores in the greater Stockholm area.

Greater commitment and more proud ambassadors

A purpose-driven culture and values-steered leadership are drivers of pride and commitment. We are a family of distinctive concepts, but with a clearly collaborative culture. An important part of our collaboration is a shared view of how we should act with each other, with our suppliers, and with our customers. Our core values apply for everyone in the Group and regardless of whether the relationship pertains to our own operations or external parties. During the year all employees completed exercises on our core values in their

work teams as a way of inspiring them to adopt wanted behaviours in their daily work. This work is continuing in 2020 with focus on cross-functional collaborations and projects.

Axfood's employees are proud to work for Axfood, which is strengthened by the Group's relentless work with sustainability and diversity. A full 90% of employees responded to the employee survey in 2019. On the whole, all index scores are improving – engagement has increased, the leader index score has risen, and more employees have become workplace ambassadors.

Healthier workplace

At Axfood we have chosen to flip concepts, focusing instead on a high work attendance rate. By striving to stay a step ahead, we seek to encourage and promote measures for improved wellness instead of working reactively with absenteeism. Our yearly employee survey has shown an improvement in the psychosocial work environment. Here we have worked to enable our 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.

Priorities 2020

- Develop our culture and leadership
- Increase diversity in senior positions
- Secure competence renewal and competence succession
- Increase work attendance rate.

"For me the trainee programme shows that Axfood is an employer that cares about its employees. Something I think is very good about the programme is that it is combined to a great extent with work on the floor in a store. You get an opportunity to immediately begin using new, theoretical tools in your job role. It is fascinating how quickly you can progress from theory to reality. Plus we are a great group of people! 'Together we are stronger' is not just a slogan, but something Axfood's people live by."

Tobias Sibelius, who spent eight months alternating coursework with practical training at the Willys store in Falkenberg and projects in Axfood's store manager trainee programme.



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 risks. Risks are something that affect Axfood's operations negatively, however, managed properly, they also add value. How risks are managed is of great 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 existing risks as well as of potential risks. Strategic risks, such as increased competition, sector convergence, changes in the assortment and other changes in the external business environment that can affect Axfood's strategic objectives, are managed in the Board's and management's continuing work.

Risks are 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 headed 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

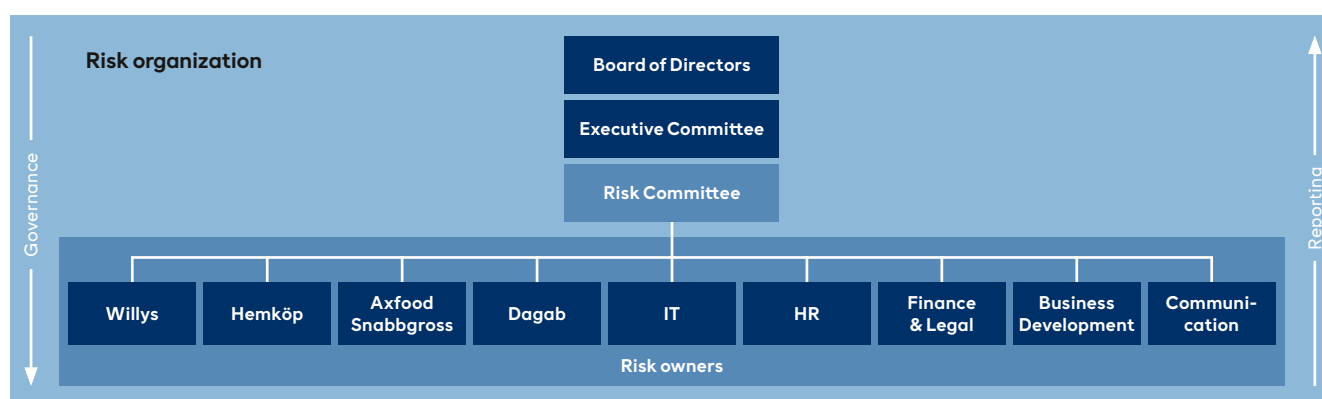
Incident reporting systems are in place in all parts of the Group. Through these a compilation is made that gives Axfood documentation for determining how operational risks are to be prioritized and managed effectively and systematically.

Insurance

Axfood has Group-wide insurances that are reviewed yearly by an independent, external party. The insurances cover, among other things, property, business interruption, product liability, cyber security, transports, and directors and officers liability. Axfood renewed all of its insurances prior to 2020.

Crisis management and continuity plans

The Axfood Group has crisis management plans in place for which drills are conducted on a regular basis by all of the companies' crisis management teams. 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 loss 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.



Strategic, operational and financial risks

Risk	Main risks	Risk level		Risk management	Insured ¹⁾
		Likelihood	Consequence		
A	Risk for disruption in the logistics chain			Very high focus is put on systematic fire safety work. Major emphasis on an effective fire safety organization with preventive measures such as training, pertinent routines, technical fire safety, and recurring inspections 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 offensive 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. Typically 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 inspection 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 a 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

¹⁾ Fully or in part.

Operational and strategic risks

(A) Risk for disruption in the logistics chain

One of the most serious business risks that the Group must manage is for 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 on maintaining a well-working fire safety organization with preventive measures such as adequate training and pertinent routines, adapted technical fire safety measures and recurring inspections 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, to investigate and follow 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 high 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 supply chain.

(D) Employee risks

Today the pace of change and complexity in society is high and accelerating, and this also affects Axfood. Axfood therefore sees a need to strengthen leaders and employees by offering support in change management in 2020. One currently pertinent and major change facing Axfood is that parts of Dagab's existing warehouses will be replaced by a major, automated logistics centre in Bålsta.

Recruiting, developing and retaining competent and committed employees is highly important for Axfood and necessary for the Group'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 offensive 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 retail companies 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 crucial 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 inspection programmes at stores and quality assurance of private label products. Such an inspection programme entails that stores conduct certain daily arrival controls and temperature controls at the departmental level. Clear routines are in place, such as for handling unpackaged foods to ensure that food hygiene is maintained and to uphold the integrity of the cold chain. Failures in the environmental area, for example, 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 and plant-based products. Axfood also has a large offering of food with the Från Sverige ("From Sweden") marking. Weak goal fulfilment in the area of sustainability could, over time, undermine customers' trust in the Axfood brand and the Group'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. Moreover, the trend toward more environmentally conscious customers, combined with an inability to be sufficiently fast at adapting the assortment to customers' changed expectations, could lead to lower sales. However, risks are also 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, there is a tangible risk 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 the climate issue were to change their consumption habits. This risk is just as much an opportunity if the Group is at the forefront in developing the assortment in comparison with its peer competitors. Climate change can no longer be prevented through climate policy measures, even though the opportunities to mitigate it is great. This means that the increase in extreme weather is presenting an ever-greater challenge to food production. Drought, extreme 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 entails greater diversification of risk.

(H) Acquisition risks

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. All new store establishments 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.

(I) 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, a number of policies, a well-working system of internal control and an ethical approach to counter the soliciting or accepting of bribes and corruption have been established in all areas of the Group. With respect to suppliers, we require that all agreements include the Code of Conduct, which is described on p. 114 and is available in its entirety on axfood.se.

In connection with new laws or regulations, measures are decided on well in advance of enactment. Examples of this include the EU's General Data Protection Regulation (GDPR), Sweden's complementary Data Protection Act, and Sweden's video surveillance law. 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. Since the data protection laws took effect, we have a Data Protection Officer plus an additional person who work exclusively with data protection issues. 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, processes have been updated to include, for example, routines for clearing and erasing personal data, and automating these processes as far as possible in IT systems. In addition, we have more clearly stated the terms for the chains' customer programmes, and have 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 the 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. 120.

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 26.

Administration report

Axfood – a leading player in the Swedish food retail market

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 2019 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 304 (302) including Axfood Snabbgross, and apart from Mat.se, Willys and Hemköp also offer online shopping in a number of cities. B2B sales are conducted by Axfood Snabbgross through 24 stores throughout Sweden and online.

In 2019, nine stores were established or acquired, and seven stores were closed or sold. In addition to Group-owned stores, Axfood collaborates with a large number of retailer-owned stores that are tied to Axfood through agreements, including stores in the Hemköp chain, but also stores operating under the Tempo and Handlar'n 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 high customer recognition. Private label products as a share of net sales amounted to 30.4% in 2019 (29.5%).

Market

According to the Swedish Food Retail Index, the Swedish food retail market grew by a total of 3.1% in 2019. According to the Swedish Food Retailers Federation, growth in e-commerce was approximately 22% in 2019. E-commerce accounts for an estimated share of approximately 2% of the Swedish grocery market.

Important events

- As a step in the development of Axfood's new highly automated logistics centre in Bålsta, in accordance with the previously communicated Letter of Intent, a long-term lease was signed with the property owner NREP Logicens. In addition, an agreement on the automation solution was signed with Witron for EUR 240 m.
- The Östenssons store chain became a Hemköp franchisee on 1 September 2019.
- Simone Margulies was appointed as new Managing Director of Hemköp, which also includes Tempo, and took office on 1 February 2020.

Changed accounting policies

The Group applies IFRS 16 Leases as from 1 January 2019. The modified retrospective approach has been used in the transition, entailing that comparison figures have not been restated.

Net sales and earnings

Consolidated net sales totalled SEK 50,740 m (48,085), an increase of 5.5% (4.6%) compared with 2018. Of consolidated net sales, 77% (76%) consist of sales in stores and 23% (24%) consist of external wholesale volume. Store sales for the Axfood Group increased by 6.0% for the year (5.3%), with a 5.0% rise (3.7%) in like-for-like sales. The Group's gross margin was 15.7% (14.9%). Operating profit totalled SEK 2,288 m (2,025), corresponding to an operating margin of 4.5% (4.2%). Operating profit included SEK 2,146 m (760) in depreciation and amortization. IFRS 16 had a positive effect on operating profit of SEK 174 m and on the operating margin of 0.3 percentage points. For a breakdown of segmental performance, see pp. 40–43.

Net financial items weakened by SEK 106 m during the year, from SEK –9 m to SEK –115 m, mainly owing to the adoption of IFRS 16. The tax expense was SEK 494 m (439), corresponding to an effective tax rate of 22.8% (21.8%). Profit for the year after tax was SEK 1,679 m (1,577), or SEK 7.87 per share before dilution (7.41). For financial position and cash flow, see pp. 46–48.

Capital expenditures

The Group's total capital expenditures amounted to SEK 1,481 m (1,021). Investments in right-of-use assets (mainly premises) amounted to SEK 971 m, of which SEK 325 m pertained to newly acquired assets and SEK 647 m pertained to remeasurement of leases.

Financing

Axfood has signed an agreement with Swedbank and SEB on a five-year revolving credit facility of SEK 3.5 bn to secure the financing of the Group's new logistics centre in Bålsta and to serve as the Company's liquidity reserve.

Employees

Axfood had an average of 10,854 employees in 2019 (10,215). The employee breakdown was 53% women (53%) and 47% men (47%). The share of employees who work in the retail operations was 71% (74%), while the share who work in the wholesale operations was 25% (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 come from an international background by 2020. In 2019, 26% (24%) of Axfood's employees and 15% (13%) of managers came from an international background. Gender equality is part of diversity work. Axfood's long-term goal is to achieve an even gender balance in management positions. In 2019 the share of women on the Executive Committee was 30% (30%).

The work attendance rate in 2019 was 94.4% (94.4%), 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. 103.

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 six nationwide collective agreements that have been concluded for the retail trade, ware-

housing and e-commerce, transport, food workers, hotel and restaurant workers, and salaried employees. The Commercial Employees Union is the union counterpart for the first two of these, the Swedish Transport Workers' Union is the union counterpart for the third category, the Swedish Food Workers' Union is the union counterpart for the fourth category, the Swedish Hotel and Restaurant Workers' Union is the union counterpart for the fifth category, and Unionen and Akademikerförbunden are the union counterparts for the sixth category. All employees are covered by collective bargaining agreements, which regulate pay and terms of employment, such as notice periods for termination. The agreements typically also prescribe the importance of performance reviews for identifying needs for competence-raising measures. The current collective agreements expire in spring 2020.

Every year a mapping of salaries is conducted within the Group to prevent inequitable differences in salary and benefits.

Research and development

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

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 trust risks.

Other risks with a medium-high potential impact are supplier risks, employee risks, the risk for labour market conflicts, acquisition risks and regulatory risks. Axfood's strategic and operational risks are described in more detail on pp. 34–37, together with the risk management process. Axfood's financial risks are described in Note 26.

Share repurchases and transfers and holdings of treasury shares

The 2019 Annual General Meeting resolved to adopt a third long-term share-based incentive programme, LTIP 2019, which in all essential respects corresponds to the previous programmes' principles and scope. To secure the Company's obligation for conditional matching and performance shares under LTIP 2019, during the second quarter of 2019 Axfood repurchased 196,000 shares for a total of SEK 36 m at an average price of SEK 186.00 per share. The holding of treasury shares thereby amounts to 572,000 shares and secures delivery of shares to LTIP 2017, LTIP 2018 and LTIP 2019.

At the 2020 Annual General Meeting a proposal will be made to introduce LTIP 2020, which corresponds in all essential respects to LTIP 2019. The programme is proposed to cover approximately 75 employees.

Guidelines for compensation of senior executives

Guidelines for compensation of senior executives are presented in Note 8. No significant changes have been proposed ahead of the 2020 Annual General Meeting. However, the

proposed guidelines are more detailed as a result of a new Shareholders Rights Directive and changes to the Swedish Companies Act and the Code.

Events after the reporting period

For significant events after the reporting period, see Note 30.

Corporate Governance Report and Sustainability Report

In accordance with Ch. 6 § 8 and 11 of the Annual Accounts Act, Axfood has elected to prepare the statutory Corporate Governance Report and Sustainability Report separately from the statutory Annual Report. The Corporate Governance Report is presented on pp. 120–131, and the statutory Sustainability Report's scope is provided in the table on p. 83.

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 is investing in a highly automated logistics centre in Bålsta, which is expected to be operational in 2023. The logistics centre will fulfil orders both to stores and e-commerce customers through automation that can handle picking for both stores' orders and online shoppers. The investment in the automation is worth EUR 240 m over a five-year period.

Capital expenditures in 2020 are expected to amount to SEK 900–1,000 m excluding acquisitions and right-of-use assets.

Proposed disposition of the Company's profit

The Board of Directors proposes that, of the retained profits of SEK 2,398,836,507, SEK 7.25 per share be paid out in ordinary dividend. The dividend amount will be divided into two payments of SEK 3.75 and SEK 3.50, respectively. The proposed dividend amounts to a total of SEK 1,517,415,662. This amount is based on the total number of shares in the Company less the Company's holding of treasury shares on the date of publication of the Annual Report. This holding will change before the second record date, in part owing to grants under the 2017 long-term incentive programme and in part as a result of the proposal for a 2020 long-term incentive programme, if adopted by the Annual General Meeting. Retained profits will be distributed as follows:

SEK	
Dividend	1,517,415,662
To be carried forward	881,420,845
Total	2,398,836,507

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.

Willys – Sweden's cheapest bag of groceries

WILLYS
eurocash

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

Business highlights 2019

- Willys' net sales increased by 7.3%. Like-for-like sales increased by 6.2%
- Five more Willys stores at year-end compared with year-end 2018
- Expansion of online shopping to 22 additional stores and 10 new cities
- Willys named Grocery Store Chain of the Year 2019
- Reduction of food waste through waste-smart bargain boxes and introduction of digital receipts, among other things

Net sales and earnings

Willys' sales grew 7.3% to SEK 29,029 m (27,066). The strong performance can be credited mainly to good growth in like-for-like sales driven by a higher number of customer visits and higher average ticket value. Like-for-like sales increased by 6.2% (4.3%). The number of wholly owned Willys stores increased by five in 2019. 27 (21) stores were refurbished during the year. The number of stores was 213 (208), including 156 Willys (151), 50 Willys Hemma (49) and 7 Eurocash (8). E-commerce continues to grow, and in total Willys offers online shopping at 78 stores (56) in 40 cities (30). The private label share in 2019 was 31.6% (30.8%).

Willys' operating profit totalled SEK 1,429 m (1,197), corresponding to an operating margin of 4.9% (4.4%). IFRS 16 had a positive effect on operating profit of SEK 103 m and on the operating margin of 0.4 percentage points.

Key ratios

SEK m	2019	2018	Change
Net sales	29,029	27,066	7.3%
Like-for-like sales growth, %	6.2	4.3	1.9
Operating profit	1,429	1,197	19.4%
Operating margin, %	4.9	4.4	0.5
Number of Group-owned stores	213	208	5
Average number of employees during the year	5,603	5,337	266
Private label share, %	31.6	30.8	0.8



Business concept

As the market challenger Willys aspires 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

- 206 Group-owned stores, of which 156 Willys and 50 Willys Hemma stores.

Retail area/items:

- Willys: 1,100–4,700 sq. m., approx. 9,000 items.
- Willys Hemma: 300–1,200 sq. m., approx. 5,000 items.

Stores offering online shopping:

- 78 stores in 40 cities.

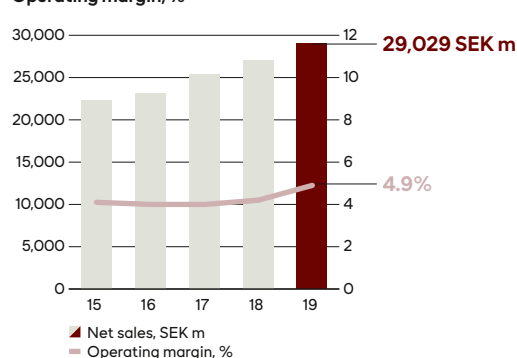
Store facts – Eurocash

- Seven partly owned stores.

Retail area/items:

- 1,200–3,200 sq. m., approx. 10,000–15,000 items.

Net sales, SEK m
Operating margin, %



Hemköp – passion for food and inspiration



Hemköp offers an attractively priced and wide assortment with a rich offering of fresh products. Hemköp's Group-owned stores, franchise stores and online business aim to inspire for good meals in a simple and thoughtful manner. Hemköp also includes Tempo, a mini-mart format of retailer-owned stores.

Business highlights 2019

- Hemköp's net sales decreased by 0.4%, while like-for-like sales for Group-owned stores increased by 1.3%
- Sales for franchise stores increased by 7.0%, with a 3.4% rise in like-for-like sales
- The nine stores of the Östenssons chain are Hemköp franchisees as from 1 September 2019
- Launch of new communication concept together with popular food celebrities, with organic food as the first theme
- Hemköp began clearance sales of blemished fruit to reduce food waste
- Simone Margulies named as new Managing Director, taking office on 1 February 2020

Net sales and earnings

Hemköp's sales totalled SEK 6,378 m (6,403). Like-for-like sales for Group-owned stores increased by 1.3% (1.1%). Hemköp offers online shopping at 19 stores (18) in 9 cities (8). Store sales including Hemköp franchises totalled SEK 14,177 m (13,691), an increase of 3.6% compared with a year earlier. The number of stores at year-end was 196 (187), of which 129 (117) were retailer-owned and 67 (70) were Group-owned. The private label share was 26.0% (25.1%) during the year.

Hemköp's operating profit was SEK 243 m (227), corresponding to an operating margin of 3.8% (3.5%). IFRS 16 had a positive effect on operating profit of SEK 42 m and on the operating margin of 0.7 percentage points.

Key ratios

SEK m	2019	2018	Change
Net sales	6,378	6,403	-0.4%
Like-for-like sales growth for Group-owned stores, %	1.3	1.1	0.2
Operating profit	243	227	7.1%
Operating margin, %	3.8	3.5	0.3
Number of Group-owned stores	67	70	-3
Average number of employees during the year	1,739	1,798	-59
Private label share, %	26.0	25.1	0.9



Business concept

The personal grocery 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

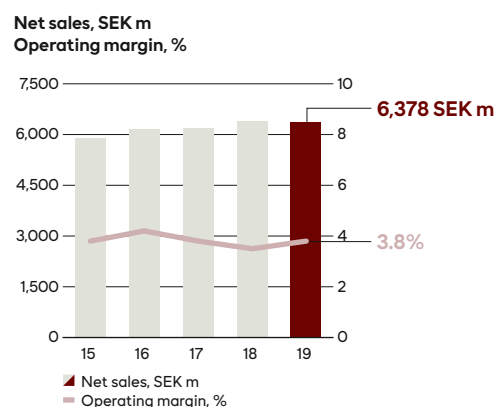
Customers' favourite grocery store.

Store facts – Hemköp

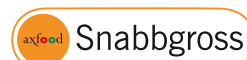
- 196 Hemköp stores, of which 67 are Group-owned.
- Retail area/items:*
 - 400–4,000 sq. m., 10,000–12,000 items.
- Stores offering online shopping:*
 - 19 stores in 9 cities.

Store facts – Tempo

- 127 Tempo stores.
- Retail area/items:*
 - 300–500 sq. m., approx. 4,500 items.



Axfood Snabbgross – a fast growing restaurant wholesaler



Axfood Snabbgross is one of Sweden's leading restaurant wholesalers with a customer base of restaurants, fast food operators and cafés. Axfood Snabbgross offers personal service, accessibility and quality at its stores and online.

Business highlights 2019

- Axfood Snabbgross' sales grew 6.2%
- Axfood Snabbgross decided to establish its 25th store, in Jönköping, with opening planned in February 2020
- External launch of new Gastrino private label in February 2020 with goal to launch some 30 items under the brand for the professional culinary market in 2020

Net sales and earnings

Axfood Snabbgross's sales increased by 6.2% to SEK 3,443 m (3,241). Axfood Snabbgross thereby grew faster than the market. The number of stores at year-end was 24 (24). Operating profit was SEK 167 m (121), corresponding to an operating margin of 4.8% (3.7%). IFRS 16 had a positive effect on operating profit of SEK 6 m and on the operating margin of 0.2 percentage points. The improved profit can be credited to favourable growth and maintained cost efficiency.



Business concept

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

Vision

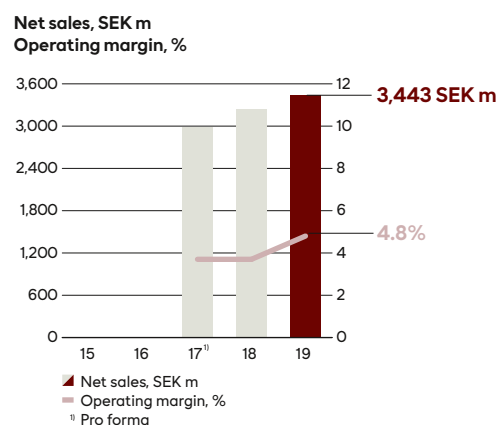
Sweden's leading restaurant wholesaler.

Store facts – Axfood Snabbgross

- 24 Group-owned stores (25 as of February 2020).
- Retail area/items:*
- 800–4,000 sq. m., approx. 13,000 items.

Key ratios

SEK m	2019	2018	Change
Net sales	3,443	3,241	6.2%
Operating profit	167	121	37.8%
Operating margin, %	4.8	3.7	1.1
Group-owned stores, number	24	24	–
Average number of employees during the year	411	401	10



Dagab – more than sustainable product supply

dagab apohem

mat.se URBAN DELI MIDDAGS FRID

Dagab handles the assortment, purchasing and logistics for the entire Axfood family as well as for other B2B customers. The Dagab segment also 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.

Business highlights 2019

- Dagab's sales grew 5.7%
- During the year Dagab consolidated the handling of all home deliveries to consumers in Stockholm
- Work on developing a highly automated logistics centre in Bålsta proceeding to plan
- Dagab invested in a total of over 20 new trucks capable of operating on sustainable fuels. As a result, more than half of the Axfood Group's heavy trucks can be run on alternatives to fossil fuels

Net sales and earnings

Sales totalled SEK 44,895 m (42,456), an increase of 5.7%. Growth was affected by favourable sales mainly to Willys, Hemköp franchises and Axfood Snabbgross. External sales amounted to SEK 11,827 m (11,327). Delivery reliability was 96.8% (96.1%). Operating profit decreased slightly to SEK 678 m (685), corresponding to an operating margin of 1.5% (1.6%). IFRS 16 had a positive effect on operating profit of SEK 20 m and a marginal effect on the operating margin. The purchasing and logistics operation showed continued favourable development during the year. Earnings were weighed down by the changeover to a joint-Group dark store for home deliveries in Stockholm and continued future investments in Urban Deli, Apohem and Mat.se. All agreements are in place for continued progress on construction of the highly automated logistics centre in Bålsta, and the work is proceeding according to plan.

Key ratios

SEK m	2019	2018	Change
Net sales	44,895	42,456	5.7%
Operating profit	678	685	-1.1%
Operating margin, %	1.5	1.6	-0.1
Average number of employees during the year	2,699	2,301	398
Delivery reliability, %	96.8	96.1	0.7



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 Apohem

- Apohem is a full-scale retail pharmacy. Customers can order both over-the-counter and prescription drugs. In addition to prescription drugs, Apohem has approx. 5,000 products.

Brief facts Mat.se

- Mat.se offers online grocery shopping in Stockholm and Gothenburg, with more than 9,000 items.

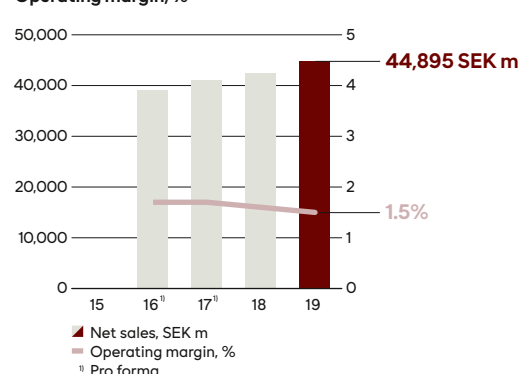
Brief facts Middagsfrid

- Middagsfrid composes and delivers meal kits complete with recipes. Five standard meal kit options plus two special variants.

Brief facts Urban Deli

- Urban Deli is a mix of market hall, food store and restaurant with own food production. Four locations in Stockholm.

Net sales, SEK m
Operating margin, %

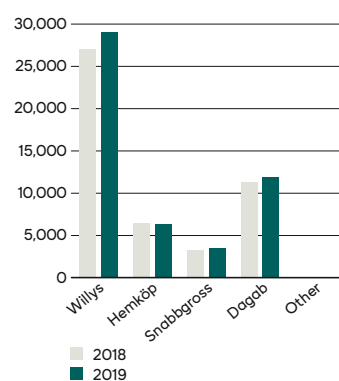
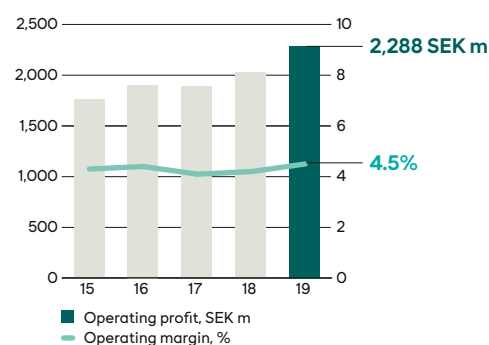


Financial statements

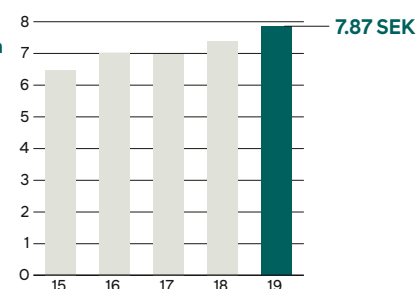
Statement of profit or loss and other comprehensive income Group

SEK m	Note	2019	2018
Net sales	2, 5	50,740	48,085
Cost of goods sold	6, 8	-42,797	-40,904
Gross profit		7,942	7,181
Selling expenses	6, 8	-3,098	-2,991
Administrative expenses	6, 8, 9	-3,028	-2,618
Share of profit in associated companies	21	-25	-17
Other operating income	5	523	491
Other operating expense	6	-27	-21
Operating profit	2	2,288	2,025
Interest income and similar profit/loss items	13	5	5
Interest expense and similar profit/loss items	13	-120	-14
Net financial items		-115	-9
Profit before tax		2,173	2,016
Current tax	15	-406	-385
Deferred tax	15	-88	-54
Net profit for the year		1,679	1,577
Other comprehensive income			
<i>Items that cannot be reclassified to profit or loss for the period</i>			
Revaluation of defined benefit pension plans	24	-37	-21
Tax attributable to items that cannot be reclassified to profit or loss for the period	15	8	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	26	0	0
Change in fair value of forward contracts	26	-41	1
Tax attributable to items that can be reclassified to profit or loss for the period	15	9	0
Other comprehensive income for the year		-61	-17
Comprehensive income for the year		1,617	1,560
Profit for the year attributable to:			
Owners of the parent		1,648	1,553
Non-controlling interests		30	24
Profit for the year		1,679	1,577
Comprehensive income for the year attributable to:			
Owners of the parent		1,587	1,536
Non-controlling interests		30	24
Comprehensive income for the year		1,617	1,560
Earnings per share before dilution, SEK	16	7.87	7.41
Earnings per share after dilution, SEK	16	7.85	7.40
Operating profit includes depreciation/amortization of	10	2,146	760

Consolidated external net sales per segment, SEK m

Consolidated operating profit, SEK m
Operating margin, %

Earnings per share before dilution, SEK



Store sales (including e-commerce)

SEK m	2019	2018	Change, %	Change like-for-like, %
Willys total	29,029	27,066	7.3	6.2
Hemköp Group-owned	6,236	6,268	-0.5	1.3
Hemköp franchises	7,940	7,423	7.0	3.4
Hemköp total	14,177	13,691	3.6	2.5
Store sales, Axfood Group	43,206	40,757	6.0	5.0
Axfood Snabbgross	3,443	3,241	6.2	6.4

Change in store structure

Number of stores	31 Dec. 2018	New establishments/ acquisitions	Sales/closures	31 Dec. 2019
Willys ¹⁾	208	6	-1	213
Hemköp	70	3	-6	67
Axfood Snabbgross	24	-	-	24
Total, Group-owned stores	302	9	-7	304
Hemköp franchise	117	14	-2	129
Axfood Group, total	419	23	-9	433
¹⁾ Of which, Willys Hemma	49	1	-	50
Of which, Eurocash	8	-	-1	7

Statement of financial position Group

SEK m	Note	31/12/2019	31/12/2018
Assets			
Non-current assets			
<i>Intangible assets</i>	17		
Goodwill		2,767	2,767
Other intangible assets		705	682
		3,472	3,449
<i>Property, plant and equipment</i>	18		
Land and buildings		146	146
Equipment, tools and fixtures		2,014	1,901
Construction in progress		584	155
		2,744	2,202
Right-of-use assets	11	5,407	–
<i>Financial assets</i>			
Participations in associated companies	21	16	21
Other long-term securities holdings	25	0	0
Other non-current receivables	25	6	6
		22	27
Deferred tax assets	15	237	141
Total non-current assets		11,882	5,819
Current assets			
Inventories		2,387	2,340
<i>Current receivables</i>			
Accounts receivable – trade	25, 26	1,062	1,102
Other current receivables		180	51
Prepaid expenses and accrued income	22	984	1,257
		2,227	2,410
Cash and cash equivalents	25	798	1,571
Assets held for sale		–	104
Total current assets		5,411	6,425
Total assets		17,293	12,244

SEK m	Note	31/12/2019	31/12/2018
Shareholders' equity and liabilities			
Shareholders' equity	23		
Share capital		262	262
Other capital contributions		496	496
Reserves		-32	2
Profit brought forward		3,292	3,544
		4,020	4,304
Non-controlling interests		229	224
Total shareholders' equity		4,249	4,528
Non-current liabilities			
Long-term lease liabilities	11, 26, 27	4,131	-
Provisions for pensions	24, 27	421	411
Other interest-bearing liabilities	25, 26, 27	-	61
Deferred tax liability	15	902	832
Other non-current liabilities	25	100	50
Total non-current liabilities		5,554	1,354
Current liabilities			
Short-term lease liabilities	11, 26, 27	1,377	-
Other interest-bearing liabilities	25, 26, 27	-	52
Accounts payable – trade	25, 26	3,832	3,836
Other current liabilities	25	280	247
Accrued expenses and deferred income	28	2,000	2,227
Total current liabilities		7,490	6,362
Total shareholders' equity and liabilities		17,293	12,244

Reconciliation of liabilities attributable to financing activities

SEK m	31/12/2018	Cash flow	Non-cash changes		31/12/2019
			Acquisitions of subsidiaries	Other changes	
Non-current interest-bearing liabilities	61			-61	-
Current interest-bearing liabilities	52			-52	-
Lease liabilities	-	-1,419		6,927 ²⁾	5,508
Reconciliation of liabilities attributable to financing activities¹⁾	113	-1,419		6,814	5,508
Interest-bearing pension liabilities	411	-27		37	421
Cash and cash equivalents	-1,571	774			-798
Non-current interest-bearing receivables	0				0
Interest-bearing net debt	-1,047	-673	-	6,851	5,131

Reconciliation of liabilities attributable to financing activities

SEK m	31/12/2017	Cash flow	Non-cash changes		31/12/2018
			Acquisitions of subsidiaries	Other changes	
Non-current interest-bearing liabilities	61			0	61
Current interest-bearing liabilities	49			3	52
Reconciliation of liabilities attributable to financing activities¹⁾	110			3	113
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
Interest-bearing net debt receivable	-871	-218	23	19	-1,047

¹⁾ Included in the reconciliation of liabilities attributable to financing activities in the Statement of cash flows, Group, see p. 48.

²⁾ Effect from the transition to IFRS 16 amounts to SEK 6,099 m.

Statement of cash flows Group

SEK m	Note	2019	2018
Operating activities			
Operating profit		2,288	2,025
Depreciation/amortization	10	2,146	724
Interest paid		-123	-17
Interest received		5	5
Adjustments for non-cash items		14	34
Paid tax		-477	-434
Cash flow from operating activities before changes in working capital		3,853	2,337
Cash flow from changes in working capital			
Change in inventories		-63	-69
Change in current receivables		-125	-179
Change in current liabilities		-110	613
Cash flow from operating activities		3,555	2,702
Investing activities			
Acquisitions of intangible assets		-175	-129
Acquisitions of property, plant and equipment		-1,304	-711
Acquisitions of operations	3	-2	-45
Sales of operations	4	23	2
Sales of property, plant and equipment		4	12
Acquisitions of financial assets		-31	-17
Acquisitions of assets held for sale		-	-104
Sales of assets held for sale		99	-
Cash flow from investing activities		-1,386	-992
Financing activities			
Amortization of debt		-1,419	-
Share repurchases		-36	-30
Shareholder dividend		-1,488	-1,485
Cash flow from financing activities		-2,943	-1,515
Cash flow for the year		-774	195
Cash and cash equivalents at start of year		1,571	1,376
Cash and cash equivalents at year-end		798	1,571

Statement of changes in equity Group

SEK m	Equity attributable to owners of the parent							Non-controlling interests	Total share-holders' equity
	Share capital	Other capital contributions	Translation reserve	Fair value reserve	Hedging reserve	Profit brought forward	Total		
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
Comprehensive income for the year									
Profit for the year	–	–	–	–	–	1,553	1,553	24	1,577
Other comprehensive income for the year	–	–	0	–	1	–18	–17	–	–17
Comprehensive income for the year	–	–	0	–	1	1,535	1,536	24	1,560
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
Closing shareholders' equity 2018	262	496	1	–	1	3,544	4,304	224	4,528
Opening shareholders' equity 2019	262	496	1	–	1	3,544	4,304	224	4,528
Adjustment to IFRS 16, after tax	–	–	–	–	–	–390	–390	–4	–394
Opening shareholders' equity 2019, adjusted	262	496	1	–	1	3,154	3,914	220	4,134
Comprehensive income for the year									
Profit for the year	–	–	–	–	–	1,648	1,648	30	1,679
Other comprehensive income for the year	–	–	0	–	–32	–29	–61	–	–61
Comprehensive income for the year	–	–	0	–	–32	1,619	1,586	30	1,617
Shareholder dividend	–	–	–	–	–	–1,466	–1,466	–21	–1,488
Share repurchases	–	–	–	–	–	–36	–36	–	–36
Share-based payments	–	–	–	–	–	21	21	–	21
Closing shareholders' equity 2019	262	496	–	–	–32	3,292	4,020	229	4,249

Income statement Parent Company

SEK m	Note	2019	2018
Net sales		4	3
Selling expenses		-2	-1
Administrative expenses	7, 8, 9, 10	-399	-375
Other operating income	7	261	248
Operating result		-136	-125
Profit from participations in Group companies	13	22	18
Interest income and similar profit/loss items	13	5	5
Interest expense and similar profit/loss items	13	-2	-2
Result after financial items		-111	-104
Appropriations	14	1,825	1,681
Profit before tax		1,714	1,577
Current tax	15	-363	-355
Deferred tax	15	-1	2
Profit for the year		1,350	1,224

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

Balance sheet Parent Company

SEK m	Note	31/12/2019	31/12/2018
Assets			
Property, plant and equipment			
Equipment, tools and fixtures	18	17	5
		17	5
Financial assets			
Participations in Group companies	20	3,397	3,386
Deferred tax assets	15	8	8
Other non-current receivables		0	–
		3,404	3,394
Total non-current assets		3,421	3,399
Current assets			
<i>Current receivables</i>			
Accounts receivable – trade		2	2
Receivables from Group companies		3,360	2,854
Other current receivables		5	–
Prepaid expenses and accrued income	22	26	10
		3,393	2,866
Cash and bank balances		373	848
Total current assets		3,765	3,714
Total assets		7,187	7,113
Shareholders' equity and liabilities			
Shareholders' equity			
<i>Restricted shareholders' equity</i>			
Share capital		262	262
Revaluation reserve		25	25
		287	287
<i>Unrestricted shareholders' equity</i>			
Profit brought forward		1,049	1,307
Profit for the year		1,350	1,224
		2,399	2,531
Total shareholders' equity		2,686	2,818
Untaxed reserves	14	2,907	2,639
Provisions			
Provisions for pensions	24, 27	20	24
		20	24
Non-current liabilities			
Other non-current liabilities		3	2
		3	2
Current liabilities			
Accounts payable – trade		18	19
Liabilities to Group companies	27	1,482	1,512
Current tax liability		–	30
Other current liabilities		5	6
Accrued expenses and deferred income	28	66	63
		1,571	1,630
Total shareholders' equity and liabilities		7,187	7,113
Net debt receivable, Parent Company			
SEK m		31/12/2019	31/12/2018
Interest-bearing portion of Receivables from Group companies		–1,180	–920
Cash and cash equivalents		–373	–848
Provisions for pensions		20	24
Interest-bearing portion of Liabilities to Group companies		1,392	1,498
Net debt receivable		–141	–246

Cash flow statement and shareholders' equity Parent Company

Cash flow statement

SEK m	2019	2018
Operating activities		
Result before financial items	-136	-125
Interest paid	-2	-2
Interest received	5	5
Dividend from participations in Group companies	22	18
Depreciation/amortization	3	11
Adjustments for non-cash items	7	2
Paid tax	-398	-397
Cash flow from operating activities before changes in working capital	-500	-488
Cash flow from changes in working capital		
Change in current receivables	-274	113
Change in current liabilities	-103	-55
Cash flow from operating activities	-877	-430
Investing activities		
Acquisitions of property, plant and equipment	-15	-4
Acquisitions of subsidiaries	-	-43
Sales of property, plant and equipment	0	9
Sales of subsidiaries	-	0
Acquisitions of financial assets	-	0
Cash flow from investing activities	-15	-38
Financing activities		
Shareholder dividend	-1,466	-1,468
Share repurchases	-36	-30
Group contribution received	1,934	2,044
Group contribution rendered	-14	-34
Cash flow from financing activities	417	512
Cash flow for the year	-475	44
Cash and cash equivalents at start of year	848	804
Cash and cash equivalents at year-end	373	848

Shareholders' equity

SEK m	Restricted shareholders' equity		Unrestricted shareholders' equity	Total shareholders' equity
	Share capital	Revaluation reserve	Profit brought forward	Total
Opening shareholders' equity 2018	262	25	2,795	3,082
Profit for the year	-	-	1,224	1,224
Shareholder dividend	-	-	-1,468	-1,468
Share repurchases	-	-	-30	-30
Share-based payments	-	-	10	10
Closing shareholders' equity 2018	262	25	2,531	2,818
Profit for the year	-	-	1,350	1,350
Shareholder dividend	-	-	-1,466	-1,466
Share repurchases	-	-	-36	-36
Share-based payments	-	-	21	21
Closing shareholders' equity 2019	262	25	2,399	2,686

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

Notes

Contents

NOTE 1	Significant accounting policies	54
NOTE 2	Operating segments	61
NOTE 3	Acquired operations	61
NOTE 4	Discontinued operations	62
NOTE 5	Revenue	62
NOTE 6	Breakdown of expenses	62
NOTE 7	Information on intra-Group income and expenses	62
NOTE 8	Information on employees, and compensation of directors, the President and other senior executives	62
NOTE 9	Auditors' fees	66
NOTE 10	Depreciation/amortization	66
NOTE 11	Leases	67
NOTE 12	Related party transactions	68
NOTE 13	Net financial items	68
NOTE 14	Appropriations and untaxed reserves	68
NOTE 15	Taxes	68
NOTE 16	Earnings per share	70
NOTE 17	Intangible assets	70
NOTE 18	Property, plant and equipment	71
NOTE 19	Government grants	72
NOTE 20	Participations in Group companies	72
NOTE 21	Participations in associated companies	73
NOTE 22	Prepaid expenses and accrued income	73
NOTE 23	Equity	74
NOTE 24	Provisions for pensions	74
NOTE 25	Financial assets and liabilities	76
NOTE 26	Financial risks	76
NOTE 27	Non-current and current interest-bearing liabilities	78
NOTE 28	Accrued expenses and deferred income	78
NOTE 29	Contingent assets, pledged assets and contingent liabilities	79
NOTE 30	Events after the reporting period	79
NOTE 31	Information on Parent Company	79
NOTE 32	Critical judgements and estimations	79
NOTE 33	Proposed disposition of the Company's profit	79

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 2020. 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 18 March 2020.

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 in a net amount 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. In texts and tables, figures between 0 and 0.5 are reported as 0.

Estimations and judgements in the financial statements

In preparing the financial statements in accordance with IFRS, the Board and the Executive Committee make estimations and assumptions that affect the Company's result and position as well as other disclosures in general. The actual outcome may deviate from these estimations and judgements. Estimations and assumptions 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 32.

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 New reporting standard, IFRS 16

The Group applies IFRS 16 Leases starting on 1 January 2019. As a result of this, the Group has changed its accounting policies for leases as outlined below. The Group has elected to apply the modified retrospective method for the transition, which entails among other things at the comparison year has not been restated according to IFRS 16.

Definition of leasing

In the transition to IFRS 16 the Group elected to apply the relief rule, entailing that IFRS 16 is applied for contracts previously identified as leases and not for contracts that previously were determined to not include a lease component. Consequently, the definition of lease according to IFRS 16 is applied only for contracts that have been amended or entered into after 1 January 2019.

Leases where the Group is lessee

Leases previously classified as operating leases according to IAS 17

In the transition, lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate on the first day of application (1 January 2019). Right-of-use assets were measured at their carrying amount as if IFRS 16 had been applied from the lease's inception date based on the incremental borrowing rate that applied on the initial reporting occasion.

The Group has elected to apply the following relief rules for previous operating leases in the transition to IFRS 16:

- Application of a single discount rate for a portfolio of leases with similar characteristics.
- Adjustment of the right-of-use asset by an amount that has been reported as a provision for operating leases that represented loss contracts immediately prior to the first day of application as an alternative to performing an impairment review.
- Right-of-use assets and lease liabilities have not been reported for leases for which the lease term ends within 12 months after the transition date (short-term leases).
- Exclusion of initial direct fees from measurement of the right-of-use asset on the first day of application.
- Judgements made subsequently in setting the lease term of whether the contract includes opportunities to extend or terminate the lease.

Leases previously classified as finance leases

The transition to IFRS 16 has not entailed any significant difference for the Group's previous finance leases.

Leases where the Group is lessor

The transition to IFRS 16 has not entailed any significant difference for leases where the Group is lessor. All leases are classified as operating leases.

Effects on the balance sheet 1 January 2019 (SEK m)

Property, plant and equipment	-115
Right-of-use assets	5,897
Deferred tax assets	103
Prepaid expense	-199
Shareholders' equity	394
Lease liabilities – non-current	-4,662
Lease liabilities – current	-1,437
Accrued expense	19

In the valuation of the lease liability, the Group discounted the lease payments using its incremental borrowing rate as per 1 January 2019. The weighted average rate used is approximately 2%.

Reconciliation of assumptions for operating leases (SEK m)

Assumptions for operating leases, 31 December 2018	6,318
Discounting using the Group's incremental borrowing rate	-370
Liabilities for finance leases, 31 December 2018	51
Contracts pertaining to short-term leases that are expensed	-2
Contracts pertaining to leases of assets with a low value that are expensed	-4
Adjustment for extension option or termination clauses	219
Lease liability on 1 January 2019	6,212

New IFRSs that have not yet begun to be applied

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 taken over on the acquisition date, as well as of any non-controlling interests. Transaction costs that arise, with the exception of transaction costs 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) exceeds the fair value of separately reported acquired assets and liabilities taken over, the differ-

ence 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 21

Associated companies are companies in which the 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 in the consolidated accounting. The equity method entails that the 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.

Transactions that are eliminated upon consolidation

Note 7

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

Note 11

Policies applied as from 1 January 2019

When a contract is entered into, the Group identifies whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the inception of the lease or when reconsidering if a lease includes several components – lease and non-lease components – the Group allocates the consideration in accordance with the contract to each com-

Note 1. Significant accounting policies cont.

ponent based on the standalone price. In cases where it is not possible to distinguish between the components, they are recognized as a single lease component.

Leases where the Group is lessee

The Group recognizes a right-of-use asset and a lease liability on the commencement date of the lease. The right-of-use asset is initially measured at cost, which consists of the lease liability's initial value plus lease fees paid on or before the commencement date, plus any initial, direct fees. The right-of-use asset is depreciated on a straight-line basis from the commencement date until the earlier of the end of the asset's useful life and the end of the lease term, which normally for the Group is the end of the lease term. In cases where the cost of the right-of-use asset reflects that the Group will exercise an option to buy the underlying asset, the asset is depreciated until the end of its useful life.

The lease liability – which is broken down into a non-current and current portion – is initially measured at the present value of the remaining lease payments during the assessed lease term. The lease term consists of the uncancellable period plus additional periods in the contract if, at the commencement date, it is determined to be reasonably certain that these will be used.

The lease payments are discounted using the Group's incremental borrowing rate, which reflects the Group's credit risk. The incremental borrowing rate is allocated to different terms, depending upon how long the lease is.

The lease liability includes the present value of the following fees during the assessed lease term:

- fixed fees, including fixed fees in substance,
- variable lease payments coupled to an index or price, initially measured using an index or price that applied on the commencement date,
- any residual value guarantees that are expected to be paid,
- the redemption price of a call option that the Group is reasonably certain to exercise, and
- penalty fees that arise in connection with termination of the lease if the assessed lease term reflects that such termination will take place.

The liability's value increases by the interest expense for the respective periods and decreases with payments of principal. The interest expense is calculated as the liability's value times the discount rate.

The lease liability for the Group's premises with a rent that is indexed is calculated based on the rent that applies at the end of the respective reporting period. At this point in time, the liability is adjusted with a corresponding adjustment of the right-of-use asset's carrying amount. In a corresponding way, the liability's and asset's values are adjusted in connection with reassessment of the lease term. This is done in connection with the passing of the final termination date within a previously assessed lease term for rent of a premise or alternatively when significant events occur or circumstances change in a significant way that is within the Group's control and affects the current assessment of the lease term.

For leases with a lease term of 12 months or less or with an underlying asset of low value – less than SEK 50 k – no right-of-use asset or lease liability is recognized. Lease payments for these leases are recognized as an expense on a straight-line basis over the lease term. This applies also for variable lease payments.

For impairment testing, see the heading Impairment in Note 1.

Leases where the Group is lessor

In cases where the Group is lessor, a determination is made on the inception date of every lease whether the lease is to be classified as a finance or an operating lease.

When determining the classification, an overall assessment is made of whether the lease in all essential respects conveys the financial risks and benefits associated with ownership of the underlying asset. If such is the case, the lease is a finance lease; otherwise it is an operating lease.

When a leased asset is sub-let, the main lease and the sub-lease are recognized as two separate contracts. The Group classifies the sub-lease based on the right of use that arises out of the main lease, not based on the underlying asset.

The Group recognizes lease payments from operating leases as revenue on a straight-line basis over the lease term.

Policies applied through 31 December 2018**Operating leases**

Costs for operating leases are recognized in profit or loss for the year on a straight-line 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 straight-line basis over the term of the lease. Variable fees are expensed in the periods in which they are incurred.

Finance leases

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 investments 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, leases, 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 26**

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 and 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.

Intangible assets

Note 17

Goodwill

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

Goodwill is valued at cost less any accumulated impairment. Goodwill is attributed to the relevant cash-generating units and is not amortized, but is instead tested annually for impairment, see Note 17 and the heading Impairment.

Development

Costs for development 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 stated 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 sub-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	Remaining lease period
Customer relationships	Length of customer relationship/agreement
Other intangible assets	20–33%

Useful life is reassessed every year.

Property, plant and equipment

Note 18

Property, plant and equipment are carried at cost after deducting accumulated depreciation 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.

Policies applied through 31 December 2018

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 finance 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 25, 26, 27

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.

All financial assets that are not classified as measured at amortized cost 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. See Note 26 for derivatives identified as hedge instruments.

Financial assets measured at amortized cost

Subsequent measurement of these assets is done at amortized cost using the effective interest method. The amortized cost is reduced by impairment. Interest income, foreign exchange gains and losses and impairment

Note 1. Significant accounting policies cont.

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 26 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 reported in profit or loss. The Group identifies certain derivatives as hedge instruments to hedge the variability in cash flows from changes in exchange rates associated with highly probable transactions. 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 hedge 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, 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 in 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, 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 determine any need to recognize impairment. The carrying amount is also tested when an indication of a decrease in value has been identified. An impairment loss is recognized for an asset if its carrying amount exceeds its recoverable amount, where the recoverable amount is defined as the higher of the asset's net sales value and its value in use. In calculating value in use, future cash flows that the asset is expected to generate are discounted using an interest rate that reflects the current market assessment of the time value of money and the cash-generating units' specific risks. This interest rate is believed to correspond to Axfood's weighted cost of capital. A separate asset is attributed to the smallest cash-generating unit in which independent cash flows can be determined. Impairment is charged against profit or loss. Impairment of assets pertaining to a cash-generating unit is applied primarily to goodwill. Thereafter, a proportional write-down is made of other assets included in the unit.

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

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

Provisions

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

Provisions are reported in the statement of financial position under other current and non-current liabilities.

Employee compensation

Notes 8, 24

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 and inflation. 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.

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 salaried 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 24.

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 share rights. 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 29

A contingent liability is disclosed 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.

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

Unless otherwise stated below, the Parent Company's accounting policies in 2019 have changed in accordance with what is stated above for the Group.

The new policies for leases, according to IFRS 16, which have begun to be applied by the Group are not applied by the Parent Company. The Parent Company applies an exception opportunity in RFR 2 with the effect that the Parent Company recognizes existing leases in the same way as in previous years.

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

Note 1. Significant accounting policies cont.

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 compensation/defined benefit pension plans

For calculations of defined benefit pension plans, the Parent Company adheres to the provisions of the Pension Obligations Vesting Act (*Tryg-gandelagen*) 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 and associated companies. Financial guarantees entail that the Company has an obligation to com-

pensate 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 and associated companies. 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

The Parent Company does not apply IFRS 16, in accordance with the exception that is provided in RFR 2. As a lessee, lease fees are recognized as an expense on a straight-line basis over the lease term, and thus rights of use and lease liabilities are not carried on the balance sheet. Leases in which the Parent Company is the lessor are recognized as 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.

Changed accounting policies 2019 and later

See the changed accounting policies for the Group above.

2 Operating segments

Axfood's operating segments have been determined based on the information considered by the 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 2019 or 2018. No impairment losses were reversed in 2019 or 2018. No significant non-cash items other than depreciation and amortization arose during 2019 and 2018.

Axfood's identified operating segments are Willys, Hemköp, Dagab and Axfood Snabbgross. For more information on the segments, see pp. 40–43.

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, Legal Affairs, Communications, Business Development, HR and IT.

Per operating segment	Willys		Hemköp		Axfood Snabbgross		Dagab		Joint-Group		Eliminations		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Result of operations														
External net sales	29,029	27,066	6,378	6,403	3,440	3,236	11,827	11,327	66	54			50,740	48,085
Internal net sales	–	–	–	–	3	5	33,068	31,130	862	775	–33,932	–31,910	–	–
Net sales	29,029	27,066	6,378	6,403	3,443	3,241	44,895	42,456	928	830	–33,932	–31,910	50,740	48,085
Depreciation of property, plant and equipment, and amortization of intangible non-current assets	–258	–269	–120	–122	–18	–20	–115	–109	–255	–241			–765	–760
Depreciation of right-of-use assets	–733	–	–324	–	–62	–	–219	–	–42	–			–1,380	–
Total depreciation/amortization	–991	–269	–444	–122	–79	–20	–334	–109	–297	–241			–2,146	–760
Share of profit in associated companies	–	–	–	–	–	–	–25	–17	–	–			–25	–17
Operating profit (EBIT)	1,429	1,197	243	227	167	121	678	685	–229	–206			2,288	2,025
Operating profit excl. IFRS 16	1,326	1,197	201	227	160	121	658	685	–232	–206			2,114	2,025
Financial items, net													–115	–9
Consolidated profit before tax													2,173	2,016
Other disclosures														
Investments in non-current assets ¹⁾	359	269	141	110	35	10	683	237	263	273			1,481	899
Investments in right-of-use assets ²⁾	533	–	256	–	73	–	95	–	14	–			971	–
Total investments in non-current assets	892	269	397	110	108	10	778	237	277	273			2,452	899

¹⁾ Property, plant and equipment and intangible non-current assets, excluding acquisitions of operations.

²⁾ Acquisitions and revaluations of right-of-use assets.

3 Acquired operations

Acquisitions in current year

Axfood did not make any significant acquisitions in 2019.

Acquisitions in the preceding year

In 2018 Axfood acquired four stores and shares in Urban Deli Holding AB. Axfood's ownership stake in Urban Deli Holding AB amounted to 90.7% of the shares as of 31 December. The purchase price allocation analyses are final, and no significant changes have taken place compared with previously presented purchase price allocation analyses.

The following assets and liabilities were acquired in 2018

	Fair value reported in Group
Intangible assets	43
Property, plant and equipment	26
Deferred tax assets	13
Current assets	27
Interest-bearing non-current liabilities	–20
Interest-bearing current liabilities	–6
Other current liabilities	–70
Total identified net assets	13
Previously owned share	23
Non-controlling interest	0
Goodwill	54
Purchase price	90
Cash and cash equivalents in acquired companies	–1
Contingent consideration	–15
Consideration paid in preceding year	–29
Impact on cash and cash equivalents since the start of the year	45

4 Discontinued operations

Sold operations

During the year, six store operations were sold. Two of the store operations pertained to sales of companies to the respective store managers in accordance with the 91/9 model. In addition, participations in the Direkten stores were sold, and the company that was previously classified as an asset held for sale was sold. 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 23 m (2).

5 Revenue

The Group conducts retail trade through the Hemköp, Willys, Eurocash and Axfood Snabbgross chains. Revenue 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. Revenue 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 revenue 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. Revenue 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.

Revenue 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. Revenue is recognized only to the extent that it is highly probable that a significant reversal of the recognized revenue will not arise, as the uncertainty associated with the variable consideration ceases. 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 revenue is thereby recognized on a linear basis over the contract period. The services' share of Axfood's total sales is insignificant.

6 Breakdown of expenses

Group	2019	2018
Cost of goods for resale	36,684	34,985
Personnel costs	7,005	6,307
Depreciation/amortization	2,146	760
Other	3,115	4,482
Total	48,950	46,534

7 Information on intra-Group income and expenses

The Parent Company's income from Group companies amounted to SEK 246 m (223). The Parent Company's expenses from Group companies amounted to SEK 70 m (60). The Parent Company's sales to Group companies consist mainly of compensation to cover shared costs for rents, central administration and shared systems. The Parent Company's compensation to Group companies consists mainly of compensation for system support and rents.

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

Average number of employees ¹⁾

	2019	Of whom, men	2018	Of whom, men
Parent Company				
Average number of employees	175	45	158	42
Subsidiaries				
Average number of employees	10,679	5,046	10,057	4,805
Total, Group	10,854	5,091	10,215	4,847

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

Gender breakdown of senior executives, Group

	Share of women	
	2019	2018
Board of Directors, Parent Company	43%	50%
Executive Committee	30%	30%

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

	2019			2018		
	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	141	73	26	130	68	27
Subsidiaries	4,436	1,739	340	4,063	1,616	324
Total, Group	4,577	1,812	366	4,193	1,684	351

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

Board of Directors

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

	2019	2018
Parent Company	Directors' fees	Directors' fees
Mia Brunell Livfors (Chairman of the Board)	686	675
Lars Olofsson (Vice Chairman of the Board)	528	515
Other board members:		
Antonia Ax:son Johnson ¹⁾	106	421
Fabian Bengtsson	433	421
Caroline Berg	433	421
Christer Åberg	433	421
Stina Andersson	433	319
Jesper Lien	433	319
Michael Sjöörén (employee rep.)	–	–
Anders Helsing (employee rep.)	–	–
Lars Östberg (employee rep.)	–	–
Total	3,485	3,512

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 2019 AGM, the annual fee payable to directors was set at KSEK 3,395 (3,745), of which KSEK 690 (675) is payable to the Chairman. 75% of the fees were paid out in 2019, with the remainder being paid out after year-end. Expended fees paid to the board members are shown in the table.

¹⁾ Antonia Ax:son Johnson resigned in connection with the 2019 AGM.

Senior executives

Starting in 2019, senior executives are defined as members of the Executive Committee. For the composition of the Executive Committee, see pp. 134–135.

Expended salaries, other compensation and benefits

KSEK	Basic salary		Variable compensation		Other benefits		Pension cost		Other compensation		Total		Share-based payments ²⁾	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
President	7,420	7,057	3,771	3,366	181	158	2,610	2,455	–	–	13,982	13,036	4,035	2,079
Other senior executives, Executive Committee ¹⁾	25,494	21,042	9,358	9,752	894	961	6,787	6,230	45	46	42,578	38,031	5,595	2,942
Total	32,914	28,099	13,129	13,118	1,075	1,119	9,397	8,685	45	46	56,560	51,067	9,630	5,021

¹⁾ Of expended base salaries, variable compensation, share-based payments and other compensation paid out, KSEK 23,628 (21,885) pertains to compensation that the senior executives received from other Group companies. Of other benefits, KSEK 644 (616) pertains to compensation from other Group companies.

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

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. 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. In the event the Company serves notice of termination of employment, a notice period of a maximum of 12 months applies, on account. In addition, severance pay corresponding to a maximum of 12 months' salary may be payable in certain cases, on account. For notice given by the executive, a six-month notice period applies. The retirement age is set at 65 years. The basic pension benefit consists of the so-called ITP plan, where three 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 Income 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.

President

The President's variable compensation is based on the performance and development of the business. The variable compensation for the President 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 the President was employed during the entire earnings year.

In addition, the President has a taxable car benefit and private health insurance. The President 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 of termination of employment, 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.

Information on decided compensation that has not fallen due for payment and on departures from the guidelines for compensation decided on by the 2019 Annual General Meeting

Previous Annual General Meetings have resolved on guidelines for compensation and other terms of employment for senior executives for the period up until the next Annual General Meeting. In short these guidelines entail that, in addition to base salary, variable compensation shall be payable, tied in part to Axfood's targets for earnings and sales growth and in part to 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 2019 Annual General Meeting have been adhered to, and all previously approved compensation that has not yet been paid out is within the frameworks described above.

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

Long-term incentive programmes
Group

	LTIP 2019	LTIP 2018	LTIP 2017
Vesting terms	Three-year TSR>0 Sales growth at market level to +2% on average over 3 years' time and EBIT margin >3.5% on average over 3 years' time. TSR level with SIX Return Index 2019–2021 accumulated up to 10% better than same period. Accumulated sales of sustainability-labelled products during the period 2019–2021 reach a level of up to 10% higher than the level as per 31 December 2018.	Three-year TSR>0 Sales growth at market level to +2% on average over 3 years' time 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 at market level to +2% on average over 3 years' time 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	186.00	161.75	143.50
Number of participants upon grant	58	59	59
Number of participants on balance sheet date ¹⁾	58	58	48
Grants of matching shares, number ²⁾	26,600	23,432	20,271
Grants of performance shares, number ²⁾	159,600	140,592	121,625
Maximum number of matching shares and performance shares	205,426	185,275	161,944
Weighted average fair value at measurement date for entire term ^{3) 4)}	46.1	35.1	27.2
Cost for the year	9.7	12.1	12.4
Accumulated cost	9.7	19.5	23.9
Maximum cost for entire term	68.1	55.5	42.1
Liability (social security charges)	2.8	6.5	9.1
Vesting period	3 years	3 years	3 years
Term	May 2019–May 2022	May 2018–May 2021	May 2017–May 2020

¹⁾ Of whom, senior executives, 7 persons for LTIP 2017, 9 persons for LTIP 2018 and 10 persons for LTIP 2019.

²⁾ Of the matching shares, 33,650 pertain to senior executives. Of the performance shares, 201,900 pertain to senior executives.

³⁾ Of fair value, SEK 51.7 m pertains to senior executives.

⁴⁾ Of which, matching shares SEK 15.2 m and performance shares SEK 93.1 m.

On 12 May 2017, 14 May 2018 and 17 May 2019 the Group started long-term share-based incentive programmes (LTIP) following resolutions by the respective years' Annual General Meetings.

The programmes 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 approximately 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 the maximum number of performance share rights require continued employment by the Axfood Group during the entire programme period 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 for the LTIP 2017 and LTIP 2018 programmes and a maximum of three shares for the 2019 programme). For LTIP 2019, an additional sustainability requirement has been made which provides for a maximum of one share.

If a participant's permanent employee status ceases during the vesting period due to contractual or early retirement, the grant of share rights will be reduced in proportion to the amount of the vesting period that passed at the time of retirement.

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

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 were affected by the number of persons who have left the programme and persons who retired, and by an increase in the probability of target achievement of performance requirements with respect to sales and EBIT from 75% to 100% for LTIP 2017.

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. To secure the Company's obligation for conditional matching and performance shares under LTIP 2019, during the second quarter of 2019 Axfood repurchased 196,000 shares for a total of SEK 36 m at an average price of SEK 186.00 per share.

The holding of treasury shares thereby amounts to 572,000 shares and secures delivery of shares to all programmes.

Parent Company

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

	LTIP 2019	LTIP 2018	LTIP 2017
Weighted average fair value at measurement date for entire term ¹⁾	22.0	17.0	12.8
Cost for the year	4.7	5.8	5.5
Accumulated cost	4.7	9.5	11.1
Liability (social security charges)	1.4	3.0	4.1

¹⁾ Of fair value, SEK 32.3 m pertains to senior executives.

Guidelines for compensation of senior executives

Most recently decided guidelines for compensation of senior executives (adopted by the 2019 Annual General Meeting)

Axfood shall offer compensation that is in line with the going rate in the market and is based on factors such as the importance of the work duties and the executive's expertise, experience and performance, and may consist of the following components: fixed base salary, short-term variable compensation, long-term share-based incentive programme, pension, other benefits and severance terms.

Fixed base salary

Members of the Executive Committee shall have a cash base salary that is attractive in comparison with the market. Base salary constitutes compensation for a committed work contribution at a high professional level, which creates value-added for Axfood's customers, owners and employees.

Variable compensation

Short-term variable cash compensation shall be based on the achievement of Axfood's targets for earnings and sales growth as well as on the individual's personal goals for the financial year. Short-term variable compensation shall amount to a maximum of 60% of base salary paid out during the year for the President and 50%–55% of base salary paid out during the year for the other members of the Executive Committee. During 2019 the combined short-term variable compensation for the current members of the Executive Committee can amount to a maximum of approximately SEK 16.5 m. In the event the Executive Committee is expanded, the level of variable compensation may exceed this amount. The right to variable compensation is forfeited in cases where an executive gives notice prior to the end of the vesting year.

Long-term variable compensation shall be payable through participation in a long-term share-based incentive programme (LTIP) that is approved by a general meeting of shareholders. The aim of an LTIP is to align the shareholders' and participants' interests in achieving maximum long-term value creation for Axfood. The 2017 and 2018 Annual General Meetings each resolved to implement long-term share-based incentive programs, LTIP 2017 and LTIP 2018, respectively. Participation in an LTIP requires a personal shareholding in Axfood. A grant of shares requires that the participant continues to be employed in the Axfood Group, continues to have a shareholding in Axfood, and that certain performance targets are met. The Board of Directors has proposed that the 2019 Annual General Meeting resolve to implement an additional share-based incentive programme (LTIP 2019). For further information about the proposed LTIP programme, the Board's proposal is provided below.

Pension

The members of the Executive Committee have pension solutions that are customary, competitive and entered into at market terms. The pension solutions are secured through premium payments to insurance companies. Axfood applies a retirement age of 65 for all members of the Executive Committee.

Other benefits

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.

Notice period and severance terms

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

Departures from the guidelines

The Board may depart from these guidelines in individual cases if special reasons exist.

Proposed guidelines for compensation of senior executives

The guidelines apply for the President and CEO of Axfood as well as members of the Executive Committee, who report directly to the CEO. The guidelines do not cover compensation decided on by a general meeting of shareholders, such as directors' fees or share-based incentive programmes.

The guidelines shall be applied for compensation that is agreed upon, and changes made to already agreed upon compensation, after the guidelines have been adopted by the 2020 Annual General Meeting.

The guidelines steer the decisions on compensation made by the Board's Compensation Committee with respect to senior executives who report directly to the CEO and by the Board in its entirety with respect to the CEO.

The guidelines' promotion of Axfood's business strategy, long-term interests and sustainability

Axfood's vision entails that the Company shall be a leader in good and sustainable food. To achieve this, Axfood works according to a strategy of growth-promoting priorities and efficiency improvement measures. Added to this is a strong employee focus. Axfood's strategies rest upon a values-steered culture and core values, on sustainability and on community engagement. Axfood's business concept is to be a family of successful and distinctive food concepts in close collaboration. This entails, among other things, that every food concept shall offer the best customer experience for its target group, and that purchasing and logistics for all of the food concepts are handled in a joint organization. This results in collaboration that creates an efficient and strong group. Axfood's strategy, vision and goals are described in more detail on the Company's website: www.axfood.se.

Successful implementation of Axfood's business strategy and capitalization of Axfood's long-term interests, including its sustainability, requires that Axfood can recruit and retain qualified employees with the right expertise. Achieving this requires that Axfood can offer competitive compensation. The guidelines ensure that senior executives can be offered a competitive total compensation package.

Axfood has established long-term share-based incentive programmes. They have been set by the Annual General Meeting and therefore are not covered by these guidelines. The programmes include the Chief Executive Officer (CEO), other senior executives, members of their management teams and key persons. The performance requirements used to assess the outcome of the programmes have a clear coupling to the business strategy and to Axfood's long-term value creation, including sustainability. For further information about these programmes, including the criteria that the outcomes are based on, see <https://www.axfood.se/investerare/bolagsstyrning/arsstamma>.

Variable compensation covered by these guidelines shall aim to promote Axfood's business strategy and long-term interests, including its sustainability.

Forms of compensation

Axfood shall offer compensation that is in line with the going rate in the market and is based on factors such as the importance of the work duties and the executive's expertise, experience and performance, and may consist of fixed base salary, short-term variable compensation, pension benefits, insurance and other benefits. In addition, a general meeting of shareholders can – and independent of these guidelines – decide on share-based and share price-related compensation.

Fixed salary

Fixed salary constitutes compensation for a committed work contribution at a high professional level that ultimately aims to create value-added for Axfood's customers, shareholders and employees. Fixed salary shall be attractive in comparison with the market and be based on the executive's expertise, experience and performance. Salaries are reviewed yearly. Senior executives do not receive fees for board assignments in the Axfood Group's subsidiaries and associated companies.

Variable compensation

In addition to fixed salary, variable compensation may be payable. Variable compensation shall be coupled to measurable criteria that are formulated to promote the Company's business strategy and long-term interests, including its sustainability. The criteria shall be adopted yearly by the Compensation Committee and the Board of Directors. Variable compensation shall be based on the achievement of Axfood's – and where applicable, the subsidiary's – targets for earnings and sales growth as well as the executive's personal goals for the financial year. The measurement period is one year, and the compensation can amount to a maximum of 60% of fixed salary paid out during the year.

Additional variable compensation may be payable for extraordinary circumstances, provided that such extraordinary arrangements are only made at the individual level for the purpose of recruiting or retaining executives, or as compensation for an extraordinary work contribution on top of the person's normal work duties. Such compensation may not exceed an amount corresponding to 50% of his or her fixed annual salary and may not be awarded more than once a year per individual. Decisions on such compensation shall be made by the Board of Directors based on a recommendation by the Compensation Committee.

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

When the measurement period for fulfilment of the criteria for payment of variable cash compensation has ended, it shall be assessed and/or determined to what extent the criteria have been met. In the annual evaluation, the Compensation Committee – or the Board, where applicable – can adjust the targets and/or compensation for both positive and negative extraordinary events, reorganizations and structural changes.

Variable compensation shall not be payable if the Axfood Group has a negative result (i.e., a loss according to the adopted consolidated profit and loss account and consolidated balance sheet), regardless of whether the specific targets in applicable cases for a subsidiary and/or the individual goals for the senior executive have been achieved.

Pension and other benefits

Axfood applies a retirement age of 65 for all senior executives.

For the CEO, pension benefits shall be in accordance with a defined contribution solution. Variable compensation shall not be pensionable. Pension premiums for defined contribution pensions shall amount to a maximum of 35% of pensionable salary (which corresponds to the fixed monthly salary multiplied by a factor of 12.2).

Externally recruited senior executives shall have a defined contribution pension plan in accordance with ITP 1 (except for a new CEO).

Other benefits shall be of limited scope and may include, for example, disability, life and health insurance, and a car, travel and housing benefit.

With respect to employment conditions subject to other rules than those that apply in Sweden, with respect to pension benefits and other benefits, customary adjustments may be made to comply with such compulsory rules or local practice, whereby the overarching purpose of these guidelines shall be met.

Cessation of employment

For notice of termination served by the employer, the notice period may be a maximum of 12 months. Fixed salary during the notice period and severance pay may together not exceed an amount corresponding to two years' fixed salary. For notice given by a senior executive, the notice period may be a maximum of six months, without any right to severance pay.

In addition, compensation may be payable for any noncompete obligation. Such payment shall compensate the executive for possible loss of income and shall only be made during the period that the executive lacks a right to severance pay. The monthly compensation shall amount to a maximum of 60% of the executive's monthly income for the 12 months that precede the end of employment. The compensation shall be payable during the time that the noncompete obligation applies, which shall be a maximum of nine months after the end of employment.

Salary and terms of employment for employees

Salary and terms of employment for Axfood's employees have been taken into account in the drafting of the Board's proposal for these compensation guidelines. Information on the employees' total compensation, compensation components and the increase in compensation and the rate of growth over time has made up part of the Compensation Committee's and the Board's decision-making documentation in their evaluation of the fairness of the guidelines and the limitations that emanate from these.

Decision-making process for adopting, reviewing and implementing the guidelines

The Board of Directors has established a Compensation Committee. The committee's duties include conducting preparatory work for the Board's decisions on proposed guidelines for compensation of senior executives, compensation and other terms of employment for this group. The Board shall draw up a proposal for new guidelines at least every four years and submit the proposal for decision by the Annual General Meeting.

The guidelines shall apply until new guidelines have been adopted by a general meeting of shareholders. The Compensation Committee shall also monitor and evaluate ongoing programmes and programmes concluded during the year for variable compensation for members of the Executive Committee, application of guidelines for compensation of senior executives, and applicable compensation structures and compensation levels at Axfood. The Compensation Committee's members are independent in relation to Axfood and the Executive Management. In the Board's handling of and decisions on compensation-related matters, the CEO or other members of the Executive Committee are not present to the extent they are the subject of the matter at hand.

Departures from the guidelines

The Board of Directors may decide to temporarily depart from the guidelines entirely or partly if in specific cases there are special reasons for doing so and a departure is necessary to safeguard the Axfood Group's long-term interests, including its sustainability, or to safeguard the Group's financial soundness. As stated above, it is part of the Compensation Committee's duties to conduct preparatory work for the Board's decisions on compensation matters, which includes decisions to depart from the guidelines.

Description of significant changes in the guidelines and how the shareholders' views are taken into account

The proposed guidelines submitted to the 2020 Annual General Meeting do not entail any significant changes in relation to the Company's existing compensation guidelines. The Company has not received any views from the shareholders.

9 Auditors' fees

	Group		Parent Company	
	2019	2018	2019	2018
Deloitte				
Auditing fees	5	5	1	1
Auditing services in addition to the audit assignment	0	1	0	1
Other services	5	6	–	0
Total	10	12	1	2

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 services 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		Right-of-use assets		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Cost of goods sold	161	150	3	2	491	474	560	–	1,216	626
Selling expenses	–	4	0	0	44	45	688	–	732	49
Administrative expenses	10	10	0	0	56	75	132	–	198	85
Total depreciation/amortization	171	164	3	2	591	594	1,380	–	2,146	760

The Parent Company's depreciation of SEK 3 m (11) pertains to equipment, tools, fixtures and fittings and is reported under administrative expenses.

11 Leases

The effect of application of IFRS 16 for the Group's leases is described in Note 1, Significant accounting policies. The transition method that the Group has elected to apply for application of IFRS 16 entails that comparative information has not been restated to reflect the new requirements.

Lessee

The Group leases several types of assets including premises, vehicles, machinery and IT equipment.

Right-of-use assets

	Premises	Vehicles	Other	Total
Depreciation during the year	-1,302	-67	-11	-1,380
Closing balance at 31 December 2019	5,267	126	13	5,407

Additional right-of-use assets in 2019 amounted to SEK 971 m. This amount includes the cost of newly acquired rights of use during the year totalling SEK 325 m and revaluations of SEK 647 m.

Lease liabilities

For a term analysis of lease liabilities, see Note 26, Financial risks.

Amounts reported in the Statement of profit or loss and other comprehensive income

	2019
Depreciation of right-of-use assets	-1,380
Interest on lease liabilities	-109
Variable lease payments not included in the valuation of the lease liability	-95
Income from subletting of right-of-use assets	107
Costs for short-term leasing	-3
Costs for leases with low value, not short-term leases of low value	-4

Amounts reported in the Statement of cash flows

	2019
Total outgoing cash flow attributable to leases	-1,653

The outgoing cash flow above includes both amounts for leases recognized as a lease liability and amounts paid for variable lease payments, short-term leases and leases of low value.

Leases of premises

Axfood leases premises for stores, warehouses and offices. The leases normally have a term of between three and ten years. Certain leases include variable lease payments that are based on changes in the Group's sales in the leased premises during the year. Property taxes charged by the property owner also constitute a variable payment. The Group has obligations for variable lease payments going forward, which follow the term of the leases.

The Group sublets certain premises as operating leases.

A long-term lease for the logistics centre in Bålsta has been signed with the property owner NREP Logicensers. The lease covers a rental period of 25 years and is a so-called open book arrangement. The rent is related to the construction cost and will not be determined until construction is completed. This arrangement gives Axfood control over the project and minimizes long-term rental costs. The rental obligation under the lease will be reported when the premises are available for use.

Extension and termination options

Certain leases include extension options and termination options that the Group may or may not exercise up until one year before the expiration of the non-cancellable lease term. Whether or not it is reasonably certain that an option will be exercised is determined on the commencement date of the lease. The Group reconsiders whether or not it is reasonably certain that an option will be exercised if an important event or significant changes in circumstances take place that are within the Group's control. At the latest, an extension of a lease is made in connection with the option's expiration.

Leases of vehicles and other leases

The Group leases vehicles with lease terms of two to seven years in most cases. Extension options exist only to a negligible extent. In addition, the Group has other leases for equipment such as bale presses and compactors with lease terms of between one and three years.

IAS 17 Non-cancellable lease payments amount to:

	Group 2018	Parent Company 2019	Parent Company 2018
Within one year	1,481	39	34
Between one and five years	3,976	115	116
Longer than five years	861	-	10

IAS 17 Expensed payments for operating leases amount to:

	Group 2018	Parent Company 2019	Parent Company 2018
Minimum lease payments	1,536	39	32
Variable charges	14	-	-
Total leasing costs¹⁾	1,550	39	32
Leasing income pertaining to sublet premises	137	28	24

¹⁾ Of which, rents for premises SEK 1,489 m for the Group in 2018 and SEK 39 m (32) for the Parent Company.

Disclosure of finance leases according to IAS 17

Group	Equipment, tools and installations 2018
Opening cost	168
Increase through acquisitions	3
Investments	59
Sales and disposals	-47
Closing accumulated cost	183
Opening depreciation	-52
Sales and disposals	27
Depreciation for the year	-36
Closing accumulated depreciation	-61
Closing planned residual value	122

Lessor

Leasing income from leases where the Group is lessor is as follows:

Operating leases

	2019
Income from subletting of right-of-use assets	107

Operating leases

The Group sublets store premises. The Group classifies these leases as operating leases since the leases do not transfer significant risks and rewards incidental to ownership of the underlying asset.

Following is a term analysis of lease payments which shows the undiscounted lease payments to be received after the balance sheet date.

	2019
Within one year	103
Between one and two years	83
Between two and three years	67
Between three and four years	46
Between four and five years	26
Later than five years	28
Total undiscounted lease payments	353

12 Related party transactions

The Axfood Group's transactions with related parties, aside from those covered by the consolidated accounting, consist of transactions with associated companies and with subsidiaries within the Axel Johnson Group. All prices are set on an arm's length basis. During the year, purchases from associated companies totalled SEK – m (4). Sales to associated companies totalled SEK 11 m (27). Axfood's associated companies owned no shares in Axel Johnson AB as per 31 December 2019. Axfood AB is 50.1%-owned by Axel Johnson Group. Martin & Servera AB, a company in the Axel Johnson Group, delivers foodservice products to Axfood companies. Purchases from Martin & Servera totalled SEK 94 m (54) during the year. Axfood's sales to Martin & Servera during the year totalled SEK 16 m (14).

As per 31 December 2019, the Axfood Group's current liabilities to Martin & Servera amounted to SEK 10 m (12), and current receivables amounted to SEK 0 m (2). AxFast AB, a company in the Axel Johnson Group, leases properties to companies in the Axfood Group. During the year Axfood's profit was charged with SEK 17 m (16) 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 18 m (24) in rents for premises. As per 31 December 2019, the Axfood Group's current liabilities to Åhléns amounted to SEK 8 m (7) and current receivables amounted to SEK 0 m (4).

13 Net financial items

	Group		Parent Company	
	2019	2018	2019	2018
Interest income from trade receivables	5	4	0	0
Dividends from participations in Group companies	–	–	22	18
Interest income from Group accounts	–	–	4	5
Other financial income	0	1	0	0
	5	5	27	23
Interest expenses on borrowings (bank loans and bank lines of credit)	0	–1	0	–1
Interest expenses for trade payables and other current liabilities	–1	–3	0	0
Interest expenses on pension liability	–8	–9	0	–1
Interest expenses for leasing	–109	0	–	0
Other financial expenses	–1	–1	–1	0
	–120	–14	–2	–2
Net financial items	–115	–9	25	21

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

14 Appropriations and untaxed reserves

	Parent Company	
	2019	2018
Appropriations		
Group contribution received	2,182	1,934
Group contribution rendered	–90	–14
Provision to tax allocation reserve	–571	–532
Dissolution of tax allocation reserve	304	289
Change in accumulated excess depreciation	0	4
Total	1,825	1,681
Untaxed reserves		
Tax allocation reserves	2,906	2,639
Accumulated excess depreciation	1	0
Total	2,907	2,639

15 Taxes

	Group		Parent Company	
	2019	2018	2019	2018
Current tax				
Current tax on profit for the year	–388	–385	–366	–355
Adjustment of current tax from previous years	–18	0	3	0
	–406	–385	–363	–355
Deferred tax				
Deferred tax on temporary differences	–88	–54	–1	2
	–88	–54	–1	2
Total reported tax charge	–494	–439	–364	–353

Note 15. Taxes, cont.

Group – reconciliation of applicable tax rate and effective tax rate

	2019	%	2018	%
Reported profit before tax	2,173		2,016	
Tax based on applicable tax rate for Parent Company	-465	-21.4	-444	-22.0
Tax effect of:				
Other non-deductible expenses	-15	-0.7	-11	-0.5
Other tax-exempt revenues	3	0.1	11	0.5
Adjustments of current tax pertaining to previous years	-18	-0.8	0	0.0
Adjustments of deferred tax pertaining to previous years	0	0.0	0	0.0
Adjustments of deferred tax pertaining to changed tax rates	1	0.0	5	0.2
Reported tax charge/effective tax rate	-494	-22.8	-439	-21.8
Tax attributable to other comprehensive income ¹⁾	17		3	

¹⁾ Of which, attributable to changed tax rates SEK – m (-2).

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

	2019	%	2018	%
Reported profit before tax	1,714		1,577	
Tax based on applicable tax rate for Parent Company	-367	-21.4	-347	-22.0
Tax effect of:				
Other non-deductible expenses	-1	-0.1	-5	-0.3
Other tax-exempt revenues	5	0.3	0	0.0
Taxable income not recognized in the income statement	-4	-0.2	-	-
Adjustments of current tax pertaining to previous years	3	0.2	0	0.0
Adjustments of deferred tax pertaining to changed tax rates	0	0.0	-1	-0.1
Reported tax charge/effective tax rate	-364	-21.2	-353	-22.4
Current and deferred tax items reported directly against shareholders' equity	-		-	

Reported deferred tax assets and tax liabilities

	Group		Parent Company	
	2019	2018	2019	2018
Intangible assets	-97	-99	-	-
Equipment, tools, fixtures and fittings	10	10	-	-
Deficit	65	77	-	-
Other receivables	0	-2	-	-
Untaxed reserves	-789	-729	-	-
Provisions	43	38	8	8
Right-of-use assets/lease liabilities	84	-	-	-
Other liabilities	18	9	-	0
Effect of changed tax rates	-	5	-	0
Total deferred tax asset (+)/deferred tax liability (-), net	-665	-691	8	8
Deferred tax asset	237	141	8	8
Deferred tax liability	-902	-832	-	-

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

Tax attributable to other comprehensive income ¹⁾

	2019			2018		
Group	Before tax	Tax	After tax	Before tax	Tax	After tax
Translation differences	0	0	0	0	0	0
Fair value currency forward contracts	-41	9	-32	1	0	1
Actuarial gains and losses	-37	8	-29	-21	5	-16
Effect of changed tax rates	-	-	-	-	-2	-2
Other comprehensive income	-78	17	-61	-20	3	-17

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

Note 15. Taxes, cont.

Group, change in deferred tax

	2019					Amount at end of year
	Amount at start of year	Recognized in profit for the year	Recognized directly in equity	Effect of acquired/divested companies	Recognized in other comprehensive income	
Intangible assets	-99	2	-	-	-	-97
Equipment, tools, fixtures and fittings	10	0	-	-	-	10
Deficit	77	-12	-	-	-	65
Other receivables	-2	2	-	-	-	0
Untaxed reserves	-729	-60	-	-	-	-789
Provisions	40	-4	-	-	8	43
Leases	-	-14	98	-	-	84
Other liabilities	9	0	-	-	9	18
Effect of changed tax rates	3	-3	-	-	-	-
Total	-691	-88	98	-	17	-665

	2018				
	Amount at start of year	Recognized in profit for the year	Effect of acquired/divested companies	Recognized in other comprehensive income	Amount at end of year
Intangible assets	-96	-3	-	-	-99
Equipment, tools, fixtures and fittings	10	0	-	-	10
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
Total	-653	-55	14	3	-691

16 Earnings per share

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

	2019	2018
Earnings per share before dilution, SEK	7.87	7.41
Earnings per share after dilution, SEK	7.85	7.40
Number of shares outstanding at end of period	209,298,712	209,494,712
Average number of shares outstanding before dilution	209,380,332	209,563,072
Average number of shares outstanding after dilution	209,878,569	209,867,642

17 Intangible assets

Group	Goodwill		Intangible assets in progress		Other intangible assets ¹⁾	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Opening cost	2,767	2,671	78	49	1,980	1,880
Increase through acquisitions	-	96	-	-	-	0
Adjustment of purchase price allocation	-3	-	-	-	5	-
Investments	3	-	172	123	2	6
(of which, internally developed)	-	-	(43)	(123)	-	(6)
Disposals	-	-	-	-	-2	-
Reclassifications	-	-	-83	-94	99	94
(of which, internally developed)	-	-	(-83)	(-94)	(83)	(94)
Closing accumulated cost	2,767	2,767	167	78	2,084	1,980
Opening amortization	-	-	-	-	-1,300	-1,136
Disposals	-	-	-	-	1	-
Amortization for the year	-	-	-	-	-171	-164
Closing accumulated amortization	-	-	-	-	-1,470	-1,300
Opening impairment	-	-	-	-	-76	-76
Closing accumulated impairment²⁾	-	-	-	-	-76	-76
Closing planned residual value	2,767	2,767	167	78	538	604

¹⁾ Of other intangible assets, SEK 138 m (132) pertains to trademarks, SEK 8 m (11) pertains to leaseholds, and SEK 13 m (17) to customer relationships.

The remainder, SEK 379 m (444), pertains to IT development.

²⁾ Pertains to impairment of trademarks.

Goodwill

The Group's reported goodwill as per 31/12/2019 is broken down per segment as follows:

	31/12/2019	31/12/2018
Hemköp	617	617
Willys	902	899
Snabbgross	57	57
Dagab	1,191	1,194
Total	2,767	2,767

Other intangible assets

The Group's intangible assets in progress consist mainly 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 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 2020 for the respective units. Thereafter, the cash flows are based on assumed annual growth of 2.0% (2.0%). As of 2019, the prognosticated cash flows have been calculated to present value taking IFRS 16 Leases into account, which resulted in a discount rate of 6.0% after tax, which corresponds to a discount rate before tax of 6.8%. The discount rate corresponds to Axfood's estimated average cost of capital, i.e., the weighted sum of the required rate of return on equity and the cost of externally borrowed capital. The required rate of return on equity is based on an assumption of risk-free interest of 3.0% (3.0%), a going-rate risk premium of 4.4% (4.4%), a company-specific premium of 1.1% (1.9%), and a beta coefficient of 0.5 (0.4). The beta coefficient shows the relationship between the price of Axfood's shares and changes in a benchmark index. With a discounting factor of 6.0% (–) after the impact of IFRS 16, value in use exceeds the carrying amount for all tested units. Thus there is no need to recognize impairment as per 31 December 2019. 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 the discount rate and assumptions on future price and volume developments. In the 2020 business plan, which forms the basis for cash flow calculations, the Executive Committee has made an assumption on price and volume growth, 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 these assumptions 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	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Opening cost	153	46	7,346	7,068	155	114
Change of accounting policy	–	–	–182	–	–	–
Acquisitions	1	2	2	22	–2	2
Investments	5	89	616	468	682	213
Sales and disposals	–4	–4	–409	–385	–	–
Reclassifications	1	20	234	173	–251	–174
Closing accumulated cost	156	153	7,607	7,346	584	155
Opening depreciation	–7	–5	–5,444	–5,190	–	–
Change of accounting policy	–	–	60	–	–	–
Sales and disposals	–	–	383	340	–	–
Depreciation for the year	–3	–2	–591	–594	–	–
Closing accumulated depreciation	–10	–7	–5,592	–5,444	–	–
Opening impairment	–	–	–1	–1	–	–
Closing accumulated impairment	–	–	–1	–1	–	–
Closing planned residual value	146	146	2,014	1,901	584	155

Parent Company	Equipment, tools, fixtures and fittings	
	31/12/2019	31/12/2018
Opening cost	57	73
Investments	15	4
Sales and disposals	–1	–20
Closing accumulated cost	72	57
Opening depreciation	–52	–61
Sales and disposals	0	20
Depreciation for the year	–3	–11
Closing accumulated depreciation	–55	–52
Closing planned residual value	17	5

19 Government grants

Government grants in the form of labour market policy grants amounted to SEK 0 m (1) in the statement of financial position (reported under prepaid income) and SEK 48 m (48) in the statement of comprehensive income, which reduced payroll costs.

No other unfulfilled conditions or contingent liabilities exist.

20 Participations in Group companies

	Parent Company	
	2019	2018
Opening cost	3,736	3,688
Acquisitions during the year	–	43
Shareholder contribution	11	5
Closing accumulated cost	3,747	3,736
Closing accumulated impairment	–350	–350
Closing accumulated book value	3,397	3,386

2019

Parent Company	Reg.no.	Registered office	Share of capital, %	Book value
Willys AB	556163-2232	Gothenburg	100	429
Hemköpskedjan AB	556113-8826	Stockholm	100	583
Hemköp i Farsta AB	556961-7490	Stockholm	91	–
Hemköp i Ludvika AB	559019-8841	Ludvika	100	–
Hemköp i Alfta AB	559019-8858	Stockholm	91	–
Hemköp i Avesta AB	559019-8825	Stockholm	91	–
Hemköp i Värnamo AB	559019-8833	Stockholm	91	–
Hemköp i Västerås City AB	559019-8783	Stockholm	91	–
Hemköp i Torslanda AB	559064-0941	Stockholm	91	–
Hemköp i Härnösand AB	559069-0854	Stockholm	91	–
Hemköp i Tallboda AB	559067-5467	Linköping	100	–
Hemköp i Östervåla AB	559155-7862	Stockholm	91	–
Hemköp i Östermalm AB	559067-5616	Stockholm	91	–
Hemköp 117 AB	559155-7854	Stockholm	100	–
Hemköp 118 AB	559229-8904	Stockholm	100	–
Hemköp 119 AB	559229-8896	Stockholm	100	–
Dagab Inköp & Logistik AB	556004-7903	Stockholm	100	2,134
Axfood i Lund AB	556807-5310	Stockholm	100	–
Axfood i Malmö AB	556950-1199	Stockholm	100	–
Axfood i Backa AB	556742-7942	Solna	100	–
Cold Cargo Sweden AB	556930-9460	Gothenburg	100	–
Kokaihop Media AB	556752-4953	Gothenburg	100	–
Falkenberg Seafood AB	556353-8973	Falkenberg	100	–
Hall Miba AB	556865-8149	Alvesta	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	5
Dagab AB	556070-3166	Stockholm	100	0
Axfood Snabbgross AB	556000-3575	Stockholm	100	45
NAX AB	559029-7809	Stockholm	51	200
Eurocash Food AB	556503-6141	Strömstad	100	–
Strömstad Supermarket AB	556909-4237	Strömstad	100	–
Total, Group companies				3,397

21 Participations in associated companies

Group	Associated companies		Joint ventures	
	2019	2018	2019	2018
Opening cost	31	6	–	29
Acquisition of associated companies	–	4	–	–
New issue	16	17	–	–
Shareholder contribution paid	9	4	–	–
Reclassification to subsidiary	–	–	–	–29
Divestments	–3	–	–	–
Dividends	–3	–	–	–
Closing cost	51	31	–	–
Adjustments of shareholders' equity pertaining to investments in associated companies				
Opening carrying amount	–10	2	–	–18
Share in profit after tax ¹⁾	–25	–12	–	–5
Reclassification to subsidiary	–	–	–	23
Closing carrying amount	–35	–10	–	–
Total	16	21	–	–

¹⁾ Corresponds to total comprehensive income.

2019

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
Apothem AB	559094-8401	Stockholm	178,738	51	16
Svinesund Handels AB	556872-4362	Strömstad	240	24	0
Total					16

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
Total					21

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.

22 Prepaid expenses and accrued income

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Prepaid rents	39	387	–	–
Accrued bonuses and similar	752	690	5	5
Delivered, uninvoiced	2	1	–	–
Other prepaid expenses	150	146	21	5
Other accrued income	42	33	0	0
Total	984	1,257	26	10

23 Shareholders' equity

Share capital

The share capital as per 31 December 2019 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 209,298,712 (209,494,712) on 31 December 2019. 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).

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. A compilation of the change in value of the hedging reserve during the year is provided in Note 26.

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 20% at year-end. Axfood's revolving credit facility is bound by a covenant which was met during the entirety of 2019. During the year, no changes were made in the Group's principles for capital management. Other than interest-bearing pension liabilities and leases, Axfood has no external borrowing, whereby the Group defines capital as shareholders' equity.

24 Provisions for pensions

Group

Defined benefit pension plans	2019	2018
Present value of funded obligations	9	9
Present value of unfunded obligations	420	410
Total present value of obligations	429	419
Fair value of plan assets	-8	-8
Present value of net obligations	421	411
Net liability in statement of financial position	421	411
Amounts reported in statement of financial position		
– provisions	421	411
– assets	-	-
Net liability in statement of financial position	421	411

Of Axfood's net liability for defined benefit pension plans in Sweden, SEK 399 m (385) consists of obligations within the FPG/PRI system. All obligations 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 20 m (24).

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 (1) on 31 December. The actual return on plan assets was SEK 0 m (0), which corresponded to the expected return.

No fees were paid in to the foundation during the year. During the year, SEK 0 m (1) was received in compensation from the foundation.

The defined benefit plans are exposed to actuarial risks such as longevity, and currency, interest rate and investment risks. All unfunded plans are reinsured with FPG/PRI. See also Note 32.

Changes in the present value of defined benefit obligations	2019	2018
Obligations for defined benefit plans as per 1 January	419	427
Benefits paid	-27	-23
Current service cost	-	1
Interest expense	8	9
Reclassification	-	-11
Remeasurements:		
Actuarial gains and losses on changed financial assumptions	31	14
Experience-based adjustments	-2	2
Obligations for defined benefit plans	429	419

The present value of obligations is distributed among the plans' members as follows:	2019	2018
Active	0	1
Persons on disability pensions	8	9
Owners of paid-up policies	574	621
Retirees	1,349	1,369
Total number of pledges included in the obligation	1,931	2,000

Change in net liability during the year	2019	2018
Net liability at start of year	411	418
Compensation from pension foundation	0	1
Net expense in profit for the year	8	10
Pension disbursements	-27	-23
Actuarial losses/gains reported as a liability	29	16
Reclassification	-	-11
Net liability at year-end	421	411

Note 24. Provisions for pensions, cont.

Costs recognized in profit for the year	2019	2018
<i>Defined benefit pension plans</i>		
Earned benefits	–	1
Interest expense	8	9
Actual return on plan assets	0	0
Total	8	10
<i>Defined contribution pension plans</i>		
Costs during the period	359	343
Total pension cost	367	353

Pension insurance premiums paid during the year to Alecta for pension insurance under the ITP plan amounted to SEK 126 m (118). Alecta's surplus can be apportioned among the policyholders and/or the insureds. As per 30 September 2019, Alecta's surplus in the form of its collective funding ratio was 142% (159%). 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 2019.

Pension costs are broken down per function in profit for the year as follows	2019	2018
Cost of goods sold	200	190
Selling expenses	83	75
Administrative expenses	76	79
Interest expense	8	9
Total	367	353

Income and expenses reported in other comprehensive income	2019	2018
<i>Defined benefit pension plans</i>		
Remeasurements:		
Net actuarial gains/losses ¹⁾	–37	–21
Net income and expenses reported in other comprehensive income	–37	–21

¹⁾ Including special employer's payroll tax.

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

	2019	2018
Discount rate	1.15%	2.00%
Future annual pension increases (inflation)	1.70%	2.00%
Duration ¹⁾	14.0 yrs	13.0 yrs
Longevity assumption after 65 years		
– men	22 yrs	22 yrs
– women	24 yrs	24 yrs

¹⁾ Corresponds to the average remaining duration of the obligations.

Effects on future cash flows

The Group estimates that approximately SEK 27 m (28) will be paid towards defined benefit plans in 2020.

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)	32	29
Inflation (+ / – 0.5% change)	32	28
Longevity (+ / – 1 year change)	20	19

Parent Company

The Parent Company's reported pension liability amounted to SEK 20 m (24) and pertains to obligations to the former president. All pension obligations to the former president 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.

Reported capital value of pension obligations	2019	2018
Reported capital value on 1 January	24	28
Benefits paid	–5	0
Cost excluding interest expense	–	1
Interest expense	1	1
Reclassification	–	–6
Reported capital value of pension obligations	20	24

Of the Parent Company's reported pension liability, SEK 20 m (24) is covered by credit insurance via PRI.

Pension costs	2019	2018
<i>Own undertakings</i>		
Liability indexing of undertakings	–	1
Interest expense	0	1
Total	0	2
<i>Undertakings through insurance</i>		
Insurance premiums ¹⁾	21	20
Special employer's payroll tax on pension contributions	5	5
Total	26	25
Pension costs for the year	26	27

¹⁾ Of which, premiums paid to Alecta for pension insurance according to the ITP plan, totalling SEK 16 m (12).

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 1.45% (0%). It is estimated that approximately SEK 5 m (5) will be paid out in pensions by the Parent Company in 2020.

25 Financial assets and liabilities

Group	2019				
	Fair value hedge instruments	Mandatory measured at fair value through profit or loss	Financial assets and liabilities measured at amortized cost	Other financial liabilities	Total
Financial assets not measured at fair value					
Other long-term securities holdings			0		0
Other non-current receivables			6		6
Accounts receivable – trade			1,062		1,062
Cash and bank balances			798		798
Total financial assets	–	–	1,866	–	1,866
Financial liabilities measured at fair value					
Other non-current liabilities – Contingent consideration (Level 3)		15			15
Other current liabilities – Currency forward contracts (Level 2)	4				4
Other non-current liabilities – Currency forward contracts (Level 2)	42				42
Financial liabilities not measured at fair value					
Accounts payable – trade			3,832		3,832
Total financial liabilities	46	15	3,832	–	3,893

Group	2018				
	Fair value hedge instruments	Mandatory measured at fair value through profit or loss	Financial assets and liabilities measured at amortized cost	Other financial liabilities	Total
Financial assets not measured at fair value					
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
Total financial assets	–	–	2,679	–	2,679
Financial liabilities measured at fair value					
Other non-current liabilities – Contingent consideration (Level 3)		15			15
Other current liabilities – Currency forward contracts (Level 2)	0				0
Financial liabilities not measured at fair value					
Other non-current interest-bearing liabilities				61	61
Other current interest-bearing liabilities				52	52
Accounts payable – trade			3,836		3,836
Total financial liabilities	0	15	3,836	113	3,964

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.

26 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, Group Treasury and other Group companies. The Group's external financial management is centralized in the central finance department of the Parent Company, Axfood AB. Group Treasury 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.

Financing and refinancing risk

Refinancing risk is defined as the risk that the Axfood Group at any given time cannot finance or refinance the Group's operations, or that it can only do so at a considerably higher cost. Responsibility for the Group's procurement in central financing matters rests with Group Treasury. The Group's external financing from credit institutions (mainly banks) is conducted by

the Parent Company, while subsidiaries finance their operations through the central Group account systems.

To limit the risk and the potential financial loss associated with the Axfood Group's inability to finance the Group's operations at any given time, a minimum permissible average remaining duration of 12 months has been set for the Group's credit facilities. In addition, Axfood shall ensure that a maximum of 25% of requisite credit facilities falls due within 12 months. The guiding principle for the use of external credits, including leasing, shall be the financial cost taking into account the risk limitation rules laid out in the finance policy.

Liquidity risk

Liquidity risk is defined as the risk of the Axfood Group being unable to meet its short-term payment obligations. Axfood mitigates its liquidity risk by coordinating the management of surplus liquidity and financing within the Group. In addition, liquidity risk is mitigated by Axfood ensuring that a liquidity reserve is always available that can handle fluctuations

Note 26. Financial risks, cont.

in prognosticated cash flow during the coming 12 months. The liquidity reserve shall amount to a minimum of SEK 500 m and is calculated as the sum of available cash and short-term investments, and unutilized credit facilities at the end of every business day. Bank overdraft facilities may not be included in the credit framework in calculation of the liquidity reserve.

	Group	
	31/12/2019	31/12/2018
Granted credit lines		
Revolving credit facility	3,600	100
Total granted credit lines	3,600	100
Drawn revolving credit facility	–	–
Total utilized credit lines	3,600	100
Available bank balances	376	925
Liquidity reserve	3,976	1,025
Other overdraft facilities		
Bank overdraft facilities	200	200

Group

Maturity structure for financial liabilities	<1 yr	1–2 yrs	3–5 yrs	>5 yrs
Contingent consideration	–	15	–	–
Forward contracts	4	37	5	–
Trade payables	3,832	–	–	–
Lease liabilities	1,491	1,291	2,245	797
Total	5,327	1,343	2,250	797

Investment policy

The Axfood Group's investment policy aims to ensure the Axfood Group's ability to pay in the short and long term. Further, the investment policy's purpose is to reduce the Group's external borrowing as much as possible by coordinating the management of surplus liquidity within the Group and to achieve the best possible balance of net financial income and expense within the framework of this policy. 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 2019 the Axfood Group had only account balances in Swedish banks with a minimum rating of A– according to Standard & Poor's, which are approved counterparties in the finance policy.

Interest rate risks

Interest rate risk is defined as the risk that changes in interest rates will have a negative effect on the Group's earnings. Interest rate risk in the Group's asset and debt portfolio shall be limited. Interest rate risk is managed through defined interest rate risk norms for the finance department and other Group companies. In addition, a mandate is given to go outside of this norm in the form of an interest rate risk limit. 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 of principal. The Axfood Group's known outflows and/or amortization of principal. The norm for Axfood is a remaining average term of fixed interest rates in the asset portfolio of 12 months. The goal is that no fixed-income investments shall be sold prior to maturity. As per 31 December 2019 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 rate risk norm applies only when the Group has a need for long-term borrowing. As per 31 December 2019 the Axfood Group had no long-term borrowing.

For commercial and administrative reasons, the finance department is also given the opportunity to act within the framework of a limited deviation mandate. The deviation mandate entails that the finance department has a mandate to deviate +/- 12 months in the average term of fixed interest rates to a maximum of 24 months with respect to the asset and debt portfolios. Just as a year ago, the deviation mandate was not exercised.

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 +/- 3.8 m (9.3).

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.

During the coming 12-month period, a 1 percentage point increase/decrease in the interest rate on interest-bearing liabilities would amount to SEK +/- 59.3 m (5.2).

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 kronor (NOK). Transaction exposure also arises in connection with investments in non-current assets contracted in foreign currency.

The Axfood Group's finance policy prescribes that 100% of orders are to be hedged at the time the order is placed. In addition, currency flows attributable to overheads 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.

Currency exposure to investments in non-current assets are hedged according to the scale above unless the Board has decided on a different handling. Such a decision has been made regarding the investment in automation with Witron, entailing that hedges have been taken out as follows:

- 75% of the exposure for 2021
- 50% of the exposure for 2022
- 25% of the exposure for 2023

The hedge scale above entails that 52% of the remaining contract value on the balance sheet date is hedged.

Approved hedge instruments are spot contracts, forward exchange contracts and currency swap contracts. In 2019 hedges were taken out using these instruments.

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

Sensitivity analysis regarding currency risk 2019

Net outflow per currency	SEK m	%	10% change in exchange rate vs. SEK, SEK m
EUR	4,800	93.5	+/- 480.0
USD	264	5.2	+/- 26.4
DKK	59	1.1	+/- 5.9
GBP	6	0.2	+/- 0.6
Total	5,130	100	
NOK	-74	100	+/- 7.4
Total	-74	100	

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 (SEK m) of outstanding currency hedges

Currency	2019	2018
EUR	-45	0
USD	-1	0
Others	0	0
Total	-46	0

Of the reported fair value in EUR, SEK -42 m (-) consists of hedging for the investment in automation. 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 (-).

Note 26. Financial risks, cont.

Commodity risk policy

Commodity risk is defined as the risk that changes in commodity prices will have a negative effect on the Group's earnings. Within the Axfood Group, commodity risk arises partly in the traded goods that the Group buys and in partly in operational overheads. Axfood has a policy to not hedge commodity price risks in the operations' traded goods. The Axfood Group's overheads include, for example, electricity prices, and commodity price risk for fuel and containerboard. Electricity price is the most significant commodity risk and the only part of commodity price risk that is hedged. This risk is managed using financial electricity derivatives in the form of forward contracts with Nord Pool.

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 customer's 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 external credit risks at year-end.

To limit the maximum credit risk in trade receivables, Axfood has received collateral which on the balance sheet date covered SEK 64 m (66) of outstanding trade receivables. Collateral received consists mainly of chattel mortgages, bank guarantees and guarantee commitments. During 2019 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.

Trade receivables are measured at amortized cost and are covered by the simplified model for credit provisions.

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 credit losses amounts to SEK 6 m, of which SEK 5 m pertains to trade receivables that are longer than 90 days past due.

Trade receivables

Trade receivables	31/12/2019	31/12/2018
Trade receivables, gross	1,069	1,110
Provision for bad debts	-6	-8
Trade receivables, net	1,062	1,102

Changes in provision for bad debts	31/12/2019	31/12/2018
Opening balance	-8	-10
Provisions	-4	-6
Reversals	3	6
Confirmed and recovered credit losses	3	2
Closing balance	-6	-8

Maturity analysis of trade receivables	31/12/2019	31/12/2018
Trade receivables not due	871	813
Trade receivables past due 0–30 days	162	257
Trade receivables past due >30–90 days	23	17
Trade receivables past due >90–180 days	5	11
Trade receivables past due >180–360 days	5	8
Trade receivables past due >360 days	3	5
Total	1,069	1,110

27 Non-current and current interest-bearing liabilities

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Non-current interest-bearing liabilities				
Long-term lease liabilities	4,131	-	-	-
Finance leases	-	61	-	-
Provisions for pensions	421	411	20	24
Total non-current interest-bearing liabilities	4,552	472	20	24
Current interest-bearing liabilities				
Short-term lease liabilities	1,377	-	-	-
Finance leases	-	52	-	-
Liabilities to Group companies ¹⁾	-	-	1,392	1,498
Total current interest-bearing liabilities	1,377	52	1,392	1,498

¹⁾ Reported on the Parent Company balance sheet as part of liabilities to Group companies.

28 Accrued expenses and deferred income

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Personnel-related items	1,397	1,314	58	54
Accrued bonuses and similar	143	152	-	-
Accrued real estate costs	19	64	-	-
Received, uninvoiced	104	319	-	-
Other accrued expenses	223	230	4	5
Other deferred income	114	149	3	4
Total	2,000	2,227	66	63

29 Contingent assets, pledged assets and contingent liabilities

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Pledged assets				
Chattel mortgages as collateral for bank guarantees	–	6	–	–
Total	–	6	–	–

	Group		Parent Company	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Contingent liabilities				
Guarantees for subsidiaries	–	–	301	309
Guarantees for others	3	5	–	–
FPG/PRI	5	6	–	–
Other contingent liabilities	13	10	1	–
Total	21	21	302	309

Guarantees for others consist of guarantee commitments for collaborating stores, associated companies. 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 26.

30 Events after the balance sheet date

Simone Margulies took office as Managing Director of Hemköpskedjan AB on 1 February 2020.

31 Information about the Parent Company

Axfood AB is a Sweden-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 2019 cover the Parent Company and its subsidiaries, jointly referred to as the Group. The Group also includes ownership stakes in associated 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.

32 Critical judgements 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 stated in the description in Note 17, changes in 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 assumptions 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 24. A change in any of these assumptions could have a material effect on calculated pension obligations and pension costs. The discount rate is based on the return for long-term home mortgage bonds with a term that corresponds to the Group's average remaining duration of its obligations, which in Axfood's case amounts to 14 years.

All of the assumptions described in Note 24 do not deviate materially from what can be regarded as standard practice in the Swedish market.

Assumptions used in calculating right-of-use assets and lease liabilities

Extension and termination options

The Group has leases that include extension and termination options. A judgement is made to determine if it is reasonably certain to exercise an option by taking into account all relevant factors that create economic incentives to either extend or terminate a lease.

Discount rate

The Group uses an incremental borrowing rate as the discount rate, which consists of a swap rate for the current term plus a risk premium.

Guarantee commitments

Axfood AB has a guarantee commitment against NREP Logicensers pertaining to future rents. Since there is a low probability that the commitment will be utilized, it is not reported as a contingent liability.

33 Proposed disposition of the Company's profit

The Board of Directors proposes that, of the retained profits of SEK 2,398,836,507, SEK 7.25 per share be paid out in ordinary dividend. The dividend amount will be divided into two payments of SEK 3.75 and SEK 3.50, respectively. The proposed dividend amounts to a total of SEK 1,517,415,662. This amount is based on the total number of shares in the Company less the Company's holding of treasury shares on the date of publication of the Annual Report. This holding will change before the second record date, in part owing to grants under the 2017 long-term incentive programme and in part as a result of the proposal for a 2020 long-term incentive programme, if adopted by the Annual General Meeting. Retained profits will be distributed as follows:

SEK	
Dividend	1,517,415,662
To be carried forward	881,420,845
	2,398,836,507

In reference to the above and to other information that has been brought to the Board's attention, the Board is of the opinion that a comprehensive assessment of the Company's and Group's financial position entails that the dividend is justified in view of the demands that the nature, scope and risks in the business place upon the size of the Company's and Group's equity and upon the Company's and Group's funding needs, liquidity and financial position in general.

The consolidated financial statements and Annual Report have been prepared in accordance with the International Financial Reporting Standards referred to in European Parliament and Council of Europe Regulation (EC) No. 1606/2002 of 19 July 2002, on application of International Financial Reporting Standards and generally accepted accounting principles, and gives a fair overview of the Group's and Parent Company's financial position and results of operations.

The Administration Report for the Group and Parent Company gives a fair overview of the Group's and Parent Company's operations, financial

position and results of operations, and describes significant risks and uncertainties that the Parent Company and companies included in the Group face.

The Annual Report and consolidated financial statements were, as stated above, approved for publication by the Board of Directors on 20 February 2020. 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 18 March 2020.

Stockholm, Sweden, 20 February 2020

Mia Brunell Livfors
*Chairman of the Board
Director*

Lars Olofsson
*Vice Chairman of the Board
Director*

Stina Andersson
Director

Fabian Bengtsson
Director

Caroline Berg
Director

Jesper Lien
Director

Christer Åberg
Director

Anders Helsing¹⁾

Michael Sjören¹⁾

Lars Östberg¹⁾

Klas Balkow
President and CEO

Our audit report was submitted on 20 February 2020
Deloitte AB

Hans Warén
Authorized Public Accountant

¹⁾ Employee representative.

Auditor's report

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

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Axfood AB (publ) for the financial year 2019-01-01 – 2019-12-31. The annual accounts and consolidated accounts of the company are included on pages 38–80 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 2019 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 2019 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 income statement and balance sheet 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/Audit Committee 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 and 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 utmost 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 and note 2 regarding operating segments.

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 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 2019. Goodwill has resulted from business combinations. The value of the reported goodwill depends on future growth 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 growth, profitability and discount rates, which could have a material impact on the group's result and financial position. Management has not identified any need for impairment for 2019.

For further information, please refer to note 1 regarding the group's accounting policies, note 3 regarding acquired operations, note 17 regarding intangible assets and note 32 regarding critical judgements and estimates.

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 and sensitivity analyses with involvement of our valuation experts, and
- Auditing the application of accounting principles and the adequacy of relevant disclosures in the financial statements.

Effect of new accounting standard – IFRS 16 Leases

Description of risk

Axfood has entered into a significant number of rental agreements, mainly related to premises. As of 1 January 2019 the group started to apply the new accounting standard IFRS 16 Leases. As a result of the transition to IFRS 16 the Group has reviewed all lease contracts and reported a right of use asset and a lease liability as rental agreements according to the new standard constitute lease agreements. As of 1 January 2019 the right of use assets amounted to MSEK 5,897 and lease debt to MSEK 6,099.

The transition to IFRS 16 is considered a key audit matter since the right of use asset and the lease debt are of significant amounts and that inaccurate assessments and assumptions of rent levels, discount rates and extension and termination clauses can have a significant impact on the group's financial position.

For further information on how the group accounts for IFRS 16 and how the new accounting standard has affected the group's financial reporting, please refer to note 1 regarding the group's accounting principles and note 11 regarding lease agreements.

Our audit procedures

Our audit included but was not limited to the following audit procedures:

- Evaluating Axfood's work with the adoption of IFRS 16 and whether Axfood's accounting principles are in accordance with the new accounting standard.

- Performing a walk-through of the process of contract management in order to review the completeness and to assess the design and implementation of relevant internal controls.
- Evaluating and testing the group's assumptions for discounting and treatment of extension and termination clauses.
- Auditing a selection of lease agreements to verify that they are accounted for in accordance with the group's principles.
- 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 1–37 and 136–140. 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 intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

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. 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 2019-01-01 – 2019-12-31 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. This description is part of the audit report.

Deloitte AB, was appointed auditor of Axfood AB (publ) by the general meeting of the shareholders on the 2018-03-14 and has been the company's auditor since 2016-03-16.

Stockholm 20 February 2020

Deloitte AB

Hans Warén,

Authorized Public Accountant

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 govern.

Sustainability at Axfood

Contents

Sustainable food for everyone	84
A selection of our sustainability targets	85
A sampling – how we made a difference in 2019	86
Stakeholder and materiality analysis	89
Purchasing/supply chain	92
GRI 200: Economic impact	94
GRI 300: Environmental impact	96
GRI 400: Social impact	103
Sustainability programme	110
Governing documents and principles	114
GRI Index	116
Auditor's statement	119

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.

Area	Disclosure	Page reference
General	Business model	3
Environment	Policy and environmental issues	114–115
	Risks and their management regarding environmental issues	34–37
	Targets and results related to environmental issues	12–13, 96–102, 110–113
Social conditions	Policy and social issues	114–115
	Risks and their management regarding social issues	34–37
	Targets and results related to social issues	12–13, 103–113
Respect for human rights	Policy and human rights	114–115
	Risks and their management regarding human rights	34–37
	Targets and results related to human rights	106
Anti-corruption	Policy for work with anti-corruption	114–115
	Risks and their management regarding anti-corruption	34–37
	Targets and results related to anti-corruption	94–95

With sustainable food for everyone we are making a difference for many

Groceries account for nearly 30% of households' carbon footprint. More sustainable food production is therefore a prerequisite for meeting global and national climate goals. To limit environmental and climate impact in this area, everyone in the value chain needs to contribute, from producers to consumers.

We in the Axfood family aspire to be a positive force for change. By taking responsibility for the food offering today we can make a difference for future generations. It is a responsibility we want to take to be the leader in affordable, good and sustainable food for everyone.

Acting sustainably requires seeing the big picture. For us this means factoring in how the environment and people are affected by our operations and the decisions we make. We are therefore working to reduce our carbon footprint and ensure that our operations are pervaded by care for the climate, animals and people. And that is how we have worked since Axfood was first established.

By making long-term sustainable decisions we avoid any contradiction between investments in growth and our commitment to sustainability. Thus to generate sustainable growth in value for all stakeholders, we have integrated economic, environmental and social aspects into our business model, our strategy and our priorities.

Our sustainability work rests on the foundation of our Core Values, our Code of Conduct and our extensive sustainability programme. Read more on p. 110.

We are very proud of our sustainability work. As external validation that we are on the right path, Axfood won a silver medal in the food retail category in a mapping of listed Swedish companies' work with the UN's Sustainable Development Goals conducted by the Swedish business daily *Dagens Industri* and Lund University. We also earned a respectable 13th place in the most recent Purposeful Brands study.



A selection of our sustainability targets

For our complete sustainability programme, see p. 110. The Group's three strategic targets are presented on pp. 12–13.

Targets	Outcome/comments
By 2019 at the latest, Axfood will identify purchasing markets for private label products with high corruption risk and address this with a specific programme.	During 2019, markets with high corruption risk were identified, and planning was started for specific programmes. Read more on p. 94.
By 2022 all plastic packaging will be recyclable, and by 2030 all plastic packaging will also be produced using renewable or recycled material.	During 2019 Axfood adopted a new plastics strategy. It includes seven goals covering everything from using more sustainable materials to banning the use of hazardous compounds. In addition, we will cut the use of all plastics in our operations by 25%.
The Axfood Group will reduce its electricity consumption by 15% per square metre by the end of 2020 (base year 2015).	Compared with the base year 2015, Axfood has reduced its electricity consumption by 5.6% per square metre. Willys has reduced its electricity consumption by 8%, and Hemköp by 21%.
The Axfood Group will invest in solar panels for 25% of the rooftops that are deemed suitable in the Group's assessment.	At year-end 2019, 13 facilities had solar panel systems in operation or a signed contract to install such with the property owner.
Axfood's suppliers of fruits and vegetables will comply with the list of certain banned pesticides, and Axfood will strive to make the list an industry standard by 2020 at the latest.	Axfood's list of banned, hazardous pesticides in the fruits and vegetables category was adopted as the industry standard in 2019, with certain additions.
By 2025 at the latest, all suppliers of private label meat and products containing meat will fulfil the requirements for animal welfare certification or similar. 90% of suppliers will fulfil this requirement by 2020 at the latest.	In 2019, 86% of private label suppliers met this requirement. Axfood expects to achieve this goal during 2020.
By 2020 all relevant suppliers will be certified according to IP Arbetsvillkor, which is a Swedish certification for decent working conditions.	It is estimated that in 2019 a majority of relevant suppliers were approved according to IP Arbetsvillkor or KRAV, which certifies the same criteria for decent working conditions.
By 2020 at the latest, the strategy for living wages will lead to Axfood being able to measure and follow-up work addressing living wages. The strategy applies primarily for primary product purchasing for Axfood's private label products.	During 2019 a project for rice farmers in Pakistan was shown to have improved income for small farmers. Axfood has begun analyses of several value chains where the risks for low wages are the highest. Read more on p. 107.
The share of sustainability-labelled products will amount to at least 30% by 2025 at the latest.	At year-end 2019 the share of sustainability-labelled products was 26.9%.
Axfood will cut the share of food waste in half by 2025 compared with the base year 2015 (1.73%).	Food waste has been declining steadily, and the share in 2019 was 1.47%.

A sampling – how we made a difference in 2019

We are fighting food waste



In summer 2019 the somewhat smaller carrots that don't normally make the grade were included in the pre-packaged carrot bags sold by Axfood stores.

- Axfood made the decision to cut food waste in half within its own operations by 2025. A key part in this work entails identifying and focusing on the most commonly discarded products.
- Surveys we have carried out show that a majority of Swedes (56%) say they have actively tried to reduce their food waste during the last half year. The environment and ethical concerns are cited as the main reasons for reducing food waste.
- To make it as easy as possible to reduce food waste, during the year Willys launched its Restakuten ("Leftover rescue") service, where customers can upload a picture on Instagram, and Willys will reply with an appetizing recipe.
- Willys' "waste-smart" concept entails clearing out instead of tossing out. Willys' trial of selling waste-smart bargain boxes rescued 30 tonnes of fruit and vegetables from the trash bin. Waste-smart bargain boxes have now been launched in all Willys stores. The waste-smart initiative was awarded as "Sustainability Initiative of the Year" at the year's Food Retail Gala.
- Hemköp stores feature lunch buffets that use ingredients that are at risk of being tossed out, and certain stores have partnered with Karma, a food rescue company.
- Following a successful pilot involving sales of 1 kg bags of fruits and vegetables that are blemished or need to be eaten soon, during the autumn Hemköp launched a number of measures to reduce food waste in stores and inspire customers to reduce their own food waste.
- Axfood Snabbgross's consistent efforts to reduce food waste had a very favourable outcome in 2019.

We are taking responsibility across the entire supply chain

In 2019 Oxfam interviewed women participating in the GRAISEA 2 project in Pakistan (read more on p. 106). Among others they met with Khalida Parveen, who is responsible for the grower organization in her village. Khalida related:

"In one year's time our training has given women greater awareness and made us more self-reliant. Looking back, it feels like we were just wasting away our lives in the past. I arrange meetings with the members and other growers on a regular basis. We also invite non-members so they can also learn from our knowledge. I have realized that if I share the knowledge I have gained, it will benefit not only me and my community, but the entire world."



Climate-smart alternatives

- Initial results from a unique collaboration on climate-smart solutions between Mat.se and Research Institutes of Sweden (RISE) show that nearly 30% of



consumers are willing to switch to other products with a smaller carbon footprint. The products that consumers are most prepared to switch out are minced meat, rice and heavy cream.

- During the autumn Mat.se launched the largest carbon labelling initiative ever for groceries. With clear CO₂e data combined with innovative solutions, customers can conveniently see the carbon footprint of various food products. Customers who want to make conscientious choices can now influence the carbon footprint of their food purchase while they shop. The initiative is unique in the world, as no grocery store chain has implemented a carbon labelling system for food on such a large scale before. Some 3,000 products in the assortment have been labelled with CO₂e values based on a lifecycle analysis. The final value is affected by a number of parameters, such as growing method, processing and transport.
- Middagsfrid has decided that its meal kits will no longer include products transported by air starting in August 2020. Urban Deli has already stopped selling fruits and vegetables transported by air.

We are making it easier to choose sustainable food

- Our ambition is to make it easy for customers to make good choices. Offering a wide assortment of organic products is a key part of this work. We advocate for good animal care and attach a premium to responsibly produced meat. Axfood's seafood policy prescribes that fish and shellfish from threatened stocks may not be sold in our store chains.
- To make it easy for customers to choose organic alternatives, Mat.se launched a function that gives customers the option to increase the share of organic products in their grocery purchases.
- To make it easier for customers to choose vegetarian or vegan options, Mat.se opened a special vegan department.
- Since April certain Hemköp stores in Stockholm offer a lasagne, spaghetti Bolognese and taco mince developed by Urban Deli. Instead of minced meat, the dishes use four types of Swedish-grown legumes.
- Axfood's warehouses have become traceability certified. The certification guarantees that fish and shellfish are purchased only from inspected and certified suppliers.
- Axfood's stores have not sold eggs from caged hens for some time. Work is under way to reduce the use of eggs from caged hens in composed products. The goal is that no products sold under the Eldorado or Garant private labels will contain eggs from caged hens after 2020.
- Mat.se has launched a unique statistics centre where customers can see the share of Swedish and organic products. The goal is to give customers better insight and an understanding of where their products come from and how they affect the environment, so that they can set their own goals to follow up, such as eating less meat, sweets and snacks, and more fruits and vegetables.
- In April Middagsfrid introduced a vegan dish to its vegetarian meal kit.



The first theme in Hemköp's new communication concept is Eko-kom-igång ("Organic kick-start"), where Hemköp has partnered with popular celebrities to offer recipes, tips and knowledge. First out was celebrity chef Niklas Ekstedt, who has partnered with Hemköp to share his passion for organic ingredients.

Cutting the use of plastic and more digital receipts



- Plastic is a material with an enormous range of uses. It is therefore no coincidence that it is used in everything from packaging to toys and medical equipment. Eliminating the use of all plastic is therefore not feasible. Rather, we need to reduce our use by eliminating it where possible and otherwise reduce volumes and change over to renewable and recycled materials. Quite simply, to make sure we use the right plastic in the right places.

- Axfood has adopted a plastics strategy that prescribes, among other things, that all plastic packaging for the Group's private label products must be recyclable by 2022 and that only renewable and recycled plastic may be used after 2030. Moreover, more disposable plastic items will be phased out from the assortment, and hazardous compounds will be removed from plastic materials.
- Incorporating plastic packaging into Sweden's national deposit system is an important step towards a more circular economy. Axfood is developing new types of returnable plastic packaging with the goal that they will be approved by Returpack, the company responsible for Sweden's national bottle and can deposit system. Garant was first to begin charging a deposit for its plastic juice bottles, achieving a recycling rate of 50% after one year. The recycled juice

bottles are used to make new PET bottles, resulting in a carbon footprint reduction by more than 60,000 kg of CO₂ in 2019.

- Axfood's Fixa brand has developed reusable polyester bags for fruits and vegetables that are helping further reduce the use of plastic.
- According to the Swedish Trade Federation, 1.7 billion paper receipts are printed out every year in Sweden. This corresponds to some 60,000 trees every year. A Statistics Sweden survey performed in January 2019 shows that 31% of Swedes would prefer to receive their receipts digitally. Since January 2019 Willys customers can choose to have their receipts sent to their user page at willys.se or in the Willys app. Since the launch until year-end 2019 some 170,000 customers had signed up. Hemköp has also been offering digital receipts for some time.

We aspire to be a positive force for change in society

- Together with its customers Hemköp collected more than SEK 2.7 m in donations in 2019 for SOS Children's Villages' work to benefit vulnerable children. This is a record since the partnership was formed. The total sum ended up at SEK 4.2 m after the Akelius Foundation matched customers' donations received during November and December 2019.
- Since Axfood adopted the goal that 25% of store and warehouse rooftops will be furnished with solar panels where feasible, such have been installed on additional store rooftops – most recently at the Willys store in Gränby, Uppsala.



Driving change through greater knowledge

- With the help of QuizRR, Axfood conducted training at a total of 17 factories that supply Axfood (11 in China, 5 in Thailand and 1 in Bangladesh) in the fundamentals of working conditions, pay reviews and the right to co-determination.
- During the autumn the effects of activities in China were evaluated. The outcome shows that worker representatives have been appointed at approximately 95% of the facilities and that more than half of these were appointed after QuizRR's training. 90% say that it has resulted in positive developments at the workplace.

Stakeholder and materiality analysis

Through an open dialogue in which we are receptive to the surrounding world's expectations and stakeholders' needs, we continue to develop the business by integrating sustainability in all aspects. Our most important stakeholders are the groups of people who are affected by and/or have an influence on our activities: customers, employees, owners, suppliers and society at large, such as non-profit or political organizations.

Materiality analysis 2015

Implementation

The materiality analysis serves as the foundation for reporting in accordance with the GRI Standards.

Through an ongoing dialogue with our stakeholder groups and a discussion revolving around Sweden's Environmental Objectives and the UN's Sustainable Development Goals, we are continuously validating the extensive materiality analysis we conducted in 2015, where 25 questions in six categories were put to all of Axfood's stakeholder groups:

- Assortment and consumer responsibility
- Carbon footprint
- Business culture
- Responsibility as an employer
- Responsibility in the supply chain
- Corporate social responsibility

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 of importance for our employees.

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.

Ongoing materiality analysis

Implementation

In autumn 2019 Axfood began work on following up the extensive materiality analysis that was performed in 2015. The aim is to set the right priorities for sustainability work going forward.

Under assignment from us the survey firm Kantar Sifo asked the following question to 1,083 consumers, together with 21 different sustainability factors: "How important is it that the company you buy your food from works with the following sustainability issues?".

The result showed that the most important issues for consumers are:

- Food with clear information on the country of origin
- Reduced use of hazardous chemicals/pesticides
- Good animal care

Thus the same material issues were cited as in 2015, but with one interesting difference: animal care has become more important for consumers. The keen interest in animal welfare creates opportunities to increase sales of more sustainable animal welfare concepts, such as KRAV labelled chicken and pork, where the animals are given more room and opportunities to roam outdoors.

Another response that stood out this time compared with 2015 pertains to locally produced food. Many consumers ranked it as their most important issue, even though it did not end up among the three top priority factors.

The next step in the ongoing materiality analysis is to ask the same questions to other stakeholder groups.

Stakeholder overview

	Stakeholders	Channels for dialogue	Key issues
Customers	<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. 18 and Customer meeting p. 21.</i></p>	<ul style="list-style-type: none"> • The meeting with customers in stores • Consumer contact • Focus groups • Consumer surveys • Social media • Leaflets, customer magazines, information on websites 	<ul style="list-style-type: none"> • Clear information on country of origin and traceability • Use of pesticides and chemicals • Good animal care • Anti-corruption and bribery • Work environment, working conditions and health • Certification of critical ingredients
Employees	<p>Axfood wants proud and committed employees, and to be a collaborative and effective organization.</p> <p><i>Read more under Strategy – Employees p. 32.</i></p>	<ul style="list-style-type: none"> • Daily status meetings and interaction • Employee meet-and-greets and conferences • Training • Regularly recurring employee surveys, including EI (Engagement Index) and LSI (Leadership Index) • Annual performance reviews 	<ul style="list-style-type: none"> • Work environment, working conditions and health • Organic food • Attract and develop employees • Use of pesticides and chemicals • Anti-corruption and bribery
Suppliers	<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, and pp. 92–93.</i></p>	<ul style="list-style-type: none"> • Separate meetings in the purchasing process • Supplier assessments within the framework of business networks, such as "Sustainable food chain" • Special dialogue projects, e.g., with Oxfam and QuizRR • Annual supplier meetings with Axfood's management for all suppliers • Training of suppliers' employees in risk countries • Social audits 	<ul style="list-style-type: none"> • Anti-corruption and bribery • Use of pesticides and chemicals • Healthy food • Work environment, working conditions and health • Country of origin and traceability
Owners	<p>Axfood shall create enduring value for its shareholders by exercising corporate social responsibility.</p> <p><i>Read more under Investment case – pp. 14–15, 138–139.</i></p>	<ul style="list-style-type: none"> • Annual General Meeting • Webcasts/conference calls in connection with interim reports • Presentations at investor luncheons, seminars, capital market days and other gatherings • One-on-one investor meetings 	<ul style="list-style-type: none"> • Anti-corruption and bribery • Attract and develop employees • Use of pesticides and chemicals • Organic and healthy food • Energy consumption • Favourable, sustainable return • Food waste
Society	<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>Stakeholder organizations prioritize, above all, issues related to products and the assortment, and the supply chain.</p>	<ul style="list-style-type: none"> • Personal meetings with decision-makers in Sweden and the EU • Presentations at conferences and other gatherings • Membership in trade organizations, such as the Swedish Trade Federation, Swedish Food Retailers Federation and Hållbar livsmedelskedja • Collaboration with stakeholders through membership in the Global Deal, the Swedish Association of Environmental Managers, and ENACT's Human Rights & Business Network • Since 2015 an employee has been working specifically with public affairs 	<ul style="list-style-type: none"> • Use of pesticides and chemicals • Anti-corruption and bribery • Animal welfare • Country of origin and traceability • Work environment, working conditions and health • Healthy food • Certification of critical ingredients • Carbon-labelling

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.

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.

Country of origin and traceability

Axfood indicates the country of origin of meat and the country of origin in respect of vegetables. We also use the marking "from Sweden".

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.

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.

Apart from the most material issues, there are numerous important issues that Axfood also informs about in its sustainability reporting. See the illustration below.

Good animal care

Good animal care contributes to reduced use of antibiotics in meat production.

Pesticides and chemicals

Axfood shall advocate for the avoidance of hazardous chemicals and pesticides in food production.

Reduced carbon footprint

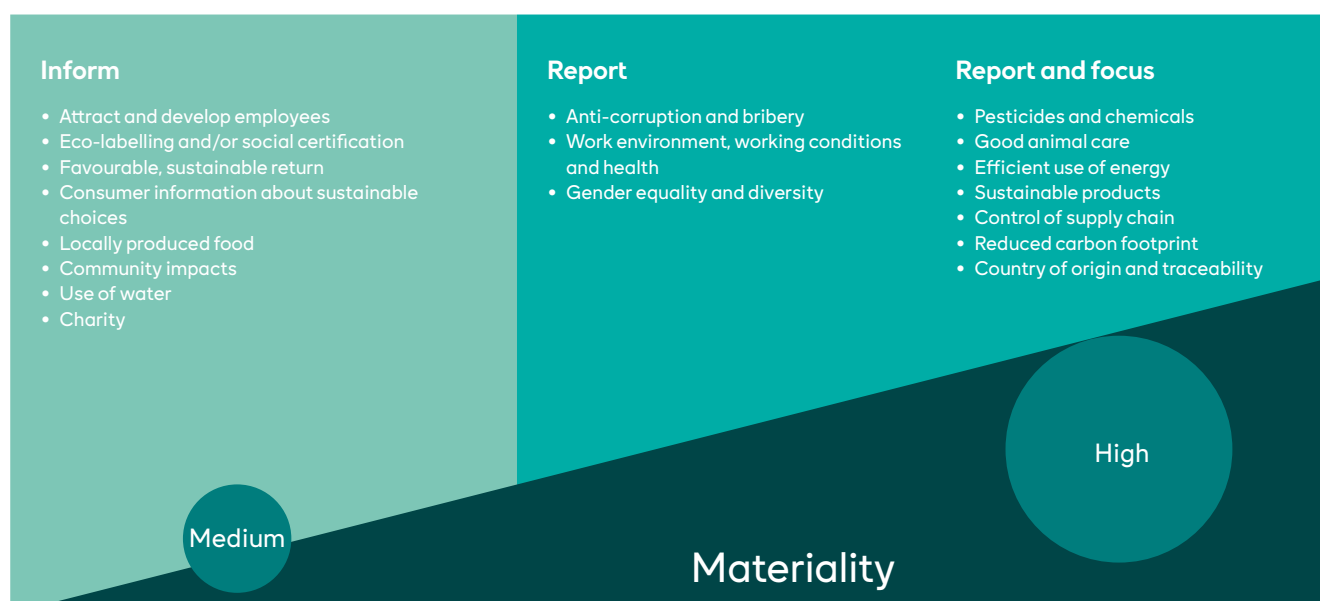
Axfood shall have efficient transports and sorting systems, use innovative solutions for preventing food waste, and advocate for climate-smart food production.

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.



Responsibility across the entire supply chain

Axfood has a responsibility and an opportunity to influence the working and living conditions for workers and small farmers in our supply chain, especially in risk countries, where government controls and functioning institutions and labour unions are lacking. Moreover, many workers in these countries are not aware of which rights they have and thereby have small opportunities to argue their case with employers. Controls of the supply chain with respect to social and environmental effects are conducted in part through sustainability assessments in connection with purchasing and in part through social audits on-site at suppliers.

In our purchasing work, the suppliers' work with social responsibility is always weighed against the risks in the specific supply chain. Our assessments follow up on Axfood's Code of Conduct, where the focus is on social issues, but where environmental issues and animal welfare also play a role.

The challenge is that the supply chain is long and not always transparent, which makes it hard to guarantee that the entire supply chain has been covered.

Social issues

Living wages

Axfood has had a living wage strategy in place since 2017. In 2018 we commissioned Oxfam to perform a "hotspot analysis" of our supply chains. Countries identified included Morocco,

Peru and India, among others. Our collaboration with Oxfam on living wages is continuing, and we have begun analysing the value chains surrounding strawberries, mangoes and tea in the identified countries.

The large GRAISEA 2 collaboration project that we have been conducting since 2017 in the basmati rice growing region in Punjab, Pakistan, continued in 2019. The project includes the participation of Oxfam, Axfood, Axfoundation, the Norwegian company Unil and the Polish company Rol-Ryz. The project is being funded by the participating companies and Sida, the Swedish International Development Cooperation Agency.

In a total of 25 villages, small farmers have now organized and begun growing in accordance with the Sustainable Rice Platform standards. In a majority of these organizations the work is governed by women.

All of the actors along the value chain from the rice farmers in Pakistan to Axfood are engaged in an active dialogue on how we can transform the project into a viable trade organization that will support the farmers towards a sustainable livelihood. In 2019 Oxfam reported that the project has already resulted in higher income especially for the small farmers who are women. In a similar way, within the framework of GRAISEA 2 we are supporting rice farmers in Cambodia who grow the rice used in Garant organic rice cakes. Read more on p. 107 and forward.

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 it has 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 if 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 working conditions**

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



Ethical trade

In 2019 Axfood and Axfoundation played a driving role in starting an Ethical Trading Initiative (ETI) in Sweden. ETI Sweden was established in December 2019 with participation from trade unions, companies, civil society organizations and the public sector. The aim is to serve as a multi-stakeholder collaboration to drive for responsible supply chains with focus on respect for human rights. ETI is also active in Norway, Denmark and the UK.

Environmental issues

The largest carbon footprint from food products arises in production and farming. Assessing suppliers' carbon footprints is important but complex work. Ensuring that all parts of the supply chain meet standards and expectations is a challenge for the entire industry.

Our assortment is extensive, and the number of suppliers and their sub-suppliers is many. We assess mainly our private label products, since we have direct product responsibility for these. Since customers cannot determine who has product responsibility in the fresh fruit and vegetables category, we assess both branded and our private label products in this category. Our assessment covers risk products or products produced in or with ingredients and/or materials from risk countries.

Starting in 2020, aspects surrounding water use and climate will be increased in the routine. Existing suppliers also undergo the same sustainability assessment process over time.

Sustainable fishing

Our seafood policy entails that fish and shellfish from threatened stocks are not to be sold in any of the Group's stores. All fish sold in Axfood's store chains must be traceable to their stock, fishing zone/farm and harvest date.

In every procurement, controls are performed against WWF's fish guide to ensure that the fish is as sustainable as possible, even though it may not always be green-listed. Controls are also performed of every individual component in all of Axfood's products that contain fish or shellfish. During the year Garant launched two relatively unknown fish types in order to ease the high demand pressure on cod, in particular. Read more on p. 102.

Good animal care

Sweden's animal welfare laws are strict compared with most other countries, and we choose to sell Swedish meat to a large extent. At the same time, Axfood sets standards for imported meat. The 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. This means in practice that 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. Read more on p. 102.

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.

GRI 200: Economic impact

Having long-term sustainable profitability is decisive for Axfood's ability to contribute to sustainable development and create value for the Company's owners and other stakeholders.

In the area of economic impact, Axfood reports the economic value that the Group generates for various stakeholder groups and on its work with anti-corruption.

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 compensation for their services. The government receives revenue through payment of social security taxes, pension contributions and withholding tax for employees, and income taxes, value added taxes and alcohol taxes. The Group reinvests part of this economic value in maintenance and new investments to develop Axfood's ability to generate value. Through dividends, shareholders receive their share of the economic value that is not used to run the business or is not reinvested. For a breakdown of how Axfood's economic value is distributed, see the following page.

205-3: 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 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 is greatest in purchasing collaborations in markets with a history of corruption.

Employees

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, 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. For information about Axfood's whistleblower service, see p. 115.

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.

Suppliers

Through its Code of Conduct Axfood requires 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 form of corruption.

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 a supplier knowingly provides false information, such as by presenting forged certificates or bookkeeping, is much greater than outright bribes. During 2019 Axfood terminated one business relationship due to false information and shortcomings in business ethics.

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 officer is responsible for following up social audits.

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 irregularities in audit documentation. Among the auditors who have audited Axfood's suppliers, none were suspended in 2019. Suppliers that are audited by Amfori BSCI are to have a formalized process, their employees shall be able to submit comments or complaints anonymously, and a process must be in place for how these are to be addressed.

During 2019 a total of 96 (95) social audits were performed of producers that produce products or parts of products for Axfood in risk countries. Of these, 96% (81%) were entirely without remarks concerning corruption/ethical business. Three per cent (15%) had minor deviations that required minor adjustments to routines. One per cent (4%) had major deviations that needed to be remedied. The relationship with one supplier was terminated during the year due to shortcomings in business ethics.

By 2019 at the latest, Axfood shall identify purchasing markets for private label products with high corruption risk and address these with a specific programme.

205-3: Corruption incidents

	2019	2018
Total number of confirmed incidents of corruption	4	0
Total number of confirmed incidents of corruption where employees were dismissed or disciplined	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	1	0
Public legal cases regarding corruption brought against the organization or its employees	0	0

Distributed value



GRI 300: Environmental impact

We advocate for food production that has the least negative carbon footprint as possible. Axfood's most material sustainability issues concerning environmental impact involve ensuring good and sustainable food by avoiding hazardous pesticides, improving animal welfare and communicating the food's country of origin, for example. Good and sustainable food also encompasses climate-smart packaging. Apart from the assortment, Axfood focuses on fossil-free energy, efficient 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

During 2019 a mapping was conducted both with respect to the quality of plastics and an estimation of the volume of plastic used in packages for all private label products. System support for extensive information about Axfood's private label products is being implemented. 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.

Industry-wide goals 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 targets for sustainable plastic packaging.

By 2022 all plastic packaging shall be recyclable, and by 2030 it shall also be produced using renewable or recycled content.

Axfood has committed itself to increasing its purchases of recycled material, increasing the share of products designed for material recycling, and to helping shape opinion and conducting 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 that is imported mainly from Brazil) is considerably more expensive than fossil-based plastic. Hopes are that in the future, there will be a large availability of fossil-free plastic based on forest products from our part of the world.

New plastics strategy – the right plastic in the right place

During the year Axfood decided on a new plastics strategy that in certain respects is more far-reaching than the forthcoming legislation in Sweden. The ambition is to drive development towards more sustainable use of plastics and reduce the negative environmental impacts of plastic. With the plastics strategy we have adopted a uniform work approach and joint priorities to be able to give this important issue the attention it deserves. The plastics strategy includes a total of seven goals on everything from using more sustainable mate-

rial to helping reduce litter and eliminate the use of hazardous compounds (so-called SIN compounds). An ambitious target to cut 25% of all plastic within own operations has also been set. A key part of the work on reducing the use of plastics is the principle of using the right plastic in the right place, which shall be applied in new product development, among other areas. For example, plastic packaging that does not serve any function shall be called into question.

Development work is to be focused on achieving as streamlined plastics flows as possible, entailing that fewer types of plastics are to be used together since this facilitates plastic material recycling. To achieve the various goals, detailed action plans and a communication plan are being drafted. Internal educational and information activities will also be conducted.

Climate-smarter packaging

Axfood is constantly replacing material in order to reduce the share of fossil-based raw material and change over to more renewable raw material.

Following are a few examples of new, climate-smart packaging solutions:

- Fixa has introduced reusable polyester bags for fruits and vegetables that will help further reduce the use of plastic.
- To reduce the use of plastic, Karlstad Municipality started a project where, in collaboration with Hemköp Karlstad, it offers the municipality's inhabitants paper food scrap bags in the store's fresh produce department. Of the 2,586 customers who responded to a survey, 95% said they wanted to continue using the paper bags for their fruits and vegetable purchases. Since the food scrap collection bags have worked well, the decision was made to switch entirely to the paper variant.
- Starting in late 2019 stores can order Garant crushed tomatoes on a full-size pallet without plastic-wrapped trays. This has resulted in savings of 3 tonnes of plastic and an estimated time savings of 45 to 60 minutes for handling each pallet. Not having to cut open the plastic wrap has eased a strain on employees' hands and shoulders. The measure has also eliminated the risk of cutting into the cartons, thereby reducing food waste.
- At the initiative of a customer, in 2019 we removed the plastic fork that was previously furnished with all Eldorado ramen cups, resulting in a reduction of approximately 2.4 tonnes of plastic per year.
- After receiving a suggestion from one of our buyers to achieve a higher rate of recycling by removing the pigment from the corks in Garant 1 litre juice bottles, we then received a suggestion from the supplier to remove 2 g of plastic from each bottle. This will result in the reduction of approximately 4.5 tonnes of plastic.
- In the future our private label lemon and lime concentrates will be packaged in a recycled bottle made from 50% PET (R-PET), which has also been redesigned with less plastic, from 19 g to 11.4 g. This will result in a reduction of 3.9 tonnes of plastic per year for the lemon juice bottles and 0.8 tonnes per year for the lime juice bottles.

302–1 and 305-1: Direct GHG emissions and energy consumption

The Group's carbon footprint from own operations comes from refrigerants, transports from warehouses to stores, air conditioning and heating of premises and business travel.

Axfood has reduced its carbon footprint by 76% (75%) since 2009. The largest decrease has come from energy consumption through the changeover to green electricity and efficiency improvements. Axfood's total carbon footprint for 2019 corresponded to 21,009 tonnes (22,195) of CO₂ equivalents. Compared with 2018 this is a decrease of approximately 5%. Transports account for the largest share of Axfood's total carbon footprint, 53% (48%) and the carbon footprint from refrigerants accounts for the second-largest share, 27% (29%).

Fuel consumption

More than half of products are distributed to stores using Axfood's own trucks.

Axfood also puts demands on external hauliers. Since 2018 Axfood has clear reporting routines and has been using the Swedish Association for Road Transport Companies' programme to measure the environmental impact of external distributors. Through this measurement the Group aims to influence external hauliers' fuel consumption. In 2019, distribution carried out by external firms had a carbon footprint per delivered tonne of 25.1 kg CO₂ (20.2), compared with 17.2 kg CO₂ (16.6) for the Group's own distribution. During 2020 environmental targets will be drawn up also for 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 are equipped with 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. In 2019 Dagab's drivers in Gothenburg were crowned as the winners of both the European and Swedish classes in the Eco-Driving Challenge. The aim of the competition is to drive as economically as possible, which is beneficial both from environmental and financial aspects.

Influencing vehicle manufacturers

To reduce the carbon footprint of fuel consumption from Axfood's operations, a concerted effort is needed together with 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 2019 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 bio-diesel 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.

During 2018 Axfood actively participated in the public debate to convince politicians that PFAD (palm fatty acid distillate) is not the renewable ingredient and should not be included in biodiesel. At the end of 2019, the Swedish government made a decision with the effect that PFAD, which was previously considered to be "a by-product of palm oil", is no longer classified as a by-product and thereby cannot be used in HVO biodiesel. Axfood recently began using HVO again, since it is now available without PFAD and palm oil. All of Axfood's diesel-powered trucks can be run on HVO, but unfortunately this type of fuel is also in short supply due to the so-called reduction obligation that was instituted by the Swedish government in 2018. The reduction obligation entails that a certain portion of fuels must consist of renewable ingredients.

Biogas is a fuel that results in a 90% reduction in CO₂ emissions compared with diesel. Above all, long-distance trucks can drive farther on liquid biogas (LBG).

Axfood's delivery fleet

Store deliveries by truck	
Diesel (53 can operate on RME)	119 vehicles
Biogas (14 LBG, 4 CNG)	18 vehicles
RME biodiesel	14 vehicles
Ethanol	3 vehicles
Electric hybrid	3 vehicles
Deliveries to consumers by light truck/van	
Diesel	125 vehicles

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.

In 2019 Dagab invested in a total of over 20 trucks capable of being run on sustainable fuels. Thus more than 50% of the Axfood Group's around 150 heavy trucks can be run on alternatives to fossil fuels.

At year-end Axfood had 125 small trucks or vans (131) for delivery of products from stores or dark stores home to customers.

Transport by rail

Where possible, Axfood chooses to transport goods by rail to reduce its 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 in northern Sweden.

Refrigerants

Refrigerants are Axfood's second largest source of GHG emissions from its own operations. The refrigerants used in refrigerator and freezer systems have a certain amount of unavoidable leakage. As systems are replaced, GHG emissions decrease. The challenge is with older systems still in operation, which use refrigerants that have a substantial carbon footprint. After 2020 it will not be allowed to refill these with 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 based on carbon dioxide) or using alternative refrigerants in the systems than what is specified – so-called drop-in refrigerants. The drop-in variants remain untested and pose a risk for 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 emissions from 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.

Axfood's refrigerant emissions from stores, warehouses and its own fleet in 2019 amounted to approximately 5,599 tonnes of CO₂ equivalents (6,429). The carbon footprint from refrigerants is decreasing despite the fact that growth in e-commerce has led to a slight rise for Dagab. Hemköp's emissions are decreasing sharply as a result of a high pace of equipment modernization.

Business travel

Axfood is striving to reduce the number of business trips to save time and money while also reducing its carbon footprint, such as by using digital meeting platforms. With today's digital meeting places, there is not a great difference in quality between digital and physical meetings.

Travel by rail or coach is to be given priority over air. All business travel by air is climate-compensated through offsets. Axfood has set a goal that 50% of business trips between Gothenburg and Stockholm will be made by rail. During 2019, air travel on this route decreased by 14%. Compared with the base year 2015, air travel for the Group as a whole has decreased by 9%.

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.

A dozen or so bikes are also available 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.

Draw up a strategy by 2020 to choose more environment friendly air travel where alternatives exist.

305-1,2,3 Direct and indirect GHG emissions

CO ₂ equivalents, tonnes	2009 (base year)	2019	2018
Total emissions	89,010	21,009	22,195
Direct GHG emissions (Scope 1) (305-1)	26,593	17,040	17,406
Own transports	10,531	11,115	10,557
Refrigerants	15,212	5,599	6,429
Business travel	851	326	420
Indirect GHG emissions from purchased electricity in own operations (Scope 2) (305-2)	61,647	3,248	4,016
Other GHG emissions (Scope 3) (305-3)	770	721	773
Business travel	770	721	773

Definitions and measurement and calculation methods

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 CO₂ 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.

Business travel

- The carbon footprint from business travel is calculated based on all identified modes of transport: air (booked via travel agencies), rail, airport coach, taxi, company car, rental car and personal car. Axfood's 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.

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 2019 in February 2020, the actual refill volume from 2018 is used. The calculation assumes that the refill volume corresponds to the emissions during the year.

Scope 1 emissions

- Direct GHG emissions from Axfood's own operations, including refrigerants, own transports and company cars.

Scope 2 emissions

- Indirect GHG emissions from purchased electricity used in own operations.

Scope 3 emissions

- Pertains 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-labelled products.

Energy consumption

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. To ensure the proper temperature ahead of deliveries, truck cargo areas and trailers are precooled, either using the truck's engine or electricity.

Axfood has a central power purchase agreement exclusively for renewable electricity. Only a few stores and warehouses are not covered by the central agreement. In these cases Axfood is advocating for the property owners to switch to renewable electricity.

Energy consumption within the Group is monitored, measured and followed up through a joint-Group control system that is coupled to the Group's stores and warehouse premises. Approximately 90% of stores and warehouses are included in this central system, apart from a few stores – most of which are located in shopping centres.

The control systems facilitate frequent and consistent analyses of energy use in addition to sounding an alarm if, for example, temperatures zones deviate from the desired threshold levels.

The respective companies are responsible for following up and actively working to reduce their energy consumption. This work is evaluated quarterly by Axfood 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).

Energy savings and own energy generation

A review of doors on refrigerated rooms and installation of LED lights are examples of energy efficiency investments at both store and warehouses that are having a positive effect on Axfood's energy consumption.

We have been purchasing only renewable electricity since 2009, but we also want to contribute to higher generation of green electricity. Following feasibility studies carried out in 2017 and 2018 which showed great potential for solar energy, solar panel systems have been installed in consultation with respective property owners. At year-end 2019, 13 facilities had solar panel systems in operation or agreements in place with property owners to install such systems. Axfood has also drawn up a power purchase agreement that can be used to buy electricity from solar panels where the property owner has chosen to own the solar panel system.

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.

In this way Axfood is taking further responsibility, as solar panels contribute to the production of more green electricity in society. 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.

302-1: Energy consumption

	2019	2018
Fuel, litres		
Non-renewable fuel	2,991,251	3,092,411
Renewable fuel	2,085,740	1,970,183
Total fuel consumption, litres	5,076,991	5,062,594
Electric power, heat, cooling and steam		
Purchased electricity, MWh		
Retail operations	236,453	237,036
Wholesale operations	32,093	32,146
Purchased heat ¹⁾	2,133	970
Total energy purchased, MWh	270,679	270,152
Self-generated heat from refrigeration systems, MWh	8,281	10,207
Self-generated electricity from solar panels, MWh	95	89
Total self-generated energy, MWh	8,376	10,296
Total energy consumption, gross, MWh	279,055	280,448
Sold heat, MWh	4,629	6,400
Renewable fuels, litres	2,085,740	1,970,183

302-3: Energy intensity

	2019	2018
Energy consumption		
Total energy consumption, MWh/net sales, SEK m	5.5	5.8
Self-generated energy, MWh/total energy consumption, net MWh	3.0%	3.7%
Electricity consumption		
Purchased electricity MW/net sales	5.3	5.6
Purchased electricity kW/sq.m., stores	331.2	342.6
Purchased electricity kW/sq.m., warehouses	223.4	223.8
Fuel consumption		
Total fuel consumption, l/net sales, SEK m	100	105
Renewable fuel/total fuel consumption	41%	39%

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 power purchase agreement.
- 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 district heating companies. In cases where the heat is included in the rent, the information is obtained from the respective property owners.

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, corrugated board and soft plastics dominate. Material fractions that cannot be recycled are sent off for incineration. Axfood strives to ensure that as little material as 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 than warehouses due to the size of the packaging.

Waste for incineration in relation to sales has decreased both for Willys and Axfood Snabbgross, while the corresponding level of waste for Dagab has remained unchanged.

306-2: Waste for incineration

	Willys		Axfood Snabbgross		Dagab	
	2019	2018	2019	2018	2019	2018
Waste for incineration from stores/warehouses, tonnes	9,050	8,799	988	773	1,177	1,280
Waste for incineration (tonnes) in relation to the respective segments' sales (SEK m), %	32	35	16	24	3	3

Measurement and calculation method

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.
- The reporting system for waste for incineration at Hemköp has not yielded satisfactory documentation for calculation, and therefore Hemköp has not yet reported this key ratio.

308-1: Supplier screening

Axfood conducts sustainability assessments of all new private label products. In 2019 we expanded our resources, expanded upon our purchasing collaborations in the Nordic countries and implemented system support, resulting in an increase in the share of screenings performed.

The Code of Conduct prescribes how suppliers are to take environmental impacts into account. This is checked during the audits, albeit to a limited extent. During 2019, 96 audits (95) were performed through Amfori BSCI. Additional audits are conducted within other systems, such as SEDEX and SA8000. The outcome in the table below is based only on the BSCI audits, and the deviations concern whether the suppliers have suitable emissions cleaning, waste handling, legal environmental permits, and whether they have control over any hazardous compounds in production. Only one supplier

had minor deviations pertaining to follow-up of the environmental standards, but it still had an acceptable level (C-level). An action plan has been drawn up for this deviation.

308-1: Supplier screening

	2019	2018
Share of new suppliers that have been assessed according to environmental criteria	42%	17%

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 to some extent in the countries where the suppliers grow their products. 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.

During 2019 the list of banned pesticides was adopted by the Swedish Food Retailers Federation, with certain additions. An industry-wide agreement will result in a harmonization of the demands for reduced use of hazardous pesticides, making it easier for suppliers and sub-suppliers to do right, with a greater positive effect for the environment and people.

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 has come under recent scrutiny, especially in view of the drought in Sweden in summer 2018.

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 document their water use. The collaboration 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 an analysis was performed in 2018 of the current problem in the country, specifically in the Ica Valley. In spring 2019 we paid a visit to the region together with Swedwatch to discuss with local organizations and



Axfood's suppliers what Axfood can do to best improve the water situation in the country and at the same time take responsibility for the growers' situation. A few observations from the visit were that agriculture is entirely dependent on irrigation from a river that runs down from the Andes and from the underground aquifer. The water from the river can only be used during certain parts of the year. The rest of the time it must be pumped from underground.

Asparagus, avocados, grapes and pomegranates are just a few of the crops farmed in the Ica Valley. Asparagus is harvested twice a year, and roughly 1,000 litres of water are used to produce a pound of asparagus. And still, asparagus is not the most water-intensive crop. Moreover, we saw that the irrigation techniques used by our suppliers are at a high level, and water conservation is practiced, such as by using drip irrigation. One conclusion from the visit is that it is not enough to put high demands on the suppliers in the area. Even though

the technical irrigation level is high, it's to no avail if water consumption is higher than the supply in a watershed area. If the total consumption level is too high, the problem must be dealt with by the government through policy measures.

Previously Axfood participated in another project with SIWI involving an evaluation of 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, but that Global GAP does not solve the situation when water use in an entire area is too intensive. Together with SIWI, other companies and our suppliers, Axfood has continued with its plans to employ the right measures and prevent unsustainable purchases from water-critical supply chains.

During 2019 Axfood further developed 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 ("Good environmental choice"), several potentially controversial chemicals have already been phased out.

Sustainable fishing

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 fishing zone/farm, fishing gear and stock. Customers are also to 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 fishing methods. Owing to clear requirements in procurement processes and a long-term approach, Axfood has neared its target to sell only green-listed fish. The biggest challenges are related to tuna and farmed Norwegian salmon. While the supply of ASC-labelled salmon is insufficient, volumes will increase as more fish farms adapt their practices. The entirely dominant volume of the remainder, which is yellow-listed, consists of Norwegian salmon.

In 2013 all of Hemköp's staffed fish counters were MSC certified, and in 2018 they were also ASC certified.

Owing 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-labelled. In all this includes some 20 products.

In 2019 new types of fish were launched under the Garant brand and the Bra val just nu! ("Good choice right now!") concept as a way to offer and help consumers find other alterna-

tives to salmon and cod, and in this way ease the pressure on these highly burdened types of fish.

Training activities have been conducted to raise knowledge about MSC among employees. At year-end 2019 the completion rate was approximately 65%.

By 2022 at the latest, Axfood's store chains shall only sell green-listed fish and shellfish products.

Good animal care and low use of antibiotics

Axfood chooses to sell Swedish meat to a great extent. Sweden's animal welfare laws are strict compared with most other countries. Healthy animals in Sweden has resulted in lower use of antibiotics. 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 only 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 Company 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.

In previous years 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 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.

KIWA, an external certification company, has performed audits focusing on animal care for chicken and turkeys in Poland. The outcome showed that Poland has challenges regarding the use of antibiotics. Based on the Swedish Food Retailers Federation's industry-wide antibiotics standards, Axfood will be requiring Polish suppliers to submit a detailed action plan on how they will reduce their use of antibiotics.

Together with Martin & Servera, Axfood visited a beef production plant in Uruguay. The outcome showed that the cattle have been raised in compliance with applicable laws.

GRI 400:

Social impact

We take responsibility for social issues both in our own operations and across the entire supply chain. Our most material sustainability issues from the employee perspective are coupled to our ability to attract, recruit and develop the best people in the industry, a good work environment and health, and the opportunity to create an equal opportunity organization characterized by diversity. In this area, in 2019 we worked according to the following priorities: culture and core values, increase diversity in management positions, competence shift and competence succession, and increased work attendance rate. Read more about our strategic HR work on p. 32.

Social issues in the supply chain are coupled to quality-assured products, decent working conditions, greater traceability and more sustainable production.

102-8: Employees

The Group's strategic work with employee issues is conducted 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. The respective companies have local HR functions than handle local issues and processes. The continuing and daily work with employees is conducted by the Group's managers and leaders. For examples of Group-wide policies and guidelines, see p. 115. Fundamental preconditions are also the ability to act in accordance with laws and regulations coupled to labour law and the work environment as well as to our collective agreements. Axfood believes that governance of strategic employee issues is well-suited for its purpose.

All Axfood employees in Sweden are employed by companies in the Group and are covered by Swedish collective agreements. A marginal share of operations are performed by subcontracted personnel or consultants, who are also 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	
	2019	2018	2019	2018	2019	2018
No. employees (permanent and probationary employees)	5,485	5,027	6,277	5,807	11,762	10,834
No. employees (time-limited employment)	456	570	717	864	1,173	1,434
Total	5,941	5,597	6,994	6,671	12,935	12,268

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	
	2019	2018	2019	2018	2019	2018	2019	2018
No. employees (permanent and probationary employees)	7,545	7,066	2,382	2,095	1,835	1,673	11,762	10,834
No. employees (time-limited employment)	1,067	1,269	71	115	35	51	1,173	1,435
Total	8,612	8,334	2,453	2,210	1,870	1,724	12,935	12,269

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 full- and part-time

31 Dec.	Men		Women		Total	
	2019	2018	2019	2018	2019	2018
No. employees – full time	4,096	3,881	3,288	3,101	7,384	6,982
No. employees – part-time	1,845	1,716	3,706	3,570	5,551	5,286
Total	5,941	5,597	6,994	6,671	12,935	12,268

Includes one employee who has not indicated a binary gender affiliation and thus is not included in the total breakdown of men/women.

Measurement and calculation methods

- The number of employees does not include employees in Hall Miba AB and the six employees in Shanghai and Urban Deli. Starting in 2019 it includes employees of Cold Cargo Sweden AB.
- Since Axfood's operations are conducted throughout Sweden, the number of employees per region is not reported.

401-1: New employee hires and employee turnover

Axfood's employer brand is strong, and many people apply for jobs within the Group. The recruitment process is a valuable opportunity to present a positive image of Axfood as an employer. Axfood strives for objectivity in its recruitment, and extensive work has been carried out to centralize the recruitment process and make it more professional. The view of internal recruitment is positive, and all positions are advertised internally.

Recruiting managers are responsible for the decisions that are made in connection with recruitment and for conducting recruitment in accordance with an established process. In 2019 a recruitment process with digital system support was implemented.

The Axfood Academy is the Group's own centre for continuing education and competence development. All employees have the right to training and competence development, and the Group has the ability to direct relevant training to specific employees. Axfood's leaders take the Axfood Academy's leadership courses. 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.

To ensure success in the work on developing and attracting employees it is important to monitor the development of new hires and employee turnover.

401-1: Employee turnover, women and men

	Men		Women		Total	
	2019	2018	2019	2018	2019	2018
Number of new employees (hires)	851	813	908	917	1,759	1,730
New hires as share of total number of employees (hiring turnover)	16%	18%	14%	17%	15%	17%
Number of employees who have left (departures)	863	780	1,175	1,061	2,038	1,841
Departed employees as share of total number of employees (employee turnover)	16%	17%	19%	19%	17%	18%

401-1: Employee turnover, age

	–29 yrs		30–49 yrs		≥50 yrs	
	2019	2018	2019	2018	2019	2018
Number of new employees (hires)	1,131	1,049	540	563	88	118
New hires as share of total number of employees (hiring turnover)	26%	32%	10%	12%	4%	6%
Number of employees who have left (departures)	1,280	1,041	662	640	136	160
Departed employees as share of total number of employees (employee turnover)	29%	32%	12%	14%	6%	8%

401-1: Employee turnover, form of work

	Retail		Salaried employees		Warehouses and e-commerce	
	2019	2018	2019	2018	2019	2018
Number of new employees (hires)	931	1,198	582	165	246	366
New hires as share of total number of employees (hiring turnover)	12%	17%	24%	10%	13%	17%
Number of employees who have left (departures)	1,457	1,292	404	260	177	289
Departed employees as share of total number of employees (employee turnover)	19%	18%	17%	16%	10%	14%

Axfood does not report per region, but per contract area, which is more relevant for the operations.

Measurement and calculation methods

- The number of employees does not include employees in Hall Miba AB and the six employees in Shanghai and Urban Deli. Starting in 2019 it includes employees of Cold Cargo Sweden AB.
- 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 of employees on 31 December. Ended employment does not include deaths, terminations and retirements.
- 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.
- The compilation of new hires and employee turnover pertains to Axfood's employees at year-end.
- The number of employees divided by the contract area is calculated at year-end.
- Retail includes 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.

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, warehousing 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. The current three-year collective agreement expires in March 2020. As per 1 January 2020 Axfood has raised the fitness subsidy from SEK 1,300 to SEK 2,000. The subsidy is available for all employees who have completed at least three months of employment.

Employee survey, leadership, engagement

Leaders' ability to lead and develop employees is monitored by means of the leadership index and engagement index. The most recent employee survey was conducted in October 2019, with a response rate of more than 90%.

The outcome shows that engagement has increased: the number of ambassadors and leadership both developed in a positive direction. We also see significant improvements in several areas related to the psychosocial work environment. The survey result shows positive development especially in the areas in which we had extra focus on during the year: the right conditions to do a good job, support during periods of high work load, feedback, and clear communication of expectations by managers.

The engagement index score increased to 78 (77), driven in large part by higher engagement scores from Hemköp. Employees are more motivated in their work, think to a higher degree that it is fun to go to work, and they have clear goals to a higher extent than previously.

The leadership index score increased to 77 (75). Managers have become better and informing, providing feedback and being aware of employees' performance.

Many respondents state that they get support when there is a high work load, which has resulted in a decrease in stress and an increase in the index score for psychosocial work environment to 75 (73).

403-2: Incidents, injuries and sickness-related absences

Ensuring that Axfood's employees are healthy and in a state of well-being at work is a priority area, and a high work attendance rate is one of the Group's strategic targets. The work attendance rate in 2019 was 94.4%, which is the same level as in 2018.

All managers have access to tools to be able to act upon early signs of ill-health among employees and increase the work attendance rate through proactive wellness initiatives. All managers receive training in sickness-related absenteeism, rehabilitation and work environment. The training can be customized based on the area that is most pertinent at a given time. At year-end 2019 68% of managers had completed the training.

Work environment initiatives within Axfood are governed, conducted 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 Representation on occupational health and safety committees). 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 high 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 calls in 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 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 2019 the number of reported incidents decreased compared with 2018 from 3,493 to 2,938. At the same time, the number of reported accidents increased from 549 to 662.

405-1: Diversity in the Board of Directors, management and employees

For many years the Group has conducted long-term work on creating an inclusive work climate and increasing 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 religious holiday-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 a newcomer apprentice programme, consisting of a 12-month programme in which work is mixed with training. The first group of ten apprentices "graduated" in January 2019. Of these, eight were offered jobs with Axfood, while all of the participants gained a valuable experience for their CVs. In October 2019 the next group – with a full 19 participants – began a new programme. All of the apprentices are assigned a personal supervisor at Axfood and combine their work in the

apprentice programme with Swedish language training in the Swedish for Immigrants programme (SFI).

405-1: Gender equality, %

31 Dec.	Men		Women	
	2019	2018	2019	2018
Board of Directors	57	50	43	50
Executive Committee	70	70	30	30
Management teams all companies incl. Executive Committee and staff	62	66	38	34
Employees, salaried employees	54	54	46	46
Employees, warehouses	80	82	20	18
Employees, stores	36	36	64	64

405-1: Age distribution, %

31 Dec.	–29 yrs		30–49 yrs		≥50 yrs	
	2019	2018	2019	2018	2019	2018
Board of Directors	–	–	29	38	71	62
Executive Committee	–	–	30	30	70	70
Management teams all companies, incl. Group and staff managements	–	–	48	49	52	51
Employees, salaried employees	12	10	59	61	28	28
Employees, warehouses	41	40	42	42	17	18
Employees, stores	48	48	37	37	15	15

405-1: Diversity, %

31 Dec.	International background		Swedish background	
	2019	2018	2019	2018
Management teams all companies, incl. Group and staff managements	4	6	96	94
Employees, salaried employees	13	12	87	88
Employees, warehouses	36	32	64	68
Employees, stores	26	25	74	75

It is not possible to measure the international background among members of the Executive Committee and company management teams individually, since the groupings are too small (integrity concerns).

- The number of employees does not include employees in Hall Miba AB and the six employees in Shanghai and Urban Deli. Starting in 2019 it includes employees of Cold Cargo Sweden AB.
- 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.

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 wages and salaries within the Group to prevent inequitable differences in pay and benefits between men and women. Wages, 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 2019 no inequitable differences were discovered.

406–1: Incidents of discrimination and corrective actions taken

Axfood has had an equal treatment policy since 2018. The goal is to ensure that no employees are discriminated against and that, in experienced cases of discrimination, employees will know where 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 aspects

Social responsibility in the supply chain is exercised mainly in the process and farming stages of food products and in the process and content stages for non-food products. Axfood's work with ensuring decent working conditions and living wages for workers and small farmers is challenging, especially in risk countries, where government control and functioning systems and unions are often 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 part through sustainability assessments in connection with purchasing and in part through social audits performed on-site at suppliers.

One of the greatest challenges in this area is the 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.

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 450 suppliers account for 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 ingredients/material from risk countries, or certain identified risk products. Risk products are identified 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.

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.

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. The purchasing process is also described on pp. 92–93. In 2019 we expanded our resources, worked further within our Nordic purchasing collaborations and introduced system support, which explains the increase from 17% to 42%.

308-1: Supplier screening

	2019	2018
Percentage of new suppliers that have been assessed according to social aspects	42%	17%

Product sustainability officers regularly perform sustainability assessments prior to all new procurement processes for products sourced from a risk country (according to BSCI's definition). In addition to sustainability assessments in new procurement processes, annual supplier assessments are also performed whereby Axfood's existing suppliers are assessed on a three-degree scale, where green is best, yellow is average and red is the poorest score on the scale. 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.

414–2: 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. Since 2015, most of the social audits have been conducted via Amfori BSCI. During 2019, 96 (95) audits were conducted through Amfori BSCI. Other suppliers and sub-suppliers in risk countries are covered by other systems, such as SEDEX, Global GAP GRASP and SA8000. All constituent ingredients accounting for more than 5% are followed up. The outcome in the table below is based only on the BSCI audits.

BSCI audits are broken down into five levels on a scale from 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 forced 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 of Conduct.

Of Axfood's total of 145 suppliers and sub-suppliers (121) that were included in Amfori 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 shortcomings. 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 11 (10) 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 2019 a relationship with one (0) sub-supplier was terminated due to an unwillingness to improve.

414-2: Negative social impacts in the supply chain and actions taken

	2019	2018
Number of suppliers assessed for social impacts	96	95
Number of suppliers identified as having negative social impacts	11	10
Negative social impacts identified in the supply chain	11	10
Percentage of suppliers identified as having negative social impacts with which improvements were agreed upon	100%	100%
Percentage of suppliers identified as having significant negative social impacts with which relationships were terminated	1%	0%

IP Arbetsvillkor

In 2015 Axfood, Martin & Servera and Axfoundation took the initiative for 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.

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 wages

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.

To support the UN's Social Development Goal for no poverty, Axfood's sustainability programme includes the over-

arching goal to eradicate poverty in Axfood's supply chain for private label products by 2030. Axfood's living wage strategy, adopted in 2017, is one step towards achievement of this goal. The strategy involves activities at three levels: fundamental, developed and advanced. In 2018 we commissioned Oxfam to perform a "hotspot analysis" of our supply chains. Countries identified included Morocco, Peru and India, among others. Our collaboration with Oxfam on living wages is continuing, and we have begun analysing the value chains surrounding strawberries, mangoes and tea in the identified countries.

The large collaboration project GRAISEA 2 that we have been conducting since 2017 in collaboration with Oxfam, Axfoundation, the Norwegian company Unil and the Polish company Rol-Ryz in the basmati rice growing region in Punjab, Pakistan, continued in 2019. In a total of 25 villages, small farmers have now organized and begun growing in accordance with the Sustainable Rice Platform standards. In a majority of these organizations the work is governed by women.

Across the entire value chain from the rice farmers to the rice exporters and rice packaging company and Axfood, an active dialogue is conducted on how we can transform the project into a viable trade organization that will support the farmers towards a sustainable livelihood.

In 2019 Oxfam reported that the project has already resulted in higher income especially for the small farmers who are women. The project receives half of its funding from the participating companies and half from Sida, the Swedish International Development Cooperation Agency. In a similar way, within the framework of GRAISEA we are supporting rice farmers in Cambodia who grow the rice used in Garant organic rice cakes.

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 QuizRR project shows that it is possible to work progressively with social dialogue even at Chinese workplaces. In 2019 Axfood also held training in social dialogue that combined instructor-led training with e-learning. The results have been



positive and have led to better communication between employees and employers.

Training has been conducted at a total of 17 factories that supply Axfood (11 in China, 5 in Thailand and 1 in Bangladesh), for a total of 2,932 employees. Both production managers and employees participate in the training, which consists of short films and Quiz questions that the participants respond to on tablets. As the first company in Sweden to do so, Axfood publishes consumer information directly on the consumer packaging about its QuizRR initiative. The first product was Garant Tamari soy cause, which is produced in a factory in China where QuizRR training has been conducted.

During the autumn, the effect of efforts in China were evaluated in all Axel Johnson companies with support from Axfoundation. A total of 412 employees and 183 managers participated in the survey. The outcome shows, among other things, that employee representatives have been appointed at approximately 95% of the facilities and that more than half of these were appointed after QuizRR's training. 90% say they have seen positive development.

By Axfood's initiative, QuizRR courses have also been developed for Thailand. From January to June 2019 a pilot phase was conducted where nine Nordic purchasers joined together and conducted tests at ten factories (of which five were factories that supply Axfood). The training in Thailand focuses on ethical recruitment of migrant workers who speak three different languages (Thai, Khmer and Burmese), since the Thai food industry has considerable problems with exploitation of migrant workers from Cambodia and Burma.

Axfood is now planning to use the tool for all suppliers in Thailand to reduce the risks for unethical recruitment.

Sustainability-labelled products

Axfood is working to offer a growing range of sustainability-labelled products in its assortment as a means of enhancing security for the people working in production and improve the environment.

The share of sustainability-labelled products shall amount to at least 30% by 2025.

Axfood is also working actively to conduct sustainability labelling for its private label products. All crops with a clear coupling to social and environmental challenges are to be sustainability-labelled. 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 are 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.

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.

Ethical Trading Initiative

In 2019 Axfood and Axfood foundation played a driving role in starting an Ethical Trading Initiative (ETI) in Sweden. ETI Sweden was established in December 2019 with participation from trade unions, companies, civil society organizations and the public sector. The aim is to serve as a multi-stakeholder collaboration to drive for responsible supply chains with focus on respect for human rights. ETI is also active in Norway, Denmark and the UK. Axfood foundation was one of the founders of ETI Sweden.

Global Deal

Axfood continues to be affiliated with Global Deal, a global partnership with the objective of encouraging labour market parties and governments to engage in an improved dialogue on decent working conditions.

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 are to 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

Axfood is working actively to cut back on ingredients that have negative health effects. 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. Axfood's basic rule is to not use unnecessary additives. For example, no chemical azo dyes are used. Any additives used fulfil important functions and have been determined to be harmless.

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 ¹⁾
Household chemical products, cosmetics and hair care products	ISO 9001 or GPM
Vegetables, root vegetables and fruit	Certification according to Global GAP or similar
Certain non-food items, such as toys and electrical appliances	Documentation and certificate of CE marking
Products designed for contact with food	Certification that the product is made with material approved in accordance with Normpack's rules

¹⁾ Suppliers that have not completed certification can request dispensation if they can present a credible timetable for certification.

Quality assurance of private label products

	2019	2018	2017
Private label product recalls from stores	36	32	29
Other product recalls from stores	73	78	107
Share of private label product suppliers approved according to GFSI, %	99	99	99

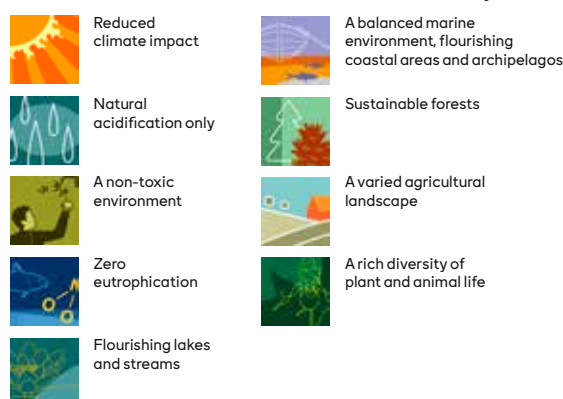
Key data per store chain

	Hemköp		Willys		Willys Hemma		Mat.se		Eurocash	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Number of organic products	1,762	1,489	974	988	818	759	1,338	2,058	777	810
Organic products as % of total food sales	8.9	9.3	5.5	5.8	6.9	7.3	15.0	16.2	2.1	2.3
Number of Fairtrade Certified products	152	168	82	102	71	77	96	168	71	95
Fairtrade Certified products as % of total food sales	0.72	0.74	0.80	0.87	1.11	1.18	1.03	0.97	0.33	0.34
KRAV certified meat, % of total meat sales	7.8	9.0	2.1	2.4	4.0	4.7	13.8	n.a.	0.6	0.6
Number of hypoallergenic products	1,051	966	809	798	613	589	757	n.a.	647	655

Sustainability programme

Axfood's sustainability programme encompasses short- and long-term targets. Most of the targets are coupled to Sweden's environmental objectives and/or the UN's Sustainable Development Goals. Of the UN's SDGs, "Responsible consumption and production" and "Climate action" are the two most relevant for Axfood.













A selection of Sweden's Environmental Objectives



A selection of the UN's Sustainable Development Goals





● Achieved ● In progress ● Target not achieved

Targets	Coupling to Sweden's Environmental Objectives	Coupling to the UN's Sustainable Development Goals	Results and comments 2019	Status
Sustainable products. Axfood shall facilitate shopping for conscious customers through an environmentally adapted assortment of sustainability-labelled products, practical solutions and good consumer information. Animal care shall be ensured in all steps of production of animal products.				
Axfood shall offer a varied and rich assortment of health products by developing the assortment and promoting an offering that guides consumers toward more fruit, vegetables, vegetable fats and products with less added sugar.		 	New target for 2019.	●
Reduce the total use of plastics in the Group's operations by 25% by 2025 (base year 2019).			New target for 2019. Plastics strategy adopted by the Executive Committee.	●
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. In 2019 Garant launched two new types of fish in an effort to ease demand primarily for cod.	●
Axfood's store chains will work actively to highlight good sustainability choices.			During 2019 Axfood's store chains worked actively to highlight good, sustainable choices, such as through campaigns such as "Waste-smart", Mat.se's carbon labelling and functions that make it easy to choose organic alternatives while shopping.	●
Axfood Snabbgross will develop a communication plan focusing on sustainability for customers and employees alike.				●
Customers will gradually be provided with better information about which fruit and vegetable products have been transported by air, mainly by improving packaging information.			Information on which fruits and vegetables that are transported by air is posted on axfood.se.	●
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.				●
Axfood will increase sales of frozen products.			Frozen products as a share of total grocery sales increased.	●
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 single-ingredient private label products.		 	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.			In 2019, 85% of the assortment included information on the main ingredient's country of origin. New legislation that takes effect on 1 April 2020 will require retailers to provide country of origin information on all products.	●





























● Achieved ● In progress ● Target not achieved

Targets	Coupling to Sweden's Environmental Objectives	Coupling to the UN's Sustainable Development Goals	Results and comments 2019	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.			An industry standard was adopted in October 2019 that corresponds to Axfood's list.	●
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 systematically reviewed on a successive basis as information is fed in to the quality assurance system.	●
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.	 		Target has been achieved for food products, i.e., certified palm oil is used in all products containing palm oil. 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.	 		Target achieved.	●
All soy used in private label products shall either be certified or compensated for via certification offsets.	 		Target achieved through compensation offsets for non-certified soy.	●
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.			Target achieved. Sustainability certifications have been adopted for the following Garant private label products: confectioners' sugar, coconut oil, mixed nuts and cashews.	●
By 2020, customers will be offered sustainability certifications (Fairtrade, Rainforest Alliance or UTZ) for private label products in at least three additional risk products (e.g., nuts, sugar, spices). The target applies mainly to products sold under the Garant private label.			Target achieved and removed from the programme at the end of 2019.	●
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.	 	 	An analysis was performed of all private label packages in 2019. Work was begun with affected suppliers whereby Axfood has requested that the suppliers come up with an action plan.	●
By 2030, plastic packaging for Axfood's private label products will be made of renewable or recycled material.			In cooperation with the Swedish Food Retailers Federation, Axfood has created a roadmap within the framework of "Fossil-free Sweden", which corresponds to Axfood's targets.	●
Axfood's store chains will reduce sales of plastic shopping bags by 20% by 2022 and by 50% by 2025 (base year 2016).			During 2019, sales of plastic grocery bags decreased by 12% (6%).	●
Initiation of a project to be able to offer digital receipts in all Axfood stores (cashier receipts, bottle and can deposits, self-checkout).	 	 	Hemköp and Willys offer digital cashier receipts.	●
Axfood's companies will reduce the share of combustible residual products in relation to sales.			Slight improvement in sorting at Willys compared with previous years. Slightly poorer performance at Axfood Snabbgross compared with 2018.	●
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 in 2019 accounted for 6.2% of total.	●
Hemköp will increase its share of organic food sales to 15% by 2020.	  	 	Sales of organic foods in 2019 accounted for 8.9% of total.	●
Hemköp's retailer-owned stores will abide by sustainability decisions like the Group-owned stores.	  			●
Tempo will increase its share of organic food sales to 6% by 2020.	  	 		●
Axfood Snabbgross will increase its sales of Swedish meat by 25% by 2020 (base year 2018).		 		●
The share of sustainability-labelled products will amount to at least 30% by 2025.	  		Target changed in 2019 with adoption of the concept "sustainability-labelled" in the target formulation. In connection with the inclusion of the fruits and vegetables category in the target, the volume target was also changed, and is now 30% by 2025.	●
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.			Target achieved.	●

● Achieved ● In progress ● Target not achieved

Targets	Coupling to Sweden's Environmental Objectives	Coupling to the UN's Sustainable Development Goals	Results and comments 2019	Status
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.			During 2019, 86% of suppliers met this requirement. Axfood expects to fully achieve the target in 2020.	●
Meat from pigs that are castrated without anaesthetics will be discontinued from Axfood's private label products by 2019.			The target was changed at the end of 2019, whereby Dagab was given one more year to achieve the target. The challenge in meeting the target lies with charcuterie products from Germany.	●
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.		 	The requirement is specified in framework agreements and purchasing specifications in procurement processes. The criteria are being updated in collaboration with Axfoundation.	●
Hemköp's sales of organic meat will amount to 15% of total meat sales by 2020.	  		In 2019 the share was approximately 8%.	●
Transports. 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.			During 2019 Dagab continued to invest in environmentally adapted solutions. At year-end slightly more than half of the fleet was fossil-free.	●
Drafting of a plan to change over to gas, electricity or electric hybrid operation for e-commerce, to take effect in 2020.				●
Dagab will begin measuring CO ₂ emissions also from subcontracted transports from warehouses to stores.			Target achieved.	●
By 2022 at the latest, Dagab will conduct carbon footprint reporting also for incoming transports to Dagab's warehouses.				●
Dagab will reduce CO ₂ 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 conventional diesel fuel.	●
The Axfood Group will reduce the number of business trips by air by 15% (base year 2015).				●
Devise a strategy by 2020 to choose more environmentally adapted air travel (e.g., low-flying aircraft) when the alternative is available.				●
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.				●
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			By implementing new digital meeting forms, such as Teams, the number of digital meetings has increased significantly.	●
Climate and energy. 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.			Target achieved. The remainder is compensated for through offsets.	●
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.		 	At year-end 2019 a full 13 solar panel systems had been installed or agreed-upon with the property owners.	●
The Axfood Group will reduce its electricity consumption by 15% per square metre by the end of 2020 (base year 2015).			The outcome for 2019 showed a decrease in electricity consumption per square metre of 5.6% (compared with base year 2015).	●
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).			Owing to Dagab's work on establishing a new warehouse structure and new logistics centre in Bålsta, investments at existing warehouses are limited. However, energy efficiency work continues to be conducted on a regular basis at the respective warehouses.	●
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.				●

● Achieved ● In progress ● Target not achieved

Targets	Coupling to Sweden's Environmental Objectives	Coupling to the UN's Sustainable Development Goals	Results and comments 2019	Status
Food waste from Hemköp, Willys, Axfood Snabbgross and Dagab will be cut in half by 2025 at the latest (base year 2015).			The outcome for 2019 was 1.47%, compared with 1.73% for the base year.	●
Axfood Snabbgross will devise an action plan to reduce food waste, with special focus on restaurant customers.				●
Reduce the number of local servers in stores by 50% by 2021.				●
New IT products and office machines will have 15% higher energy efficiency than the ones they replace.				●
Axfood IT will use systematic tools to ensure a sustainable supply chain for selected, existing suppliers of services, hardware and software.				●
By 2020, all suppliers of private label products will report on climate measures yearly.				●
Responsible suppliers. Axfood shall advocate for human rights, workers' conditions and environmental protections among suppliers and business partners.				
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.			Target achieved. Sustainability routine 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.		 	To date, projects have been carried out 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.			Axfood has developed its own method to analyse suppliers' irrigation methods and the water situation in areas/countries where the products are grown. The method was tested in 2019.	●
By 2020 all relevant suppliers (growers and guest workers) of fruits and vegetables will be certified according to IP Sigill working conditions.			Target achieved.	●
Employees. Axfood shall be a good employer that promotes commitment and diversity.				
By 2020 at the latest, 20% of Axfood's senior executives will come from an international background.			At year-end 2019, 15% had an international background, an increase of 2 percentage points.	●
A minimum of 75% of Axfood's managers will be recruited internally, and a minimum of 10% will be recruited externally.			48% were recruited internally and 52% externally.	●
Have a high work attendance rate of at least 95%.			At year-end 2019 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.			30% women, 70% men.	●
All employees will have completed basic sustainability training.			During 2019, 38% of all new employees attended environmental training. A new sustainability education is under preparation.	●
By 2020, all of the Group's managers will have completed training in organizational and social work environment.			Process in place where the training is mandatory for all managers.	●
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.			Work is proceeding to plan, but the actual target will be removed from the programme.	●

Governing documents and principles

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 – addresses 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.

- The 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.
- The 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 managing director 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 officers works from the purchasing office in Shanghai. Sustainability coordinators have been appointed in all segments (Willys including Euro-cash, Hemköp, Axfood Snabbgross, and Dagab including Mat.se and Middagsfrid) as well as by Dagab's management for its 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.

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 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. Its content can also be conveyed to suppliers in another some 20 languages.

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 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 aspires to be perceived as a positive force for change 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 pledged 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-labelled 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.

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 aligned with 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 pp. 12–13.

See the entire sustainability programme including the coupling to the UN's SDGs and Sweden's Environmental Objectives on p. 110.

In 2010 Axfood participated in the establishment of the Haga Initiative, a network of companies in Sweden that is working to reduce emissions from the business sector and highlight the climate issue. The Haga Initiative adheres to the 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 at hagainitiative.se.

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. 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 2019 the ethical guidelines were signed by 1,662 employees (1,378).

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, offensive 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.

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 offensive 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.

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 suspicious conditions that could seriously harm the Company or an individual's life or health, or something that is contrary to our ethical guidelines or Code of Conduct.

Reports can be made anonymously and are addressed via an external site that is 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 taken into serious consideration and are addressed 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 respective companies' HR departments for further review. 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.

GRI Index

Axfood reports its sustainability work in accordance with the Global Reporting Initiative (GRI) Guidelines. The reporting has been prepared in accordance with the GRI Standards, Core level.

Scope and overarching principles

The sustainability reporting coincides with Axfood's financial year and covers the period 1 January–31 December 2019. For the companies acquired in 2017 and 2018 – Eurocash, Mat.se, Middagsfrid and Urban Deli – 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 and wholesale operations. 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. 89 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. 117. 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 2019.

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.

The following pages reference where the GRI standards' 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.

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	102-1	Name of the organization	38	
	102-2	Activities, brands, products and services	2–3, 18–20	
	102-3	Location of headquarters	38	
	102-4	Location of operations	38	
	102-5	Ownership and legal form	38, 123, 138–139	
	102-6	Markets served	38	
	102-7	Scale of organization, including number of employees, operations, sales, capital	38, 40–43, 62, 103–104	
	102-8	Information on employees and other workers	32–33, 62, 103–105	
	102-9	Sustainability in supply chain	92–95, 106–109	
	102-10	Significant changes to the organization's size, structure, ownership, supply chain during the reporting period		No significant changes
	102-11	Precautionary principle or approach	114–115	
	102-12	External sustainability principles and initiatives that the organization supports	114–115	
	102-13	Membership of associations	114–115	
	102-14	Statement from CEO	4–7	
	102-16	The organization's values and ethical guidelines	16–17, 114–115	
	102-18	Governance structure	114–115, 122–123	
	102-40	List of stakeholder groups	90	
	102-41	Share of employees covered by collective bargaining agreements	103	
	102-42	Identifying and selecting stakeholders	89–90	
	102-43	Approach to stakeholder engagement	89–90	
	102-44	Key topics and concerns raised	89–91	
	102-45	Entities included in the consolidated financial statements	116	
	102-46	Defining report content and topic Boundaries	116	
	102-47	List of material topics	89–91	
	102-48	Restatements of information		Adjustments are made per disclosure
	102-49	Changes in reporting		No significant changes

Standard Disclosures

GRI Standards	Disclosure	Content	Page reference	Comment/Omission
	102-50	Reporting period	116	
	102-51	Date of most recent report		28 February 2019
	102-52	Reporting cycle	116	
	102-53	Contact point for questions regarding report		asa.domeij@axfood.se
	102-54	Claims of reporting in accordance with the GRI Standards	116	
	102-55	GRI content index	117–119	
	102-56	External assurance		No external assurance
Sustainability governance				
Sustainability governance	103-1	Explanation of the material topic and its boundary	89–91	
	103-2	Sustainability governance and its components	114–115	
	103-3	Evaluation of sustainability governance	94–113	

Specific standard disclosures

GRI Standards	Disclosure	Content	Page reference	Comment/Omission
Environment				
Economic performance				
GRI 201: Economic performance	201-1	Direct economic value generated and distributed	95	
	201-3	Scope of the organization's defined benefit obligations	74–75	
Corruption				
GRI 205: Anti-corruption	205-3	Confirmed incidents of corruption	94–95	

GRI Standards	Disclosure	Content	Page reference	Comment/Omission
Economy				
Material				
GRI 301: Materials	301-2	Use of materials	96	
Energy				
GRI 302: Energy	302-1	Energy consumption within the organization	97–99	
	302-3	Energy intensity	99	
Emissions				
GRI 305: Emissions	305-1	Direct GHG emissions	98	
	305-2	Energy indirect GHG emissions	98	
	305-3	Other relevant indirect GHG emissions	98	
Effluents and waste				
GRI 306: Effluents and waste	306-2	Waste by type and disposal method	100	
Supplier environmental assessment				
GRI 308: Supplier environmental assessment	308-1	New suppliers screened	100	
	308-2	Negative environmental impacts in the supply chain and actions taken	100–102	

GRI Standards	Disclosure	Content	Page reference	Comment/Omission
Social standards				
Employment				
GRI 401: Employment	401-1	New employee hires and employee turnover	103–104	
	401-2	Benefits provided to full-time employees	104	
Occupational health and safety				
GRI 403: Occupational health and safety	403-2	Injuries, occupational illnesses, lost working days, absenteeism and total number of work-related deaths	104–105	
Diversity and equal opportunity				
GRI 405: Diversity and equal opportunity	405-1	Diversity of governance bodies and employees	105	
	405-2	Differences in pay between men and women in % per employment category	105	
Non-discrimination				
GRI 406: Non-discrimination	406-1	Incidents of discrimination and corrective actions taken	106	
Supplier social assessment				
GRI 414: Supplier social assessment	414-1	Screening of suppliers	106	
	414-2	Negative social impacts in the supply chain and actions taken	106–109	
Customer health and safety				
GRI 416: Customer health and safety	416-1	Customer health and safety	109	
Product specifications				
GRI 417: Marketing and labelling	417-1	Requirements for product and service information and labelling	109	

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 2019 as defined by the Board of Directors on page 83 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 2020

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.

Corporate governance

Contents

Chairman's message	121
Governing bodies, rules and regulations	122
The Board's report on internal control	128
The Auditor's examination of the Corporate Governance Report	131
Board of Directors	132
Executive Committee	134

Governance with focus on value for many and sustainable food for everyone

The Board's duty is to work with continuity and long-term to ensure that Axfood grows and develops in a sustainable manner and in accordance with set objectives. To be a long-term attractive investment for our owners, we also need to be a positive force for change in society in general and for our customers and employees in particular.

A highly dynamic market puts high demands on the power to change in our operations as well as in the customer offering. This is a perspective that also permeates the Board's work. Axfood's strong financial position gives the Company room to manoeuvre and ensures an attractive dividend as we strive for a low level of tied-up capital and a good and stable cash flow. To continue growing with profitability and meet customers' expectations, the Company needs to invest now in greater efficiency and flexibility. The Board believes that this investment need justifies a certain level of net debt in the years immediately ahead.

Favourable and sustainable return

Sustainability is a central and integral part of the Company's business model and governance, and for Axfood this is also a matter of having the courage to test new paths forward. Axfood serves as the hub of many important projects in which Axfood collaborates with other Axel Johnson companies, national and international organizations and research institutions. These collaborations are being conducted to ensure responsibility across the entire supply chain, among other goals. Important issues include improved energy efficiency, reducing our carbon footprint, improved working conditions among our suppliers in Asia and South America, and reducing risks associated with unethical trade. We are constantly receiving affirmation that our work is making a difference.

Successful sustainability work must also be conducted in close interaction with customers, and by providing a wide assortment and transparent product information we are helping our customers make conscious choices.

The right competence is key

People are the most important factor in a successful enterprise. It is our employees who put the customer front and centre every day. From the Board's side, we must ensure that we have an astute understanding of future technology development, customer needs and other trends that shape the market. An ongoing competence shift through training and education and embracing new competence are essential for Axfood in its ability to continue growing its market shares with profitability at the same time that the market conditions are changing at a rapid pace.



As part of the work on motivating key persons in the organization and attracting new executive talent, Axfood currently has three long-term share-based incentive programmes in effect. The programmes include the members of the Executive Committee, members of the management teams of Axfood's subsidiaries and certain other key persons.

Good corporate governance

The Board's responsibility encompasses good corporate governance and supporting Axfood's values-steered company culture. For us, good governance entails that the owners take an active role, that there is a clear division of roles and responsibilities between the management and control bodies, good structure in the follow-up of internal systems and internal control over financial reporting, and finally also transparency to the owners and the capital market.

Every year we conduct an evaluation of the Board's work, and it is gratifying to see that the outcome of the evaluations was very positive and that knowledge, transparency and openness are perceived as guiding principles in the Board's work.

My goal is that all stakeholders will feel rest-assured that Axfood's board is administering the Company's affairs in the best way and ensuring the conditions for sustainable value creation. This year Axfood celebrates 20 years as a company, but many of our strong brands in the Group have a much longer history. All businesses in the Axfood family are being driven forward by our shared mission to offer affordable and sustainable food for everyone.

Stockholm, February 2020

Mia Brunell Livfors,
Chairman of the Board

Overarching corporate governance structure – governing bodies, rules and regulations

Introduction

Axfood Aktiebolag (publ.) ("Axfood") is a Swedish, public stock corporation domiciled in Stockholm. Axfood's shares have been traded on Nasdaq Stockholm since 1997.

This Corporate Governance Report has been reviewed by the Company's auditor, Deloitte, and the result of this review is described in the auditor's examination statement on p. 131 of this Annual Report.

Governance instruments

Corporate governance at Axfood is regulated through principles laid out in both external and internal rules and regulations.

The external regulations include relevant laws and statutes (e.g., the Swedish Companies Act, the Swedish Annual Accounts Act, the EU's Market Abuse Regulation and IFRS), the stock exchange rules in the regulated market in which the Company's shares are available for trading (Nasdaq Stockholm's Rule Book for Issuers), and the Swedish Corporate Governance Code ("the Code").

The internal regulations include the Company's Articles of Association and the governance instruments adopted by the Company (mainly the Board's Rules of Procedure as well as internal instructions, policies and guidelines).

Follow-up of the internal regulations is done yearly, and they are revised as necessary.

Sustainability governance

Axfood's sustainability work is an integral part of the Company's business model and governance. The foundation for this work is the Company's sustainability programme, which is described on p. 110.

Swedish Corporate Governance Code

Axfood applies the Swedish Corporate Governance Code with the following departure:

Departure from rule 2.4, second sentence

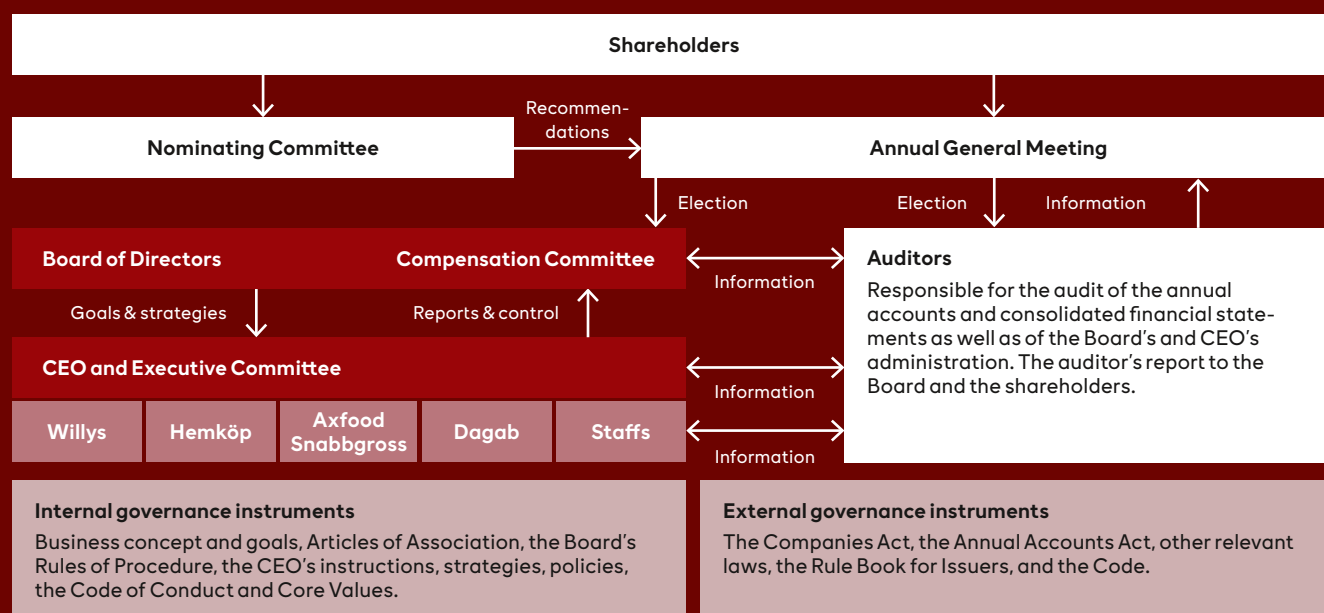
According to the Code, a board member shall not serve as chair on a company's nominating committee. In 2019 board member Caroline Berg served as chair of the Nominating Committee.

Explanation:

Caroline Berg is Chairman of the Board of Axel Johnson AB, which controls a majority of the shares in Axfood. It is for this reason natural that Caroline serves as chair of the Nominating Committee.

Governance model

Decision-making and control of the Company is exercised by the shareholders, the Board of Directors, the CEO and the auditors in accordance with the Companies Act.



Shareholders and shares

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 209,298,712 shares outstanding.

All shares have equal voting power and equal entitlement to the Company's profit. Provided that notification has been made to attend the Annual General Meeting in due order, every shareholder has the right to vote for all owned, directly registered and represented shares.

The largest owner since the Company's stock market introduction has been the Axel Johnson Group, with an ownership stake of 50.1% as per 31 December 2019. There are no stipulations in Axfood AB's Articles of Association that limit a shareholder's right to transfer shares.

General meeting

The general meeting is Axfood's highest decision-making body, where the shareholders exercise their right to decide on the Company's affairs.

The Annual General Meeting (AGM) resolves on, among other things, election of board members and the Chairman of the Board, election of auditors, adoption of the Parent Company's and consolidated income statements and balance sheets, discharge from liability of the board members and President, and disposition of the Company's profit. No limits on shareholders' rights are stipulated in Axfood's Articles of Association nor – to the Company's knowledge – in shareholder agreements.

Nominating Committee

The Nominating Committee is tasked with submitting proposals to the Annual General Meeting on the number of directors, the Board's composition and on directors' fees. The Nominating Committee is also tasked with submitting proposals 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 take into consideration the annual evaluation of the Board's work. 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 publication of the AGM notice.

All shareholders have the right to submit proposals to the Nominating Committee by email at the address valberedning@axfood.se.

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

The Nominating Committee strives to ensure diversity and a broad composition with respect to the age, gender, education and other professional backgrounds of the board members, and applies Rule 4.1 of the Code in this respect as its diversity policy.

Axfood's board shall be composed of 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 primarily about the retail industry, e-commerce, corporate governance, compliance, finance and financial analysis, and compensation matters. Previous board experience is another important factor.

Through its recommendations the Nominating Committee also seeks to achieve the best possible balance between women and men.

Board of Directors

The Articles of Association prescribe that Axfood's board 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. Election of directors takes place yearly at the Annual General Meeting. The Articles of Association do not contain any other stipulations on the appointment or dismissal of board members.

The Board is responsible for ensuring that the Company's organization is suited for its purpose and that operations are conducted in accordance with the Articles of Association, the Companies Act, and other applicable laws as well as with the Board's Rules of Procedure.

The Board shall perform its board work jointly under the direction of the Chairman. The Board's Rules of Procedure are adopted yearly and lay out the Board's work and regulate 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 the Rules of Procedure. The Rules of Procedure also stipulate how the Board is to be provided with information and documentation as a basis for its work so as to be able to make well-grounded decisions.

A statutory meeting is held 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 Rules of Procedure and includes such points as the CEO's report, financial reports, investments and strategic matters. Prior to board meetings the directors received written material documenting the items of business to be dealt with at the respective meeting.

The Board also adopts a yearly instruction for the CEO. The Board has found it most suitable that the entire board participate in all of the Board's areas of responsibility, except for compensation matters. From this it follows that the Board in its entirety has responsibility for the duties that would otherwise be handled by an audit committee.

Compensation Committee

The Board has appointed a compensation committee from among its members to deal with compensation matters more in-depth. The Compensation Committee is tasked with addressing, deciding on and making recommendations on salaries, pension benefits, other terms of employment and incentive programmes for the 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 Compensation Committee sets the targets for variable compensation for the members of the Executive Committee.

Audit Committee

The Board as a whole serves as an audit committee. In practice this entails that the Board as a whole works with and has responsibility for quality-assuring the Company's and Group's financial reporting. This work includes, for example, working together with the Executive Committee and the auditors to monitor and evaluate the handling of complex 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

One or two ordinary auditors with a maximum of two deputy auditors shall be appointed by the AGM based on a recommendation by the Nominating Committee. A chartered auditing firm may be appointed as auditor.

The audit assignment shall apply until the end of the Annual General Meeting that is held in the second financial year after the auditor was appointed.

When requesting additional services from the auditor 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 (who is also the Chief Executive Officer) and an additional nine

executives and/or subsidiary managing directors. The Executive Committee holds monthly meetings to address ongoing matters and discussions, and holds a yearly strategy meeting.

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

A yearly business plan is drafted first by the subsidiaries and thereafter by the Executive Committee during the last four months of the year and is decided on by Axfood's 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 followed up every quarter and is thereby a dynamic planning document.

The subsidiaries are governed by their respective boards. Axfood's President and CEO serves as chairman of the larger subsidiaries' boards. The other directors on the subsidiaries' boards consist of various representatives from the Executive Committee as well as a number of other Group executives. The subsidiaries have board meetings on a regular basis, and the larger subsidiaries hold at least four regular board meetings a year.

Shareholders

Axfood had 61,592 shareholders as per 31 December 2019. The largest individual shareholder is the Axel Johnson Group, which at year-end controlled 50.1% of the shares and votes in the Company (unchanged from 2018).

Through a repurchase programme Axfood repurchased 196,000 shares and thereby owns a total of 572,000 treasury shares (0.3% of the shares and votes) for the purpose of securing delivery of shares coupled to Axfood's long-term share-based incentive programmes.

Axfood's employees hold no shares for which the voting rights cannot be exercised directly by the employees (e.g., through pension foundations or similar). For further information about Axfood's shareholders and shares, see p. 138.

Annual General Meeting 2019

The Annual General Meeting (AGM) was held in Stockholm on Wednesday, 21 March 2019. The AGM was attended by 643 shareholders representing 133,753,205 shares, corresponding to 63.7% of the number of votes in the Company.

The 2019 Annual General Meeting made the following resolutions, among others:

- In accordance with the Board's recommendation, to pay an ordinary dividend of SEK 7.00 per share for the 2018 financial year
- That the Board shall consist of seven directors with no deputy directors.
- That directors' fees shall be payable in a total amount of SEK 3,395,000, in accordance with the Nominating Committee's recommendation

- That directors' fees shall be apportioned as follows:
 - SEK 690,000 for the Chairman of the Board
 - SEK 530,000 for the Vice Chairman of the Board
 - SEK 435,000 for each of the other AGM-elected directors
 - No fees are payable for committee work
- Election of the Chairman of the Board and directors 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 Fabian Bengtsson, Caroline Berg, Christer Åberg, Lars Olofsson, Stina Andersson and Jesper Lien
- To adopt guidelines for appointment of the Nominating Committee in accordance with the Board's recommendation, entailing that:
 - The Nomination Committee shall be composed of members of whom one each is appointed by each of the four largest shareholders in terms of votes based on ownership statistics from Euroclear Sweden AB as per the last business day in August
 - If material changes take place in the ownership structure after the Nominating Committee has been constituted, then the Nominating Committee's composition shall also be changed
 - The Nominating Committee's composition shall be made public not later than in connection with publication of the Company's interim report for the third quarter
- To introduce a long-term share-based incentive programme, and in connection with this, to authorize the Board to decide on purchases of own shares and transfers of treasury shares
- To adopt guidelines for employees' purchases of shares in connection with employee purchases of shares in subsidiaries, which were unchanged
- The complete minutes of the AGM are available at www.axfood.se.

Nominating Committee ahead of the 2020 Annual General Meeting

According to the principles for appointment of the Nominating Committee that were adopted by the 2019 AGM, the four shareholders with the most shares and votes shall appoint the Nominating Committee. The largest owners as per 30 August 2019 represented on the Nominating Committee are Axel Johnson, Swedbank Robur Fonder, SEB Investment Management and Nordea Investment 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 its members are considered to be independent in relation to the Company and the Executive Committee.

The Nominating Committee ahead of the 2020 AGM held four meetings and also maintained regular contact. The Nominating Committee addressed the Board's evaluation

and drafted a recommendation for new board members in which the diversity policy was taken into account. No fees were paid for work on the Nominating Committee. The composition of the Nominating Committee is shown in the table below. In addition, Axfood's Chairman served as co-opted member of the committee.

Nominating Committee's composition

Name	Representing	Share of votes as per 30/8/2019, %
Caroline Berg	Axel Johnson AB, committee chair	50.1
Joachim Spetz	Swedbank Robur Fonder	2.1
Johan Strandberg	SEB Investment Management	1.9
Jan Särilvik	Nordea Investment Funds	1.7

Board of Directors

Following the 2019 AGM Axfood's board consisted of seven AGM-elected directors and no deputy directors. Prior to the 2019 AGM the Board had eight AGM-elected directors.

Each of the directors has important competences and experience for Axfood that amply cover the areas considered to be important for the Company. In addition, 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 seven AGM-elected directors, three 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 on p. 127, and a more detailed presentation of the board members is provided on p. 132.

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

At the statutory board meeting on 21 March 2019, Lars Olofsson was elected as Vice Chairman of the Board.

Directors' independence

The Code stipulates that a majority of directors elected by a general meeting of shareholders shall be independent in relation to the company and the company's executive management. At least two of these shall also be independent in relation to the company's major shareholders.

Axfood's board has been judged to meet the requirements for directors' independence, as all of the AGM-elected directors are independent in relation to the Company and the Executive Committee. Four of the directors, Lars Olofsson, 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.

Three directors have been judged as being non-independent in relation to the Company's major shareholders: Mia Brunell Livfors, who is President and CEO of Axfood's largest

The Board's work in 2019

October

- CEO's status report
- Interim report Q3
- Investments, store establishments and acquisitions
- Future logistics structure

September

- CEO's status report
- Future logistics structure
- Digital positioning
- Investments, store establishments and acquisitions
- Report from Nominating Committee
- Strategy 2020

July

- CEO's status report
- Half-year interim report

April

- CEO's status report
- Interim report Q1
- Board's Rules of Procedure
- Policies
- Investments, store establishments and acquisitions
- Succession planning

February

- CEO's status report
- Book-closing, year-end report
- Matters ahead of AGM
- Report from auditors
- Long-term strategic targets
- Investments, store establishments and acquisitions
- Guidelines for compensation of senior executives
- Long-term incentive programmes
- Financing of future logistics programme

December

- CEO's status report
- Business plan and budget 2020
- Board evaluation
- Report from Nominating Committee
- Report and recommendation from auditors
- Internal control and compliance
- Investments, store establishments and acquisitions
- Employee survey

June

- CEO's status report
- Strategy discussion
- Investments, store establishments and acquisitions
- Financing of future logistics structure

March

- Annual General Meeting
- Statutory meeting

February (per capsulam)

- Annual Report

shareholder, Axel Johnson; Caroline Berg, who is Chairman of the Board of Axel Johnson; and Stina Andersson, who is COO of Axel Johnson.

The Board's work

The Board held nine meetings in 2019, of which one was held per capsulam to adopt the annual report and one was the statutory meeting that was held directly after the AGM. The CEO's status report is a standing agenda item at every regular board meeting, as is follow-up of earnings performance, store investments and establishment matters.

Interim reports are addressed quarterly. The board meeting in February addressed long-term strategic targets, financing of logistics projects, reports from auditors, the Compensation Committee and Nomination Committee, and matters ahead of the AGM. The Annual Report was adopted at a per capsulam meeting later in February.

At the board meeting in April the Rules of Procedure for the Board and the Compensation Committee were adopted, as were the Credit and Finance Policy, the Investment Policy and the Communication Policy.

In June a strategy meeting was held where, in addition to follow-up and evaluation of the strategy for 2019, work was begun on the strategy for 2020. The strategy work continued in the subsidiaries and Executive Committee, after which the Board adopted a business plan for 2020 during the autumn. Other important business matters during the year included the future logistics structure, which is based on a planned, highly automated logistics centre in Bålsta, outside of Stockholm, and digital strategy/positioning.

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 at left.

Compensation Committee

The members of the Compensation Committee since 21 March 2019 are Mia Brunell Livfors (committee chair), Caroline Berg and Lars Olofsson. Axfood's President and CEO, Klas Balkow, is a co-opted member of the Compensation Committee, and Axfood's Head of Human Resources, Monica Långbo, is committee secretary. 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 three meetings in 2019. No fees have been paid to committee members for their work on the committee.

Composition of the Board of Directors

Name	Year elected	Independent	Compensation Committee	Attendance	
				Board meetings	Committee meetings
Mia Brunell Livfors (Chairman)	2016	No	Yes	9/9	3/3
Lars Olofsson (Vice Chairman)	2013	Yes	Yes	8/9	3/3
Antonia Ax:son Johnson ¹⁾	2000	No	–	1/2	–
Stina Andersson	2018	No	–	9/9	–
Fabian Bengtsson	2016	Yes	–	9/9	–
Caroline Berg	2014	No	Yes	9/9	3/3
Jesper Lien	2018	Yes	–	9/9	–
Christer Åberg	2017	Yes	–	8/9	–
Anders Helsing (Employee representative)	–	–	–	8/9	–
Michael Sjöbrén (Employee representative)	–	–	–	7/9	–
Lars Östberg (Employee representative)	–	–	–	9/9	–
Total					

¹⁾ Antonia Ax:son Johnson left the Board in connection with the Annual General Meeting on 21 March 2019. For information on directors' fees for 2019, see Note 8.

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. The evaluation therefore serves as important documentation for the Nominating Committee's work ahead of the AGM.

In 2019 the Chairman conducted a digital survey for all of the board members. The results, which showed high scores in all categories, indicate that there is a clear strategy and well-considered financial targets with a clear coupling to the business plan against which operations are followed up. They also indicate 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 2019.

Auditors

At the 2018 AGM the auditing firm Deloitte AB was elected as auditor for a 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, Trelleborg and Industrivärden.

Executive Committee

Axfood's Executive Committee in 2019 was made up of Axfood's President, the managing directors of four operating companies and five heads of staff. During the year Monica Långbo took office as Head of Human Resources. A more detailed presentation of the members of the Executive Committee is provided on p. 134.

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 21 March 2019, based on the Board's recommendations.

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. The guidelines address base salary, variable compensation, pension benefits, other benefits and severance pay.

Since 2017, long-term variable compensation may include participation in a share-based incentive programme (LTIP).

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 in part on the importance of the work duties and in part on the executive's expertise, experience and performance. For a complete account of the adopted guidelines, see Note 8 on p. 62.

Short-term variable compensation is expensed during the financial year and paid out after the Annual General Meeting has adopted the income statement and balance sheet. The guidelines adopted by the 2019 AGM have been followed, and all previously decided compensation not yet 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 2020 AGM, no major changes are proposed in the principles for compensation and other terms of employment for members of the Executive Committee. However, the proposed guidelines are more detailed as a result of a new ownership rights directive and changes in the Code. For a complete account of the proposed guidelines, see Note 8 on p. 62.

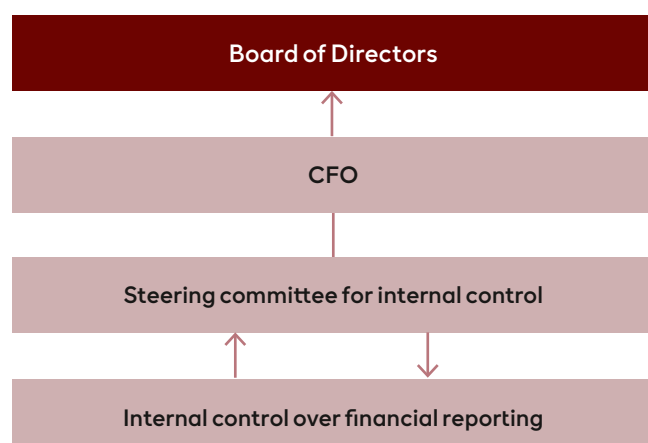
The Board's report on internal control

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 Code clarifies this and prescribes that the Board is responsible for internal control. This report is prepared in accordance with the Annual Accounts Act and the Code. The report has been reviewed by the Company's auditor.

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

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

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



Control environment

The control environment is the foundation of internal control over financial reporting. An important part of the control environment entails ensuring that decision-making channels, authorizations and responsibilities are clearly defined and communicated between the various levels of the organization and that governing documents such as internal policies, handbooks, guidelines and manuals are on hand. Axfood's board has established clear work processes and Rules of Procedure for its work and the work of its committees. An important part of the Board's work involves drawing up and approving various fundamental policies, guidelines and frameworks. These include the Board's Rules of Procedure, 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 and the sustainability programme. 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.

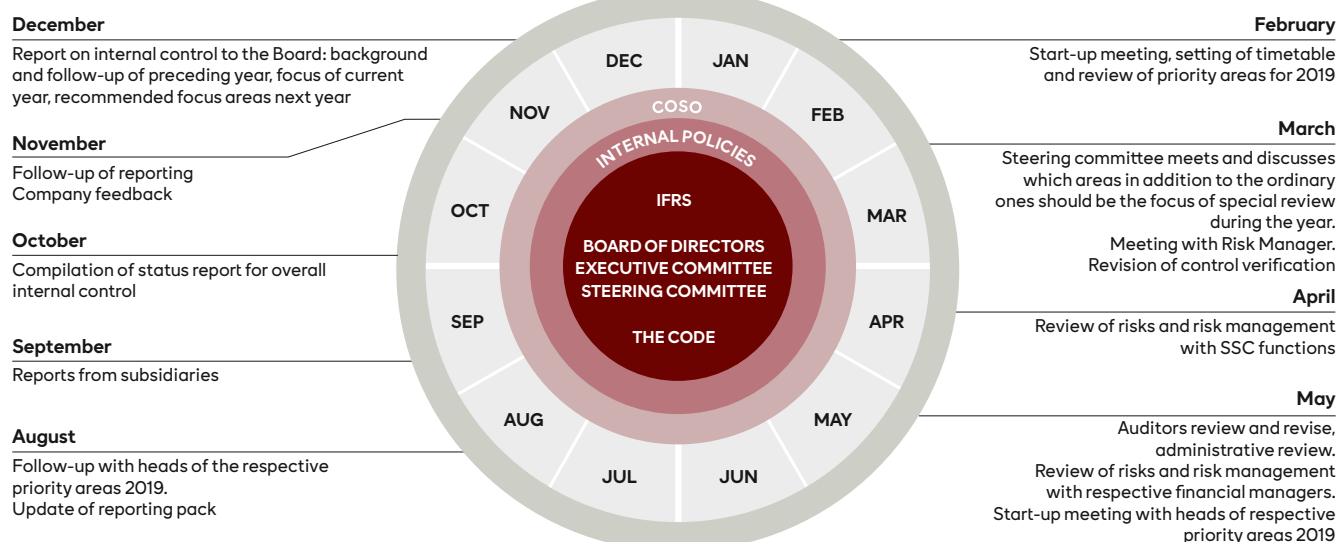
As part of the work on strengthening internal control, Axfood compiles governing documents in an electronic financial manual (Axekon), which is accessible for all employees within the Group. The financial manual provides an overview of existing policies, rules and routines that affect the content and quality of financial reporting. Axekon also includes links to other areas, such as security/insurance, HR/personnel and IT.

Work during the year

In 2019 an annual review was performed of Axekon documents. All document owners verified that published or linked documents are current. A comparison was also performed of Axfood's existing policies and guidelines against set requirements. In addition, an evaluation was conducted of compliance with rules and regulations, routines and policies.

Risk assessment

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

Internal control process

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 works continuously on strengthening internal control coupled to risk areas. Risk reviews conducted in 2019 identified the following areas, among others: robotic processes in financial flows and financial reporting, large projects within the Group, such as automation and dark stores, and processes and routines for reporting and follow-up of accounting for leasing in accordance with a new standard, IFRS 16. In addition, work continued with internal control with respect to the structure of authorizations, roles and limitations in the combination of roles, both with respect to operational roles and IT roles. A recurring focus was also on updates of the functionality of SAP that affect the financial reporting.

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. Within 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, noncurrent 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 2019, focus remained on reviews of new and existing flows and controls coupled to financial reporting. A focus area for expanded review was selected to strengthen internal control specifically in this area. During 2019, reporting of leases in accordance with the new IFRS 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 was started in 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 such 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

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 2020

The Board of Directors of Axfood AB

Further information can be found at axfood.se

- Articles of Association
- Code of Conduct
- Information from previous AGMs, starting in 2001 (notices, minutes, resolutions)
- 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 2020 AGM

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 2019-01-01 – 2019-12-31 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 2020
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.

Board of Directors



1. Mia Brunell Livfors

Born: 1965. Chairman of the Board and director since 2016.
President and CEO of Axel Johnson.
Chairman: Axel Johnson International, Dustin Group, Kicks Kosmetikkedjan and Åhléns.
Director: Efva Attling Stockholm, Martin & Servera, Stena and the Swedish Trade Federation
Education: Economics studies, Stockholm University.
Professional experience: Former President and CEO of 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 executive management. Non-independent in relation to major shareholders of the Company.

4. Fabian Bengtsson

Born: 1972. Director since 2016.
CEO of SIBA Fastigheter.
Chairman: SIBA Invest and Företagarnas Riksstyrelse.
Director: NetOnNet Group, Svensk Fastighetsförmedling, Tipser, Irootfor and Strawbes.
Education: B.Sc. Business and Economics, Lund University.
Professional experience: Long record of experience in the retail trade and digital trade, including as CEO of the SIBA Group, Chairman of NetOnNet, and as a director/Chairman of CE-Konsumentelektronikbranschen.
Shareholding in Axfood: 7,050 shares
 Independent in relation to the Company and executive management, and to major shareholders of the Company.

7. Christer Åberg

Born: 1966. Director since 2017.
Chairman: Apoex and Kappa BioScience AS.
Vice Chairman: Plantasjen AS.
Education: IHM Business School Stockholm.
Professional experience: President and CEO of Food Folks AS/McDonald's Nordic; President and CEO Hilding Anders International; CEO Orkla Confectionery & Snack Sweden; CEO Arla Foods; CEO Atria Scandinavia; various positions at Unilever.
Shareholding in Axfood: 4,800 shares
 Independent in relation to the Company and executive management, and to major shareholders of the Company.

10. Lars Östberg

Born: 1968. Employee representative, Director 2009–2011 and since 2016.
Other assignments: Employee representative for Willys.
Professional experience: Willys employee since 2002.
Shareholding in Axfood: 0 shares
 Non-independent in relation to the Company and executive management.

2. Lars Olofsson

Born: 1951. Director since 2013 and Vice Chairman since 2014.
Vice Chairman: Smart Eye and TCC Global N.V.
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 executive management, and to major shareholders of the Company.

5. Caroline Berg

Born: 1968. Director since 2014.
Chairman: Axel Johnson, Martin & Servera and the Erik, the Göran Ennerfelt Foundation for International Studies for Young Swedes and The Global Village foundation.
Vice Chairman: Nordstjärnan.
Director: The Axel and Margaret Ax:son Johnson Foundation, Axfast, Dustin Group and the Future Work Forum.
Education: BA Media and Psychology, Middlebury College, USA.
Professional experience: Active in the family-owned Axel Johnson Group since 2005, most recently as Vice President, Human Resources and Communication at Axel Johnson and member of the management team.
Committee membership: Compensation Committee.
Shareholding in Axfood: 15,840 shares
 Independent in relation to the Company and executive management. Non-independent in relation to major shareholders of the Company.

8. Anders Helsing

Born: 1966. Employee representative, Director since 2016.
Other assignments: Employee representative on the board of directors of Axfood Johnson and Axfood IT.
Professional experience: Axfood employee since 1998.
Shareholding in Axfood: 59 shares
 Non-independent in relation to the Company and executive management.

3. Stina Andersson

Born: 1983. Director since 2018.
COO of Axel Johnson.
Director: Fram Skandinavien, Kicks Kosmetikkedjan, Åhléns, Skincity Sweden, Novax, Axel Johnson International, Eneo Solutions and Otovo AS.
Education: M. Sc. Business and Economics, Stockholm School of Economics; CEMS Master's in International Management, 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 Kinnevik, many years of experience from e-commerce companies. Also former management consultant for McKinsey.
Shareholding in Axfood: 0 shares
 Independent in relation to the Company and executive management. Non-independent in relation to major shareholders of the Company.

6. Jesper Lien

Born: 1969. Director since 2018.
CEO of Isabella Ohlson ApS.
Education: Engineer, Technical University of Denmark; Business Administration (financial management), Copenhagen Business School.
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 and operating partner of Aurelius Investment Group.
Shareholding in Axfood: 0 shares
 Independent in relation to the Company and executive management, and to major shareholders of the Company.

9. Michael Sjörrén

Born: 1960. Employee representative, Director since 2010.
Other assignments: Employee representative on the board of directors of Axfood Snabbgross and Dagab Inköp & Logistik.
Professional experience: Axfood Group employee since 1995.
Shareholding in Axfood: 0 shares
 Non-independent in relation to the Company and executive management.

All shareholdings reported as per 31 December 2019.

Executive Committee



1. Klas Balkow

President and CEO, Axfood

Born: 1965. 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

4. Sara Kraft Westrell

Head of Corporate Communications

Born: 1974. 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 and Hexagon; Marketing and Communications Director, JB Education; Communications Adviser, Kreab and Brunswick.

Shareholding in Axfood: 1,700 shares

2. Thomas Evertsson

Managing Director, Willys

Born: 1964. Member of Axfood's Executive Committee since 2008.

Axfood employee since: 2008

Other assignments: Chairman of Eurocash Food and director of Jula.

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; Vice President, Coop Norden.

Shareholding in Axfood: 16,000 shares

5. Anders Lexmon

Chief Financial Officer

Born: 1968. 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: 3,000 shares

3. Thomas Gäreskog

Managing Director, Hemköpskedjan (through 31 January 2020)

Born: 1961. Member of Axfood's Executive Committee since 2012.

In connection with his transfer to a new role in Axfood, Thomas Gäreskog left the Executive Committee on 31 January 2020.

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

6. Jan Lindmark

Head of IT

Born: 1959. 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: 5,000 shares

7. Monica Långbo

Head of Human Resources

Born: 1963. 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: 850 shares

8. Eva Pettersson

Managing Director, Axfood Snabbgross

Born: 1966. 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: Managing Director, Axfood Närlivs; Head of Business Development, Dagab; Systems Manager, Axfood IT; food retailing consultant, Accenture.

Shareholding in Axfood: 2,550 shares

9. Nicholas Pettersson

Managing Director, Dagab Inköp & Logistik

Born: 1976. Member of Axfood's Executive Committee since 2009.

Axfood employee since: 2004

Other assignments: Chairman of Urban Deli

Holding; Chairman of Hall Miba.

Education: M.Sc. Econ., Växjö University.

Professional experience: Managing Director, Axfood Närlivs; Market Manager, Axfood Närlivs; Business Area Head, Axfood Snabbgross; Supply Chain Manager, Svenska Shell; Business Analyst, Shell Detaljist.

Shareholding in Axfood: 2,800 shares

10. Carl Stenbeck

Head of Strategy and Business Development

Born: 1976. 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: 1,700 shares

Simone Margulies

Succeeded Thomas Gäreskog as Managing Director of Hemköp on 1 February 2020.

Born: 1978. Member of the Executive Committee since 2020.

Axfood employee since: 2016

Education: M.Sc. Mechanical Engineering, KTH Royal Institute of Technology, Stockholm.

Professional experience: Deputy Managing Director, Dagab Inköp & Logistik; Business Area Manager Dagab; Business Area Manager, ICA Sweden; Analyst Manager, ICA Sweden; Supply Chain Development, ABB.

Shareholding in Axfood: 750 shares

All shareholdings reported as per 31 December 2019.

Definitions

Financial key ratio definitions

The Axfood Group uses various financial measures in the Annual Report 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. Definitions of financial key ratios are provided below.

Capital employed: Total assets less noninterest-bearing liabilities and noninterest-bearing provisions.

Cash flow from operating activities per share: Cash flow from operating activities for the year divided by the average number of shares outstanding before dilution.

Cash flow per share: Cash flow for the year divided by the average number of shares outstanding before dilution.

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

Dividend per cent: Dividend per share divided by earnings per share before dilution.

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

Earnings per share after dilution: Net profit for the year attributable to owners of the parent divided by a weighted average number of shares outstanding after dilution.

Earnings per share before dilution: 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 in relation to total assets.

Growth in store sales: Percentage change in the Axfood Group's store sales between two periods.

Inventory turnover rate: The cost of delivered goods divided by the average inventory value.

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

Like-for-like sales: Sales for stores that existed and generated sales in the comparison period.

Margin after financial items: Profit after financial items in relation to net sales.

Market capitalization: Share price at year-end multiplied by the number of shares.

Net debt-equity ratio/net receivable-equity ratio: Net debt/net receivable divided by shareholders' equity including non-controlling interests.

Net debt-equity ratio/net receivable-equity ratio excl. IFRS: Net debt/net receivable excluding IFRS 16 divided by shareholders' equity including non-controlling interests.

Net debt/Net receivable: Interest-bearing non-current and current receivables and liabilities including cash and bank balances, plus interest-bearing financial assets.

Net debt/Net receivable excl. IFRS 16: Interest-bearing non-current and current receivables and liabilities, excluding lease liabilities, including cash and bank balances, plus interest-bearing financial assets.

Net sales growth: Percentage change in net sales between two periods.

Operating margin: Operating profit in relation to net sales.

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

Private label share: Sales of private label products, excluding meat and fruits & vegetables, as a percentage of the Axfood Group's store sales. The private label share is based on statistical data from external suppliers. Data from a selection of Axfood's stores is calculated statistically to a total sum based on the stores' annual sales. In this selection, sales for Group-owned and franchise stores are weighted according to their actual historical sales.

Pro forma: Pro forma is a method of 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, divided by average capital employed.

Return on shareholders' equity: Net profit for the year attributable to owners of the parent divided by average equity attributable to owners of the parent.

Sales, Group-owned retail operations: Sales for Hemköp and Willys stores owned by Axfood.

Shareholders' equity per share: Equity attributable to owners of the parent divided by the number of shares outstanding at year-end.

Share price: Closing share price.

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, and right-of-use assets.

Total capital expenditures excl. IFRS 16: Investments in intangible and tangible non-current assets.

Ten-year overview

SEK m	2019	2018	2017	2016	2015	2014	2013	2012 ¹⁾	2011	2010
Result of operations										
Net sales	50,740	48,085	45,968	43,355	41,247	38,484	37,522	36,306	34,795	34,260
Operating profit	2,288	2,025	1,886	1,902	1,760	1,447	1,302	1,200	1,250	1,209
Profit after financial items	2,173	2,016	1,881	1,894	1,749	1,430	1,278	1,162	1,214	1,172
Tax	-494	-439	-414	-421	-388	-326	-285	-260	-323	-310
Net profit for the year	1,679	1,577	1,467	1,473	1,361	1,104	993	902	891	862
Financial position										
Intangible assets	3,472	3,449	3,388	2,478	2,528	2,536	2,645	2,642	2,461	2,301
Property, plant and equipment	2,744	2,202	2,032	1,799	1,930	1,894	1,916	1,820	1,801	1,588
Right-of-use assets	5,407	-	-	-	-	-	-	-	-	-
Financial and other assets	259	168	215	199	155	134	96	83	79	74
Inventories and other current assets	4,614	4,750	4,458	4,337	3,991	4,019	3,815	3,754	3,620	3,386
Cash and cash equivalents and assets held for sale	798	1,675	1,376	1,726	1,933	1,109	457	521	317	315
Assets	17,293	12,244	11,469	10,539	10,537	9,692	8,929	8,820	8,278	7,664
Shareholders' equity	4,020	4,304	4,266	4,117	4,530	4,029	3,768	3,398	3,237	2,972
Non-controlling interests	229	224	212	1	1	36	34	28	-	0
Lease liabilities	5,509	-	-	-	-	-	-	-	-	-
Interest-bearing liabilities and provisions	421	524	528	498	504	585	535	861	1,042	840
Other liabilities	7,115	7,192	6,463	5,923	5,502	5,042	4,592	4,533	3,999	3,852
Shareholders' equity and liabilities	17,293	12,244	11,469	10,539	10,537	9,692	8,929	8,820	8,278	7,664
Cash flow										
Cash flow from operating activities	3,555	2,702	2,534	2,241	2,495	2,029	1,596	1,915	1,384	1,365
Cash flow from investing activities	-1,386	-992	-1,500	-559	-751	-582	-718	-816	-941	-831
Cash flow from financing activities	-2,943	-1,515	-1,384	-1,889	-920	-795	-942	-895	-441	-535
Cash flow for the year	-774	195	-350	-207	824	652	-64	204	2	-1

SEK m	2019	2018	2017	2016	2015	2014	2013	2012 ¹⁾	2011	2010
Key ratios										
Operating margin, %	4.5	4.2	4.1	4.4	4.3	3.8	3.5	3.3	3.6	3.5
Margin after financial items, %	4.3	4.2	4.1	4.4	4.2	3.7	3.4	3.2	3.5	3.4
Equity ratio, %	24.6	37.0	39.0	39.1	43.0	41.9	42.6	38.8	39.1	38.8
Net debt (+)/net receivable (-)	5,131	-1,047	-871	-1,249	-1,449	-524	78	340	725	525
Net debt (+)/net receivable (-) excl. IFRS 16	-377	-1,047	-871	-1,249	-1,449	-524	78	340	725	525
Net debt-equity ratio (+)/net receivable-equity ratio (-), multiple	1.2	-0.2	-0.2	-0.3	-0.3	-0.1	0.0	0.1	0.2	0.2
Net debt-equity ratio (+)/net receivable-equity ratio (-) excl. IFRS 16, multiple	-0.1	-0.2	-0.2	-0.3	-0.3	-0.1	0.0	0.1	0.2	0.2
Capital employed	10,178	5,052	5,006	4,616	5,035	4,650	4,337	4,288	4,279	3,812
Return on capital employed, %	30.1	40.4	39.4	39.5	36.5	32.4	30.3	28.2	31.0	33.2
Return on shareholders' equity, %	39.6	36.2	34.9	34.1	31.8	28.1	27.5	27.2	28.7	30.7
Total capital expenditures	2,452	1,021	1,934	580	764	643	806	932	993	862
Total capital expenditures excl. IFRS 16	1,481	1,021	1,934	580	764	643	806	932	993	862
Depreciation/amortization	2,146	760	744	719	696	693	667	632	588	555
Earnings per share before dilution, SEK ²⁾	7.87	7.41	6.98	7.02	6.48	5.22	4.70	4.30	4.25	4.10
Earnings per share after dilution, SEK ²⁾	7.85	7.40	6.98	7.02	6.48	5.22	4.70	4.30	4.25	4.10
Shareholders' equity per share, SEK ²⁾	19.21	20.54	20.35	19.62	21.58	19.20	17.96	16.19	15.42	14.16
Cash flow per share, SEK ²⁾	-3.70	0.93	-1.67	-0.99	3.93	3.11	-0.30	0.97	0.01	0.00
Cash flow from operating activities per share ²⁾	16.98	12.89	12.08	10.68	11.89	9.67	7.60	9.12	6.59	6.50
Number of shares outstanding	209,298,712	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
Average number of employees during the year	10,854	10,215	9,903	9,211	8,803	8,481	8,285	8,021	7,062	6,895
Ordinary dividend per share, SEK ²⁾	7.25 ³⁾	7.00	7.00	6.00	5.00	4.25	3.75	3.00	3.00	3.00
Extra dividend per share, SEK	-	-	-	-	4.00	-	-	-	-	-

¹⁾ On account of new accounting policies as from 1 January 2013 regarding pension costs (IAS 19), the comparison figures for 2012 have been adjusted.

²⁾ 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.

³⁾ Proposed by the Board of Directors.

Axfood shares and ownership structure

Axfood's shares were introduced on the stock market in 1997 and have been traded on Nasdaq Stockholm's Large Cap list since 2006. The shares have been included in the Consumer Services sector classification since 2012. Based on the last price paid on 30 December 2019, which was SEK 208.40, Axfood's market capitalization was SEK 43,737 m (31,837).

Share performance 2019

Axfood's share price grew 37.4% in 2019, while the Consumer Services index rose by 38.1%. The Nasdaq Stockholm composite index increased by 29.6% in 2019. The total return for Axfood's shares in 2019 including reinvested dividends was 43.0%. The highest closing price quoted during the year was SEK 212.50, on 20 November, and the lowest closing price was SEK 151.90, on 9 January.

Trading volume

A total of 95.2 million (147.7) Axfood shares were traded in all marketplaces in 2019, with average daily trading volume of 380,732 shares (590,680). Trading on Nasdaq Stockholm accounted for 71% (70%) of total trading volume in Axfood shares.

The average turnover rate for Axfood shares on Nasdaq Stockholm in 2019 was 34% (50%). The total average turnover rate for Axfood shares in 2019, based on trading in all marketplaces, was 45% (70%).

Ownership structure

The number of shareholders increased in 2019 to 61,592 at year-end (52,202). The principal owner is the Axel Johnson

Group, 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 2019.

Axfood AB owns 572,000 treasury shares, or 0.3% of the total number of shares, which are designated to ensure delivery of shares coupled to Axfood's long-term share-based incentive programmes. Of Axfood's share capital, 73.9% (75.7%) is owned by Swedish investors and 26.1% (24.3%) is owned by foreign investors. Swedish ownership is dominated by private persons and companies, with 62.8% (62.9%) of the capital, while mutual funds own 9.3% (11.0%) and institutions 1.9% (1.8%). The largest foreign ownership is in the USA and Luxembourg.

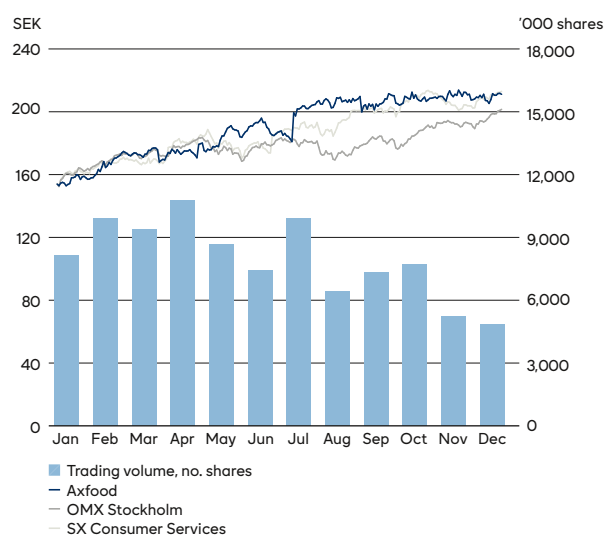
Dividend

The Board of Directors has decided to change the dividend policy so that dividends will be paid out on two occasions in order to facilitate more efficient liquidity management. The Board of Directors recommends that the Annual General Meeting resolve in favour of an increased dividend for the 2019 financial year of SEK 7.25 per share (7.00), corresponding to 92% of profit for the year. In addition, the Board proposes that the dividend be split into two payments, SEK 3.75 per share in March 2020 and SEK 3.50 per share in September 2020.

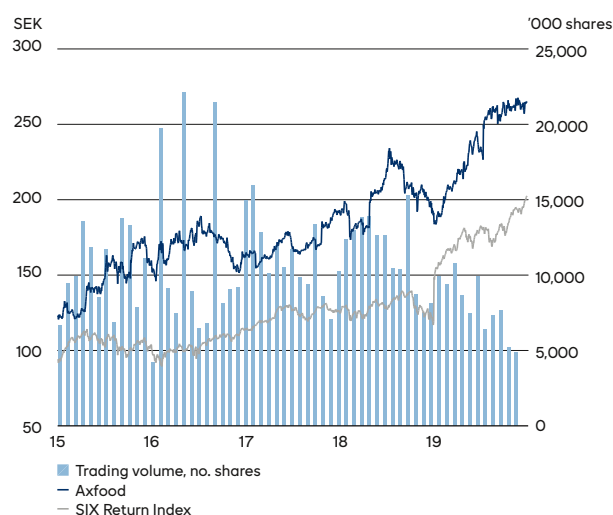
In addition to the ordinary dividend, Axfood has paid extra dividends on four previous occasions, for the 2004, 2005, 2006 and 2015 financial years.

During the last five years, the ordinary dividend has averaged 90% of profit after tax.

Axfood share price and trading volume, 2019



Axfood shares, total return, index



Breakdown of ownership, 31 December 2019

Size class	No. share-holders	Share-holders, %	No. of shares	Share of votes and capital, %
1 – 500	52,794	85.7	4,762,061	2.27
501 – 1,000	4,463	7.2	3,552,349	1.69
1,001 – 5,000	3,389	5.5	7,583,489	3.61
5,001 – 10,000	438	0.7	3,177,362	1.51
10,001 – 15,000	102	0.2	1,268,504	0.60
15,001 – 20,000	76	0.1	1,385,654	0.66
20,001 –	330	0.5	188,141,293	89.65
Total	61,592	100.0	209,870,712	100.0

Ten largest shareholders at 31 December 2019

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 ¹⁾	8,708,046	4.2
BNY Mellon SA/NV ¹⁾	6,144,362	2.9
Swedbank Robur fonder	3,837,365	1.8
Nordea Investment Management	3,266,449	1.6
Odin Fonder	3,167,305	1.5
SEB Investment Management	3,149,321	1.5
CBNY-Norges Bank	2,470,136	1.2
JP Morgan Chase NA	2,351,286	1.1
BNY Mellon NA ¹⁾	2,247,296	1.1
Total	140,421,830	66.9
Others	69,448,882	33.1
Total	209,870,712	100.0

¹⁾ Custodian. The holding pertains to several, smaller shareholders.

Key data per share

Amounts in SEK	2019	2018	2017	2016	2015
Ordinary dividend	7.25 ¹⁾	7.00	7.00	6.00	5.00
Extra dividend	–	–	–	–	4.00
Dividend %	92.1 ¹⁾	94.4	100.0	85.5	138.8
Number of shares outstanding	209,298,712	209,494,712	209,676,712	209,870,712	209,870,712
Share price at year-end	208.40	151.70	158.10	143.20	146.80
Market cap at year-end, SEK m	43,737	31,837	33,181	30,053	30,809
Highest/lowest closing share price	212.50/151.90	185.70/140.20	161.00/133.30	164.20/131.40	165.70/110.68
Dividend yield, %	3.5 ¹⁾	4.6	4.4	4.1	6.1
Earnings per share before dilution	7.87	7.41	6.98	7.02	6.48
Shareholders' equity per share	19.21	20.54	20.35	19.62	21.58
P/E multiple	26.5	20.5	22.7	20.4	22.6
Turnover rate, %	34	50	45	43	30
Volatility, standard deviation	19.1	21.4	16.0	20.8	21.0
Beta	0.39	0.42	0.41	0.61	0.73
Number of shareholders	61,592	52,202	49,292	33,164	19,888

¹⁾ Proposed by the Board of Directors.

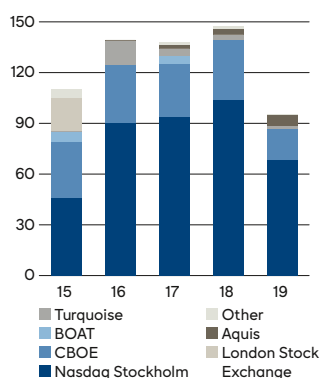
Analysts who cover Axfood on a regular basis

Company	Name
ABG Sundal Collier	Fredrik Ivarsson
Carnegie Investment Bank	Niklas Ekman
Kepler Cheuvreux	Magnus Råman
Danske Bank	Daniel Schmidt
Handelsbanken	Nicklas Skogman
Nordea	Daniel Ovin
SEB	Gustav Sandström

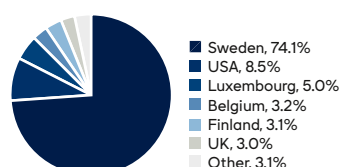
Financial calendar 2020

Report	Date
Interim report January–March	22 April 2020
Half-year interim report January–June	15 July 2020
Interim report January–September	22 October 2020

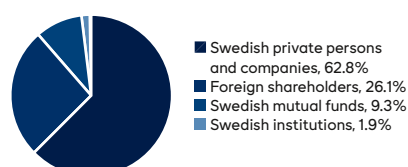
Trading volume for Axfood shares on various marketplaces



Geographic distribution of shareholders



Breakdown of ownership



Share data

All time high 24 October 2019

SEK 215.60

Trading block

1 share

Listing

Nasdaq Stockholm

Large Cap list

Abbreviation

AXFO

Sector classification

Consumer Services

ISIN CODE

SE0006993770

Annual General Meeting 2020

The Annual General Meeting (AGM) will be held at 5 p.m. (CET) on Wednesday, 18 March 2020, at Oscarsteatern, Kungsgatan 63, 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 Thursday, 12 March 2020, at the following address:

Axfood AB
AGM
c/o Euroclear Sweden
Box 191, SE-101 23 Stockholm, Sweden

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

Participation at the AGM

To be entitled to participate at the AGM, shareholders must be recorded in the register of shareholders maintained by Euroclear Sweden AB not later than Thursday, 12 March 2020, and notify the Company of their intention to participate at the AGM by Thursday, 12 March 2020 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. The nominee must be notified well in advance of Thursday, 12 March 2020.

Recommendation for decision at the 2020 AGM

The Board of Directors recommends that the Annual General Meeting resolve in favour of a dividend of SEK 7.25 per share (7.00) for the 2019 financial year, corresponding to 92% of profit for the year. In addition, the Board proposes that the dividend be split into two payments, SEK 3.75 per share in March 2020 and SEK 3.50 per share in September 2020.

Notice of Annual General Meeting

Notice of the Annual General Meeting has been made through advertisement in the Official Swedish Gazette (*Post- och Inrikes Tidningar*) and through publication on the Company's website.

Documents that will be presented at the Annual General Meeting will be available on the Company's website. They will also be sent, upon request, to shareholders who provide their postal address.

Calendar – 2020 AGM

- 12 March – Record date for 2020 AGM
- 12 March – Last day to notify to attend the 2020 AGM
- 18 March – 4 p.m., doors open to AGM
- 18 March – 5 p.m., 2020 AGM is called to order
- 18 March/16 September – Last days for trading in Axfood shares including the right to dividends
- 20 March/18 September – Record dates for payment of dividends
- 25 March/23 September – Dividend payment dates



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