

AXFOOD 2011

ANNUAL REPORT AND SUSTAINABILITY REPORT

24.2%
Private label share

Increase in operating profit 3.4%

Small details make a big difference



ANNUAL REPORT 2011

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CEO's message Earnings for 2011 were Axfood's strongest ever. This is a confirmation that our strategy, which is based on attractive customer offerings, efficiency, cost control and a high level of private label sales, works. Four of our five units improved their profitability, and the sales trend continued to be stable despite a weak market. This is a solid performance in a year that was also characterized by an aggressive pace of establishment and renewal.

Sustainability Axfood is one of Sweden's leading food retail companies. The ability to take responsibility for sustainable development is essential for maintaining the trust of the Company's stakeholders. Axfood believes that sustainability work and sound economics go hand in hand. By being a driver of sustainability issues, Axfood creates the right offerings for its customers, which in turn leads to better business.



Strong financial position and dividend Axfood's profitable performance has once again created conditions for a shareholder dividend. The Board of Directors proposes a dividend of SEK 12 per share. This would entail a dividend corresponding to 71% of profit after tax while enabling the Company to maintain its financial strength.

Axfood is a Swedish company governed by Swedish law. All monetary amounts stated herein are in Swedish kronor. Millions of kronor are abbreviated as SEK m, billions as SEK bn and thousands as KSEK. Figures in parentheses pertain to 2010, unless stated otherwise. Market and competitive data are Axfood's own estimates, unless reference is made to a specific source. These estimations are based on the best and most recent data available from published sources in the public sector, the consumer goods industry and competitors.

Axfood reports in conformity with the Global Reporting Initiative (GRI) guidelines for sustainability work and applies level B in its report for 2011.

Corporate governance at Axfood aims to create conditions to exercise an active and responsible ownership role, ensure the owners' ability to assert their interests vis-à-vis the Company's management bodies, more clearly delineate the division of roles and responsibilities between management and control bodies, and to ensure the best possible openness vis-à-vis the owners and capital market.



Axfood at a glance

Axfood conducts food retail and wholesale trade in Sweden. Retail business is conducted through the wholly owned grocery store chains Willys, Hemköp and PrisXtra.

- The Group owns 237 stores. In addition, Axfood collaborates with a large number of proprietor-run stores that are tied to Axfood through agreements. These include stores within the Hemköp chain as well as stores run under the Handlar'n and Tempo trademarks.
- In all, Axfood collaborates with approximately 820 proprietor-run stores.
- Wholesale business is conducted through Dagab and Axfood Närlivs.
- Axfood is listed on Nasdaq OMX Stockholm AB's Large Cap list.
- Axel Johnson AB is the principal owner with approximately 50% of the shares.
- Axfood has an approximate 20% share of the food retail market in Sweden.

Organization

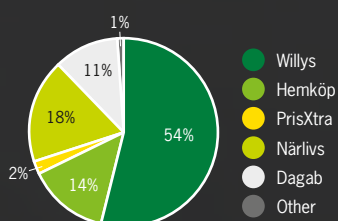
- Axfood's organization is characterized by a lean decision-making structure and strong focus on low administrative costs. At the central level the Group achieves economies of scale in such functions as purchasing, private label products, logistics, IT, finance, human resources and business development.
- The management teams of the individual chains are responsible for store operations, marketing, and product range and pricing strategies.
- The store managers/proprietors have daily responsibility for ensuring that their stores are appealing and well-stocked, and for providing a welcoming atmosphere for customers.



Highlights 2011

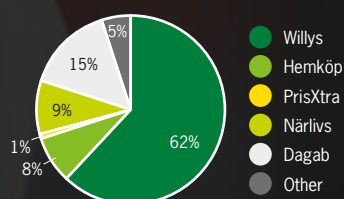
NET SALES

34,795 SEK m
+1.6%



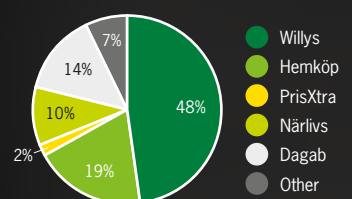
OPERATING PROFIT

1,250 SEK m
+3.4%



AVERAGE NUMBER OF EMPLOYEES

7,062
+2.4%



A middle-aged man with short, light brown hair is smiling warmly. He is wearing a grey suit jacket over a blue, white, and red vertically striped button-down shirt. He is holding a red apple in his right hand. The background is a blurred grocery store aisle with various produce and bright overhead lights.

Small details make a big difference

The store is our stage. With every new day, the curtain opens for a new performance. This requires that we are always alert and that we always strive to give just a little bit more. It's a matter of constantly caring and improving upon small details.

Together these details make up the important difference that makes our customers prefer to shop at our stores.

ANDERS STRÄLMAN, PRESIDENT AND CEO

Earnings for 2011 were Axfood's strongest ever. This is a confirmation that our strategy, which is based on attractive customer offerings, efficiency, cost control and a high level of private label sales, works. Four of our five units increased their earnings, and the sales trend continued to be stable despite a weak market. This is a solid performance in a year that was also characterized by an aggressive pace of establishment and renewal.

Strong earnings and stable development

Key ratios

	2011	2010	2009	2008	2007
Net sales	34,795	34,260	32,378	31,663	29,189
Operating profit	1,250	1,209	1,128	1,077	1,121
Operating margin, %	3.6	3.5	3.5	3.4	3.8
Profit after financial items	1,214	1,172	1,082	1,011	1,086
Profit after tax	891	862	793	737	781
Earnings per share, SEK	16.99	16.42	15.13	14.05	14.88
Equity ratio, %	39.1	38.8	36.7	30.7	32.6
Ordinary dividend per share, SEK	12.00 ¹⁾	12.00	10.00	8.00	12.00
Average number of employees during the year	7,062	6,895	6,816	6,847	6,463

¹⁾ Proposed by the Board of Directors.

Quarterly data can be found under "Investors" on Axfood's website: axfood.se.

This outcome would not have been possible without the contribution made by all our employees, who make a big difference every day. Thank you for your commitment and contribution to our strong performance. By the same token, I want to thank all of our customers for the great confidence you have shown in us during the year.

Watchful consumers contributed to weak volume growth

The prospects for 2011 initially looked favourable, with a continued strong Swedish economy and positive trend in both employment and disposable income. In my annual report message a year ago I therefore predicted continued optimism among households and food price inflation of 2%–3%.

This would change considerably during the year. In pace with higher energy prices and higher interest rates during the spring, consumers clutched harder to their wallets. In addition, rising concerns during the year over the financial crises in Europe contributed to further consumer restraint.

Owing to good harvests, a strong Swedish krona and relatively low raw material prices, the anticipated food price inflation did not transpire. Worries about an e-coli outbreak, which curtailed demand for fruit and vegetables for several months, were an additional factor behind the low volume and price trend.

Strong earnings and stable development

I am particularly pleased to note that Hemköp significantly strengthened its earnings and achieved its target margin of 2%. This favourable performance can be credited primarily to well-run stores and good cost control. In addition, Hemköp was expanded with 43 proprietor-run stores as a result of the agreements that were signed with individual Vi retailers. Conversion of these stores was carried out successfully during the autumn and gives us a unique opportunity to build a considerably stronger brand in the fast-growing Stockholm region.

Willys continued its profitable and stable development, with a strong operating mar-

gin at the same time that its pace of establishment and renewal was higher than ever. Investing in store modernization has been an increasingly important prerequisite for meeting customers' expectations for a better shopping experience. We see now that these investments are beginning to deliver results at the same time that it is clear that the stores that have not yet been modernized are showing weaker performance. In addition, many stores are encountering competition from our own new stores as well as from competitors. The pace of modernization will therefore remain high in 2012.

PrisXtra also strengthened its earnings despite continued unsatisfactory sales. As previously, the reason for the weak sales is the road construction that is affecting customer access to the chain's two largest stores.

Axfood Närlivs showed favourable growth and has captured market shares as a result of very strong performance and a large number of new customers for Axfood Snabbgross. In addition, the contract with



“ Small details make a big difference...”

OKQ8 was renewed, and a new contract was signed with Svenska Statoil. However, costs for development of e-commerce solutions and a newly established store resulted in a slightly weaker operating profit than a year ago. At the end of the year an agreement was signed to acquire 50% of the wholesale company Hall Miba, which strengthens Axfood Närlivs as a comprehensive supplier of food retail products as well as fast food and automotive-related consumer products.

During the year, Dagab continued to improve its efficiency with respect to quality and delivery reliability, which are critical for Axfood's success. At year-end Dagab's delivery reliability measured an impressive 97.1%.

Increase in private label share

At the end of the year, sales of private label products reached 24.2% of total sales, which is the highest level ever for Axfood as well as for Swedish food retailers as a whole. The increase can be credited to the aggressive investment in our new, Group-wide Garant brand, which is gradually taking the place of the Willys and Hemköp private labels. Private label products have been a profitable and

successful part of our strategy for several years. The goal for 2012 is that they will account for at least 25% of total sales.

Responsibility is part of our business

We are convinced that sustainable development, diversity and social involvement go hand in hand with running a successful business and profitability. During the year our Group-wide sustainability work, which is highly integrated with our continuing operations, contributed to lower energy consumption and improved recycling. Parallel with this, we have introduced new purchasing guidelines and increased the number of inspections we carry out of suppliers in high-risk countries.

Ambitious pace of investment and good cost control will secure profitable growth

Our ambition in 2012 is to ensure profitable growth with an unchanged strategy. We are keeping our focus on greater efficiency and good cost control at the same time that it is in our stores that we will create the conditions for continued success. We will therefore work harder to meet and exceed our customers' expectations with respect to price, product

selection and shopping experience. This also means that we will maintain the high pace of new establishment, store renewal and implementation of our new business system.

Outlook for 2012

It is difficult to foresee if and how the market conditions may change. However, indications are strong that the Swedish economy and consumption are slowing and that the turbulence in Europe is creating uncertainty among households. At the same time, we believe that food inflation will be low and likely will not exceed 1%. We are also facing union negotiations on new pay agreements, with an uncertain outcome.

Axfood's goal for 2012 is to achieve an operating profit at the same level as in 2011.

Solna, 6 February 2012

Anders Strålmán
President and CEO, Axfood AB

Highlights 2011

- **2 Feb. 2011** Axfood launches Garant Säcklart, a climate-certified line of private label household products
- **24 May 2011** Axfood introduces "Vardagsmaten" online food planning service
- **25 May 2011** Renewal of supplier agreement between Axfood Närlivs and OKQ8
- **9 June 2011** Decision made at the Vi Retailers Association's Annual General Meeting to allow individual retailers to sign chain agreements with Hemköp
- **15 June 2011** Dagab awarded as "Climate Comet of the Year" by Green Cargo
- **24 Aug. 2011** Axfood Närlivs and Svenska Statoil sign two-year supply agreement
- **28 Sept. 2011** Axfood receives award for Best Annual Report
- **14 Oct. 2011** Hans Holmstedt appointed as new Purchasing Director of Axfood
- **11 Nov. 2011** Axfood Närlivs signs agreement to acquire 50% of Hall Miba AB
- **6 Dec. 2011** Hemköp concludes conversion of Vi stores to Hemköp franchises
- **31 Dec. 2011** Axfood and its customers donate more than SEK 4 m to Save the Children



Satisfied and loyal customers are critical for Axfood's success. As a result, all parts of the business model are of utmost importance for creating value. Every detail plays a significant role in Axfood's success. Hundreds of steps and decisions are taken along the way – from initial supplier contact to the product ending up in a customer's grocery bag.

Axfood's business model



The store is the stage for our interaction with customers, who will be offered an inspiring shopping experience.

Willys, Hemköp and Axfood Snabbgross are all working to modernize and rejuvenate their store concepts – all with focus on such areas as improved customer service, sustainability profile, a wider offering of fresh products and new store layout.



Be responsive in order to meet customers' varying needs and preferences.

Axfood strives to offer its customers attractive prices and a wide selection of products as well as to maintain a high level of innovation, not least when it comes to the ever-growing selection of private label products.



Demand is rising for value products with an environmental and health profile. Axfood's offering of such products is growing.

Axfood has a wide selection of organic and environmentally adapted private label products.



Axfood's customers must be able to trust that the food they buy is handled in a responsible manner.

Axfood exercises strict quality control of its product offering and backs up external inspections of its stores and warehouses with an internal control programme. Some 3,500 Axfood store employees have completed training in store operations and knowledge about perishables.





A Group-wide products and purchasing function makes Axfood a strong player.

Being able to offer suppliers attractive volumes improves Axfood's ability to negotiate the lowest purchasing prices in the market. This ultimately benefits consumers and contributes to the Company's profitability.



Although the choice of suppliers is made centrally, Axfood also embraces locally produced food.

A rich product offering is one of Axfood's hallmarks, where local products provide attraction value to the offering. Local suppliers' production facilities must be approved by their respective municipalities.



The logistics flow is central to Axfood's profitability strategy, which is based on efficiency at every level.

Dagab is working continuously to improve its delivery reliability, quality, time-planning and productivity. In 2011 Dagab achieved a delivery reliability rate of 97.1%, which is high for the industry.



Axfood strives to ensure that all product transports are as long-term sustainable as possible.

This involves initiatives like maximizing load capacity in delivery vehicles, eco-driving for lower fuel consumption and use of "green" diesel based partly on pine oil. In addition, Dagab is increasingly turning to rail transport for supplier deliveries to its warehouses.



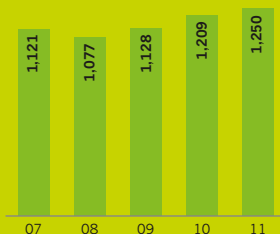


Axfood's strengths

Profitability

Trend 2007–2011

Operating profit increases Axfood's ability to act with respect to investments and promoting growth. Axfood has had stable profitability over the years.



Stability

Corporate governance

Structured internal processes coupled with good governance and cost control create conditions for Axfood to develop over the long term in accordance with its strategic objectives.

Long-term perspective

Ensuring that Axfood maintains profitable growth in the future requires long-term investments. In recent years Axfood has maintained an ambitious pace of investment focusing on store establishment, store modernization and implementation of a new business system.

Sustainability

Systematic sustainability work that focuses on the areas in which it has the greatest benefit is becoming an increasingly important driver of Axfood's value creation. Axfood is striving to be best in the industry, since taking responsibility for sustainable development instils trust among the Company's stakeholders.



Knowledge and company culture

Strong core values

Axfood's core values make up the heart of its company culture and should permeate daily work. The core values encourage cross-departmental cooperation and have a strong customer focus.

Values-steered leadership

Axfood develops modern, communicative leadership to ensure that all employees can contribute to creating the best food retail company in the Nordic countries. A clear target picture has been established for the type of leadership that is fostered within the Group.

A learning organization

The wide range of training activities that are carried out every year has a clear coupling to profitability of the business activities. Training activities also convey Axfood's core values and view of leadership and employeeship.

Dividend

Trend 2007–2011

During the last five years Axfood's shareholders have seen a stable trend in earnings per share. According to the Board's dividend policy, at least 50% of profit after tax is to be paid out to the shareholders. This level has ranged between 56.9% and 80.6% of net profit since 2007 at the same time that the Company has upheld its financial strength.



Mission and objectives

Vision

Through profitable growth and innovative thinking, Axfood aspires to be the best food retail company in the Nordic region.

Mission

Axfood's business mission is to develop and run successful food retail concepts based on clear and attractive customer offerings.

Core values

Axfood's core values represent a shared foundation and shared approach for

employees in their daily work. The aim is to strengthen cohesion and integration between the Company's various parts while providing guidance to all employees.

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

Objectives

Axfood creates added value for its shareholders and other stakeholders by adhering to five strategic objectives and three

financial targets. The strategy emanates from the customers' shopping experience and is focused on profitable growth, sustainable development and a cost-effective organization.

Financial targets

- Operating margin of 4%
- Equity ratio of at least 25%
- Shareholder dividend of at least 50% of profit after tax

Axfood's strategic objectives for profitable growth

Customers

Greater customer orientation will provide the best shopping experience for the respective concepts' target groups.

Satisfied and loyal customers are critical for Axfood's success. All parts of the Group therefore work together to enhance the customers' shopping experience and to exceed their expectations regarding our stores, product selection, prices, offering and logistics.

To ensure that the respective concepts live up to this, continuous modernization and renewal are being conducted of the stores and customer offerings of Willys, Hemköp and Axfood Snabbgross. Parallel with this, local and regional offerings are being further strengthened to better meet varying tastes and preferences.

The important focus on loyalty cards aimed at capitalizing on and catering to customers' buying patterns and boosting customer loyalty continues to be developed in 2012.

Axfood is also stepping up its efforts to help conscious customers find a greater selection of organic, environmentally adapted and Fairtrade Certified products.



Profitability

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

Axfood has set a long-term target of a 4% operating margin. Achieving this will require a continued effort to grow sales in tandem with good cost control and efficiency at every level.

Having a high share of private label sales has been a successful part of Axfood's strategy for profitable growth for many years. The continued aggressive roll-out of Garant, the new, Group-wide house brand, will therefore play a central role in bringing sales of private label products up to 25% of total sales in 2012. At year-end 2011 the private label share was 24.2%.

Profitable growth also requires continuous efficiency improvements in product flows. Toward this end Axfood intends to increase the degree of automation at stores and in logistics in order to obtain better quality and lower costs.



Having a high share of private label products is an important feature in Axfood's strategic objective to be the most profitable company in the Swedish food retail market. Today Axfood has the highest private label share of any Swedish food retailer.

Growth

Axfood will grow its market shares and strengthen its position as the number two player in Sweden's food retail market through investment in both its own and proprietor-run stores.

In 2012 Axfood will continue its ambitious level of investment to ensure profitable growth also in the future. In order to defend and strengthen Axfood's position in the various segments, the pace of modernization and renewal will therefore continue to be high. Sales will be promoted through new campaigns, a more attractive product offering and initiatives for an increasingly improved customer shopping experience. Axfood will also continue to develop e-commerce and ready-made meal solutions, which are both judged to have good potential for growth in the years ahead.

Parallel with this, implementation of the new business system is continuing, which will better support Axfood's strategies and contribute to increasingly efficient ways of working.

Employees and organization

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

Through competence, commitment, diversity and training, Axfood is creating conditions for more satisfied customers and profitable growth. It is also clear that the broad-based training activities that are carried out every year have a coupling to profitability of the business activities. These activities will therefore continue to an undiminished extent in 2012, especially through effective e-learning programmes.

Axfood's goal is also to offer continued leadership development in an effort to improve its employees' business skills.

Sustainable development

Axfood will be an active driver of sustainable development and thereby be the best in the industry.

By being a driver of sustainability issues, Axfood is creating the right offering for customers, which leads to better business.

In the day-to-day activities, sustainability aspects are integrated with purchasing and product selection as well as with logistics, transports and product flows, and store operations. This is being conducted on a foundation of Axfood's sustainability programme, whose goals include reducing climate impact and use of resources. As a further step in 2012, a control system for energy use in stores and warehouses will be implemented.

At the same time, it is important that the Company's suppliers comply with Axfood's Code of Conduct. Axfood therefore continues to increase the number of social audits it conducts of selected suppliers, with particular focus on child labour, employees' rights, work environments and housing conditions. The goal is to conduct social audits of all suppliers in high-risk countries by 2013 at the latest.



To make its warehouses in Jordbro and Backa more energy-efficient, Dagab has installed its own wind turbines.

STRATEGIC OBJECTIVES



Customers

Axfood will increase its customer orientation and offer customers the best shopping experience for the respective concepts' target groups



Profitability

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



Growth

Axfood will grow its market share and strengthen its position as the number two player in Sweden's food retail market by investing in Group-owned and proprietor-run stores



Sustainable development

Axfood will be an active driver of sustainable development in order to be the best in the industry



Employees and organization

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

STRATEGIES

- Attractive selection and offerings for improved customer shopping experience
- Increase innovativeness in product selection for key categories
- Boost customer loyalty by developing loyalty programmes
- Improve local and regional customer offerings

- Increase private label share
- Cost control in all areas
- Increase automation at stores and in logistics
- Strive for best purchasing prices in the market

- Increase like-for-like sales through development of chain and store operations
- Aggressive pace of store establishment in major cities and other growth areas
- Grow in e-commerce and ready-made meal solutions
- Develop a long-term and stable business model for grocers

- Reduce climate impact and energy use
- Improve waste handling
- Increase the number of social audits of suppliers
- Continue development of social involvement

- Establish a more customer-oriented organization
- Develop leadership and enhance business skills
- Conduct competence development in manager recruitment
- Ensure access to stores and grocers

OUTCOME OF ACTIVITIES 2011

- Quality guarantee for meat and fresh produce introduced at Willys
- Modernization of 26 Willys and 14 Hemköp stores
- Larger selection of Garant private label products
- New e-commerce portal launched for Snabbgross stores

- Stronger profitability for Hemköp, which reached its target of a 2% operating margin
- Continued efficiency improvement of product flows in logistics and wholesale operations
- Continued good cost control
- Increase in private label share, to 24.2%, through successful roll-out of Garant

- Stable like-for-like sales growth at Hemköp
- 11 new Willys stores and one Snabbgross store opened during the year
- Conversion of 43 Vi stores to Hemköp franchises
- Implementation of new business system on track. More than 50% complete
- New supplier agreement between Axfood Närlivs and Svenska Statoil, and renewed agreement with OKQ8
- Acquisition by Axfood Närlivs of 50% of Hall Miba, a supplier of car care products

- 17 social audits carried out
- Completion of environmental training by 82% of employees
- Launch of climate compensating line of private label products
- Increase in rail transports
- Implementation of waste handling strategy involving sorting and recycling
- Doubling in amount of money collected for Save the Children
- Dagab and Axfood Närlivs began using Evolution diesel, which is partly based on pine oil
- Hemköp introduced plastic bags made of renewable material

- Two trainee programmes carried out for total of 19 participants
- Approximately 24,000 hours spent in training, mainly in e-learning
- Increase in Employee Satisfaction Index from 86 to 92

PLANNED ACTIVITIES 2012

- Increase degree of innovation in development of product selection
- Develop customer offering locally and regionally; boost customer loyalty
- Continue improvements in customers' shopping experience
- Expand service offering for customers and suppliers

- Focus on greater sales, cost control and efficiency improvement in all areas
- Continue development of Garant product programme and increase private label share
- Increase automation at stores and in logistics

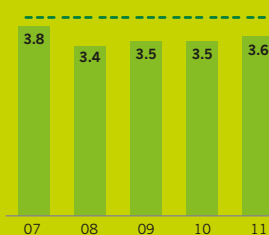
- Maintain ambitious pace of establishment and modernization. Continued high pace of renewal at Willys
- Grow in e-commerce and ready-made meal solutions
- Continue development of chain and store operations

- Increase the number of social audits
- Strengthen sustainability profile
- Continue efforts to reduce energy use; implement control system for energy use in stores and warehouses
- Increase number of social audits
- Further reduce emissions from transports
- Evaluate alternative energy sources
- Increase internal and external awareness about Axfood's social involvement

- Ensure leader succession
- Ensure recruitment and development of grocers
- Trainee programme for prospective store managers
- Training activities in fresh products and private label products
- Conduct annual employee survey

FINANCIAL TARGETS

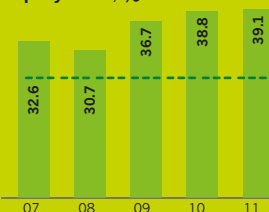
Group operating margin, %



--- Target 4 %

The operating margin for 2011 was 3.6%. Axfood's strategy creates conditions for achieving this long-term target with a few years.

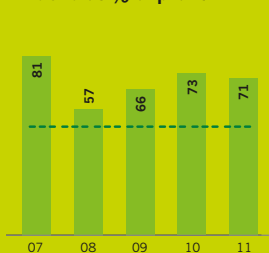
Equity ratio, %



--- Target 25%

The equity ratio target was met in every quarter through strong earnings and cost control.

Dividend as % of profit



--- Target 50%

Axfood's goal is to pay a shareholder dividend corresponding to at least 50% of profit after tax.

The Board of Directors proposes a dividend payout corresponding to 71% of the year's profit after tax, or SEK 12 per share (12).



Axfood aims to offer its customers a carefully selected range of guaranteed quality products at a better price. Ambitious investment in the new, Group-wide house brand, Garant, is a central part of Axfood's private label product strategy. This is also a key part of Axfood's overarching goal of profitable growth.

Private label products – major rollout of Garant

Axfood currently has the highest private label share in the Swedish food retail market, and its goal is that private label products will account for 25% of sales by year-end 2012. Garant, Axfood's Group-wide private label in the mid-range segment, is contributing to this, since stores outside of the Willys and Hemköp chains can also sell the products and thereby gain economies of scale.

Good product selection – guaranteed

A key aspect in the development of Garant is the active dialogue that is conducted with customers. The Garant website – tyckomgarant.se – and the brand's presence in social media are parts of this work. On the website customers can find information and rate products, while on Facebook, they can engage in an ongoing dialogue regarding

customers' views and preferences. From this direct dialogue, ideas and input are gained for the selections made by the Group's purchasers and product developers.

Axfood's ambitions surrounding Garant also include sustainability aspects, such as developing an appealing and attractively priced line of organic products under the Garant Ekologiska varor private label. The

Axfood's private label products are backed by a thorough quality control process

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



The next step is to invite a number of suppliers to submit tenders along with a request for documentation in accordance with Axfood's purchasing guidelines. Product samples are also submitted



The product samples are tested internally. Based on this, 3–4 suppliers are selected and requested to return with new product samples that have been modified according to Axford's preferences.



The product samples are tested once again internally, after which an external consumer panel of 60 persons rates the products.



Final negotiations are held on purchasing terms, and an agreement is drawn up including the purchasing terms as well as conditions for compliance with Axfood's Code of Conduct, including social responsibility aspects.



The products are delivered to Dagab and gradually reach store shelves.



Garant S klart product group includes environmentally adapted cleaning, laundry and body care products that are both hypoallergenic and ecolabelled. To reduce the products' climate impact, they undergo a life cycle analysis prior to launch. The climate impact that remains is compensated by contributions to various climate projects.

At year-end 2011 the Garant product line consisted of some 700 products. In 2012 the product line will be further expanded by some 400 new products.

Other private labels in Axfood's offering are the budget Eldorado brand, and Aware, Func and Fixa.

Aware is a line of Fairtrade Certified products that are sold in all of the Group's chains. Examples of products include coffee, tea, chocolate and orange juice.

In Axfood's store chains, private label products accounted for 18.8% (16.8%) of sales for Hemk p, 26.7% (24.0%) for Willys, and 29.7% (28.7%) for Willys Hemma. For Axfood as a whole, the private label share was 24.2% (22.0%). The goal is for the private label share to reach 25% by year-end 2012. Sales of private label products as a percentage of total sales in the Swedish food retail market amount to approximately 18%. These figures are not directly comparable with the rest of Europe, since Axfood's statistics do not include sales of fruits, vegetables and meat.

Private labels in an international perspective

Growth of private label products in the European market is continuing, most notably in recession-afflicted markets in southern and eastern Europe. However, in mature markets as well, European consumers are increasing the proportion of private label products in their shopping carts, according to the market research company Nielsen.

Globally, private label products are expected to account for an estimated 20% of food retail products by the end of the decade, compared with 15% today, while in Europe the average private label share is already higher than 32%.

Switzerland has long been the country with the highest share of private label products, which account for 53% of total volume. Other countries with 30% or higher are Spain (49%), the UK (47%), Portugal and Germany (42%), Belgium (39%), Austria (38%), France (36%) and Finland (30%).

To attain purchasing volumes that can match those of the multinational retail chains, midsize retailers can coordinate their purchasing through several international purchasing organizations. Axfood is a member of two such organizations – European Marketing Distribution (EMD) and United Nordic.

Through its membership in EMD, Axfood belongs to a network with sales potential of more than EUR 130 bn, which corresponds to a market share of 12% in Europe. This makes EMD the single largest purchaser in the European food retail market.

United Nordic's combined sales are worth approximately EUR 9 bn, and the organization has purchasing capacity of roughly EUR 600 m for private label products.



Own milk

Since autumn 2011, milk from Garant has been available on stores' dairy shelves. This includes both organic milk and milk with longer shelf life; both variants are produced in Sweden. Garant organic milk meets the criteria from KRAV for animal care, farming and transport. Garant milk with longer shelf life is heated to a higher temperature than milk that is packaged with traditional pasteurization. This increases its shelf life.

Axfood's private labels

Brand	Segment	No. of products
 garant �r bra urval	Mid-range food and non-food products. Quality comparable to the market leader. 10%–15% lower price for consumers.	608
	Value-added products that meet organic criteria from KRAV and/or EU organic certification.	128
	Value-added body care, laundry and household cleaning products, which are ecolabelled, perfume-free, asthma- and allergy-labelled, and climate-compensated.	22
	Value-added Fairtrade Certified products.	12
	Discount food and non-food products.	831
	Value-added non-food products: batteries and light bulbs (Func), and kitchen and household cleaning supplies (Fixa).	282

The anticipated growth in sales failed to materialize during the year. This is mainly due to increased restraint among customers, but also to lower price increases than expected.

Market and trends – dampened growth as a result of economic worries

The economic crisis in Europe and the USA caused anxiety and greater caution among households and businesses in 2011. The recovery from the recession in 2008 and 2009 accelerated in 2010, but in mid-2011 it began to lose steam. Optimism among households was also dampened with respect to their personal financial situation and public finances,

according to the (Swedish) National Institute of Economic Research's confidence indicator.

Greater focus on the economic climate can lead to more price-conscious and hesitant customers, which could benefit sales of private label products as well as discount stores. Food inflation, which at the start of 2011 was anticipated to reach 3% for the year, did not

transpire. This was due among other things to the strong Swedish krona and good harvests. As a result of a large surplus of vegetables in Europe during the summer and an unseasonably warm autumn in Sweden, fruit and vegetable prices decreased compared with a year earlier. However, prices of coffee, tea and cocoa rose sharply during the year.

The Swedish food retail market

Following a brief recovery, the food retail market experienced weak growth in 2011. The weak development was attributed primarily to lower price increases than expected and customers' restrained shopping behaviours.

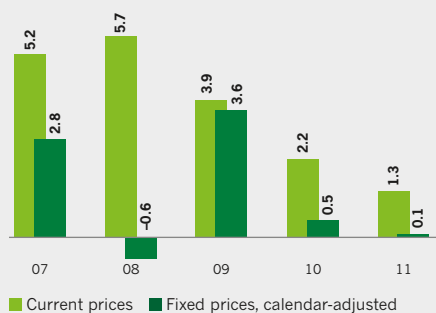
Sales in current prices rose 1.3% for the year, according to Statistics Sweden and HUI Research. The price and calendar effect was 1.2%, entailing growth in sales volume of 0.1% for the food retail sector. Total grocery sales in 2011 are estimated at approximately SEK 213 bn.

The population structure in Sweden is characterized by a steadily growing concentration in the major metropolitan areas, where a growing share of purchasing power is also concentrated.

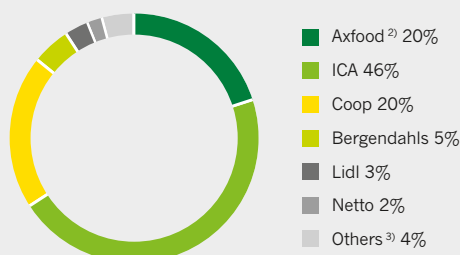
Since the mid-1990s, three retailers account for more than 80% of the market.

Axfood is the second-largest player in the Swedish food retail market, with a market share of approximately 20%.

Sales trend, food retail market



Market shares, largest competitors in Sweden 2010¹⁾



Source: Sales figures for ICA, Coop, Bergendahls, Lidl and Netto have been obtained from a compilation performed by the trade journal Fri Köpenskap. Axfood's figures include own estimates of sales for the Tempo, Handlar'n, Vi and other collaborating stores as per December 2010.

¹⁾ Competitor sales figures for 2011 not available at the time the calculations were performed.

²⁾ Willys, Hemköp (Group-owned & franchise stores), PrisXtra, Tempo, Handlar'n, Vi and other collaborating stores.

³⁾ Other convenience stores, mini-markets and service station stores.



Trends that affect the food retail market

Quality and price are central considerations for today's well informed consumers. At the same time, knowledge, inspiration and time are key factors in short supply. To win time, many consumers skip preparing their own meals during weekdays. This has created a market for higher quality, ready-made meals

in stores and for e-commerce solutions and home delivery of groceries. It is also leading to greater use of meal planning websites and apps that provide inspiration and recipes.

Today's consumers are also showing a preference for more environment-friendly food consumption that uses less resources. On top of this, they want a wide selection

at discount stores while also demanding personal service and an inspiring shopping experience at their neighbourhood store.

Segmentation in Sweden

	Hard Discount	Discount	Hypermarkets	Traditional grocers	Service stations/mini-markets
	5%	11%	22%	45%	17%
Items:	1,100–1,800	7,500–	12,000–	10,000–15,000	1,000–3,000
Price index:	— ¹⁾	88–95	93–97	96–110	104–130
Location:	Residential and external	Residential and external	External	City centres, residential	Traffic- or residential-oriented
Trademarks:	Netto, Lidl	PrisXtra, Willys, Willys Hemma	Ica Maxi, Coop Forum, City Gross ²⁾	Hemköp, Vi stores, Coop Konsum, Coop Extra, Ica Supermarket, Ica Kvantum	Tempo, Handlar'n, Ica Nära, 7-Eleven, service stations, Coop Nära

Market share/trend: Based on a total market in 2010 of approx. SEK 213 bn incl. VAT. Trend pertains to overall development for the profiles in the segment along with a number of generic stores.

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

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

²⁾ City Gross has been moved from the discount to the hypermarkets segment compared with previous years.

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

“Everyday food”

Vardagsmaten.se (“everyday food”) is an online meal planning service that is also available as a mobile app. Simple recipes and structured shopping lists with discount offers simplify planning and shopping for customers. Weekly specials from Hemköp and Willys are clearly marked on shopping lists. Since the launch of the service in spring 2011, approximately 40,000 users have registered on the website and more than 100,000 downloads have been registered for the mobile app.



Presence in social media

A growing number of companies and organizations view social media as an increasingly important communication channel. Axfood is active on Facebook and Twitter, and the Company's head of environmental affairs, Åsa Domeij, writes a blog on axfood.se. Axfood's individual chains, the Garant private label and the “Vardagsmaten” food planning service are also active on Facebook. During the year Hemköp published a blog highlighting recipes based on fresh products that are currently in season.

Organic and local products

Demand for organic products softened somewhat during the year. One reason for the dampened growth was the weakening economy. However, the underlying trend, with a growing interest particularly in organic food, is expected to remain. The driving forces behind this trend are, above all, the climate issue and concerns about animal care and food quality.

The range of organic products has grown during the last five years. However, sales of organic products as a percentage of total food sales are still relatively small. Organic products currently account for 2.6% of total food sales in Axfood's stores. Dairy products make up the largest organic product group, with organic milk accounting for roughly 8% of total milk sales. Eggs are another large and growing category, accounting for approximately 17% of total organic sales. However, organic meat and processed meats are still a niche market, with a relatively large price difference between conventional and organic alternatives.

The organic trend also has ties to demand for locally and regionally produced food. According to one survey conducted during the year, eight of ten consumers have a positive perception of the concept “locally produced”. In this area, demand is greatest primarily for meat, processed meats, and fruits and vegetables. At the same time, for many, the preference for local products can collide with the desire to buy organic products due to limited availability of organically grown local products.

One-stop shopping

Due to time constraints, consumers today appreciate the ability to meet a large part of their needs at a single location, whether it be everyday groceries, fresh products or premium products. This is reflected to a growing extent in the product offering at stores. Today even discount stores feature premium products, fresh products, local products and better customer service.

This is leading to the continued development of the overall shopping experience and of stores as a meeting place, with an expanded offering of services, such as pharmacies, betting/lottery counters, and so on.

e-commerce

Groceries have had a relatively late start with respect to online sales compared with other retail sectors. In Sweden, online sales account for only 0.5% of total grocery sales. Although it is primarily younger people who shop online, older age groups are expected to increase their share over time. According to HUI Research, the greatest advantages of shopping online are time savings and home

Vardagsmaten.se



delivery. Something that has become increasingly popular in Sweden in recent years is subscription for ready-packed grocery bags that are ordered online. The bags are typically filled with groceries for a set number of people and days, with accompanying recipes.

Axfood is well-positioned to meet growth in e-commerce. In early September, Axfood Snabbgross launched an e-commerce portal for all 20 of its cash and carry stores. Axfood also operates the NetXtra online grocery store.

The use of smart phones rose dramatically in 2011. In Sweden alone, some 2.3 million smart phones are in use today. This is creating great opportunities for retailers to increase their exposure on the Internet. Great progress has been made in the development of mobile payment systems, and today there are a number of companies that use apps for e-commerce.

Boost in demand on holiday weekends

Long weekends in conjunction with holidays, such as Christmas, Easter and Midsummer, provide a boost in sales. For the retail sector as a whole, the holiday season surrounding the month of December is the most important in terms of sales.

In addition, retailers are starting to see a sales effect from a growing number of international holidays, with higher demand for traditional holiday foods. During the major Muslim holiday Eid al-Fitr in 2011, Swedish retail sales increased by SEK 1.5 bn, according to the Swedish trade and commerce organisation Svensk Handel. But even other international holidays are expected to have a growing presence in the retail trade, such as the Chinese and Persian New Year.

Challenges for retailers

Demand for organic and locally grown food is posing a challenge to retailers with respect to keeping prices at a competitive level.

Meeting new consumption patterns stemming from changing demographics – such as an aging population – is also putting demands on retailers with respect to their product offering. Meanwhile, a more diverse customer base is leading to a growing interest in global products.

International industry trends

High inflation and falling disposable incomes have benefited the discount segment in many large European markets – not least in the UK – where discount chains to date have had a comparatively small market share. In recent years discount chains have adapted their

concepts to attract a broader customer base. Instead of communicating only with prices, they are striving more to be perceived as offering value for money, with an emphasis on high quality private label products, a better selection of fresh products and a more inviting store environment. By establishing themselves in more central urban locations, discount chains are heating up the competition with established, traditional grocery chains. In France, however, the traditional concepts have adapted their prices to the discount segment, which has enabled them to defend their market shares, but with smaller gross profits.

Shifts are continuing between the various store formats, and it appears that the trend toward ever-larger stores is being broken. The hypermarket segment has had a tough time in many parts of Europe. One reason could be higher fuel prices, which have given many consumers reason to shop at their local stores

instead of driving to hypermarkets, which are usually located a bit outside of the city centre. The trend is instead moving toward a compact urban format, and of the major chains in Europe, several are now investing in convenience stores.

The ability to shop for groceries online and then pick them up at the store reached a new level of popularity in France during the past year. Today there are some 200 outlets around the country, and most of the chains have ambitious expansion plans.

The need to differentiate and create new shopping experiences is also prompting retailers not only to test new channels – such as seasonal events – new services, convenience and loyalty rewards, but also to offer a greater share of innovative private label products, fresh-product and quality initiatives, and continued price competition.

Self-scanning and self-checkout

SELF-SCANNING and self-checkout lanes have become increasingly common for grocery store patrons. Advantages include shorter checkout queues and a higher level of overall customer service. Self-scanning entails that customers scan their products with a hand-held device as they add them to their shopping cart, and then pay using a debit or credit card of their choice at a designated checkout lane. In self-checkout lanes, customers scan the products and then handle the payment themselves.

Axfood currently offers self-scanning at numerous Willys stores and self-checkout at many Hemköp stores.



Group overview – Axfood has a concept for every target group

WILLYS

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

NET SALES
18,904 SEK m



OPERATING PROFIT
775 SEK m



EMPLOYEES
3,410



NUMBER OF STORES
WILLYS **126** WILLYS HEMMA **44**

Hemköp

Business concept: To be “the personal food store”, which in a simple yet painstaking manner provides inspiring food ideas to modern, active families in their day-to-day lives as well as on special occasions.

NET SALES
4,787 SEK m



OPERATING PROFIT
94 SEK m



EMPLOYEES
1,364



NUMBER OF STORES
GROUP-OWNED **62** FRAN-CHISES **121**

PrisXTRA

Business concept: PrisXtra caters to price-conscious metropolitan customers with a keen interest in food, but with an eye for premium products.

NET SALES
549 SEK m



OPERATING PROFIT
15 SEK m



EMPLOYEES
135



NUMBER OF STORES
5





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

NET SALES, EXTERNAL

6,343 SEK m

NET SALES, TOTAL

6,365 SEK m



OPERATING PROFIT

110 SEK m



EMPLOYEES

735



NUMBER OF STORES
AXFOOD SNABBGROSS

20

NUMBER OF
DISTRIBUTION CENTRES

4

Dagab

Business concept: Dagab helps stores increase their sales and profitability through efficient, adapted logistics solutions.

NET SALES, EXTERNAL

4,021 SEK m

NET SALES, TOTAL

25,813 SEK m



OPERATING PROFIT

192 SEK m



EMPLOYEES

961



NUMBER OF
DISTRIBUTION CENTRES

4

Other

Includes joint-Group support functions such as purchasing coordination, private labels, IT and corporate offices.

NET SALES, EXTERNAL

191 SEK m

NET SALES, TOTAL

4,161 SEK m

OPERATING PROFIT

64 SEK m

EMPLOYEES

457



Willys is the food store for price-conscious customers, featuring a wide product selection and rich offering of fresh products. As the leading discount chain, Willys' business concept is to offer its customers "Sweden's cheapest bag of groceries". Willys also focuses on the environment, social involvement and an attractively priced selection of organic products. Large households and families with children are Willys' priority customer categories.

Willys – stable growth and good profitability



2011 review

Despite a dampened market, Willys had stable growth with good profitability. The pace of investment was higher than ever for new establishment and modernization of existing stores. In all, eleven Willys stores, of which four Willys Hemma units, opened during the year. Of these, one was a conversion from Hemköp.

Modernization of Willys stores continued at a high pace. In 2011, 26 Willys stores were remodelled, and thus at year-end a total of 78 stores had been upgraded. The modernizations, which have been conducted in response to customers' wishes for a better shopping experience, will continue at an undiminished pace.

Willys also continued its efforts to strengthen its environmental profile. In 2010 all of the Willys stores were ecolabelled with the Swedish Society for Nature Conservation's "Good Environmental Choice". Since then, new stores have also been successively ecolabelled. In addition, all new stores are built using smart energy practices, such as by furnishing freezer displays with doors and lids.

Environmental work at Willys has also encompassed training activities, and during the year all Willys employees participated in

Axfood's e-learning course on the environment. The major training programme focusing on customer service also continued during the year through both instructor-led courses and e-learning.

During the year, Willys worked on consolidating its price point. Several marketing campaigns were carried out to strengthen Willys' position as the leading discount grocery chain.

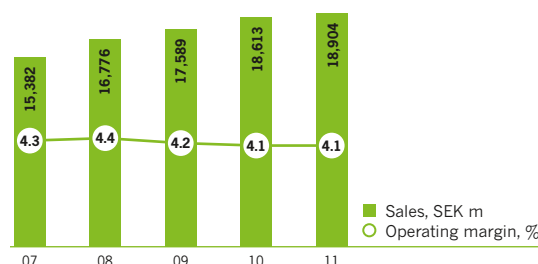
Quality guarantees were introduced during the year for all fresh meat and for fruit and vegetables. The guarantees are aimed at improving customers' impressions of Willys with respect to quality, credibility and reliability, and entail that customers get double their money back if they are not satisfied with the quality of a product in either of these categories.

Sales of private label products reached record heights in 2011, with a level of approximately 26.7% for Willys and 29.7% for Willys Hemma. The changeover from the Willys private label to the new, Group-wide Garant brand has been well received by customers.

Orders processed via Autoorder continued to rise during the year, and approximately 75% of products are now included in



Sales and operating margin



Key ratios

	2011	2010
SEK m		
Net sales	18,904	18,613
Like-for-like sales growth, %	-1.6	0.4
Operating profit	775	772
Operating margin, %	4.1	4.1
Number of Group-owned stores	170	160
Average number of employees during the year	3,410	3,266
Private label share, % (Willys/Willys Hemma)	26.7/29.7	24.0/28.7

Autoorder. The largest conversion in 2011 pertained to centrally packaged meat, which was incorporated in the payment system during the autumn.

During the year, Willys' partnership with Save the Children generated just over SEK 3.5 m in donations. Together with its suppliers, Willys donates a percentage of sales of selected products to Save the Children, while customers make their own donations by pressing the "donate" button on can and bottle recycling machines instead of receiving their deposit money in return.

Future challenges

The constant challenges for Willys are to increase sales in existing stores and to grow

with new stores. This has to be achieved in tandem with continued competition from both the discount and hypermarket segments. For Willys it is important to add new value without compromising its business concept of offering Sweden's cheapest bag of groceries. Such values include the shopping experience, customer service, sustainability profile and complementary in-store services.

Priorities 2012

Growth will continue to be achieved both through greater sales in existing stores and new establishment.

Modernization of the Willys store concept is continuing in step with further development of Willys Hemma. This work goes

hand in hand with greater sales orientation, improved customer service and a better shopping experience.

Willys' pledge to offer Sweden's cheapest bag of groceries will be further cemented among consumers.

Efforts to increase the private label share have continued high priority.



Business concept

Willys takes the role as challenger in the market and strives to set the trend in the discount food retail segment by offering "Sweden's cheapest bag of groceries", with a wide and varied product selection.

Vision

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

Customer structure

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

Store facts

Willys is Sweden's leading discount chain, with 170 wholly owned stores, of which 44 are Willys Hemma. Willys stores can be found nationwide in shopping centres and other locations just outside city centres. A few also have central city locations. Willys stores range in size from 1,100 to 4,700 square metres of retail space and approximately 9,000 items, while Willys Hemma stores range from 300 to 1,200 square metres, with approximately 5,000 items.



Hemköp strives to offer its customers a wide array of attractively priced products and to meet customers' expectations by providing inspiring food ideas and a high level of service. Hemköp's customers seek variation, a range of choices and high quality at an attractive price at their grocery store. They are active people who enjoy good food and care about their health and the environment.

Hemköp – 43 new stores create strong presence in Stockholm

2011 review

Hemköp showed strengthened earnings performance for the year, with stable development in like-for-like sales. The earnings improvement can be credited in large part to favourable sales at stores and cost control in all areas.

Two years ago cooperation was initiated between the Vi Retailers and Axfood. As a continuation of this, the Vi Retailers Association resolved at its Annual General Meeting in June that the individual retailers would sign chain agreements with Hemköp. This resulted in the conversion of 43 Vi stores primarily in the Greater Stockholm area to Hemköp's profile by year-end – something that will strengthen Hemköp's opportunities to build a stronger and more distinct brand in the fast-growing Stockholm region. A total of some 700,000 customers per week have thereby been added to Hemköp's customer base.

The year was also characterized by a high pace of renewal, with continued review and

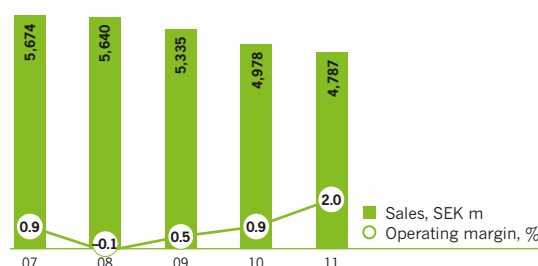
refinement of the store structure. One Hemköp store was converted to Willys, and in October the store in Uppsala moved to newly built premises with a spotlight on delicatessen items, fresh products and ready-made meal solutions. In all, 16 stores were modernized during the year.

Improvements to the price offering continued to be made during the year in the aim of improving customers' perception of Hemköp's price point. Adaptations to the product selection, such as to local demand, are also being made on a continuous basis. Marketing of Hemköp's loyalty card has been stepped up, and the number of cards in issue increased during the year to 557,000. Hemköp has also strengthened its marketing of seasonal products and foods.

Hemköp's private label share increased to 18.8% at year-end (16.8%). In an effort to make the stores a more attractive meeting place, Hemköp is also working to integrate

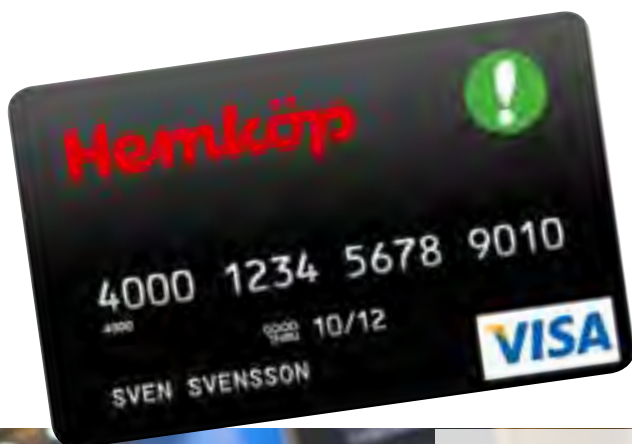


Sales and operating margin



Key ratios

SEK m	2011	2010
Store sales, incl. proprietor-run stores	9,148	8,800
Net sales	4,787	4,978
Like-for-like sales growth, %	0.4	2.3
Operating profit	94	45
Operating margin, %	2.0	0.9
Number of stores, Group-owned/franchises	62/121	65/82
Average number of employees during the year	1,364	1,422
Private label share, %	18.8	16.8



Business concept

To be "the personal food store", which in a simple yet painstaking manner provides inspiring food ideas to modern, active customers in their day-to-day lives as well as on special occasions.

Vision

To be the favourite neighbourhood food store.

Customer structure

Due to the location of Hemköp's stores in urban and residential areas, customers shop more frequently. Hemköp customers are looking for inspiring food ideas yet competitive prices, and they are attracted to Hemköp's broad product selection and accent on fresh products, health and personal service.

Store facts

Hemköp's stores are centrally located in city centres and residential areas. Retail space in the stores ranges from 400 to 4,000 square metres. At year-end the Hemköp chain comprised a total of 183 stores, of which 62 were Group-owned. Hemköp stores carry approximately 10,000–12,000 items.

other businesses, such as postal services, pharmacies and betting/gaming counters.

Competence development of employees was conducted throughout the year and included e-learning courses, among other things.

Hemköp also works actively with sustainability, above all within the framework of the Axfood Group's climate work and new recycling programme. During the year, Hemköp was the first retailer in Sweden to introduce an environmental plastic bag made of renewable material. Hemköp also continues its support of SOS Children's Villages and Save the Children.

Future challenges

Hemköp's overarching challenges are to grow sales and maintain the positive trend in earnings in a fiercely competitive market segment. Making the Hemköp brand more distinctive and stronger is a critical success factor.

Priorities 2012

Hemköp will continue to prioritize sales and profitability along with cost control. This will be achieved through an ongoing effort to improve customers' perceptions of Hemköp's price point and improvements in store operations.

Hemköp's new brand platform is being launched early in the year and will be followed up by a series of communication activities, both at stores and via digital channels. The use of social media will be increased.

The agreement with the Vi Retailers also entails a focus on developing leadership and employeeship as support for all forms of ownership within the chain.

An entirely new store is scheduled to open in spring 2012 in central Stockholm. Modernization of existing stores will continue at a pace of roughly 10–15 stores per year.





PrisXtra is a grocery chain serving the Stockholm market, comprising five stores at year-end. PrisXtra stores strive to provide an inspiring shopping experience and wide product selection.

PrisXtra – inspiration for Stockholm's foodies



PrisXtra positions itself as the most attractively priced alternative for foodies in Stockholm, irrespective of whether they are shopping in the discount, conventional grocery or premium segments. The basic product range consists of brand-name goods combined with discount items and a distinctive offering of attractively priced premium products.

Several of the stores feature a deli counter and buffet department for take away lunch and dinner. Fruits, vegetables and fresh bread are also strong attractions.

PrisXtra's loyalty card is a vital marketing tool, offering the market's highest rebate from the very first purchase.

2011 review

PrisXtra strengthened its earnings during the year, however, sales for the two largest stores continued to be hurt by extensive road construction in the surrounding environment. Over time, however, these locations have strategic significance, as plans have been drawn for new city districts featuring homes, workplaces, parks and sports facilities.

During the year, work continued on optimizing and strengthening the chain's integration with Axfood. Sales of Axfood's Garant private label products did very well.

PrisXtra's loyalty card also grew during the year, and at year-end nearly 85,000 cards were in issue.

A number of training courses were held, focusing particularly on perishables.

Future challenges

PrisXtra's main challenge is to create conditions for profitable growth through higher sales and lower costs, at the same time that traffic disruptions will continue to affect sales at the two largest stores.

Priorities 2012

Most efforts in 2012 will continue to be focused on achieving profitable growth and on promoting PrisXtra's profile as the alternative with attractive prices.

A broad-based employee training initiative will be carried out during the year.

Business concept

PrisXtra caters to price-conscious metropolitan customers with a keen interest in food, but with an eye for premium products.

Vision

PrisXtra will be the pre-eminent grocery chain in the metropolitan segment.

Customer structure

PrisXtra's customers are typically foodies who want to be the first to try new ideas and trends. Customers at central city locations come largely from small households. On weekdays customers want fast, simple solutions, while at weekends they gladly spend extra time and care on shopping and cooking.

Store facts

PrisXtra's five stores are located in central Stockholm and near-lying suburbs, with retail space ranging from 1,100 to 3,500 square metres. The stores carry nearly 20,000 items.

Key ratios

SEK m	2011	2010
Net sales	549	637
Operating profit	15	-5
Operating margin, %	2.7	-0.8
Number of Group-owned stores	5	5
Average number of employees during the year	135	164

Axfood Närlivs contributes to development of convenience retailing by providing know-how, simplicity and long-term commitment. This is accomplished, among other things, by developing business together with major chain customers. This model has made Axfood Närlivs the market leader in its segment.

Axfood Närlivs – favourable development and growing market shares

Axfood Närlivs conducts wholesaling with responsibility for market cultivation of stores in the mini-market and convenience store segment that are not owned by the Axfood Group. The organization is structured into four business areas: Axfood Närlivs (Wholesaling), Tempo, Axfood Snabbgross and e-commerce.

Tempo, Handlar'n and Direkten stores are run by independent grocers who cooperate with Axfood under the respective store names.

2011 review

Axfood Närlivs had favourable sales growth during the year and reported earnings in line with its forecast. Both Axfood Närlivs and Axfood Snabbgross gained market shares during the year in a fierce competitive climate.

Handlar'n reported positive development and favourable growth. At year-end 235 stores were operating under the Handlar'n name. Handlar'n stores are typically corner shops that feature a broad selection of basic products and sizeable offering of fresh products.

Tempo also posted favourable growth during the year. The concept comprises approximately 131 stores in residential areas throughout Sweden.

Axfood Snabbgross continued to strengthen its positioning toward restaurants and foodservice operators during the year, among other things through an expanded product offering, greater availability and more modern store layout.

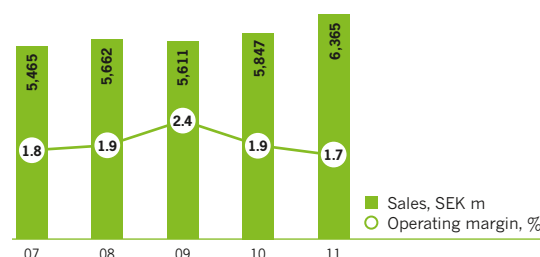
During the year, a new Snabbgross store was opened in Visby, and remodelling was completed at two stores.

Fresh products and fast food concepts are strategically important market segments that are growing by 10%–15% per year. The Stockholm market is particularly important in this regard. To serve this market, Axfood Närlivs acquired Reitan Servicehandel's cold storage distribution centre in 2010, from where products are now delivered to all of Axfood's stores.

During the year a two-year cooperation agreement was signed between Axfood Närlivs and Svenska Statoil. The agreement



Sales and operating margin



Key ratios

SEK m	2011	2010
Net sales	6,365	5,847
Distributed sales	5,596	5,070
Operating profit	110	113
Operating margin, %	1.7	1.9
No. of stores (Tempo/Handlar'n/Direkten)	656	667
No. of cash and carry outlets (Snabbgross)	20	19
Average no. of employees during the year	735	667
Delivery reliability, %	97.7	97.4
Inventory turnover rate, times	26.3	20.9

covers the supply of newsstand and food retail products as from 1 January 2012.

Also during the year, a supply agreement with OKQ8 was renewed for two years.

Axfood Närlivs signed an agreement to acquire 50% of the wholesale company Hall Miba AB, which supplies car care products and automotive accessories to service stations and retailers. Through the acquisition, Axfood Närlivs has become a full-service business partner to service stations through its ability to supply them with food retail products, fast food concepts and automotive-related consumer products.

During the year, inventory operations were coordinated, and some of the operations in Tyringe were moved to Örebro.

In March, Axfood Närlivs opened its first Food Court, an independent fast food and convenience store, at Cityterminalen in Malmö.

Axfood Närlivs continues its venture into e-commerce – an area that shows good growth but which still accounts for a very small share of the total market. All of Axfood's e-commerce business is now handled by Axfood Närlivs, through NetXtra and Axfood Snabbgross's new e-commerce portal. Axfood Snabbgross's new portal for restaurants and foodservice operators was launched in autumn 2011. The e-commerce business encompasses the ready-packed grocery bags that Axfood Snabbgross puts together for external customers.

During the year a number of Axfood Närlivs employees completed sales and specialist training.

Environmental concerns have had continued high priority. Among other things, Axfood Snabbgross participates in Axfood's recycling, waste handling and energy efficiency programmes.

Future challenges

Axfood Närlivs' overarching challenge is to generate continued profitable growth. This requires continuous adaptation to emerging demands on the product offering and faster lead times. Above all, it is important for competitive reasons to be able to meet the shift toward an ever-greater share of fresh products and fast food in the product selection at customers' stores.

An important aspect of Axfood Närlivs' success also lies in its ability to take responsibility for a growing share of the value chain than just transports and inventory, and thereby help customers do better business.

Priorities 2012

Work continues on building more efficient logistics structures, which is also related to the priority objective of increasing profitability.

Fast food concepts will be further developed, as will e-commerce initiatives.

Modernization of the Snabbgross cash and carry concept will continue, and Axfood Snabbgross will continue to focus on fresh products and on creating a better shopping experience for customers.



Business concept

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

Customer structure

Customers are in four segments: own profiles, chain customers, other convenience retailers, and cash and carry customers. Own profiles consist of Tempo and Handlar'n. Chain customers include service stations and mini-markets, while other convenience retailers consist of small, independent businesses such as newsstands and mini-markets. Axfood Snabbgross offers cash and carry business primarily to restaurants and foodservice operators, as well as to convenience store operators, associations and offices.



Dagab has a central role in Axfood's profitability strategy, which builds upon efficiency at every level. Dagab is the hub of the Group's logistics flow and contributes to higher store sales and profitability through continuous improvements. In 2011 Dagab's relentless efficiency improvement work continued to generate tangible results in such areas as quality, delivery reliability and time planning.

Dagab – continuously more efficient product flows

Dagab is the logistics partner for the Axfood Group's store chains – Willys, Hemköp, PrisXtra and Tempo. Deliveries are made to some 500 stores throughout Sweden from two main distribution centres – Backa in Gothenburg and Jordbro in Stockholm – and from two complementary cold storage warehouses in Borlänge and Jönköping. Roughly 70% of the products that are ordered from Axfood's suppliers are channelled through these facilities for stock-keeping and transport to Dagab's warehouses and subsequent distribution to stores.

The products that are purchased are determined by the store chains' respective product range strategies under the umbrella of a central purchasing function, which negotiates all of Axfood's supplier agreements. Economies of scale are achieved through this central purchasing function.

2011 review

Dagab's efficiency improvement work increased considerably in 2011. The company systematically monitors a number of

key performance indicators, including productivity and delivery reliability. All of the indicators performed well during the year. Major progress has also been made with respect to delivery reliability from suppliers – especially suppliers of private label products.

Structural work was conducted during the year at the warehouse in Jönköping, where the supplier Danish Crown has now taken a greater share of responsibility for processing activities surrounding centrally packaged meat. The solutions have resulted in automated flows and shorter lead times.

Voice directed picking was introduced in early 2011 for tinned and dried products at the central distribution warehouse in Jordbro, with very good results. Thus all of the company's warehouses and product categories now use voice picking except for in Jönköping, where it will be introduced in 2013. Voice directed picking streamlines product handling by replacing written order forms and picking labels.

Developing Autoorder together with stores is key part of Dagab's mission Auto-

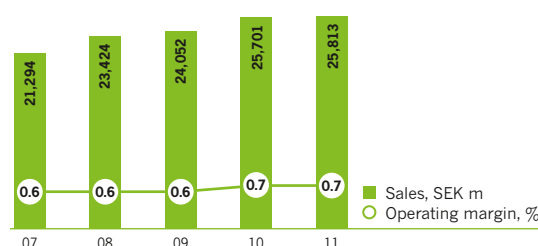
order simplifies store reordering and enables more efficient restocking of store shelves.

Dagab passed a milestone during the year when it began delivering milk for the first time. The milk is sold under Axfood's own Garant brand and is produced by the dairies Skånemejerier and Falköpings Mejeri.

During the year, Dagab intensified its work on reducing its carbon emissions. This included the introduction of environmental pallets made of recyclable plastic at all facilities. To further reduce fuel consumption, Dagab uses the FleetTech fleet management system, which makes it possible to monitor each individual delivery vehicle with respect to fuel economy and temperature, for example. Green diesel, based partly on pine oil, is used for Dagab's entire delivery fleet.

Two new rail links have been opened up for transports of imported goods. For this work, Dagab was named "Climate Comet of the Year" in 2011 by the shipping company Green Cargo.

Sales and operating margin



Key ratios

SEK m	2011	2010
Net sales	25,813	25,701
Distributed sales	17,453	17,408
Operating profit	192	189
Operating margin, %	0.7	0.7
Average number of employees during the year	961	932
Delivery reliability, %	97.1	97.2
Inventory turnover rate, times	29.2	30.8

Investments were made to make the warehouse in Jordbro more energy-efficient. In addition, own wind power plants are now operating at the facilities in Jordbro and Backa.

As recognition for this work, Dagab received the municipality of Haninge's 2011 Environment Award.

For further information, see page 34.

Future challenges

Dagab's overarching challenge is to contribute to increasingly stronger and effec-

tive integration in the Axfood Group. Parallel with continued efficiency improvement work, Dagab's main challenge will be to develop a new product supply system for the future, starting in Borlänge and Jönköping.

Priorities 2012

2012 will entail continued, intensive work on implementation of Axfood's new business system.

Dagab will also maintain sharp focus on environmental concerns in logistics, with an emphasis on energy and fuel efficiency at facilities and in transports, and on waste handling and sorting.



Business concept

Dagab helps stores increase their sales and profitability through efficient, adapted logistics solutions.

Customer structure

Dagab's customer structure consists of the store chains within the Axfood Group.

SUSTAINABILITY report

Axfood's sustainability goals

Axfood's sustainability programme covers a multitude of goals and sub-goals for both the near- and long term. Initiated in 2009, the programme is being developed in pace with the achievement of objectives and the emergence of new opportunities. A sampling of the programme's points are outlined below. The entire sustainability programme can be downloaded from axfood.se

Climate neutrality is the goal

Axfood's goal is to be climate neutral by 2020. The sub-goal is to reduce energy use by 30% per square metre by 2015 (base year 2009).

Outcome 2011

At year-end 2011, Axfood's energy use had decreased by 0.3% per square metre compared with 2009 in the premises in which measurement was possible. The reduction plan includes a review of lighting, ventilation, refrigeration and heating.

During the year, work was begun on evaluating the opportunity to install solar cells on the roofs of all warehouse buildings.

Maximum material recycling shall be profitable

All warehouses and Group-owned stores are to work with extensive waste sorting covering all fractions, including biologically treatable waste and other waste.

All companies in the Group should achieve better profitability in sales of waste fractions to material recycling contractors.

Outcome 2011

A Group-wide system was implemented for sorting of all waste fractions, which are handled by three external contractors. A new portal was opened, where the contractors are to report what they have collected. This has made it possible to formulate quantitative goals and follow up waste sorting on a continuous basis.

Efficient, climate-adapted transports

Dagab and Axfood Närlivs should reduce their CO₂ emissions from fuel by 20% per tonne of goods by 2015, from Group-owned vehicles. A further goal is to reduce fuel consumption by 10% by 2015.

Outcome 2011

During the period 2009–2011, both companies reduced their CO₂ emissions from fuel by 18.7% per tonne of transported goods compared with 2009.

During the year both companies began using Evolution diesel, which is partly based on pine oil. In 2011 Dagab increased its use of rail transport for products coming in to its warehouses from suppliers in Sweden as well as from other European countries.



Responsible production

All of the Group's suppliers in high-risk countries have been required to undergo a social audit by 2013 at the latest. One hundred per cent of the palm oil used in Garant products shall be sustainability certified by 2015.

Outcome 2011

New purchasing guidelines, including life cycle analyses, have been gradually introduced in purchasing work and will continue in 2012.

In 2011, 17 social audits were performed, including two in Sweden.

Axfood continued to purchase palm oil certificates for the volume of palm oil used in the Group's own products.

Healthy, equal and knowledgeable employees

Axfood shall maintain a work attendance rate of at least 95% and an Employee Satisfaction Index score of at least 90%. By 2015 the Company shall have achieved an even gender balance in management positions, i.e., within a span of 40%–60%. All employees shall have completed basic environmental training by 2012 at the latest.

Outcome 2011

Work attendance during the year was 95.3%.

The employee survey conducted during the year showed an Employee Satisfaction Index score of 92%.

The share of women in management positions was 21.6% at year-end.

At year-end 2011, 82% of employees had completed basic environment training. At Willys, which has the largest number of employees, everyone had completed this training by year-end.

Goals and outcome

%	2011	2010
Reduce climate impact by 75% by 2020 (base year 2009)	-20.8	-47.5
Reduce energy consumption by 30% per square metre in premises by 2015 (base year 2009)	-0.3	+2.1
Dagab and Axfood Närlivs: Reduce CO ₂ emissions from Group-owned vehicles by 20% per tonne of transported goods (base year 2009)	-18.7	-11.2
All employees to have completed basic environmental training by 2012	82.0	-
Maintain work attendance rate of at least 95%	95.3	95.2
Maintain Employee Satisfaction Index score of at least 90%	92.0	86.0
Achieve even gender balance in management positions by 2015	21.6	19.4

Axfood is one of Sweden's leading food retail companies. The ability to take responsibility for sustainable development is essential for maintaining the trust of the Company's stakeholders. Axfood believes that sustainability work and sound economics go hand in hand. By being a driver of sustainability issues, Axfood creates the right offerings for its customers, which in turn leads to better business.

Axfood's responsibility – goal is to be best in the industry

Axfood's goals and strategies rest on a conviction that the environment and social responsibility, a strong customer orientation, and proud and committed employees are vital driving forces in the Company's value creation. Axfood strives to be an active driver of work on sustainable development and thereby be the best in the industry.

This work rests on a foundation of Axfood's core values and Code of Conduct, along with the Company's sustainability pro-

gramme, which covers environmental matters as well as social issues and animal welfare. Through strongly rooted core values and corporate responsibility, value is also created for the shareholders.

Axfood's sustainability work is based on the UN definition of sustainability: "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

Code of Conduct for business ethics

According to the Group's Code of Conduct, Axfood shall conduct its business in accordance with generally accepted business practice and high standards of business ethics in relation to its suppliers and other business partners. To ensure uniform conduct among all employees, Axfood adheres to a policy that lays out the Group's position on the offering and accepting of bribes, corruption, and general collaboration within

AXFOOD'S STAKEHOLDERS

Axfood's most important stakeholders are the groups of people who are affected most by and/or affect the Company's business. The issues that are perceived by these stakeholders as being the

most important provide guidance in Axfood's work with sustainability and corporate social responsibility.

Owners:

Axfood shall create enduring value for its shareholders by exercising corporate responsibility.

Employees:

Axfood wants proud and committed employees, and to be a collaborative and effective organization.



Customers:

Axfood aims to offer its customers a wide range of environmentally adapted, healthy and safe products at competitive prices.

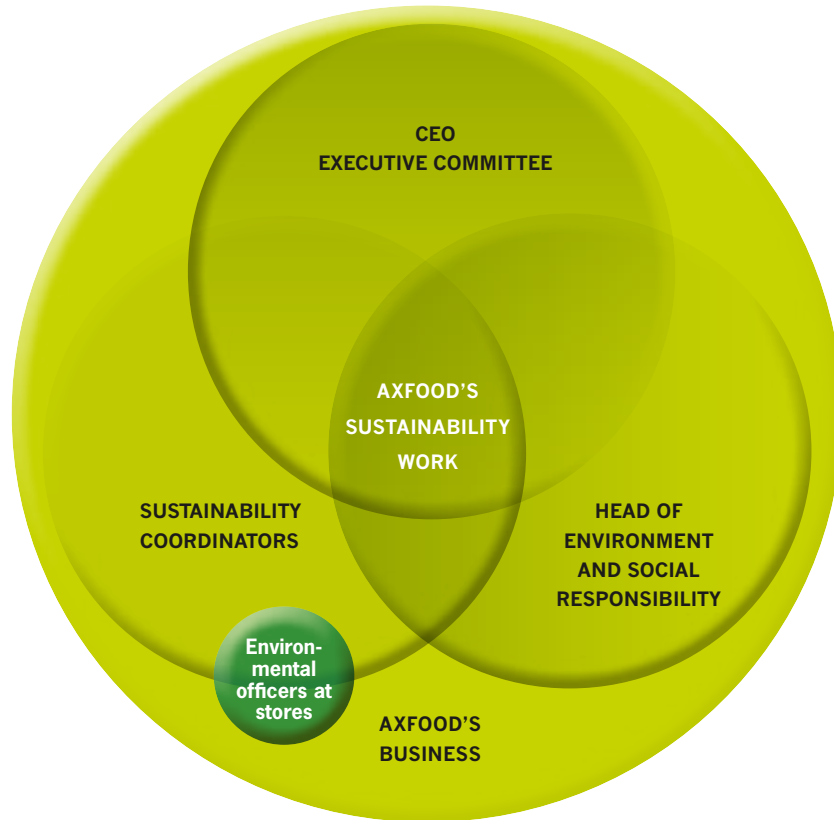
Suppliers:

By making demands and conducting a dialogue, Axfood strives to raise the level of its suppliers' sustainability work.

Society:

Axfood strives to actively contribute to society by influencing and being responsive.

SUSTAINABILITY ORGANIZATION



the industry. This policy is updated annually, and pertinent employees are required to certify in writing that they have read and acknowledge the policy. These include employees who have the right to authorize payments for a profit centre or who in some other way have a say in purchasing decisions for goods or services.

In 2011, 910 employees signed the policy.

Organization and implementation

Axfood takes a business approach to its work on sustainability matters. A key strategy is to integrate issues in the business activities and to promote involvement throughout the organization.

Axfood's Executive Committee and Head of Environment and Social Responsibility work on an overarching level with strategies, overall goals and measures, and follow-up.

To be able to work in an integrated fashion, it is important that the individual companies within the Axfood Group have operational responsibility for their own sus-

tainability work. Sustainability coordinators have been appointed in all of Axfood's companies. It is also important to gradually raise the employees' competence in the area of basic knowledge about sustainability issues as well as Axfood's commercial benefit from being an industry leader in sustainability work. During the year, the focus on environmental training continued throughout the Group. To date, 82% of all employees have completed the training, which aims to impart a fundamental understanding of Axfood's sustainability programme.

Sustainability programme

Axfood's sustainability programme is an important governance tool for the Group's sustainability initiatives. The programme describes goals, strategies and follow-up of the Group's sustainability work and is revised once a year.

Axfood's sustainability programme can be read in its entirety at axfood.com.

Precautionary principle

The precautionary principle is used in a proactive sense in the Group's sustainability work. Examples in practice are that Axfood has stopped buying baby bottles and cash register receipts that contain BPA (bisphenol). Another example of proactive sustainability work involves conducting environmental impact statements prior to major structural changes. Axfood also wants to offer its customers opportunities to make wise and conscious choices by working with its offering of products, such as organic and Fairtrade Certified products, and with consumer information.

Reporting

Axfood reports on its sustainability work in accordance with the Global Reporting Initiative (GRI) guidelines, Level B. All indicators must be relevant, correct and possible to monitor. Axfood's sustainability work is currently not subject to external audit.



One of Axfood's strategic objectives is to be an active driver of sustainable development in the environmental area and thereby be the best in the industry. In the day-to-day activities, sustainability aspects are integrated with purchasing and product selection as well as with logistics, transports, product flows and store operations.

The environment – focus on the climate and recycling

Energy consumption, transports and recycling systems are priority areas for Axfood's sustainability work in the environmental area. All of these areas are of major importance for Axfood's business and have major potential for improvement. Energy consumption has particularly high priority, since the cost of electricity as a percentage of total costs is rising.

Energy consumption

One of the goals set in Axfood's sustainability programme is for Axfood to be climate-neutral by 2020. The most important means of achieving this goal is to reduce the Company's own climate impact. A transition to renewable electricity has already been carried out. Important work lies ahead primarily with energy efficiency improvement and a change-over to refrigerants that do not have an adverse climate impact. Following a procure-

ment process carried out in 2011, a system for detailed measurement and control of electricity consumption is being installed in all Group-owned stores. This system will enable central control and follow-up towards the goal of reducing energy consumption by 30% per square metre by 2015. In addition, the store chains' competency in the area of energy will be strengthened at the central level in 2012.

Dagab plays a highly important role in the work on reducing energy use. As recognition of its success in this area, in 2011 the company was named as Climate Comet of the Year and was also the recipient of Haninge municipality's 2011 environmental award. During the year, Dagab took steps together with property owners to reduce its electricity consumption. Among other measures, the opportunity to install solar cells for electricity generation on warehouse roofs is being evaluated.

Electricity consumption for Group-owned stores and wholesale facilities¹⁾

MWh	2011	2010	2009
Retailing	291,741	304,481	289,272
Wholesaling	34,694	37,221	36,961
Total	326,434	341,702	326,233
Number of stores	237	230	225
Electricity use kWh/m ² , stores	609	624	611
Electricity use kWh/m ² , wholesale facilities	233	249	248
Total CO ₂ , tonnes ²⁾	26,822	13,705	36,212

¹⁾ Partly estimated values.

²⁾ Renewable electricity since 2010 for most of Axfood's facilities. The emissions factor for the remaining facilities with a Nordic residual mix was 320 g CO₂/kWh, compared with 185 g CO₂/kWh in 2010.

The energy challenge

ONE OF THE MOST AMBITIOUS GOALS in Axfood's sustainability programme is to reduce the Group's energy consumption by 30% per square metre by 2015. To achieve this goal, Axfood has decided to work on a Group-wide basis under the coordination of a management team. Axfood's President and CEO is a member of this team. New techniques for measurement and monitoring have been tested, a review of lease agreements has been conducted to ensure that financial incentives are in place, the stores with the highest energy consumption have been identified, and work on an improved operations programme has been carried out.

In late 2011 a procurement process was concluded for a system for detailed follow-up and control of electricity consumption in Axfood's Group-owned stores. Installation of the system in stores will begin in 2012 along with a strengthening of the chains' central competency in the energy area.





Transports

Axfood's business requires extensive product flows. Axfood strives to ensure that these transports are long-term sustainable as far as possible and has raised its emission targets.

Axfood manages its logistics flows through Dagab and through a central purchasing and product range function. Transports are conducted under own management via Dagab and Axfood Närlivs as well as through subcontracted freight companies. Axfood's own delivery fleet currently includes 146 vehicles.

All delivery trucks are to have well planned routes, and the goal is that they will always be driven as fully loaded as possible. When renewing the fleet, vehicles with the environmentally best and commercially most viable engines are to be chosen. All new delivery trucks that are purchased are equipped with breath alcohol ignition interlock devices. Currently 85% of Axfood's vehicles are fitted with ignition interlock devices.

To minimize environmental impact, Dagab and Axfood Närlivs work continuously with a range of measures, including:

- Maximizing load capacity, i.e., making sure that delivery vehicles are always filled to capacity as much as possible.
- Reducing fuel consumption by setting a maximum speed limit of 85 km/h.
- Restricting use of diesel fuel to "green" diesel, which is based partly on pine oil.

Both Dagab and Axfood Närlivs use so-called eco-driving techniques to reduce fuel consumption in the companies' delivery vehicles, and drivers receive training in this technique. An incentive for drivers has been coupled to this: the savings achieved from lower fuel consumption are shared between the company and drivers who save fuel. The goal is that these measures will reduce fuel consumption by 10% by 2015.

With the help of a new system for managing vehicle economy, temperature monitoring and environmental reporting, called FleetTech, Dagab can monitor every single vehicle, which provides documentation for improvement measures and follow-up. During the year, Dagab and Axfood Närlivs also improved their follow-up of the environmental standards that have been set for subcontracted transports.

In 2011 Dagab began using rail transport to a greater extent for deliveries in to its warehouses. Dagab now also uses environmental pallets made of plastic.

During the year, Dagab and Axfood Närlivs began using Evolution diesel, which is based partly on pine oil. Evolution diesel offers 5%–16% lower CO₂ emissions than traditional grades of diesel, depending on seasonal factors.

In view of the success achieved with the work on lowering transport-related CO₂ emissions, in 2011 the reduction target was raised from 10% to 20%.

CO₂ emissions, transports¹⁾

	2011	2010	2009
Total CO ₂ , tonnes	9,960	10,198	10,476
CO ₂ kg/tonne products	19.77	21.6	24.32
CO ₂ kg/SEK m in sales ²⁾	827.62	833.83	899.96
Vehicles in fleet	146	143	143

¹⁾ Total volume for Dagab's and Axfood Närlivs' own delivery vehicles – transports from own warehouses to stores.

²⁾ Pertains to delivered value using own fleet.



Business travel

Axfood strives to reduce the extent of business travel. In 2011 Axfood's Executive Committee adopted a new travel policy with the ambition of reducing the number of business trips by 20% through increased use of travel-free meetings, such as videoconferences. When travel is nevertheless required, rail and buses shall be used as the primary option. Air travel shall be chosen only when warranted by special reasons. When leasing a company car, Axfood's employees are required to choose an environmental car according to the current definitions. In 2011, environmental cars accounted for 99% of the company car fleet. All Axfood employees with company cars are offered information on so-called eco-driving.

CO₂ emissions, business travel

	2011	2010	2009
CO ₂ air travel, tonnes ¹⁾	868	762	770
CO ₂ rail travel, tonnes ¹⁾	0	0	0
CO ₂ car travel, tonnes	738	772	1,030

¹⁾ Pertains to business travel booked by travel agencies.

Waste and recycling

Waste sorting is currently practised at all of Axfood's offices, stores and warehouses. The ambition is to improve waste sorting in all activities. In 2011, practical implementation was begun of a procurement process that was conducted a year earlier regarding very extensive sorting of waste fractions. Three contractors take care of this sorting centrally for Axfood's operations nationwide. The aim is to channel as much waste as possible that is generated to material recycling and to capitalize on possible revenues from sorted waste, such as shrink wrap and corrugated board. Food waste is sorted for biogas production in the municipalities that have such facilities. The new waste strategy includes the creation of a new portal in which the waste handling contractors report what they have collected. This, in turn, generates supplier invoices directly from the portal to Axfood. The portal also enables better follow-up of waste sorting.

Since 2002 sorting instructions have been printed on the packaging of all of Axfood's private label products.

Purchasing and product selection

The choice of products in Axfood's offering has an environmental impact in production, transport and consumption. Axfood therefore strives to purchase products that have the smallest environmental impact. In addition, Axfood strives to make it easier for consumers to buy organic products.

During the year, Axfood began applying new purchasing guidelines based on environmental and social responsibility concerns, including life cycle analyses. The guidelines are being gradually implemented in a continuous process that will continue in the years ahead.

Life cycle analyses reduce climate impact

A life cycle analysis entails a review of a multitude of details which together can make a great difference regarding the climate impact of purchases. To identify where the largest CO₂ emissions take place in the production chain of Axfood's private label products, detailed analyses are performed with the assistance of Tricorona Climate Partner and SIK (Institutet för Livsmedel och Bioteknik AB). To gain the most accurate calculation possible, the entire life cycle has been included: production, packaging, transports and stock-keeping. With the life cycle analyses as a platform, it has become possible to identify the parts of the chain with the greatest climate impact and to focus efforts on reducing climate impact where it is greatest.

A considerable amount of work has been dedicated to life cycle analyses of the products included in Axfood's new Garant SÅklart brand, which includes body care, cleaning and laundry products. The products are all ecolabelled with the Nordic Swan seal, allergy labelled and climate certified. The controls include everything from extraction and processing of raw materials to packaging and

transport of the products to store shelves.

The climate impact that cannot be reduced is compensated by financial support of a project in India.

All fruit and vegetables purchased by Axfood are to be certified in accordance with the rules for integrated production. This entails taking environmental considerations into account and avoiding the use of unnecessary pesticides.

Uncertified palm oil to be phased out

In 2011 Axfood continued to purchase green palm oil certificates corresponding to the volume of palm oil used in the production of its private label products, or substituted palm oil with other vegetable oils. Axfood received recognition for this during the year with a green light in WWF's Palm Oil Buyers' Scorecard 2011.

The use of palm oil, which can be found in virtually any product that includes fat, is controversial since in many locations, oil palm plantations operate on land that was once rain forest. When a food manufacturer buys certificates, it entails that money goes to growers who produce palm oil using sustainable production practices.

Starting in 2015 all palm oil used in Axfood's private label products is to be environmentally certified. Today only about 10% of all available palm oil is environmentally certified. Axfood's goal should be viewed as an effort to spark a dialogue with suppliers and get them to steer development towards the use of certified oil.

No red-listed fish

Axfood's fish policy entails, among other things, that fish and shellfish from threatened populations may not be sold in Axfood stores. The WWF's red list is used as a guideline for which populations are threatened. The policy is dynamic and is updated in pace with changed conditions regarding which types of fish are red-listed. The policy has also contributed to continuous improvements in the offering of ecolabelled fish.



PRIORITIES 2012

Continued focus on reducing energy use in stores, warehouses and offices. In 2012 installation will begin of a system for detailed measurement and control of electricity consumption in Group-owned stores.

Increase waste sorting at stores, i.e., reduce the amount of material sent for combustion.

Continue the successful work on lowering CO₂ emissions from transports.



Axfood's customers expect Axfood to meet their demands for environmentally adapted, healthy and safe foods at competitive prices.

Customers – a product range for conscious consumers

Customers should feel confident about the products they buy, which is why Axfood pays great attention to strict quality control over its private label products as well as name-brand products. Food safety is further safeguarded through the Group's internal control programme at stores and warehouses.

Animal welfare

Many people who buy organic food do so out of concern for animal welfare. Axfood has therefore invested in offering a wider selection of organic beef and pork. Axfood gives priority to organic meat with the Swedish KRAV certification, which has considerably more stringent animal welfare standards than other organic certifications.

In its procurement of conventionally produced meat, Axfood adheres to the animal welfare criteria that apply for pigs in the UK, i.e., the requirements that have been set for Danish pork that is imported by certain grocery chains in the UK.

Both PrisXtra and Hemköp have discontinued selling eggs from caged hens.

Organic and Fairtrade Certified product brands

Garant Ekologiska varor is Axfood's own organic brand. Coffee, tea and chocolate are examples of Fairtrade Certified products sold under the Aware private label. The aim of the Aware private label is to offer organic and Fairtrade Certified everyday foods at a

reasonable price. The products are sold in all of Axfood's store concepts.

Sales of organic products in relation to total food sales in 2011 were 2.6%, compared with 2.4% a year earlier.

Garant Ekologiska varor products are described in more detail on tyckomgarant.se/ekologiskt.

Higher sales of organic products

6.3%

Garant Såklart first with climate-certified products

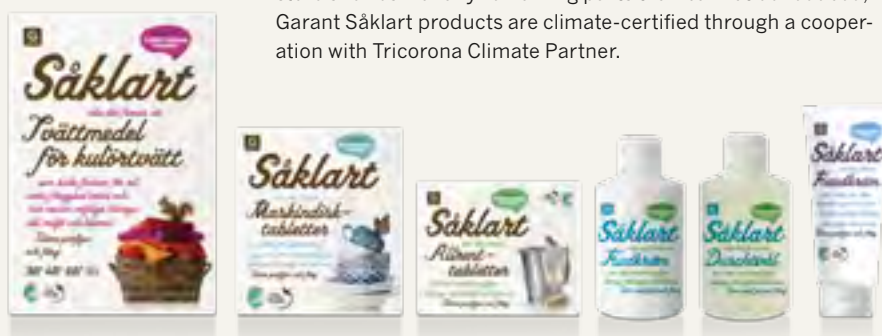
DURING THE YEAR, Garant Såklart was launched in stores, a line of cleaning, laundry and body care products.

The brand represents a new way of taking greater care of the environment and minimizing products' environmental impact.

Garant Såklart was the first in Sweden to climate-certify all of its products, which also bear the Nordic Swan ecolabel and the seal of the Swedish Asthma and Allergy Association.

Climate certification of products entails that steps have been taken to reduce or compensate for their climate impact.

The first step is to conduct a detailed analysis of the products' life cycle in order to minimize all emissions as far as possible. This analysis covers everything from extraction and processing of raw materials to packaging and transport of the products to store shelves. For any remaining parts that cannot be reduced, Garant Såklart products are climate-certified through a cooperation with Tricorona Climate Partner.





Quality assurance of private label products

Axfood's private label products are a vital part of the Group's work on offering the best possible customer benefit. Axfood has two quality levels for its private label products: mid-range, encompassing the Garant brand (which is gradually taking the place of the Willys and Hemköp brands), and discount, under the Eldorado brand. Added to these are Garant Ekologiska varor (organic products), the Fairtrade Certified brand Aware, and the Garant SÅklart range of climate-certified skin care and other products.

Regardless of product, food safety is a keystone on which no compromises can be made. Suppliers of Axfood's private label food products must have plants that are certified according to any of the standards sanctioned by the Global Food Safety Initiative (GFSI). For household chemical products, cosmetics and skin care products, ISO 9001 or GPM standards apply. For certain other nonfood products, such as toys and electrical appliances, documentation and certification for CE labelling are required. For products designed for contact

with food, suppliers must be able to certify that the product is made of approved material in accordance with Normpack's rules.

For vegetables, root vegetables and fruit, Axfood purchases only from suppliers that are certified according to Global GAP or equivalent. Packing companies must be certified according to any of the standards approved by GFSI.

Suppliers that have not completed certification can request dispensation if they can present a credible timetable for certification.

To ensure the ongoing work on food safety for its private label products, each year Axfood's quality assurance inspectors conduct their own analysis programme, including microbiological and chemical analyses of products based on the relevant risks for each individual product.

Prior to launch, every mid-range product is blind-tested by an external consumer panel of 65–80 people, and to make it all the way to store shelves, a product must receive comparable marks to the market-leading product.

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

Quality assurance of private label products

	2011	2010	2009
Product recalls from stores, private label	25	35	49
Product recalls from stores, other	45	54	64
Share of private label suppliers approved according to GFSI, %	98	97	94

Control programmes at stores and warehouses

Axfood is increasingly performing internal controls of various parts of its operations to ensure compliance with regulatory requirements and that its own quality standards are being met. The Group's internal control programme is an important tool for such follow-up. Axfood conducts regular internal controls in the areas of food safety, products with limited shelf life and systematic fire safety work.

	Hemköp			Willys			Willys Hemma			PrisXtra		
	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009
Number of Keyhole-labelled ¹⁾ products	1,348	1,279	2,015	944	905	1,260	622	488	586	829	918	787
Sales as % of total food sales ²⁾	8.82	10.72	9.08	8.29	10.13	9.55	8.49	10.74	9.67	8.23	9.26	4.02
Number of organic products	1,331	1,108	1,120	608	552	549	361	235	208	657	669	522
Sales as % of total food sales ²⁾	4.11	3.87	2.88	2.14	2.00	1.49	2.73	2.68	2.13	3.62	3.17	1.17
Number of Fairtrade Certified products	104	83	80	50	51	55	27	30	31	60	61	54
Sales as % of total food sales	0.20	0.19	0.13	0.13	0.12	0.10	0.16	0.17	0.15	0.14	0.14	0.04
Number of hypoallergenic products	637	259	369	452	179	230	277	77	86	418	167	117

¹⁾ New criteria for Keyhole labelling since June 2009.

²⁾ For 2009, sales percentages are compared with total sales, while figures in 2010 and 2011 represent comparisons with food sales.

Five customers comment on their choice of grocery store



Adisa, Willys

Why do you shop at Willys?

– Good prices and a large selection of food from other countries. They have most everything – from food to hygiene products. Plus, they have plenty of accessible parking.



Mats, Willys

Why do you shop at Willys?

– It's a very nice store that I can get to easily and quickly.



Food safety

Axfood applies its internal control programme in both the retail and wholesale operations to ensure customers' right to safe food.

In cooperation with the trade organization Svensk Dagligvaruhandel and others, Axfood has participated in the creation of set of guidelines called "Safe food in your store", which has been endorsed by the Swedish National Food Administration. The programme is in place at all of Axfood's stores and serves as a platform for how the stores structure their internal control programmes.

Under the control programme, stores perform certain daily controls, delivery arrival controls and temperature controls at the departmental level. Clear routines are in place for handling unpackaged foods to ensure food hygiene and the integrity of the cold chain.

Axfood also has a Group-wide agreement with an external partner in the area of hygiene and pest issues, which visits the Group-owned stores on a regular basis. During these visits, microbiological tests are taken and an assessment is made of the stores' internal control work. In the internal "concept follow-up" activities that are also conducted on a regular basis, food safety is a key control point.

Municipal environment and health departments conduct inspections at the Group's wholesale and retail facilities. In connection with these inspections, controls are made to ensure that the facilities meet the statutory requirements for food handling and sales.

Alcohol, tobacco, betting and pharmaceuticals

Sweden has a minimum legal age of 18 for the sale of tobacco, alcoholic beverages and over-the-counter pharmaceuticals.

The same applies for all types of betting and for certain types of lotteries. In its Group-owned stores Axfood has chosen to not sell lottery tickets to youths under 18 years of age. Axfood has also set a minimum age of 15 to purchase energy drinks at its stores.

To ensure compliance with minimum age requirements, Axfood conducts its own internal control programme for age-restricted products, consisting of staff training and routines for verifying ages. Axfood requires all checkout employees to check IDs of customers purchasing age-restricted products who appear to be younger than 25. Internal controls are also conducted that measure stores' performance in requesting customer IDs in accordance with this policy.

Ethical exclusions

In its wholly owned stores, Axfood has decided to avoid product groups that are incompatible with the Company's values. These include, among others:

- magazines with a pornographic content
 - cider and so-called alcopop (fruit drinks with an alcohol content of more than 2.25%)
 - concentrated energy drinks (shots)
 - foie gras (goose liver)
 - fish and shellfish on WWF's redlist.
- In addition, Hemköp and PrisXtra have stopped selling eggs from caged hens.

PRIORITIES 2012

Axfood will continue to prioritize a larger selection of environmentally adapted and healthy products to meet customer demand.



Kristina, Willys

Why do you shop at Willys?

– The store has a good location, plus an exciting and surprising product offering. For example, today I bought grapefruit juice and got a great deal on some black olives!



Nadja, Hemköp

Why do you shop at Hemköp?

– It's a nice store with a good product selection. It is close to my work, so it is practical to shop here.



Magnus, Hemköp

Why do you shop at Hemköp?

– The product selection, without a doubt. I can find everything I need here.



Axfood's relations with suppliers are to be characterized by generally accepted business practices and high standards of business ethics. At the same time, it is important that suppliers of products and services comply with national laws and regulations and that international conventions are respected.

Suppliers – increase in social audits

A guiding point in these relationships is the Axfood Code of Conduct, which draws from internationally recognized conventions on human rights and workers' rights as well as international environmental regulations. The Code of Conduct lays down Axfood's position and commitment to its suppliers as well as to the individual employees and other partners. In 2011 the Code of Conduct was integrated in all of Axfood's operations.

Companies that supply products or services to Axfood Group companies are required to meet the requirements stipulated in the Code of Conduct. In addition, all suppliers of products and services are responsible for ensuring that their subcontractors also meet the Code's requirements.

Human rights inspections

Axfood's Code of Conduct stipulates that suppliers that produce goods for Axfood's stores must be in compliance with UN's and ILO's conventions on human rights and rights of the child.

Together with local auditors, Axfood visits production facilities of selected suppliers to see how well they comply with the laws in their own countries with respect to workers' rights and working conditions, as well as to the above-mentioned UN and ILO conventions. These visits are based on SA 8000, the internationally recognized standard for social audits. Axfood's primary focus is on such factors as child labour, workers' rights, work environment and housing conditions.

The number of inspections has been increased gradually, and follow-up measures have been improved, such as repeat visits that are to be carried out within a year. A systematic risk country assessment has been produced, based on a number of different indices. This assessment provides documentation for priorities regarding inspections and also serves as a guide in purchasing.

Deviations from laws and conventions are addressed in a dialogue between Axfood and the supplier and lead in most cases to improvements at the companies visited. In the event no improvements are made, Axfood terminates the cooperation.

Axfood's representative office in Shanghai, China, plays a key role in improving risk assessments. The office participates in purchasing from China and Southeast Asia, builds up supplier contacts and monitors developments in markets in China and Southeast Asia. The office is a vital resource for recruiting good suppliers and avoiding quality problems and suppliers that do not live up to Axfood's Code of Conduct.

During the year, a full-time auditor was hired at the representative office, and the number of social audits performed of Axfood's suppliers increased from 12 to 17. Major emphasis has also been put on raising quality in such areas as risk assessment, audits, monitoring and action plans. Toward the end of 2011, a new system for risk country assessment was procured, based on actual observations made

in connection with social audits in the various countries. This is resulting in a clearer picture of which type of remarks are being made, how many are made, and how serious they are. It is also providing better guidance for Axfood's own social audits.

Some of Axfood's private label products are purchased via the jointly owned purchasing company United Nordic. United Nordic has its own code of conduct and is gradually increasing the number of social audits it performs. Key persons in the Nordic food retail chains who represent United Nordic meet regularly to ensure uniform standards and that the right priorities are made moving forward.

Imports of private label products from various regions

	No.	Shares, %
Europe, incl. Sweden	2,334	88.0
Asia	281	10.6
Africa	2	0.1
North America	19	0.7
South America	15	0.6
Central America	1	0.0
Total	2,652	100

PRIORITIES 2012

In 2012 Axfood will continue to accelerate the pace of social audits. The new, environmental purchasing guidelines are being implemented in purchasing activities and in the development of private label products.

The social audit process

Axfood decides to conduct a social audit of a particular supplier or producer. The decision on which supplier to be visited is based on specific criteria that weigh in such factors as risk country and risk industry.



On-site meeting with the supplier's management at the plant along with a review of how the audit will be performed, based on Axfood's Code of Conduct.



Review of documents, such as time cards, payroll slips, employment contracts and policies. Inspection of the production facility's premises and interviews with employees.



Concluding meeting with supplier's management to go through any deviations from the requirements in the Code of Conduct.



An action plan is drafted through dialogue with the supplier in the event any deviations have been discovered.



Within 6 to 12 months after the visit, a follow-up visit is made to ensure that the action plan has been followed.





Axfood participates on a regular basis in consultations and discussions with various organisations and authorities on current issues. The Swedish National Food Administration, the Swedish Board of Agriculture and the Swedish Environmental Protection Agency are the main agencies whose purview concerns Axfood's operations.

Society – cooperation and involvement

Industry-wide matters are conducted within the framework of the trade organization Svensk Dagligvaruhandel, which has its own environmental council. Examples of activities include the setting of standards as well as instructions on how to implement EU legislation in Sweden's national regulatory framework. Other trade organizations, such as for packaging and newspaper recycling, are also contact interfaces with society at large.

Diversity network

During the year, the Diversity Charter Sweden network was launched, with Axfood as one of the initiative-takers. The aim of this company network is to share knowledge and experience surrounding diversity and thereby contribute to successful and profitable work with diversity issues. Axfood sees employee diversity as a key to success and profitability, and therefore strives for an embracing and inclusive company culture that will enable the Company to fully benefit from all its employees' experience and competence. Membership in the Diversity

The Haga Initiative

Axfood is one of the initiative-takers behind the Haga Initiative, a climate network dedicated to reducing emissions from industry, advocating the climate issue and acting as a model for companies that take responsibility for climate concerns.

One requirement for membership is that the company commits itself to reducing its carbon emissions by at least 40% by 2020. Axfood's target is to cut its emissions by 75% by 2020.

Eight companies have joined the Haga Initiative: Coca-Cola Enterprise Sverige, Fortum Värme, JM, Lantmännen, Procter & Gamble Sverige, Stena Metal, Svenska Statoil and Vasakronan. The network is coordinated by Tricorona.

Charter entails that all member-companies sign a contract that they will work actively with diversity based on set targets.

The Diversity Charter was founded in France in 2004 and is active in several other European countries, with thousands of member-companies. Other initiative-takers include L'Oréal, Managing Diversity, Novartis, Scandic, Sodexo, Skanska and Volvo Car Corporation.

Retailers' security work

Handeln's Säkerhetsgrupp (HSG), a security organization in which Axfood is a member, is a non-political association for security officers from retail chains throughout Sweden. On behalf of the retail industry, HSG lobbies decision-makers and the media on security issues and strives to promote cooperation between its members in developing security work. The overall objectives of security work are to create greater security for employees and customers, and to create conditions for greater profitability.

One requirement for being a member of the Haga Initiative is that the company is committed to **reducing its carbon emissions** by

40% by 2020

Hagainitiative 
Business for active climate responsibility



Non-profit organizations

Axfood's intention is to establish long-term partnerships with non-profit organizations on sustainability initiatives, such as the Swedish Society for Nature Conservation (SSNC) and WWF.

As part of its effort to help protect the world's rain forests, Axfood is a member of the Roundtable on Sustainable Palm Oil (RSPO). RSPO's mission is to establish a credible and practical system for trading in certified palm oil.

Axfood is also a member of the Roundtable on Responsible Soy Association. It works according to the same premise as for palm oil – to contribute to the development of sustainability criteria for certification of soybean plantations.

Axfood does not ally itself with positions taken by any political parties.

Cooperation and membership in organizations

Carbon Disclosure Project	Swedish Society for Nature Conservation
CSR Sweden	Swedish Association for Environmental Managers
Diversity Charter Sweden	Roundtable on Sustainable Palm Oil
Global Compact	Save the Children
The Haga Initiative	SOS Children's Villages Sweden
Handelns Säkerhetsgrupp	

PRIORITIES 2012

Continue developing the partnership with Save the Children, for whom Axfood is a main sponsor.



Rädda Barnen

Save the Children Sweden

More than SEK 4 m collected for Save the Children

During the year, collection activities with customers, suppliers and employees raised more than SEK 4 m for Save the Children. This represents a doubling compared with a year ago.

It was mainly Willys customers who donated bottle and can deposit money and bought selected Save the Children products and thereby accounted for the large increase in collections. Other activities carried out during the year included collection of deposits from PrisXtra

stores, an auction at an Axfood Närlivs supplier expo, and collections among employees. When the alarm was sounded for the impending disaster in the horn of Africa, Axfood and Hemköp donated a lump sum to Save the Children.

The money has been used to help children in both Sweden and abroad. During the peak of the famine in the horn of Africa, the money was directed to that area. During the rest of the year, the collections went to education and shelter for children in conflict-torn Ivory Coast. Axfood has contributed to the education project in Ivory Coast since 2009. In 2011 Axfood also sponsored a project to combat bullying and discrimination in children's and youth sports in Sweden. An

action plan has been presented for sports clubs, with practical advice on how to recognize and prevent bullying among children. The project will continue in 2012.

Axfood has been working in partnership with Save the Children Sweden since December 2009 and has been the organization's main sponsor since spring 2010. As one of the foremost independent children's rights organizations, Save the Children is dedicated to ensuring children's rights to food, housing, healthcare, education and a life without violence, assault or exploitation.

A total of SEK 4,036,634 was donated to Save the Children in 2011. The partnership is being developed and expanded with additional activities in 2012.





Axfood wants proud and committed employees who work according to the Group's core values in a collaborative and entrepreneurial organization.

Employee pride and diversity lead to good business

Proud employees, diversity and good career paths create a positive spiral that leads to more satisfied customers and better business.

With investments in knowledge-sharing, training and dialogue, Axfood strives to foster a shared view on matters such as employee-ship, leadership and treatment of customers. For example, through a broad-based e-learning initiative, most employees obtain a basic level of competence, which in turn increases their opportunities to develop at Axfood. Confirmation of Axfood's attractiveness as an employer can be found in the past year's

Employee Satisfaction Index score, which was far higher than the industry average and indicates that the employees feel a sense of inclusion and that they are satisfied with their managers. At the same time, indications of areas for improvement are taken seriously.

During the year, the HR organization continued its coordination activities aimed at raising the quality and efficiency of work. Part of this includes an employee support function that was established during the year, where employees can turn for answers to their questions at one and the same place.

Axfood's employee initiatives in 2011 resulted in several gratifying distinctions, including:

- Axfood was the recipient of the Swedish e-learning award in 2011 for its competence development initiatives. The award was presented by Promise and the Swedish Learning Association.
- Universum and Företagsbarometern (the Swedish Student Survey) nominated Axfood as "Rocket of the Year" in the Most Attractive Employer category.

Growing with Axfood

The Axfood Academy is the Group's centre for training and trainee programmes. The Academy provides training to all employees as well as development programmes for managers within the Group. Training activities are focused on ensuring basic competence toward the goal of increasing sales and conveying Axfood's core values and view of leadership and employeeship.

In 2011, 3,325 employees participated in a total of 4,014 days of training.

Implementation of Axfood's new business system entailed extensive training during the year. To take advantage of the potential inherent in this change, some 500 employees received training in the SAP business system during the year.

e-learning

E-learning is a cost-effective and environmentally friendly form of training

that can be offered to all employees regardless of their geographic location across the country. Since the introduction of this form of training in 2008, 70,000 courses have been completed, and today more than 4,200 employees are certified in knowledge about store operations and perishables.

In line with Axfood's long-term environmental work, focus on a Group-wide environmental training programme continued during the year. 82% of employees have completed the training.

Development and opportunities

A manager profile has been created which shows the type of leadership that Axfood encourages and provides a model for further development and new recruitment of managers. Parallel with this, a new management training course entitled "Leading at Axfood" has been developed. The course is

mandatory for new managers and conveys Axfood's core values and view of leadership and employeeship, in line with Axfood's manager profile.

Axfood takes a structured approach to management succession within the Group in order to meet future competency needs. Every year an inventory is taken of potential managers within the Group and of which employees are ready to take on a management role.

Each year Axfood's Group trainee programme is carried out for aspiring store managers. The programme is designed to secure access to competent and committed employees with a breadth of knowledge about Axfood's operations. The 2010/2011 programme included both external and internal participants.



Four store employees on their workplace



Sandra, Willys

Why do you work for Willys?

– The work is varied, with a lot of customer contact. You see results quickly, such as in a nice store and satisfied customers. It's a nice place to work, and every day presents a challenge.



Anthony, Willys

Why do you work for Willys?

– It's a good job. I get to meet a lot of new people – both customers and colleagues.

Satisfied employees

In early 2011 Axfood conducted the second employee survey of its kind to measure the work climate, with leadership as a key component. The results of the survey showed a high score, with an improvement in the Employee Satisfaction Index from 86 to 92 in just one year.



Equal opportunity and diversity

During the year, Axfood adopted a Group-wide equal opportunity and diversity policy. Based on this, all companies within the Group are required to draw up plans to support their local equal opportunity and diversity work. Diversity in society and among Axfood's customers shall also be reflected in the diversity of Axfood's employees.

Active measures for creating greater diversity include standardized job notices, objective selection methods, and clear goals and key ratios.

The Group's explicit objective is to achieve an even gender balance in management positions, entailing representation of men and women within a span of 40%–60% by 2015 at the latest. At year-end the share of women in management positions was 21.6%.

Read more on page 41.





Clara, Hemköp

Why do you work for Hemköp?
– We have a tight crew here, with good employees, which I think shines through for our customers. We treat our customers well, because we like our work.



Per, Hemköp

Why do you work for Hemköp?
– I'm a believer in Axfood's core values, especially "the Store is the Stage". They highlight Hemköp's long-term perspective and focus on the customer.

PRIORITIES 2012

Strengthen recruitment and the introduction and development of grocers.

Conduct training in perishables and private label products.

Increase the number of travel-free meetings.

Well-being at work

Axfood's employees are encouraged to take the parental leave they are entitled to. Among other measures, the Company tops up the state benefit so that employees receive 80% of their salary during leave if their salary exceeds the ceiling amount provided by the social insurance office. Axfood also encourages employees to participate in fitness activities through payment of a fitness subsidy.

All Axfood employees are required to participate in an annual performance review with their immediate superior.

Company health services are provided in close proximity to the respective workplaces, with a primary focus on preventive care.

Axfood conducts systematic work environment and safety activities to ensure safe and sound workplaces. This work, which involves all employees, is based on identifying risks as early as possible and ensuring that business is conducted in compliance with the Work Environment Act and the regulations of the Swedish Work Environment Authority. As a rule, reporting is done to the respective companies' boards to guarantee that work environment matters are brought to the attention of management at the respective companies.

Employee statistics

	2011	2010	2009
Work attendance, retail, %	95.5	95.4	94.9
Work attendance, wholesale, %	94.1	93.9	93.9
Work attendance, staffs	96.9	97.3	97.1
Employee turnover rate, %	11.1	11.8	9.8
Men/women, %	10.8/11.4	10.8/12.6	9.5/10.0
Age category <29, %	16.1	16.2	13.2
Age category 30–49, %	8.2	8.8	7.1
Age category 50–, %	10.6	12.3	10.3
Average service time, years	9.8	9.1	8.9
Number of full-time employees	4,318	4,332	3,840
Number of part-time employees	3,484	3,486	4,298
Average number of employees ¹⁾	7,062	6,895	6,816
Number of men	3,268	3,214	3,135
Number of women	3,794	3,681	3,681

¹⁾ Based on 1,920 working hours per year.

Daily talks with the unions

Depending on what business they are engaged in, Axfood AB and its subsidiaries are bound by at least one of the three nationwide collective bargaining agreements for the retail trade, the wholesale trade, or salaried employees. The union counterparts for the first two of these are the Commercial Employees Union, and for the last one Unionen and Akademikerförbundet SSR. All employees are covered by collective bargaining agreements, since individual employment contracts refer to such agreements with respect to general terms of employment. The collective agreements stipulate the minimum level of employee benefits. Thus in certain areas more favourable terms may exist than those stipulated by the collective agreements.

The collective agreements contain rules on notice periods, whose length varies from one to twelve months, depending on the employee's age and length of employment. They also describe the importance of performance reviews for identifying a need for competence-raising measures.

Axfood has representatives in the collective bargaining process that was started during the year.



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Administration report

AXFOOD AB (PUBL), REG. NO. 556542-0824

The Board of Directors and President of Axfood AB (publ), with domicile in Stockholm, Sweden, herewith submit the annual report and consolidated accounts for the 2011 financial year.

OPERATIONS

Axfood conducts food retail and wholesale operations in Sweden. Retail operations are conducted via the Willys, Hemköp and PrisXtra chains, with a total of 237 Group-owned stores at year-end (230). During the year a number of stores were established, acquired, sold or closed. Store conversions are also conducted among Axfood's various retail concepts. In 2011 twelve stores were established or acquired and five stores were closed or sold. In addition, one store was converted from Hemköp to Willys Hemma. In addition to Group-owned stores, Axfood collaborates with a large number of proprietor-run stores that are tied to Axfood through agreements, including stores in the Hemköp chain as well as stores operating under the Handlar'n, Tempo and Direkten trademarks. In all, Axfood collaborates with more than 820 proprietor-run stores.

Wholesaling is conducted by Dagab, where 85% (85%) of sales are made to Group-owned stores, and Axfood Närlivs, whose customers consist primarily of mini-markets, service stations and other convenience stores. In addition, Axfood Närlivs operates 20 cash and carry outlets via its subsidiary Axfood Snabbgross AB.

SEASONAL VARIATIONS

Axfood has no significant seasonal variations in its operations.

IMPORTANT EVENTS 2011

Following a brief recovery, the food retail market experienced weak performance in 2011, and HUI Research made a downward adjustment in growth forecasts for the food retail sector. The weak performance was attributed primarily to lower price increases than expected and consumer restraint. Food inflation, which at the start of the year was expected to reach 3% in 2011, did not transpire. In terms of volume, however, the growth rate was roughly the same as a year ago. Despite low growth in the market

and continued strong competition during the year, Axfood posted its highest earnings ever. Operating profit amounted to SEK 1,250 m, compared with SEK 1,209 m a year ago, and sales totalled SEK 34,795 m (34,260).

Despite a growing recession and price pressure in the market, Willys had stable performance, with favourable growth and profitability. The pace of investment in new store establishment and store modernizations was higher than ever before. A total of 26 Willys stores were remodelled in 2011, and the number of stores was 170 (160). Sales for the year totalled SEK 18,904 m (18,613), and operating profit was SEK 775 m (772).

Hemköp showed strong earnings performance during the year, and like-for-like sales were stable. The earnings improvement was achieved in part through continued good store operations and cost control in all areas. As a continuation of the increased cooperation with the Vi Retailers Association, in June 2011 its Annual General Meeting resolved to allow the individual grocers to sign chain agreements with Hemköp. As a result, by year-end 43 Vi stores primarily in the Greater Stockholm area had converted to Hemköp's profile. For Hemköp as well, the year was characterized by a high pace of renewal, with continued review and refinement of the store structure. A total of 183 (147) stores were in operation at year-end, of which 121 (82) are proprietor-run. Sales amounted to SEK 4,787 m (4,978), and operating profit was SEK 94 m (45), including SEK 8 m (7) in restructuring costs.

PrisXtra strengthened its earnings for the year, but sales continued to be hurt by extensive road construction nearby stores. However, these locations have strategic significance in the longer perspective. Five stores (5) were in operation at year-end. Sales amounted to SEK 549 m (637) in 2011, and operating profit was SEK 15 m (-5). Operating profit a year ago was charged with SEK 14 m in restructuring costs associated with a store closure.

Axfood Närlivs had favourable sales growth during the year and posted earnings in line with its forecast. Both Axfood Närlivs and Axfood Snabbgross captured market shares

in a fierce competitive climate. During the year, Axfood Närlivs signed a two-year cooperation agreement with Svenska Statoil AB, and the supply agreement with the OKQ8 service station chain was renewed for two years and now also covers newsstand and food retail products. In addition, Axfood Närlivs AB signed an agreement to acquire 50% of the wholesale company Hall Miba AB. Sales amounted to SEK 6,365 m (5,847), and operating profit was SEK 110 m (113).

The intensity of Dagab's efficiency improvement work increased considerably in 2011. All key performance indicators – including productivity, delivery reliability and time planning – developed well, while dramatic improvements were made in quality. Intense work was carried out during the year to develop optimal solutions for Autoorder. Dagab's sale in 2011 amounted to SEK 25,813 m (25,701), and operating profit was SEK 192 m (189).

The work on introducing a new, integrated business system continued according to plan during the year. During the spring, implementation was begun of structures and functionality pertaining to the product range, pricing, campaign-handling and new, web-based orders. Start of production was completed in connection with an additional release during the autumn. The entire system is expected to be running in 2013. During the fourth quarter, Hans Holmstedt was appointed as Axfood's new Purchasing Director.

LEGAL COMBINATION OF COMPANIES 2012

On 1 January 2012 a legal combination of the operations of Dagab AB, Axfood Närlivs AB and Axfood Sverige AB took effect. The combination entails the transfer of the operations of Dagab and Axfood Närlivs to Axfood Sverige – Axfood Närlivs AB through a merger, and Dagab AB through an asset and liability transfer.

NET SALES

Net sales for the Axfood Group rose 1.6% to SEK 34,795 m (34,260). Retail sales including Hemköp franchises totalled SEK 28,601 m (28,050), an increase of 2.0% compared with the preceding year. Sales

for Group-owned stores rose 0.1% for the year, with a 1.5% drop in like-for-like sales. A breakdown of sales per chain is shown in the table below. Sales for the Swedish food retail market increased by 1.3% in 2011 compared with 2010.

Store sales, Group-owned and franchises

2011	SEK m	%	Like-for-like sales
Hemköp	4,735	-3.9	0.4
Hemköp franchises	4,413	13.9	1.4
Hemköp total	9,148	4.0	0.9
Willys total	18,904	1.6	-1.6
PrisXtra total	549	-13.8	-10.0
Total	28,601	2.0	-1.1

EARNINGS

Operating profit totalled SEK 1,250 m (1,209). The operating margin was 3.6% (3.5%). After net financial items of SEK -36 m (-37), profit for the year totalled SEK 1,214 m (1,172). After taxes of SEK -323 m (-310), net profit for the year was SEK 891 m (862).

Condensed statement of comprehensive income

	2011	2010
Net sales, SEK m	34,795	34,260
Operating profit, SEK m	1,250	1,209
Operating margin, %	3.6	3.5
Profit after financial items, SEK m	1,214	1,172
Net profit for the year, SEK m	891	862
Earnings per share, SEK	16.99	16.42

FUTURE OUTLOOK

Axfood's goal for 2012 is to achieve an operating profit at the same level as in 2011.

CAPITAL EXPENDITURES

Capital expenditures for the year totalled SEK 993 m (862). Of these, SEK 70 m (56) pertained to acquisitions of businesses, SEK 468 m (415) to investments in non-current assets in the retail operations, SEK 111 m (92) to investments in non-current assets in the wholesale operations, and SEK 239 m (192) to investments in IT development.

In January 2012, three stores and 50% of a wholesale operation were acquired. Axfood has control of the partly owned wholesale business through a shareholder agreement

and board dominance. Following the acquisitions, Axfood's ownership of the acquired stores amounts to 100%. For further information about acquisitions after the balance sheet date, see Note 3.

FINANCIAL POSITION

Cash and cash equivalents held by the Group amounted to SEK 317 m (315) at 31 December 2011. Cash flow from operating activities was SEK 1,384 m (1,365). After net capital expenditures of SEK -941 m (-830), net borrowings and payment of the dividend, together totalling SEK -441 m (-535), cash flow for the year was SEK 2 m (-1).

Interest-bearing assets (cash and cash equivalents) increased by SEK 2 m to SEK 317 m (315), and interest-bearing liabilities and provisions increased by SEK 202 m to SEK 1,042 m (840).

Interest-bearing liabilities include SEK 364 m (362) in provisions for pensions. Interest-bearing net debt increased by SEK 200 m to SEK 725 m (525).

The equity ratio was 39.1% (38.8%), and the debt-equity ratio, net, was 0.2 (0.2).

PARENT COMPANY

Other operating income for the Parent Company amounted to SEK 178 m (181) for the year. After selling and administrative expenses of SEK -252 m (-228) and net financial items of SEK 1,177 m (1,186), profit after financial items was SEK 1,103 m (1,139). Of net financial items, totalling SEK 1,777 m (1,186), SEK 1,182 m (1,192) pertains to Group contributions received. Capital expenditures totalled SEK 3 m (3). Cash and cash equivalents held by the Parent Company totalled SEK 0 m (0).

Interest-bearing receivables outside the Group amounted to SEK - m (-) at year-end. Interest-bearing net debt decreased by SEK 182 m and was SEK 749 m (931) at year-end.

EMPLOYEES

Axfood had an average of 7,062 full-time employees in 2011, compared with 6,895 a year earlier, of whom 46% were men (47%) and 54% women (53%). The share of employees who work in the retail operations was 73% (74%), while the share who work in the wholesale operations was 20% (20%).

Axfood wants proud and committed employees who work according to the Group's core values in a collaborative and entrepreneurial organization. The Employee Satisfaction Index score improved during the past year from 86 to 92.

Knowledgeable and committed employees are a prerequisite for Axfood to be the best in the industry in sustainable development. Toward this end, Axfood's long-term focus on Group-wide environmental training continued during the year. The goal is to instil in all employees a fundamental understanding of Axfood's sustainability programme and knowledge in order to be able to answer customers' questions. As of 2011, 82% of the Group's employees have completed this training.

Depending on what business they are engaged in, Axfood AB and its subsidiaries are bound by at least one of the three nationwide collective bargaining agreements that exist for the retail trade, the wholesale trade, or salaried employees. The union counterparts for the first two of these are the Commercial Employees Union, and for the last one Unionen and Akademikerförbundet SSR. All employees are covered by collective bargaining agreements, since individual employment contracts refer to such agreements with respect to general terms of employment. The collective agreements stipulate the minimum level of benefits. Thus in certain areas more favourable terms may exist than those stipulated by the collective agreements. The collective agreements contain rules on notice periods, whose length varies from one to twelve months, depending on the employee's age and length of employment. They also describe the importance of performance reviews for identifying a need for competence-raising measures. Axfood has representatives in the collective bargaining process that was started during the year. With respect to compensation and other terms of employment for the CEO and other senior executives, see the Corporate Governance Report on page 60.

AXFOOD SHARES AND OWNERSHIP

The total number of shares outstanding is 52,467,678. Only one class of stock is in issue. The share capital amounts to



SEK 262 m, and the share quota value is SEK 5. No changes were made during the year in the number of shares or share capital. Each share carries the right to one vote at the Annual General Meeting and extraordinary general meetings, and there are no limitations regarding how many votes each shareholder may vote for at general meetings of shareholders. There are no stipulations in Axfood AB's articles of association or any of Axfood AB's subsidiaries' articles of association that limit a shareholder's right to transfer shares. Axfood AB has not entered into any agreements that could be affected by a possible acquisition offer. The same applies for Axfood AB's subsidiaries. Axfood AB owns no treasury shares.

Axfood is listed on Nasdaq OMX Stockholm AB's Large Cap list. The principal owner is Axel Johnson AB, with direct ownership of 50.0% of the shares (votes and capital), and indirect ownership of 0.1%. During the preceding year, Axel Johnson owned 46.3% of the shares (directly and indirectly). At year-end Reitan Handel AS owned 15.6% of the shares in Axfood. During the preceding year, Reitan Handel owned 10.1% of the shares. No other shareholder owns – directly or indirectly – more than 10% of the shares in Axfood (votes and capital).

Axfood's employees do not own shares in which the voting rights for such shares cannot be exercised directly (for example, through a pension foundation). No incentive programmes exist for Axfood employees that affect Axfood's share structure. The members of Board of Directors and any deputy directors are appointed by the Annual General Meeting for terms extending until the next Annual General Meeting. Axfood's articles of association make no stipulation on the appointment and dismissal of directors. No authorization has been issued by the Annual General Meeting to the Board of Directors that Axfood AB shall issue or buy treasury shares in the Company.

RESEARCH AND DEVELOPMENT ACTIVITIES

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

ENVIRONMENTAL IMPACT AND SUSTAINABLE DEVELOPMENT

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

One of Axfood's strategic objectives is to be an active driver of work on sustainable development regarding the environment, towards the goal of making the Company the best in the industry in this regard. In the day-to-day activities, sustainability aspects are integrated in purchasing and product selection as well as in logistics, transports, product flows and store operations. Priority areas for Axfood's environmental sustainability work are energy consumption, transports and recycling. All of these have major significance for Axfood's business and have major potential for improvement.

Axfood's sustainability programme covers a multitude of goals and sub-goals for both the near- and long term. Initiated in 2009, the programme is being developed in pace with the achievement of objectives and the emergence of new opportunities. One of the goals in the sustainability programme calls for Axfood to be climate neutral by 2020. The sub-goal is to reduce energy use per square metre by 30% by 2015 (base year 2009). At year-end 2011, Axfood's energy use had decreased by 0.3% per square metre in the premises in which measurement was possible. The reduction plan includes a review of lighting, ventilation, refrigeration and heating.

BUSINESS ETHICS AND PRODUCT RESPONSIBILITY

According to the Axfood Group's Code of Conduct, Axfood shall conduct its business in accordance with generally accepted business practice and high standards of business ethics in relation to its suppliers and other business partners. To ensure uniform conduct among all employees, Axfood adheres to a policy that lays out the Group's position on the offering and accepting of bribes, corruption, and general collaboration

within the industry. This policy is updated annually, and pertinent employees are required to certify in writing that they have read and acknowledged the policy. These include employees who have the right to approve payments for a profit centre or who in some other way have a say in purchasing decisions for goods or services. In 2011, 910 employees signed the policy.

The choice of products in Axfood's offering has an environmental impact in production, transport and consumption. Consequently, Axfood strives to purchase products that have the least environmental impact. In addition, Axfood strives to make it easier for consumers to buy organic products. During the year, Axfood began applying new purchasing guidelines based on environmental and social responsibility concerns, including life cycle analyses. The guidelines are being gradually implemented in a continuous process that will continue in the years ahead. In 2011 Axfood continued to purchase green palm oil certificates corresponding to the volume of palm oil used in the production of its private label products, or substituted palm oil with other vegetable oils. In addition, Axfood has a fish policy that entails, among other things, that fish and shellfish from threatened populations may not be sold in Axfood stores. The policy is dynamic and is updated in pace with changed conditions regarding which types of fish are red-listed.

With respect to the Company's result of operations and financial position in general, reference is made to the statement of comprehensive income and statement of financial position that follow on page 68 and forward, along with accompanying comments.

Risks and risk management

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

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

In all parts of the Group, well-working systems for incident reporting are in place. Through these, Axfood can gain a quick overview and thereby determine how operational risks are to be prioritized and managed effectively and systematically. This system also allows Axfood to have control of claim costs that are uninsured or below insurable levels.

Axfood has Group-wide insurance, which is reviewed yearly by an independent, external party. Insurance protection covers, among other things, property, business interruption, product liability, transports, and liability for directors and senior executives. Through active loss prevention work, Axfood has been able to lower its insurance costs in recent years.

Axfood has a joint-Group crisis management and communication plan, which the Company's crisis management team conducts drills on at regular intervals. The plan is designed to ensure preparedness in the event of a crisis and that the right measures

are taken on the right occasion by the designated key functions. The goal is to minimize acute damage in a situation in which normal routines are inadequate. In a prolonged crisis, the crisis management work would shift into continuity planning, where for example the time that operations are forced to a standstill is limited to a minimum. Axfood also works actively with follow-up of continuity plans.

OPERATIONAL AND STRATEGIC RISKS Business risks

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

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

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

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

Labour market conflicts, i.e., a strike or lockout in any area of the business, could disrupt operations. However, in Sweden this is less common than in many other European countries. Sweden's labour market parties generally strive for stability in the workplace

and multi-year contracts. In addition, contracts are usually coordinated centrally, which limits the risk for protracted conflicts.

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

Liability risks

Axfood is one of the leading food retailers in Sweden, and therefore its ability to manage *food safety, hygiene, the cold chain and product liability* for products that could cause property damage or personal injury is critical for maintaining customers' trust. Should a serious defect be discovered in any of these areas, a major risk would arise for financial loss as well as *damage to the brand*. A more detailed description of Axfood's work with quality assurance and food safety can be found in the Corporate Responsibility section of this report.

Sustainability risks

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

Financial risk management at Axfood is described in more detail on pages 53–54. In the Corporate Governance Report, on pages 56–63, a detailed description is provided of the Company's internal control and risk assessment, which are intended to prevent errors in the financial statements. Preventive work for mitigating liability risks, sustainability risks, and risks for violation of laws, rules and regulations, is described in the Sustainability Report, pages 30–45.

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

Violations of laws, rules and regulations

For Axfood it is of great importance to comply with laws and other rules and regulations as well as to conduct business in accordance with generally accepted business practice. Violations or neglect in these areas could harm the Company's reputation and result in sanctions as well as fines. For risk preven-

tion purposes, Axfood has therefore established a number of policies, a well-working system of internal control, and an ethical approach at all levels. Among other things, the Company adopted a new Code of Conduct in 2009, which was updated in 2010 and is described in more detail the Corporate Responsibility section.

Legislation and political decisions

A decision to halt new establishment of large stores – which has happened in several Nordic and European countries – poses a latent threat to Axfood. A similar decision in Sweden could affect new store establishment, but currently this is judged to be unlikely. In

general, decisions on what measures shall be taken are made well in advance of implementation of new rules and regulations. See also the heading Sustainability Risks.

Risks for errors in financial reporting

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

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

Likelihood – ■ low, ■ medium, ■ high
Consequence – ■ minor, ■ medium, ■ major

¹⁾ Fully or in part.

FINANCIAL RISKS

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

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

The Group's external financial management is centralized in the central finance department of the Parent Company, Axfood AB. The Group's finance department reports monthly to the CFO with a follow-up of the finance policy. The same report is also presented to the Board four times a year. This report also includes a follow-up of financing and liquidity risk, interest rate risk, currency exposure and credit risks.

Financing and liquidity risk

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

To limit the risk of the Axfood Group not being able to finance the Group's operations at any given time, a refinancing risk reserve has been established, which is broken down into a liquidity reserve and an operating reserve, in accordance with the finance policy. The refinancing risk reserve shall amount to SEK 300 m (500) and may be used during individual weeks in the event of short-term movements in liquidity. On 31 December 2011 the refinancing risk reserve amounted to SEK 216 m (572) and was restored in early January 2012. The finance department is responsible for monitoring and overseeing the refinancing risk reserve.

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

Outstanding short-term loans as per 31 December 2011 will be dissolved on their contracted maturity dates without any negative effect on the refinancing risk reserve. Committed credit lines are to have a minimum average remaining contract term of 12 months. As per 31 December 2011 the average remaining contract term was 594 days (706). Information on confirmed and

drawn credit lines, as well as maturity dates for utilized credits, is provided in Note 29.

The Axfood Group's investment policy aims to ensure the Axfood Group's ability to pay in the short and long term. In addition, the investment policy is designed to reduce the Group's external borrowing as much as possible by coordinating the management of surplus liquidity within the Group and achieving the best possible balance of financial income and expense. Investments may only be made in highly liquid instruments with low credit risk, i.e., investments that can be converted to cash and cash equivalents at any given point in time. Approved instruments are account balances, deposits and investments in short-term debt instruments with approved counterparties.

The Axfood Group shall only cooperate with counterparties that are judged capable of meeting their obligations to the Group. The banks and financial institutions that the Group cooperates with shall have high creditworthiness in order to be able to support the Group in the long term. Limits per counterparty are set yearly.

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

Market risk

Market risk is the risk of the fair value or future cash flows from a financial instrument varying due to changes in market prices. The Axfood Group's market risks are broken down into interest rate risk, currency risk and credit risk, which are described below. The goal of the Axfood Group's financial management is to limit the short-term effect on the Group's earnings and cash flow caused by fluctuations in the financial markets.

Interest rate risk

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

Interest rate risk and cash flow risk in the Group's debt portfolio shall be limited. The norm is to have terms of fixed inter-

est that entail a risk-neutral position. This is achieved by maintaining short terms of fixed interest, which is defined as a remaining average term of fixed interest of 12 months. This interest risk norm applies only when the Group has a need for long-term borrowing. For commercial and administrative reasons, the finance department may also act within the framework of a limited deviation mandate. In terms of amount, this deviation mandate is set at SEK 4 m for a one percentage point parallel shift in the yield curve. As per 31 December 2011 the Axfood Group had no long-term borrowing, and in the same way as the preceding year, the deviation mandate was not exercised. Thus at the end of the reporting period, there was no amount that would affect earnings and shareholders' equity in the event of a one percentage point change in the interest rate.

All short-term loans will be dissolved on their contracted maturity dates. The maturity dates and effective rates of interest for the loans are shown in Note 29.

Sensitivity analysis for interest rate risk

The effect on interest income and interest expense during the coming 12-month period of a one percentage point increase or decrease in interest rates amounts to SEK 2.9 m (2.6), taking into account the interest-bearing assets and liabilities that do not carry fixed rates of interest and which were held at the end of the reporting period.

As per the end of the reporting period, a one percentage point change in interest rates would entail a change in the carrying amount of financial liabilities by SEK 0.2 m (0.4), of which the entire amount would affect cash flow and net financial items in profit for the year.

Currency risks

Transaction exposure in foreign currency arises in connection with the import of goods paid for in foreign currency.

The Axfood Group's finance policy prescribes that 100% of orders are to be hedged at the time the order is placed. In addition, currency flows that are judged to be of a permanent and continuous character shall be hedged to:

- 75% of the exposure within 3 months,
- 50% of the exposure within 6 months, and
- 25% of the exposure within 12 months.

Approved hedge instruments are spot contracts, forward exchange contracts and

currency swap contracts. In 2011 hedges were taken out only through spot contracts and forward exchange contracts. As per 31 December 2011, all outstanding currency forward contracts, totalling SEK 292 m (264), were restated to fair value. A compilation of outstanding forward contracts is provided in Note 32.

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

Sensitivity analysis regarding currency risk 2011

Currency	SEK m	10% change in exchange rate vs. SEK, SEK m
EUR	1,927	192.7
USD	110	11.0
DKK	41	4.1
NOK	34	3.4
GBP	1	0.1
CAD	2	0.2
Total	2,115	211.5

The sensitivity analysis above shows a hypothetical impact on cash flow and profit before tax. Currency hedges are always taken out not later than at the time orders are placed, and the hedge rate is always coupled to the respective orders. Based on this

value, the price in stores is then determined for the respective products. For further information regarding exchange rate differences and exposures, see Note 32.

Credit risks

In the Axfood Group, credit risks and credit losses are mainly attributable to trade accounts receivable, 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 wholesale customers undergo a credit check, whereby information about the customers' financial position is obtained from various credit reporting agencies. In addition, limits are set individually per customer, and security is obtained, such as bank guarantees and chattel mortgages. Through coordination of credit monitoring and its handling of security within the Group, Axfood ensures that its risk exposure and thus its credit losses are kept at a commercially acceptable level.

Financial assets are reported in the statement of comprehensive income after deducting provisions for possible credit losses. Added to these provisions are provisions for estimated losses on guarantee commitments made by Axfood. These pertain mainly to guarantees for bank financing for Hemköp franchisees. Axfood charges a going-rate commission for issuing these guarantees. Outstanding guarantee commitments amount to SEK 9 m (7) and are reported under contingent liabilities, see Note 31. There is no concentration of credit risks, neither through exposure to individual borrowers nor groups of borrowers whose financial situation is such that it can be expected to be affected in a similar manner by changes in the external environment. For further information on trade accounts receivable, see Note 25.

The Parent Company did not have any external credit risks at year-end.

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

Likelihood – ■ low, ■ medium, ■ high
Financial loss – ■ low, ■ medium, ■ high

As the board of directors of a major, listed company, we are responsible for managing the trust that has been instilled in us by wide groups of stakeholders. This involves the trust from our owners to manage their invested capital. Our customers, who visit our stores daily, also instil great trust in us. The same goes for our employees, who have chosen us as their employer. The communities in which we work must also be able to trust that we conduct our business in a responsible manner.

Good corporate governance a quality promise to our owners



For me, this is the essence of corporate governance – making sure that we have tools, processes, organisations and people in place who can live up to this trust, so that we can follow through on our strategies and achieve our growth objectives.

Without the support of our customers, none of this is achievable. That is why the matter of how we create satisfied customers is the common thread in a large part of the Board's discussions and work. This applies regardless of whether it is a matter of strategy, investments, our new business system, our stores and products, or sustainability issues.

In addition, sustainability, corporate responsibility and care are obvious areas of concern for Axfood's corporate governance. People today expect that we will accept our share of responsibility for the climate, the environment and social development. This applies for our customers as well as our employees. We have set a very ambitious strategic objective: to be the best in the industry with respect to the environment and social responsibility – and this should shine through in our stores and in every aspect of our business.

Last, but not least, our employees play a critical role in maintaining our customers' trust. It is our employees – through their daily interaction with customers – who are our true champions. Proud and committed employees make customers want to return. We show our gratitude to them by being a company that they can be proud to work for and an employer that encourages every individual to grow.

With satisfied customers as the springboard for our corporate governance, we create the conditions for solid earnings capacity, satisfied grocers, and strong earnings that provide scope for future investments

and payment of dividends to our owners. We borrow our owners' capital every day, to run our business and to grow. Good corporate governance is therefore a quality promise we make to our owners – so they can feel secure that we have quality in our processes as well as in our customer offerings.

The retail business is in many respects a matter of details. We can't make a living by virtue of a single, unique product. Instead, what is unique is how we do what we do and who does it – in other words, we must ensure that we have talented employees, well-stocked stores and an efficient operation.

At the same time, it is important that we create scope to look further into the future. This is why I also believe that our corporate governance should be a dynamic process that creates continuity over time and is not dependent on any single person or situation. Continuity and long-term perspective strengthen us in our ability to deal with the unanticipated.

Vi retailers welcome to Hemköp

I also want to extend a warm welcome to the Vi retailers who joined the Axfood family during the past year. We have been working with you as business partners for slightly more than two years, so it is immensely gratifying that you have taken the step to deepen your relationship with us. Every grocer retains their independence under the Hemköp brand, and I see this as a major asset. As independent grocers you have a wealth of knowledge and experience that we can learn from. I am anxiously looking forward to the dynamics and power that I believe will emerge from such an exchange!

Fredrik Persson
Chairman of the Board

Corporate governance at Axfood aims to create conditions to exercise an active and responsible ownership role, ensure the owners' ability to assert their interests vis-à-vis the Company's management bodies, more clearly delineate the division of roles and responsibilities between management and control bodies, and to ensure the best possible openness vis-à-vis the owners and capital market. Good corporate governance also ensures effective decision-making, which increases Axfood's chances to take advantage of new business opportunities.

Corporate governance report 2011

Axfood is a Swedish, public stock corporation with registered number 556542-0824. The Company has its domicile in Stockholm and is listed on the Nasdaq OMX Stockholm exchange. Corporate governance at Axfood rests on a foundation of both external and internal governance documents.

EXTERNAL GOVERNANCE SYSTEMS

The external governance systems that make up the framework for Axfood's corporate governance activities include the Swedish Companies Act, the Swedish Annual Accounts Act, other relevant laws, Nasdaq

OMX Stockholm AB's rules for issuers and the Swedish Code of Corporate Governance. Governance, management and control are divided among the shareholders (via the Annual General Meeting), the Board of Directors and the CEO pursuant to Swedish corporate law, the Swedish Code of Corporate Governance and the Company's Articles of Association.

INTERNAL GOVERNANCE SYSTEMS

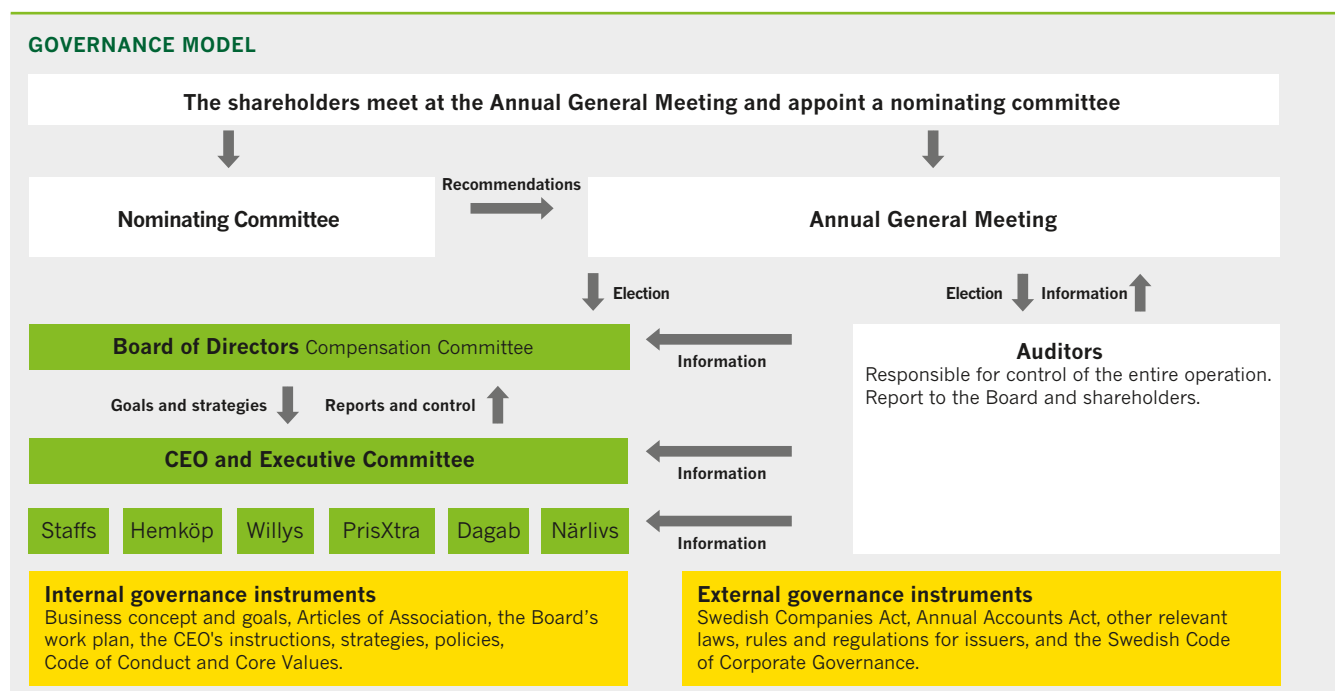
The Articles of Association adopted by the Annual General Meeting is the most important internal governance instrument, followed

by the Board's work plan and the Board's instruction for the CEO. In addition, the Board has adopted numerous policies, guidelines and instructions that contain binding rules for all of the Group's operations.

GOVERNANCE MODEL

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

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



The Corporate Governance Report is part of the Company's Administration Report and is reviewed by the Company's auditors. The auditors' review is reported in the Audit Report on page 100.

Axfood applies the Swedish Code of Corporate Governance ("the Code"), with a departure pertaining to the following point:

DEPARTURE FROM THE CODE

Rule (2.5):

According to the Swedish Code of Corporate Governance, the composition of the nominating committee shall be publicly announced not later than six months prior to the Annual General Meeting.

Explanation:

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

SHAREHOLDERS

Axfood's shares have been listed on the Stockholm Stock Exchange since 1997 and have been traded since October 2006 on Nasdaq OMX Stockholm's Large Cap list. The Company has 52,467,678 shares outstanding, and the number of shareholders at year-end was 14,247. All shares carry equal voting power and equal right to the Company's profit and equity.

The largest single owner since the Company's stock market introduction has been Axel Johnson AB. At year-end Axel Johnson AB's ownership share in Axfood was 50.1%. The second largest shareholder is Reitangruppen AS, whose holding at year-end amounted to 15.6% of the shares and votes.

At year-end, private individuals and closely held companies owned 60.7% of the shares, while foreign shareholders owned 28.9%. For further information on Axfood's shares, see page 104.

2011 ANNUAL GENERAL MEETING

Axfood's Annual General Meeting (AGM) was held in Stockholm on 16 March 2011. A total of 385 shareholders and representatives were in attendance, representing 30,397,393 shares, corresponding to 57.9% of the number of votes.

Resolutions

The AGM made the following resolutions:

- In accordance with the Board's proposal, to pay an ordinary dividend of SEK 12 per share (10) for the 2010 financial year;
- That the Board shall consist of seven members (unchanged);
- That directors' fees shall be payable in a combined amount of SEK 2,400,000, entailing an increase by slightly less than 8%. The fees are broken down as follows:
 - SEK 525,000 for the Chairman
 - SEK 375,000 for the Vice Chairman
 - SEK 300,000 for each of the other AGM-elected directors
 - No fees are payable for committee work;
- Re-election of Fredrik Persson as Chairman of the Board, in accordance with the Nominating Committee's recommendation;
- Re-election of board members Antonia Ax:son Johnson, Peggy Bruzelius, Maria Curman, Fredrik Persson, Odd Reitan, Marcus Storch and Annika Åhnberg, in accordance with the Nominating Committee's recommendation;
- To adopt unchanged guidelines for appointment of the Nominating Committee compared with 2010, in accordance with the Board's recommendation:
 - The owner who, based on ownership statistics from Euroclear Sweden AB on 31 August, has the most shares and

votes, shall after consulting with the three subsequently largest shareholders, appoint a nominating committee consisting of five persons;

- If a material change takes place in the ownership structure after the Nominating Committee has been constituted, then the composition of the Nominating Committee shall also be changed;
- The Board is responsible for convening the Nominating Committee;
- It was also noted that KPMG, with Thomas Thiel as chief auditor, was elected by the 2008 Annual General Meeting for a four-year period extending through the end of the 2012 Annual General Meeting;
- To adopt new Articles of Association;
- To approve employee purchases of shares in subsidiaries.

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

NOMINATING COMMITTEE AHEAD OF 2012 AGM

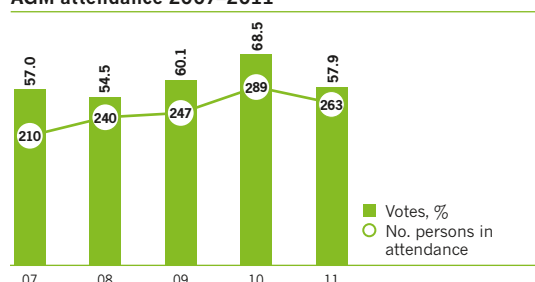
In accordance with the principles for appointment of the Nominating Committee that were adopted by the 2011 AGM, the owner with the largest number of shares and votes shall, together with the three subsequently largest shareholders, appoint the Nominating Committee.

The largest owners as per 31 August 2011 were:

- Axel Johnson AB
- Reitangruppen AS
- Swedbank Robur funds
- SEB funds

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

AGM attendance 2007–2011



Composition of Nominating Committee

Name	Representing	Share of votes as per 31/8/2011, %
Göran Ennerfelt	Axel Johnson AB, committee chair	46.3
Kristin S Genton	Reitangruppen AS	15.2
Kerstin Stenberg	Swedbank Robur	3.2
Johan Strandberg	SEB funds	2.4
Jonas Hillhammar	Axfood's Shareholder Association	0.6 ¹⁾

The Chairman of the Board of Axfood, Fredrik Persson, is a co-opted member of the Nominating Committee.

¹⁾ Share of ownership according to the proxies held by the Shareholder Association at the 2011 AGM.

five members, and all are considered to be independent in relation to the Company and the Executive Committee.

Work of the Nominating Committee

The Nominating Committee is tasked with making recommendations ahead of the Annual General Meeting on the number of directors, the Board's composition and fees, and on any special fees that may be payable for directors' committee work. In addition, the Nominating Committee is tasked with submitting recommendations for the person to be elected as Chairman of the Board, a chairman to preside over the Annual General Meeting and, where applicable, for election of auditors and their fees.

The Chairman of the Board presents an annual evaluation of the Board's work during the year to the Nominating Committee, and this forms the basis of the Committee's work – along with the corporate governance requirements stipulated in the Swedish Code of Corporate Governance and Axfood's own company-specific needs.

The Nominating Committee's recommendations for board members, directors' fees and election of auditors are presented in the notice of the Annual General Meeting. A statement explaining the Nominating Committee's recommendations on the Board's composition is published on Axfood's website in connection with publication of the AGM notice.

All shareholders have the right to submit nominations of board members to the Nominating Committee. Nominations are to be submitted to the Nominating Committee chair. The Nominating Committee's recommendations for board members, directors' fees and auditors are presented in the AGM notice.

The Nominating Committee held two meetings during the year in preparation for the 2012 Annual General Meeting. No compensation was paid for the members' work on the Nominating Committee.

BOARD OF DIRECTORS

The Articles of Association prescribe that Axfood's board of directors shall consist of a minimum of three and maximum of ten AGM-elected ordinary directors with a maximum of two deputies. In 2011 Axfood's board consisted of seven AGM-elected directors and no deputies. This is the same number of board members as in 2009 and 2010. Three directors and three deputies are appointed by the employees. Axfood's CEO, Anders Strålmán, is not a director on the Board, but participates at board meetings by presenting reports. Karin Hygrelle-Jonsson, Axfood's Chief Financial Officer, serves as company secretary.

The composition of the Board of Directors is shown in the table below. A more detailed presentation of the board members is provided on pages 64 and 65.

The Board shall be composed of members who possess a well-balanced mix of expertise that is vital for managing Axfood's strategic work in a responsible and successful manner. Examples of such expertise include knowledge about the retail industry, corporate governance, compliance, finance, financial analysis and compensation matters. Previous board experience is another important area of expertise.

Axfood's board is made up of seven directors who each have important expertise and experience for Axfood that amply covers these areas.

Independence

The Swedish Code of Corporate Governance stipulates that a majority of the AGM-elected directors shall be independent in relation to the Company and the Company's management. At least two of these shall also be independent in relation to the Company's major shareholders.

Axfood's board has been judged to meet the requirements for directors' independence, as all of the AGM-elected directors are independent in relation to the Company and the Executive Committee. Three of the directors, Peggy Bruzelius, Maria Curman and Annika Åhnberg, are also considered to have met the requirement for independence in relation to the Company's major shareholders.

Fredrik Persson has not been found to be independent in relation to the Company's major shareholders, since he is President and CEO of Axfood's largest shareholder, Axel Johnson AB. Antonia Ax:son Johnson and Marcus Storch, who serve as Chairman and as a director, respectively, of Axel Johnson AB, have not been found to be independent in relation to the Company's major shareholders.

Odd Reitan is Chairman of the Board of Reitangruppen AS and Axfood's second-largest shareholder. He has therefore not been found to be independent in relation to the Company's major shareholders.

Changes in the Board during 2011

No changes were made in the Board's composition in 2011.

The Board's work

Each year the Board adopts a written work plan that lays out the Board's responsibility

Composition of the Board of Directors

Name	Year elected	Independent	Total fee ¹⁾	ATTENDANCE		
				Compensation Committee	Board meetings	Committee meetings
Fredrik Persson (Chairman of the Board)	2008	No	525,000	Yes	9/9	3/3
Marcus Storch (Vice Chairman of the Board)	2000	No	375,000	Yes	8/9	3/3
Antonia Ax:son Johnson	2000	No	300,000	Yes	8/9	3/3
Peggy Bruzelius	2000	Yes	300,000	–	8/9	–
Maria Curman	2003	Yes	300,000	–	6/9	–
Odd Reitan	2009	No	300,000	–	5/9	–
Annika Åhnberg	2000	Yes	300,000	–	7/9	–
Michael Sjören	(Employee representative)	–	–	–	9/9	–
Erik Runfelt ²⁾	(Employee representative)	–	–	–	1/9	–
Ulla-May Iwahr Rydén	(Employee representative)	–	–	–	8/9	–
Inger Sjöstrand ²⁾	(Employee representative)	–	–	–	5/9	–
Lars Östberg	(Employee representative)	–	–	–	2/9	–
Total			2,400,000			

¹⁾ Fee as per decision by the 2011 AGM.

²⁾ Deputy for regular employee representative.

ties and regulates the Board's and directors' internal division of duties and the decision-making process within the Board. The work plan also regulates 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.

Axfood's board holds a statutory meeting immediately after the Annual General Meeting. Thereafter the Board is to have at least four meetings per calendar year. Each of the regular board meetings follows a set agenda that is stipulated in the Board's work plan and includes such points as the CEO's report, financial reports, investments and strategic matters. The work plan also regulates how the Board is to receive information and documentation as a basis for its work so as to be able to make well-grounded decisions. The Board has chosen to appoint a compensation committee from among its members to deal with compensation matters more in-depth. The Board as a whole serves as an audit committee.

Board work during the year

The Board held nine meetings in 2011, including the statutory meeting. Prior to the board meetings, the directors received written material covering the items of business to be dealt with at each meeting.

The CEO's status report is a standing agenda item at every board meeting, as is a follow-up report on earnings performance. Store investments and establishment matters are also items of business at every board meeting. Every quarter the Company's interim reports are reviewed – in February, April, July and October.

During the first half of 2011 the board meetings covered the year-end book-closing and annual report, reports from the auditors, the Compensation Committee and Nominating Committee, and matters of business ahead of the Annual General Meeting. The Board held a statutory meeting, where work plans were adopted for the Board and the Compensation Committee. The Board also reviewed many of the policies that are important governance instruments within the Axfood Group, including the credit and finance policy, the investment policy and the communication policy.

During the second half of the year the Board conducted a follow-up and evaluation of strategic issues and adopted the business plan that had been drawn up during the year by the subsidiaries and Executive Committee. Other business-related matters included growth and the market conditions for the grocery store chains as well as the sales trend and cost analyses. The Board also addressed the report from the auditors and reviewed the Company's internal control, and conducted its annual evaluation of the Board with a subsequent report to the Nominating Committee.

All of these matters are closely associated with Axfood's goals and strategies.

The Board's work during the year is outlined in the diagram below.

Compensation Committee

The Compensation Committee is tasked with discussing, deciding and making recommendations on salaries, other terms of employment and incentive programmes for members of the Executive Committee (except for the CEO, for whom the Board as a whole sets the level of compensation and

other terms of employment). The Compensation Committee reports and makes recommendations to the Board. At the start of each year the Committee sets the targets for variable compensation for the members of the Executive Committee.

The Compensation Committee also sets the pension benefits for the members of the Executive Committee. The members of the Compensation Committee as from 16 March 2011 were Fredrik Persson (committee chair), Antonia Ax:son Johnson and Marcus Storch. Axfood's CEO, Anders Strålmán, is a co-opted member of the Compensation Committee. During the year, the committee dealt with terms and outcomes regarding variable compensation for senior executives of the Group, as well as annual evaluation of incentive programmes.

The Compensation Committee held three meetings in 2011. No fees have been paid to committee members for their work on the Committee.

Audit Committee

According to the Swedish Code of Corporate Governance, an audit committee shall have a minimum of three members, of whom the majority shall be independent in relation to the company and its executive management, and at least one member shall be independent in relation to the company's major owners. The Companies Act allows for the entire board to perform the work duties incumbent upon an audit committee, as long as no member is employed by the company and at least one member is independent in relation to the company, the company's executive management and the major shareholders.

Axfood's board has opted to serve in its entirety as an audit committee. This entails

The Board's work in 2011

December

- CEO's status report, earnings follow-up • Business plan 2012 • Board evaluation • Report from Nominating Committee, election of auditors • Report from auditors
- Follow-up of investments • Internal control

October

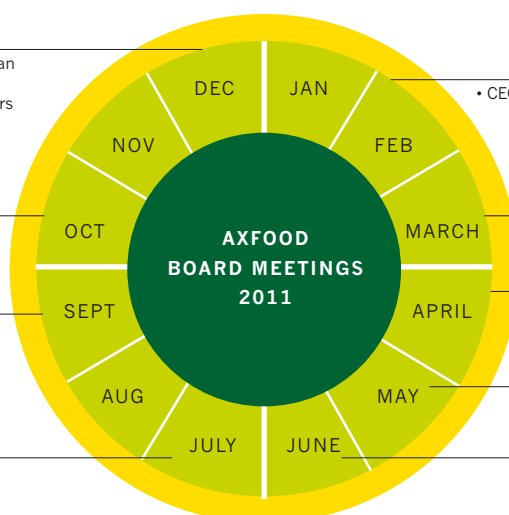
- CEO's status report • 3rd quarter interim report
- Investments • New head offices • Information from Nominating Committee

September

- CEO's status report, earnings follow-up
- Market development • Current status and growth targets, food retail chains

July

- CEO's status report • 2nd quarter interim report



February

- CEO's status report • Year-end book-closing, year-end report
- Annual Report, matters ahead of AGM • Report from auditors, Nominating Committee • Investments
- Evaluations • Compensation of senior executives

March

- Annual General Meeting • Statutory board meeting

April

- CEO's status report • 1st quarter interim report
- Board's work plan • Policies • Investments

May

- CEO's status report • Investments

June

- CEO's status report, earnings follow-up
- Strategy 2011, follow-up of strategy 2010
- Vi stores to Hemköp • Investments

in practice that the Board in its entirety works with and has responsibility for ensuring the quality of the Company's and Group's financial reporting. These matters are a standing item on the Board's agenda and involve, for example, working together with the Executive Committee and the auditors to monitor and evaluate the handling of complicated accounting and valuation matters.

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

Work in 2011 was mainly focused on valuation matters, the Group's interim reports, year-end report and annual report, the Group's capital structure, follow-up of the Group's work with internal control – such as on the internal control environment and risk management – and review of reports from the Company's AGM-elected auditor, including the auditor's audit plan.

EVALUATION OF THE BOARD'S WORK

Fredrik Persson, Chairman of the Board, is responsible for evaluation of the Board's work and for presenting the evaluation to the Nominating Committee. The aim of the evaluation is to gain an idea about the directors' views on how the board work is conducted and on which measures can be taken to improve the effectiveness of the Board's work. This evaluation therefore served as important documentation for the Nominating Committee's work ahead of the 2012 Annual General Meeting.

In 2011 the Chairman conducted a questionnaire survey for all of the board members. The survey focused on the directors' views of the effectiveness of the Board's work and on whether the Board is well-balanced in terms of expertise. The results of this survey were then reported to both the Board and the Nominating Committee in December 2011.

Auditor

Thomas Thiel is the client contact for Axfood at KPMG and thereby has ultimate responsibility for the auditing services provided to Axfood. Thomas Thiel is an Authorized Public Accountant and has been a partner of KPMG since 1985. In addition to his assignment for Axfood, he is the auditor for Swedish Match, SKF, Stena, Ratos, Peab, Folksam and Skandia.

Thomas Thiel was CEO of KPMG Sweden from 1995 to 2008, during which time he also served as a director on the boards of KPMG Sweden, KPMG Europe and KPMG International. He is also a former Chairman and Vice Chairman of FAR (1994–1998).

AUDITORS

The auditors are appointed by the Annual General Meeting based on a recommendation by the Nominating Committee. At the 2008 Annual General Meeting, KPMG AB was elected, with Authorized Public Accountant Thomas Thiel as chief auditor for the period extending up until the 2012 Annual General Meeting. Ahead of the 2012 Annual General Meeting, the Nominating Committee has recommended the election of KPMG AB, with Authorized Public Accountant Thomas Thiel as chief auditor, for the period extending to the 2014 Annual General Meeting.

When requesting additional services from KPMG aside from its auditing assignment, such services are provided only to an extent that is compatible with the rules of the Auditors Act (Revisorslagen 2003:881) and FAR's professional ethics rules regarding auditors' impartiality and independence.

EXECUTIVE COMMITTEE

Members and work of the Executive Committee

The Executive Committee is made up of Axfood's President and CEO and the presidents of four operating companies and six heads of staffs. A presentation of the members of the Executive Committee is provided on pages 66 and 67.

The Executive Committee has monthly meetings for ongoing matters and discussions, and holds a longer strategy meeting once a year.

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

An annual business plan is drafted first by the subsidiaries and thereafter by the Executive Committee during the last four months of the year and is presented to the Board at the end of the year. The work on the business plan thereby involves employees on several levels within the Group. The business plan is revised prior to the start of each

quarter, with new forecasts, and is thereby a dynamic planning document.

The companies within the Axfood Group are governed through internal boards, with Axfood's President and CEO Anders Strålman serving as chairman. The other directors on the subsidiaries' boards are various constellations of the Executive Committee. The companies have board meetings at least four times a year.

Changes in the Executive Committee in 2011

On 14 October Hans Holmstedt was appointed as Purchasing Director. He had been serving as acting Purchasing Director since 13 June 2011 and succeeds Mats Sjö Dahl, who left for other work. Prior to this, Hans Holmstedt was Head of Axfood's Fruit and Vegetables business area.

GUIDELINES FOR COMPENSATION AND OTHER TERMS OF EMPLOYMENT FOR THE CEO AND OTHER SENIOR EXECUTIVES

The guidelines for compensation and other terms of employment for the CEO and other senior executives (the Executive Committee) were adopted by the Annual General Meeting on 16 March 2011. The guidelines are the same as those that applied for 2009 and 2010. The Executive Committee consists of the CEO and the ten other executives, see pages 66 and 67.

The principles for compensation and other terms of employment entail mainly that the Company shall offer members of the Executive Committee compensation that is in line with the going rate in the market and that recommendations for compensation shall be proposed by a special compensation committee within the Board (with the exception of the CEO, for whom the Board in its entirety sets the level of compensation and other terms of employment).

The criteria for setting compensation levels shall be based on the importance of the work duties and on the executive's expertise, experience and performance.

Auditors' fees 2009–2011 (KPMG AB)

SEK m	GROUP			PARENT COMPANY		
	2011	2010	2009	2011	2010	2009
Auditing fees	5	4	4	1	1	1
Consulting fees	1	1	1	0	0	0
Total	6	5	5	1	1	1



Total compensation shall consist of the following components:

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

Fixed base salary

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

Variable compensation

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

- Axfood's targets for
 - earnings
 - sales growth
- personal objectives for the financial year.

Short-term variable compensation shall be paid in the form of annual, variable compensation. The goals for the outcome levels are set by the Compensation Committee at the start of the year. The goals for the CEO are to be set by the Board in its entirety.

Long-term variable compensation shall support long-term objectives in the Executive Committee's decision-making.

The combined variable compensation (the sum of short- and long-term compensation) has a cap as follows:

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

The sum of variable compensation for the CEO and the other members of the Executive Committee can amount to a maximum of approximately SEK 13 m. The right to variable compensation expires in the event an executive gives notice prior to payment of the compensation.

Share-based incentive programmes

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

Pension benefits

The Board's Compensation Committee makes recommendations to the Board for determination of the CEO's pension benefits. The Compensation Committee sets the pension benefits for the other members of the Executive Committee. Axfood applies a retirement age of 65 for members of the Executive Committee. For the CEO and one other member of the Executive Committee, each year a provision is made in an amount equivalent to 35% of their annual base salary, which is secured through insurance premiums. For the other members of the Executive Committee, the basic pension benefit consists of the so-called ITP plan. As a supplement to this is a defined contribution pension corresponding to 25% of salary amounts between 30 and 50 times the Base Amount, which is secured through insurance. For this part, one member of the Executive Committee has a solution corresponding to ITP, department 1. Older pension agreements are adapted as far as possible to the plan outlined above.

Other benefits

For members of Axfood's Executive Committee, a notice period of a maximum of 12 months is applied. In addition, severance pay may be payable for a maximum of 12 months. For the CEO and all other members of the Executive Committee, deduction shall be made for other earned income during the time termination pay or severance pay is received. A notice period of six

months applies in the event an executive gives notice.

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 healthcare insurance, and in certain cases also a travel benefit and housing benefit.

Information on previously decided compensation

At previous Annual General Meetings, decisions were made on guidelines for compensation and other terms of employment for members of the Executive Committee for the time extending up until the 2012 Annual General Meeting. Briefly, these guidelines entail that, in addition to base salary, variable salary would be payable that was tied to Axfood's targets for earnings and sales growth as well as the achievement of personal objectives. In accordance with the adopted principles, a certain portion of this variable compensation has been withheld until the 2012 Annual General Meeting. However, the amounts have been expensed in the respective financial years.

Previously decided variable compensation that fell due for payment after the 2011 Annual General Meeting has been paid out. Variable compensation that has not fallen due for payment amounted to SEK 3.7 m (3.8) as per 31 December 2011.

The guidelines adopted by the 2011 Annual General Meeting have been adhered to, and all previously decided compensation that has not yet been paid out is within the limits described above.

The Board's proposal for new guidelines for compensation for the CEO and other senior executives

Ahead of the 2012 Annual General Meeting, no changes are proposed in the principles for compensation and other terms of employment for members of the Executive Committee.

Salary and compensation for the CEO and other senior executives

KSEK	Year	Base salary	Variable compensation	Other benefits	Other compensation	Total
CEO	2011	5,284	1,163	304	–	6,751
	2010	4,972	1,763	273	–	7,008
Executive Committee, others	2011	20,503	4,231	839	81	25,654
	2010	17,651	5,667	826	9	24,153
Total	2011	25,787	5,394	1,143	81	32,405
	2010	22,623	7,430	1,099	9	31,161

Pension costs for members of the Executive Committee are shown in Note 8.

THE BOARD'S DESCRIPTION OF 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, financial management and of the Company's financial conditions in general. The Swedish Code of Corporate Governance emphasizes this and prescribes that the Board is responsible for internal control.

Axfood has elected to describe how its internal control is organized in the way proposed by the Confederation of Swedish Enterprise and FAR in their guide to the Swedish Code of Corporate Governance. Axfood's board has opted to integrate the Board's report on internal control in the Corporate Governance Report and only to describe how it is organized without issuing any statement on how well it has worked. The report is reviewed by the Company's auditors. In addition, the description is limited to dealing with internal control regarding the financial reporting in accordance with the Swedish Code of Corporate Governance, point 7.4. Neither the documented organization of internal control nor the content in the respective areas is to be viewed as being static; rather, these are continuously adapted to Axfood's operations and external environment.

Axfood's Chief Financial Officer has ultimate responsibility for ensuring that follow-up and work with Axfood's internal control is 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. 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 control environment, risk assessment, control activities, information and communication, and follow-up. Based on this review, certain development areas are identified and assigned priority in the ongoing internal control activities. In 2011, work continued to be focused on ensuring the quality of the financial reporting in connection with the implementation of a new business system, SAP. The third release was begun in March, where structures and functionality pertaining to the product range, pricing, campaign management and new web-based orders were implemented. During the autumn, the functionality of the rest of the system was implemented. In connection with the SAP releases, major work has been dedicated to testing new functionality and ensuring that existing functionality is not affected by new releases, which includes existing and critical flows above all in the finance/accounting solution. In addition, the work with internal control has been focused on implementation of a new payroll system for the Group.

Work on authorizations and roles also continued during the year and involved, among other things, the drafting of a strategy for roles and authorizations for the new payroll system.

Control environment

The control environment is the foundation of internal control of the financial reporting. An important part of the control environment is that decision-making channels, powers and responsibilities are clearly defined and communicated between the various levels of the organization and that governing documents such as internal policies, handbooks, guidelines and manuals are on hand. Axfood's board has established clear work processes and rules of procedure for its work and the work of its committees. An important part of the Board's work involves drawing up and approving various fundamental policies, guidelines and frameworks. These include the Board's work plan, the CEO instructions, 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 procedures, the information security policy, the Code of Conduct, ethical guidelines, employee manual, sustainability programme and internal dishonesty policy. A principal aim of these policies is to create a foundation for good internal control.

In addition, the Board has ensured that the organizational structure lays out clear roles, responsibility and processes that pro-

Internal control process

December

- Board receives report on internal control: background and follow-up of preceding year focus of current year recommended focus areas next year

October

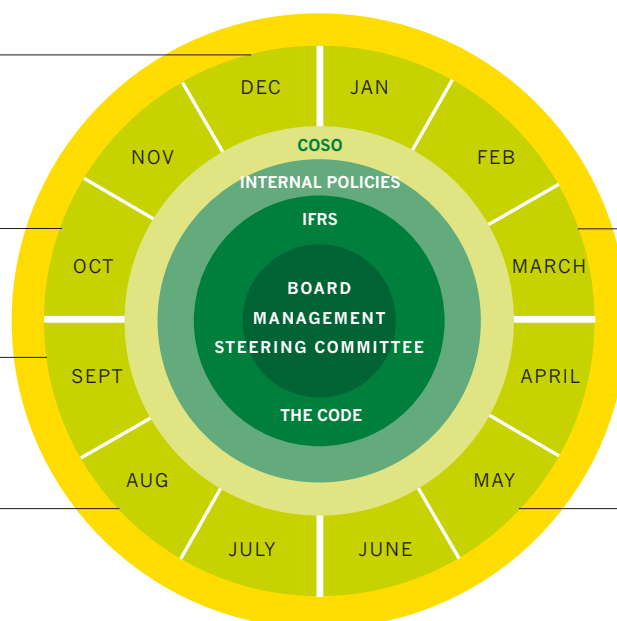
- Follow-up of reporting

September

- Reports from subsidiaries

August

- KPMG review and revision, audit of administration



March

- Steering committee meets and discusses which areas other than the ordinary areas are to be reviewed during the year

May

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

mote the effective management of risks in the business and enable goal fulfilment. As part of the responsibility structure, the Board evaluates business performance and results using a special report package covering outcomes, forecasts, business plans, strategic plans, monitoring of financial risks and analyses of important key ratios.

As part of the work on strengthening internal control, Axfood has chosen to compile control documents in an electronic financial manual (Axekon), which is accessible to all employees within the Group. The financial manual provides an 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. All document owners verify yearly that the Axekon documents are current and up to date.

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 in the Group's financial reporting.

In the course of its risk reviews, Axfood identifies a number of items in the financial statements, as well as administrative flows and processes, where there is an elevated risk for errors. The Company works continuously on strengthening controls surrounding these risks, and in 2011 this was done in a couple of areas, particularly regarding implementation of a new business and payroll system. In the coming years as well, implementation of the new business system will affect risk assessment considerably, as new administrative flows are incorporated into Axfood's operations. The implementation of a new payroll system for the Group has also entailed greater focus on the work with internal control.

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 asked by Axfood's establishment and financing committee in connection with store establishment and acquisitions.

Control activities

The Group's control structure is designed to manage the risks that the Board considers to be of material importance for internal con-

trol of financial reporting. At Axfood these control structures consist of an organization with clear roles that enable the effective and suitable delegation of responsibility from an internal control perspective as well as specific control activities that are designed to discover or prevent risks for errors in the reporting in a timely fashion.

Examples of control activities include clear decision-making processes and procedures for important decisions, performance analyses and other control activities within the processes involving revenues/receivables, purchasing/payments, non-current assets, inventories, salaries, VAT/taxes, finance, bookkeeping, consolidation/reporting, and updating of lists and registers.

Examples of control activities in these processes are random inspections, reconciliations and reviews of undertakings. In 2011, special focus was on producing a new description of routines for the payroll process and implementation of roles and authorizations for SAP and the new payroll system.

Information and communication

Axfood's governing 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 published on the Group's intranet and is updated on a continuous basis based on changes in external requirements and changes in Axfood's business that require clarification and instructions. Communication also takes place in connection with monthly book-closing meetings attended by all subsidiary financial managers. The Group CFO works on a continuing basis with the financial managers of all subsidiaries on matters related to risk analyses and control activities. Joint reviews are also conducted of the continuous updates that are made of the financial manual.

For communication with internal and external parties, Axfood adheres to a communication policy that stipulates guidelines for how this communication should take place. The purpose of the policy is to provide assurances that all information obligations are met in a correct and complete manner. 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.

Follow-up

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. In addition, the Head of financial control and Head of business control work in close cooperation with subsidiary heads with respect to book-closing work and reporting. The internal control work provides support to the Board and management in assessing and reviewing critical risk areas in the financial reporting, so that they can thereafter decide which efforts and follow-up initiatives to employ in selected areas.

Further, the Group has a central security function that works through the companies. Axfood has no internal audit function, since the functions described above fulfil this role. However, Axfood does have a defined process for evaluating and monitoring internal control. The method of follow-up is decided on by the Board, which also conducts a yearly evaluation of the need of a separate internal audit function.

Stockholm, 6 February 2012
The Board of Directors of Axfood AB

FURTHER INFORMATION CAN BE FOUND AT axfood.se

- Articles of Association
- Code of Conduct
- Information from previous AGMs, starting in 2001 (notices, minutes, resolutions, CEO's addresses)
- Information on the nomination process
- 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 2012 AGM



Fredrik Persson, b. 1968, **CHAIRMAN**, Director since 2008 **OTHER ASSIGNMENTS**: President and CEO of Axel Johnson AB **CHAIRMAN**: Axstores AB, Svensk Bevaknings Tjänst AB and Mekonomen AB **VICE CHAIRMAN**: Martin & Servera AB and Swedish Trade Federation **DIRECTOR**: AxFast AB, Axel Johnson International AB, Lancelot Holding AB, Novax AB, Svenska Handelsbanken Region Stockholm and the Confederation of Swedish Enterprise **EDUCATION**: B.Sc. Econ., Stockholm School of Economics, studies at Wharton School, USA **PROFESSIONAL EXPERIENCE**: Head of Analysis at Aros Securities. Employed by Axel Johnson Group since 2000, previously as Executive Vice President and CFO of Axel Johnson AB **COMMITTEE MEMBERSHIP**: Compensation Committee **CURRENT SHAREHOLDING IN AXFOOD**: 1,200
Independent in relation to the Company and the Executive Committee. Non-independent in relation to major shareholders of the Company.



Marcus Storch, b. 1942 **VICE CHAIRMAN** Director since 2000 **CHAIRMAN**: the Nobel Foundation and the Min Stora Dag foundation **VICE CHAIRMAN**: Axel Johnson AB and Mekonomen AB **DIRECTOR**: NCC AB, Nordstjernan AB, the Royal Swedish Academy of Sciences and the Royal Swedish Academy of Engineering Sciences (IVA) **EDUCATION**: M.Sc. Eng., Royal Swedish Institute of Technology, Honorary Doctor of Medicine **PROFESSIONAL EXPERIENCE**: President and CEO of AGA **COMMITTEE MEMBERSHIP**: Compensation Committee **CURRENT SHAREHOLDING IN AXFOOD**: 12,000
Independent in relation to the Company and the Executive Committee. Non-independent in relation to major shareholders of the Company.

Board of Directors



Antonia Ax:son Johnson, b. 1943, Director since 2000 **CHAIRMAN**: Axel Johnson AB, Axel Johnson Inc., and the Axel and Margaret Ax:son Johnson Foundation **VICE CHAIRMAN**: Nordstjernan AB, Senior Vice Chairman of the Upplands Väsby Municipal Executive Board **DIRECTOR**: Axel Johnson Inc., the Axel and Margaret Ax:son Johnson Foundation for Public Service, NCC AB, Mekonomen AB, and others **EDUCATION**: BA, Stockholm University **PROFESSIONAL EXPERIENCE**: Active in the family-owned company Axel Johnson Gruppen since the 1970s **COMMITTEE MEMBERSHIP**: Compensation Committee **CURRENT SHAREHOLDING IN AXFOOD**: 26,270,066
Independent in relation to the Company and the Executive Committee. Non-independent in relation to major shareholders of the Company.



Maria Curman, b. 1950, Director since 2003 **DIRECTOR**: Bonnierförlagen AB, Cappelen Damm AS (Norway), Bonnier Media Deutschland, Bonnier Publishing Group UK, and Teracom AB **EDUCATION**: M.Sc. Econ., Stockholm School of Economics **PROFESSIONAL EXPERIENCE**: CEO of Bonnierförlagen AB, President of Sveriges Television, CEO of Bonnier Books **CURRENT SHAREHOLDING IN AXFOOD**: 1,000
Independent in relation to the Company and the Executive Committee, and to major shareholders of the Company.

Peggy Bruzelius, b. 1949, Director since 2000 **CHAIRMAN**: Lancelot Holding AB **VICE CHAIRMAN**: AB Electrolux **DIRECTOR**: Akzo Nobel N.V., Syngenta AB, Husqvarna AB, Diageo plc, and the Royal Swedish Academy of Engineering Sciences (IVA) **EDUCATION**: MBA, Stockholm School of Economics, Honorary Doctor of Economics **PROFESSIONAL EXPERIENCE**: President and CEO of ABB Financial Services **CURRENT SHAREHOLDING IN AXFOOD**: 1,500
Independent in relation to the Company and the Executive Committee, and to major shareholders of the Company.





Odd Reitan, b. 1951, Director since 2009 **CHAIRMAN:** Reitan-gruppen AS, Reitan handel AS, Rema 1000 AS, Reitan Eiendom AS, Reitan Servicehandel AS and Uno X gruppen AS **EDUCATION:** Varehandelens Høgskole **PROFESSIONAL EXPERIENCE:** Started own store in 1972 and senior executive of own companies **CURRENT SHAREHOLDING IN AXFOOD:** 8,185,817

Independent in relation to the Company and the Executive Committee. Non-independent in relation to major shareholders of the Company.



Annika Åhnberg, b. 1949, Director since 2000 **CHAIRMAN:** IVA, department X, Swedish Nutrition Foundation and Save the Children Sweden (Ystad chapter) **DIRECTOR:** Antonia Ax:son Johnson foundation for the environment and development, Högstads & Christinehofs Fideikommiss AB, Royal Swedish Academy of Agriculture and Forestry (KSLA), the Prince Gustav and Princess Sibylla Memorial Fund, the Strategic Centre for Functional Genetics, Saltå Kvarn AB and the Swedish Seed Association **EDUCATION:** Graduate of Social Studies, Department of Social Work, Stockholm University **PROFESSIONAL EXPERIENCE:** Consultant in own firm, Tankeföda AB, former Minister for the Environment **CURRENT SHAREHOLDING IN AXFOOD:** 200 *Independent in relation to the Company and the Executive Committee, and to major shareholders of the Company.*

Ulla-May Iwahr Rydén, b. 1951, Employee representative, Director since 2006 **OTHER ASSIGNMENTS:** Union representative on Axfood Närlivs AB's board **EDUCATION/PROFESSIONAL EXPERIENCE:** Axfood Group employee since 1989. PTK's course on company board work **CURRENT SHAREHOLDING IN AXFOOD:** 0 *Non-independent in relation to the Company and the Executive Committee.*



Michael Sjören, b. 1960, Employee representative, Director since 2010 **OTHER ASSIGNMENTS:** Union representative on Axfood Närlivs AB's board **EDUCATION/PROFESSIONAL EXPERIENCE:** Axfood Group employee since 1995 **CURRENT SHAREHOLDING IN AXFOOD:** 0 *Non-independent in relation to the Company and the Executive Committee.*



Lars Östberg, b. 1968, Employee representative, Director since 2009 **OTHER ASSIGNMENTS:** Union representative on Willys AB's board and director of the Commercial Employees Union, department 20 **PROFESSIONAL EXPERIENCE:** Willys employee since 2002 **CURRENT SHAREHOLDING IN AXFOOD:** 0 *Non-independent in relation to the Company and the Executive Committee.*



Anders Strålman, b. 1953, President and CEO, Axfood AB **AXFOOD EMPLOYEE SINCE:** 1993¹⁾
OTHER ASSIGNMENTS: Chairman of Svensk Dagligvaruhandel. Director of Bergendahls
 El Gruppen AB, Svensk Handel AB and Returpack Svenska AB **EDUCATION:** M.Sc. Econ.,
 University of Gothenburg **PROFESSIONAL EXPERIENCE:** President of Willys AB, CFO and CEO
 of Billhalls AB, CFO and head of operations for Bergendahls El & Installation AB. Member of
 Axfood's Executive Committee since 2000 **CURRENT SHAREHOLDING IN AXFOOD:** 16,500
¹⁾ Pertains to employment with companies that are now part of the Axfood Group.



Karin Hygrell-Jonsson, b. 1955, Chief Financial
 Officer **AXFOOD EMPLOYEE SINCE:** 1991¹⁾ **OTHER**
ASSIGNMENTS: Director of Fujifilm Sverige AB
EDUCATION: M.Sc. Econ., Stockholm School of
 Economics **PROFESSIONAL EXPERIENCE:** Chief
 Financial Officer, Axfood AB; financial manager,
 Axfood AB; financial manager, Axel Johnson AB;
 financial manager, Dagab AB; Manager Cash
 & Currency, SAS; Banker, PKbanken. Member
 of Axfood's Executive Committee since 2007
CURRENT SHAREHOLDING IN AXFOOD: 500
¹⁾ Pertains to employment with companies that
 are now part of the Axfood Group.

Executive Committee



Hans Holmstedt, b. 1967, Purchasing
 Director **AXFOOD EMPLOYEE SINCE:** 2005
EDUCATION: Economics, EFL (Executive
 Foundation Lund), Personal Leadership,
 IHM Business School **PROFESSIONAL**
EXPERIENCE: Business Area Manager
 Fruit & Vegetables, Axfood; Purchas-
 ing and Marketing Manager, Saba
 Fukt & Grönt; Purchaser Saba Fukt
 & Grönt; Purchaser NAF International
 Valencia. Member of Axfood's Execu-
 tive Committee since 2011 **CURRENT**
SHAREHOLDING IN AXFOOD: 100

Louise Ring, b. 1955, Head of Human
 Resources **AXFOOD EMPLOYEE SINCE:** 2003
EDUCATION: University studies in behavioural
 sciences, Umeå University; HR executive
 IFL at the Stockholm School of Economics
PROFESSIONAL EXPERIENCE: CFO and HR
 manager, ICA Handlarnas AB; store manager,
 head of training, organizational and operating
 matters, H&M. Member of Axfood's Executive
 Committee since 2005 **CURRENT SHAREHOLD-
 ING IN AXFOOD:** 100



Ola Andersson, b. 1968, President of Hemköps-
 kedjan AB **AXFOOD EMPLOYEE SINCE:** 2010
EDUCATION: M.Sc. Econ., Lund University
PROFESSIONAL EXPERIENCE: Head of Private
 Label Products, ICA Sverige AB; Head of
 Products and Purchasing, ICA Sverige AB;
 Business Area Manager, ICA Supermarket;
 Business Area Manager, ICA Kvantum; Business
 Area Manager, Svenska Schulstad AB; Product
 Manager, Shell Select. Member of Axfood's
 Executive Committee since 2010 **CURRENT**
SHAREHOLDING IN AXFOOD: 0



Nicholas Pettersson, b. 1976, President of Axfood Närlivs AB **AXFOOD EMPLOYEE SINCE:** 2004¹⁾ **EDUCATION:** M.Sc. Econ., Växjö University **PROFESSIONAL EXPERIENCE:** Marketing Manager, Axfood Närlivs; Business Area Head, Axfood Snabbgross; Supply Chain Manager, AB Svenska Shell; Business Analyst, Shell Detaljist AB. Member of Axfood's Executive Committee since 2009 **CURRENT SHAREHOLDING IN AXFOOD:** 100

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



Anders Agerberg, b. 1953, President of Dabab AB **AXFOOD EMPLOYEE SINCE:** 1976 **EDUCATION:** Secondary School diploma, university studies **PROFESSIONAL EXPERIENCE:** Vice President and Head of Logistics, Dagab; Head of Dagab Syd. Member of Axfood's Executive Committee since 2010 **CURRENT SHAREHOLDING IN AXFOOD:** 0



Jan Lindmark, b. 1959, Head of IT **AXFOOD EMPLOYEE SINCE:** 2001 **EDUCATION:** M.Sc. Econ., Stockholm University **PROFESSIONAL EXPERIENCE:** IT Director, Fritidsresegruppen; IT Manager, Posten Brev; Consultant at Enator. Member of Axfood's Executive Committee since 2007 **CURRENT SHAREHOLDING IN AXFOOD:** 1,350



Anne Rhenman Eklund, b. 1957, Head of Corporate Communications **AXFOOD EMPLOYEE SINCE:** 2007 **EDUCATION:** Nordic Executive Investor Relations Program, Helsinki School of Economics. Various courses in marketing and communications at Berghs School of Communication **PROFESSIONAL EXPERIENCE:** Head of Investor Relations, Axfood; Head of Corporate Communications and IR, Q-Med AB; Head of Corporate Communications and IR, Axis Communications AB; Consultant in investor relations, PR and market communication. Member of Axfood's Executive Committee since 2010 **CURRENT SHAREHOLDING IN AXFOOD:** 0



Thomas Evertsson, b. 1964, President of Willys AB **AXFOOD EMPLOYEE SINCE:** 2008 **EDUCATION:** M.Sc. Econ., University of Gothenburg, School of Economics, Business and Law **PROFESSIONAL EXPERIENCE:** Hyper-market Manager, Head of Chain Operations, Coop Supermarkets; President, Coop Sverige AB; Vice President, Coop Norden AB. Member of Axfood's Executive Committee since 2008 **CURRENT SHAREHOLDING IN AXFOOD:** 2,300



Anders Quist, b. 1953, Head of Business Development **AXFOOD EMPLOYEE SINCE:** 1995¹⁾ **OTHER ASSIGNMENTS:** Director of GS1 Sweden AB and GS1 Sweden Services AB **EDUCATION:** Secondary School diploma, grocer training, diverse training in retailing **PROFESSIONAL EXPERIENCE:** Vice President, Bilhalls; Vice President, Willys; Store Manager, Operations Manager, grocer, Sales Manager, Dagab väst. Member of Axfood's Executive Committee since 2007 **CURRENT SHAREHOLDING IN AXFOOD:** 1,500

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

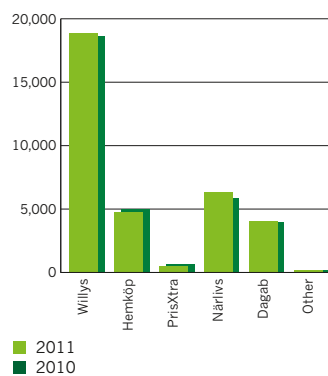


All shareholdings reported as per 31 December 2011.

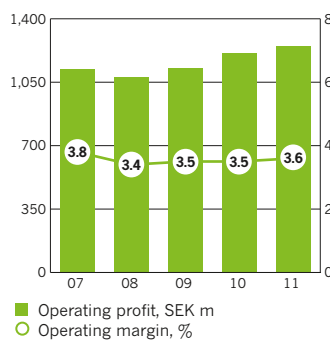
Statement of comprehensive income, Group

Amounts in SEK m	Note	2011	2010
Net sales	2, 5	34,795	34,260
Cost of goods sold	6	-29,877	-29,587
Gross profit		4,918	4,673
Selling expenses		-2,177	-2,121
Administrative expenses		-1,736	-1,564
Share of profit in associated companies	22	0	0
Other operating income	7	253	254
Other operating expense		-8	-33
Operating profit		1,250	1,209
Interest income and similar profit/loss items	13	6	2
Interest expense and similar profit/loss items	13	-42	-39
Net financial items		-36	-37
Profit before tax		1,214	1,172
Current tax	15	-223	-311
Deferred tax	15	-100	1
Net profit for the year		891	862
Other comprehensive income			
Change in fair value of forward contracts		0	0
Change in fair value of available-for-sale financial assets		5	-
Tax attributable to components in other comprehensive income	15	-1	0
Other comprehensive income for the year		4	0
Comprehensive income for the year		895	862
Earnings per share, SEK	16	16.99	16.42
Operating profit includes depreciation/amortization of	10	588	555

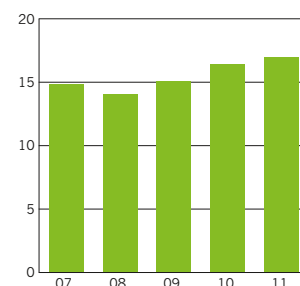
Consolidated net sales per segment, SEK m



Consolidated operating profit and operating margin



Earnings per share, SEK



Comments on the statement of comprehensive income and statement of financial position

STATEMENT OF COMPREHENSIVE INCOME

- Axfood's consolidated sales rose 1.6% during the year.
- Like-for-like sales decreased by 1.5% for the year.
- Operating profit increased to SEK 1,250 m (1,209).
- Earnings per share were SEK 16.99 (16.42).

Net sales

Consolidated net sales totalled SEK 34,795 m (34,260), an increase of 1.6% over 2010. Of consolidated net sales, slightly less than 76% (76%) consist of sales in stores and slightly less than 24% (24%) consist of external wholesale turnover and store compensation. The increase is attributable to price increases and in part to additional volumes. For Group-owned retail operations, sales grew 0.1%, with a 1.5% decrease in like-for-like sales. Sales for Willys rose 1.6% to SEK 18,904 m (18,613), with a 1.6% decrease in like-for-like sales. Hemköp's sales decreased by 3.8%, to SEK 4,787 m (4,978), with a 0.4% rise in like-for-like sales.

Operating profit

Operating profit was SEK 1,250 m (1,209). Profit for the year includes discontinuation costs of SEK 8 m (7) for stores in the Hemköp chain, and SEK – m (14) for PrisXtra. Operating profit includes depreciation and amortization totalling SEK 588 m (555). The Group's gross margin was 14.1% (13.6%), and the operating margin was 3.6% (3.5%).

Net financial items

Net financial items improved marginally during the year, from SEK –37 m to SEK –36 m. Interest-bearing liabilities rose during the year by SEK 202 m, from SEK 840 m to SEK 1,042 m, as a result of higher net capital expenditures and a higher dividend in 2011 compared with 2010. Despite a higher level of borrowing, net financial items improved, which is explained in part by lower interest rates in 2011 compared with 2010 and in part by a higher level of net interest income on current receivables.

Tax, profit for the year, and earnings per share

The tax charge was SEK 323 m (310), corresponding to an effective tax rate of 26.6% (26.5%). Profit after tax for the year was SEK 891 m (862), or SEK 16.99 per share (16.42).

STATEMENT OF FINANCIAL POSITION

- The equity ratio was 39.1% (38.8%).
- The debt-equity ratio was 0.3 (0.3).

Non-current assets

The Group's non-current assets increased during the year by SEK 378 m, from SEK 3,963 m to SEK 4,341 m. Non-current assets consist primarily of goodwill, totalling SEK 1,613 m (1,567), and machinery and equipment, totalling SEK 1,670 m (1,485). Of total goodwill, SEK 1,205 m (1,193) consists of consolidated acquisition goodwill. Total capital expenditures by the Group amounted to SEK 993 m (862). Of these, SEK 70 m (56) pertained to investments in businesses, SEK 468 m (415) to investments in retail operations, SEK 111 m (92) to investments in wholesale operations, and SEK 239 m (192) to investments in IT development.

Working capital

Of current assets, inventories make up the single largest item, totalling SEK 1,916 m (1,822). Inventories consist of finished retail goods – 51% (52%) – and wholesale goods – 49% (48%). Trade accounts receivable make up the largest item of current liabilities, SEK 2,273 m (2,208).

Shareholders' equity and liabilities

Shareholders' equity amounted to SEK 3,237 m (2,972), a net increase of SEK 265 m. During the year, SEK 630 m (525) was paid out in dividends to the Company's shareholders.

Provisions for pensions and similar obligations pertain primarily to liabilities in the FPG/PRI system. Interest-bearing liabilities excluding interest-bearing pension provisions increased from SEK 478 m to SEK 678 m. Interest-bearing net debt increased from SEK 525 m as per 31 December 2010 to SEK 725 m as per 31 December 2011.

Change in interest-bearing net debt for the group

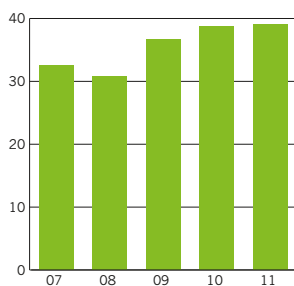
	31/12/2010	Cash flow	Change in borrowings	Other changes	31/12/2011
Cash and cash equivalents	315	2			317
Non-current interest-bearing liabilities	–36		5	–14	–45
Current interest-bearing liabilities	–442		–195	4	–633
Interest-bearing pensions	–362			–2	–364
Interest-bearing net debt	–525	2	–190	–12	–725

Statement of financial position, Group

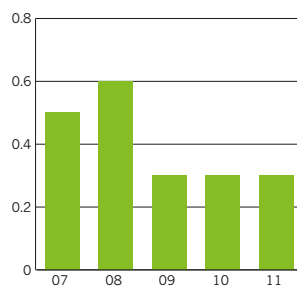
SEK m	Note	31/12/2011	31/12/2010
ASSETS			
Non-current assets			
Intangible assets	17		
Goodwill		1,613	1,567
Other intangible assets		848	734
		2,461	2,301
Property, plant and equipment	18, 20		
Land and buildings		58	59
Equipment, tools and fixtures		1,670	1,485
Construction in progress		73	44
		1,801	1,588
Financial assets	23, 28		
Participations in associated companies	22	3	3
Other long-term securities holdings	23, 28	29	23
Other non-current receivables	24	12	6
		44	32
Deferred tax assets	15	35	42
Total non-current assets		4,341	3,963
Current assets			
Inventories			
Finished products and goods for resale		1,916	1,822
		1,916	1,822
Current receivables	28		
Accounts receivable – trade	25	639	660
Current tax assets		104	2
Other current receivables	24	139	102
Prepaid expenses and accrued income	26	822	800
		1,704	1,564
Cash and cash equivalents	28		
Cash and bank balances		317	315
		317	315
Total current assets		3,937	3,701
TOTAL ASSETS		8,278	7,664

SEK m	Note	31/12/2011	31/12/2010
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	32		
Share capital		262	262
Other capital contribution		496	496
Reserves		7	3
Profit brought forward		1,581	1,349
Profit for the year		891	862
		3,237	2,972
Non-current liabilities	20, 28, 29		
Provisions for pensions and similar obligations	27	364	362
Liabilities to credit institutions		–	5
Other interest-bearing liabilities		45	31
Deferred tax liability	15	308	214
Other non-current liabilities		0	5
		717	617
Current liabilities	28, 29		
Liabilities to credit institutions		603	407
Other interest-bearing liabilities		30	35
Accounts payable – trade		2,273	2,208
Liabilities to associated companies		0	0
Other current liabilities		130	82
Accrued expenses and deferred income	19, 30	1,288	1,343
		4,324	4,075
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		8,278	7,664
CONTINGENT ASSETS, PLEDGED ASSETS AND CONTINGENT LIABILITIES	31		
Pledged assets		3	16
Contingent liabilities		20	18

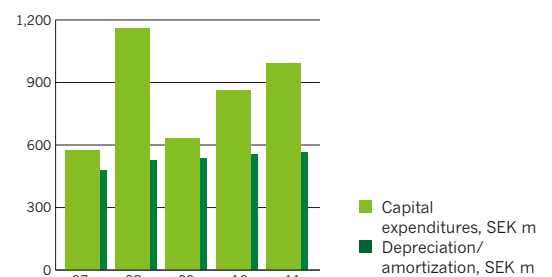
Equity ratio, %



Debt-equity ratio, multiple



Capital expenditures/
depreciation & amortization



Statement of cash flows, Group

Amounts in SEK m	Note	2011	2010
Operating activities			
Profit before financial items		1,250	1,209
Depreciation/amortization charged against profit		566	534
Interest paid		-25	-22
Interest received		6	2
Adjustments for non-cash items		-20	27
Paid tax		-323	-322
Cash flow from operating activities before changes in working capital		1,454	1,428
Cash flow from changes in working capital			
Change in inventories		-93	-31
Change in current receivables		-37	-180
Change in current liabilities		60	148
Cash flow from operating activities		1,384	1,365
Investing activities			
Acquisitions of intangible assets		-240	-196
Acquisitions of property, plant and equipment		-652	-589
Acquisitions of operations	3	-69	-59
Sales of operations	4	1	-
Sales of property, plant and equipment		19	14
Change in other financial assets		0	-1
Cash flow from investing activities		-941	-831
Financing activities			
Acquisitions of non-controlling interests		-1	-
New loans raised		310	-
Amortization of debt		-120	-10
Dividend paid out		-630	-525
Cash flow from financing activities		-441	-535
CASH FLOW FOR THE YEAR		2	-1
Cash and cash equivalents at start of year		315	316
Cash and cash equivalents at year-end		317	315

Adjustments for non-cash items amounted to SEK -20 m (27), net, and mainly pertained to the dissolution of restructuring reserves, disposals and impairment charges.

Statement of changes in equity, Group

Amounts in SEK m	Equity attributable to owners of the parent					
	Share capital	Other capital contributions	Fair value reserve	Hedging reserve	Profit brought forward	Total shareholders' equity
Opening shareholders' equity 2010	262	496	3	0	1,874	2,635
Comprehensive income for the year	–	–	–	0	862	862
Shareholder dividend	–	–	–	–	–525	–525
Closing shareholders' equity 2010	262	496	3	0	2,211	2,972
Comprehensive income for the year	–	–	4	0	891	895
Shareholder dividend	–	–	–	–	–630	–630
Acquisition of previous non-controlling interests	–	–	–	–	0	0
Closing shareholders' equity 2011	262	496	7	0	2,472	3,237

The share capital as per 31/12/2011 amounted to SEK 262,338,390 (262,338,390), distributed among 52,467,678 (52,467,678) shares. There is only one class of share. The share quota value is SEK 5. The Board of Directors proposes a dividend of SEK 12 per share (12).

In 2011 Axfood acquired an additional 10% of Falkenberg Seafood AB and increased its ownership from 90% to 100%. As a result, as per 31/12/2011 the Group had no non-controlling interests. The Group reports a decrease in non-controlling interests of SEK 0 m and a decrease in retained profits of SEK 0 m. Shareholders' equity attributable to non-controlling interests amounted to KSEK – (12) as per 31/12/2011. Profit for the year attributable to non-controlling interests amounted to KSEK 247 (224).

Fair value reserve

The fair value reserve includes the net change in the fair value of available-for-sale financial assets until the asset is eliminated from the statement of financial position.

The change in the fair value reserve pertains to the change in fair value of available-for-sale financial assets, totalling SEK 5 m (–), and deferred tax, totalling SEK –1 m (–).

Hedging reserve

The hedging reserve includes the effective portion of the accumulated net change of the fair value of cash flow hedge instruments attributable to hedge transactions that have not yet been carried out.

The change in the hedging reserve pertains to the change in the fair value of forward contracts, totalling SEK 0 m (0), and deferred tax, totalling SEK 0 m (0). A presentation of the change in value of the hedging reserve during the year is provided in note 32.

Comments on the statement of cash flows and the statement of changes in equity

Group cash flow from operating activities

The Group's cash flow from operating activities before changes in working capital increased by SEK 26 m, to SEK 1,454 m (1,428), and consisted mainly of the net amount of purchases and sales of food retail products. Excluding SEK –323 m (–322) in paid tax, cash flow from operating activities before changes in working capital increased by SEK 27 m. Reversed depreciation has been adjusted for the portion that pertains to leased assets, totalling SEK 22 m (21). Adjustment for non-cash items amounted to SEK –20 m (27) net and pertained mainly to disposals and impairment charges. Interest received during the year amounted to SEK 6 m (2), and interest paid amounted to SEK 25 m (22).

Capital expenditures and divestments

The Group's total capital expenditures amounted to SEK 993 m (862) and pertained primarily to investments of SEK 682 m (564) in machinery and equipment in connection with store establishment and remodelling. Investments in businesses amounted to SEK 70 m (56), and investments in IT development amounted to SEK 239 m (192). Of total capital expenditures, SEK 961 m (844) affected the Group's cash flow. In cash flow, capital expenditures have been adjusted in the amount of SEK –32 m (–21) for finance leases.

Financing activities

The Group's change in interest-bearing liabilities affected cash flow by SEK 190 m (–10). During the year, SEK 310 m in new loans were raised (–). Current financing was handled during the year primarily

with cash flow from operating activities. The increase in borrowing is attributable to a higher dividend and higher net capital expenditures in 2011 compared with 2010. The dividend amounted to SEK 630 m (525), corresponding to SEK 12.00 (10.00) per share.

Comments on shareholders' equity and capital management

The Group's shareholders' equity, which is defined as total reported shareholders' equity, amounted to SEK 3,237 m (2,972) at year-end. Return on shareholders' equity was 28.7% (30.7%).

According to Axfood's finance policy, the foundation of the Axfood Group's financial strategy is to create sound financial conditions for the Group's operations and development. Of major importance is that the Group's equity ratio target of a minimum level of 25% is maintained so that the Group's refinancing risk does not jeopardize the Group's current or planned operations. At year-end 2011 the equity ratio was 39.1% (38.8%). Axfood does not have any externally assigned capital requirement.

Axfood's dividend policy calls for a minimum dividend payout of 50% of profit after tax. During the last five years, the ordinary dividend has averaged 70.1% of profit after tax. In addition to the ordinary dividend, the Group has paid extra dividends on three occasions, for the 2004, 2005 and 2006 financial years. The Board of Directors has proposed an ordinary dividend for 2011 of SEK 12 (12) per share. Based 52,467,678 shares, the dividend will amount to SEK 630 m.

During the year, no changes were made in the Group's principles for capital management.

Income statement and balance sheet, Parent Company

INCOME STATEMENT, PARENT COMPANY

Amounts in SEK m	Note	2011	2010
Selling expenses		-1	-2
Administrative expenses	8	-251	-226
Other operating income	7	178	181
Operating result		-74	-47
Interest income and similar profit/loss items	13	16	11
Interest expense and similar profit/loss items	13	-21	-17
Group contributions received and rendered	13	1,182	1,192
Profit after financial items		1,103	1,139
Appropriations	14	-274	4
Profit before tax		829	1,143
Current tax	15	-216	-301
Deferred tax	15	-1	1
Profit for the year		612	843

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

BALANCE SHEET, PARENT COMPANY

Amounts in SEK m	Note	31/12/11	31/12/10	01/01/10
ASSETS				
Property, plant and equipment				
Equipment, tools and fixtures	18	2	4	9
Construction in progress		0	-	-
		2	4	9
Financial assets	23, 28			
Participations in Group companies	21, 23	3,452	3,468	3,468
Other long-term securities holdings	23, 28	3	3	3
Deferred tax assets	15	9	11	10
Other non-current receivables	24	3	-	-
		3,467	3,482	3,481
Total non-current assets		3,469	3,486	3,490
Current assets				
Current receivables	28			
Accounts receivable – trade		0	0	0
Receivables from Group companies		2,103	2,102	1,804
Current tax assets	15	57	-	-
Other current receivables	24	0	0	3
Prepaid expenses and accrued income	26	10	8	10
		2,170	2,110	1,817
Cash and cash equivalents	28			
Cash and bank balances		0	0	0
Total current assets		2,170	2,110	1,817
TOTAL ASSETS		5,639	5,596	5,307

BALANCE SHEET, PARENT COMPANY

Amounts in SEK m	Note	31/12/11	31/12/10	01/01/10
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Restricted shareholders' equity				
Share capital		262	262	262
		262	262	262
Unrestricted shareholders' equity				
Profit brought forward		2,772	2,559	3,084
Profit for the year		612	843	-
		3,384	3,402	3,084
Total shareholders' equity		3,646	3,664	3,346
Untaxed reserves	14	275	1	5
Non-current liabilities	28, 29			
Provisions for pensions	27	31	32	30
Liabilities to credit institutions		-	-	150
Other non-current liabilities		4	7	7
		35	39	187
Current liabilities	28, 29			
Liabilities to credit institutions		603	406	264
Accounts payable – trade		14	15	8
Liabilities to Group companies		1,047	1,404	1,417
Current tax liability		-	41	53
Other current liabilities		0	3	2
Accrued expenses and deferred income	19, 30	19	23	25
		1,683	1,892	1,769
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		5,639	5,596	5,307
CONTINGENT ASSETS, PLEDGED ASSETS AND CONTINGENT LIABILITIES	31			
Contingent liabilities		382	357	360

Cash flow statement and shareholders' equity, Parent Company

CASH FLOW STATEMENT, PARENT COMPANY

Amounts in SEK m	Note	2011	2010
Operating activities			
Result before financial items		-74	-47
Interest paid		-20	-17
Interest received		16	11
Group contributions received and rendered, net		1,192	1,133
Depreciation/amortization charged against the result		2	6
Adjustments for non-cash items		8	6
Paid tax		-314	-312
Cash flow from operating activities before changes in working capital		810	780
Cash flow from changes in working capital			
Change in current receivables		-22	-207
Change in current liabilities		-382	-38
Cash flow from operating activities		406	535
Investing activities			
Acquisitions of property, plant and equipment		0	-2
Sales of operations	4	28	-
Cash flow from investing activities		28	-2
Financing activities			
New loan raised		346	-
Amortization of debt		-150	-8
Dividend paid out		-630	-525
Cash flow from financing activities		-434	-533
CASH FLOW FOR THE YEAR		0	0
Cash and cash equivalents at start of year		0	0
Cash and cash equivalents at year-end		0	0

SHAREHOLDERS' EQUITY, PARENT COMPANY

	Restricted share-holders' equity	Unrestricted share-holders' equity	Total share-holders' equity
Amounts in SEK m	Share capital	Profit brought forward	Total
Opening shareholders' equity 2010	262	3,084	3,346
Profit for the year	-	843	843
Shareholder dividend	-	-525	-525
Closing shareholders' equity 2010	262	3,402	3,664
Profit for the year	-	612	612
Shareholder dividend	-	-630	-630
Closing shareholders' equity 2011	262	3,384	3,646

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



NOTE 1. ACCOUNTING AND VALUATION POLICIES

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the EU Commission for application within the EU. In addition, Swedish Financial Reporting Board recommendation RFR 1 (June 2011), Supplementary Reporting Rules for Groups, is applied.

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

The Annual Report and consolidated financial statements were approved for publication by the Board of Directors on 6 February 2012. The Group's statement of comprehensive income and statement of financial position, and the Parent Company's income statement and balance sheet, are subject to adoption by the Annual General Meeting on 14 March 2012.

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

Basis of measurement applied in preparation of the financial statements

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

Functional currency and presentation currency

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

Estimations and assumptions in the financial statements

In order to prepare the financial statements in accordance with IFRS, the Board and the Executive Committee make estimations and assumptions that affect the Company's result and position as well as other disclosures in general. These estimations and assumptions are based on historical experience and are reviewed on a regular basis. Estimations made by the Executive Committee in the application of IFRS that have a material impact on the financial statements, and estimations made that can entail material adjustments in subsequent years' financial statements, are described in more detail in Note 33.

Significant accounting policies applied

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

Changed accounting policies 2011

Following is a description of changed accounting policies that the Group applies as from 1 January 2011. Other IFRS changes that apply as from 2011 have not had any material impact on the Group's accounting.

As from 1 January 2011, the Group applies IAS 24 Related Party Disclosures (Revised). The change entails a simplification and clarification of the definition of related party; a few special relationships have been added to the category of related parties, while others have been eliminated.

In addition to IAS 24 are amendments in IAS 32 Financial Instruments: Classification, with respect to classification of new issues, amendments in IFRIC 14 IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction, and IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

In addition, a number of changes have been made in IFRS within the framework of the IASB's annual Improvement Project. None of these changes have affected the consolidated financial statements.

Changed accounting policies 2012 and later

A number of new or amended IFRSs and interpretations take effect in 2012 and later, and have not been prospectively applied in the preparation of these financial statements. New IFRSs and interpretations or amendments that are applicable as from the financial years after 2012 and later are not planned to be prospectively applied. To the extent that anticipated effects on the financial statements of the application of the following new or amended IFRSs and interpretations are not described below, Axfood has not made any assessment of their effects.

Effective 1 January 2012, the Group applies the Amended IFRS 7 Financial Instruments: Disclosures, with respect to new disclosure requirements for transferred financial assets.

Classification of current and non-current items

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

Operating segment reporting

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

PRINCIPLES OF CONSOLIDATION

General

The consolidated financial statements cover, in addition to the Parent Company, all companies in which the Parent Company directly or indirectly has a controlling influence. A controlling influence entails a direct or indirect right to formulate the company's financial and operative strategies in the aim of obtaining financial benefit.

Axfood AB is a subsidiary of Ax Retail AB, reg. no. 556039-2226 with domicile in Stockholm. Ax Retail AB, in turn, is a wholly owned

subsidiary of Axel Johnson Holding AB, reg. no. 556245-2549, with domicile in Stockholm, which prepares consolidated financial statements for the largest group.

In the preparation of the consolidated financial statements, the purchase method has been used, with the exception of the 2000 merger of Hemköp and Axfood Sverige (formerly D&D Dagligvaror), which is accounted for using the pooling of interests method, whereby no surplus values are reported.

An acquisition of a subsidiary is regarded as a transaction in which the Group indirectly acquires the subsidiary's assets and takes over its liabilities. Through purchase price allocation (PPA) of the business acquisition, the fair value is determined of acquired identifiable assets and liabilities taken over on the acquisition date, as well as of any non-controlling interests. Transaction costs that arise are recognised 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 difference is reported as goodwill. When the difference is negative – a so-called bargain purchase – this is recognised 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 recognised in profit or loss.

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

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

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

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

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

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

Associated companies

Companies in which Group companies have a significant but not controlling influence are classified as associated companies and are reported in accordance with the equity method. The holding amounts to 20%–50% of the number of votes. The equity method entails that the Group's share of the associated company's shareholders' equity, including Group goodwill and remaining Group surplus and deficit values, is reported as shares and participations in

associated companies. The increase or decrease of the associated company's book value that arises through application of the equity method increases/decreases the Group's profit brought forward. Dividends received from associated companies decrease the reported value of shares and participations in associated companies. When the Group's share of reported losses in the associated company exceeds the reported value of the participations in the Group, the value of the participations is reduced to zero. Deduction for losses is also made from long-term financial dealings without collateral, which in an economical sense constitutes the owning company's net investment in the associated company.

The Group's share of the associated company's net profit/loss including depreciation/amortization, impairment charges and dissolution of any surplus and deficit values reported in connection with the acquisition is reported in consolidated profit. The equity method is applied starting at the point in time at which the significant, controlling influence arose and until the point in time that the significant influence ceases.

Unrealized gains that arise between wholly owned companies and associated companies in the Group are eliminated to the extent that they correspond to the Group's ownership stake in the associated company.

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

Principles for internal pricing

For internal sales of goods between companies in the Axfood Group, prices are set on commercial terms. This means that internal customers are not treated in another manner than external customers.

In certain cases the supplier's general profit margin is lower for internal sales. The main explanation for this is that the general risk level in these cases is lower.

The price models used for pricing towards external and internal customers are not different.

Decisions about which prices shall apply, internally as well as externally, are made by Axfood's Executive Committee.

INCOME

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

**Franchise fees**

Axfood has agreements with a number of independent grocers on cooperation under the Hemköp, Tempo and Handlar'n trademarks. The grocers pay an annual sales-based fee to Axfood for participation in marketing programmes, purchasing coordination and support in such areas as technical support, administration and store operations. Franchise revenues (store fees) are recognized in profit or loss as they are earned. During each financial year, preliminary franchise fees are invoiced on a continuing basis, and a definitive reconciliation is made during the following financial year.

Rental income

Axfood sublets store premises. Rents from this activity are reported in a linear manner over the term of the rental agreement. Similarly, rental costs are reported over the term of the rental agreement.

Commission income

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

Government support

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

Insurance indemnification

Upon the theft or damage to any of the Group's assets, insurance indemnification may be received, normally less a set deductible. In cases of loss or damage to property, plant or equipment, claims for compensation from another party caused by such and the subsequent purchase or restoration of a replacement asset are reported separately. The same applies for other costs that are not capitalized in the statement of financial position. Insurance indemnification is reported as other operating income, while deductibles are recognized in profit or loss as other administrative expense. Insurance indemnification that has been granted but not paid out as per the end of the reporting period is reported as a pending receivable.

EXPENSES**Operating expenses**

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

Operating leases

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

Finance leases

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

FINANCIAL INCOME AND EXPENSES

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

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

Foreign exchange gains and losses are reported net.

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

Receivables and liabilities in foreign currency

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

TAXES

The Group's total taxes consist of current tax and deferred tax. Taxes are recognized in profit or loss for the year except for when the underlying transaction is recognized in other comprehensive income or reported against shareholders' equity, whereby the associated tax effect is recognized in other comprehensive income or shareholders' equity. Current tax is tax that is to be paid or received in the current year. This also includes adjustments of current tax pertaining to earlier periods. Deferred tax is calculated in accordance with the balance sheet method and is based on the temporary difference between the reported and taxable value of assets and liabilities. These amounts are calculated based on how the temporary differences are expected to be smoothened and using the tax rates and tax rules that have been decided on or notified as per the end of the reporting period.

Temporary differences are not taken into account in consolidated goodwill, nor in differences attributable to participations in subsidiaries or associated companies that are not expected to be taxed in the foreseeable future.

Deferred tax assets in deductible temporary differences and tax-loss carryforwards are reported only to the extent it is probable that they will entail lower tax payments in the future.

INTANGIBLE ASSETS

Goodwill

In connection with business combinations, goodwill is reported in the statement of financial position in cases where the consideration paid, any non-controlling interests and the fair value of previously owned interests (for business combinations achieved in stages) exceeds the fair value of separately reported acquired assets and liabilities taken over. With respect to goodwill attributable to acquisitions that took place before 1 January 2004, the Group has not applied IFRS retrospectively, which means that the reported value of goodwill as per 1 January 2004 will continue to constitute the Group's cost after testing for impairment, see Note 17.

Goodwill is valued at cost less any accumulated impairment. Goodwill is broken down into cash-generating units and is not amortized, but is instead tested annually for impairment, see the heading Impairment.

Other intangible assets

Other intangible assets consist of development costs, trademarks, leaseholds and customer relationships.

Direct external and internal costs for software development for internal use are reported as an asset in the statement of financial position, under the condition that future efficiency improvement gains are probable and will exceed incurred costs. Costs for pre-studies, training and continuing maintenance are expensed as incurred. Development costs, customer relationships and leaseholds reported in the statement of financial position are carried at cost less accumulated depreciation and any impairment.

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

Borrowing costs that are attributable to the preparation of qualifying assets are capitalized as a part of the qualifying asset's cost. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. For Axfood, borrowing costs are capitalized with respect to retained development costs for software development.

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

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

Useful life is reassessed every year.

PROPERTY, PLANT AND EQUIPMENT

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

Property, plant and equipment are reported at cost after deducting scheduled 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.

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 reported value less direct costs associated with the sale. This profit/loss item is reported among Other operating income/expenses.

Leased assets

Leases are classified as finance or operating leases. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease. Finance leases are reported as a non-current asset in the Group's statement of financial position and are initially stated at the lower of the leased asset's fair value or the present value of the minimum lease payments upon inception of the contract. The corresponding obligation to pay future leasing fees is reported as a current or non-current liability. The leased assets are depreciated over the respective asset's useful life, while the lease payments are reported as interest and amortization of the liability. In the case of operational leasing, the lease payments are expensed over the term of the lease based on use.

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment is based on the estimated useful life of the assets. Depreciation is done on a straight-line basis over the estimated useful life of the assets. The following percentages have been applied:

Equipment, tools, fixtures and fittings	10–33
Store equipment	15
Buildings	2.5–5
Land improvements	5
Improvement expenses for another party's property	Remaining lease period

Axfood applies component depreciation for some store equipment. Component depreciation entails that, where necessary, large machinery is broken down into sub-components with different useful



lives and thus different depreciation schedules. In the event of disposals and exchanges, any residual value is recognized in profit or loss and is replaced by the new sub-component's cost.

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

FINANCIAL INSTRUMENTS

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

Reporting of financial assets and liabilities

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

A financial asset is derecognized from the statement of financial position when the rights to the agreement are realized, mature, or the Company loses control over it. The same applies for a part of a financial asset.

A financial liability is derecognized from the statement of financial position when the obligation in the agreement is fulfilled or becomes extinguished in some other way. The same applies for a part of a financial liability. Purchases and sales of derivative instruments are reported on the transaction date.

Classification and valuation

Financial instruments are initially stated at cost, corresponding to the instrument's fair value plus transaction costs, except for derivative instruments, for which transaction costs are expensed immediately. A financial instrument is classified on the initial reporting occasion based on – among other things – the purpose for which the instrument was acquired. All financial assets and liabilities are classified in the following categories:

- Financial assets and liabilities carried at fair value through profit or loss. Axfood has no financial instruments classified in this category.
- Held-to-maturity investments. Axfood has no financial instruments classified in this category.

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

Loan receivables and trade accounts receivable

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

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

Cash and cash equivalents

Cash and cash equivalents held by the Parent Company and Group include the Group's balances in Group accounts and other bank accounts, including currency accounts and pending payments. Cash and cash equivalents are carried at amortized cost.

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

Available-for-sale financial assets

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

Financial liabilities carried at amortized cost

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

Derivatives and hedge accounting

Derivative instruments consist of forward exchange contracts that are used to cover risks for fluctuations in exchange rates and are reported in accordance with the rules for cash flow hedging.

Axfood’s transaction exposure in foreign currency arises in connection with the import of goods paid for in foreign currency. All of these exposures are hedged to 100% through forward exchange contracts. Axfood applies hedge accounting of contracted purchases. For all orders, hedges are taken out directly after the order is placed with the supplier. This is documented by entering the exchange rate for each order in Axfood’s import system, and for each hedge, there is underlying documentation. This documentation ensures that the Group has effectively hedged the item and that it has the option to measure and conduct follow-ups.

Forward exchange contracts are stated at fair value in the statement of financial position. Since all forward exchange contracts

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

INVENTORIES

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

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

Inventory includes only marketable products.

IMPAIRMENT

The carrying amount of the Group’s assets, excluding inventories and deferred tax assets, is tested at the end of each reporting period to determine any need to recognize impairment. The carrying amount is also tested when an indication of a decrease in value has been identified. IAS 36 Impairment of Assets is used to determine any need to recognize impairment. The need to recognize impairment of financial assets is tested using IAS 39 Financial Instruments: Recognition and Measurement (see the section Financial instruments). An impairment loss is to be recognized for an asset if its carrying amount exceeds its recoverable amount, where the recoverable amount is defined as the higher of the asset’s net sales value and its value in use. In calculating value in use, future cash flows that the asset is expected to generate are discounted using an interest rate that corresponds to Axfood’s weighted cost of capital. A separate asset is attributed to the smallest cash-generating unit in which independent cash flows can be determined. Impairment is recognized in profit or loss. Impairment of assets pertaining to a cash-generating unit is applied primarily to goodwill. Thereafter, a proportional write-down is made of other assets included in the unit.



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

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

PROVISIONS

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

EMPLOYEE BENEFITS

Short-term compensation

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

Post-employment compensation

Axfood has both defined contribution and defined benefit pension plans. Defined contribution pension plans are classified as plans in which Axfood's obligation is limited to the contributions that the Company has undertaken to pay. The service cost of defined contribution plans is charged against profit in pace with employees' performance of their services. Obligations are calculated without discounting, since payment for all of these plans falls due within 12 months.

The service cost for defined benefit pension plans is calculated using the Projected Unit Credit (PUC) method, which in short sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation at the end of the reporting period. The obligation is discounted to present value at the end of the reporting period, from which the fair value of any plan assets is deducted. Further, the calculations are affected by actuarial assumptions, such as remaining lifetime, future rates of employee retirement and future salary levels. Actuarial gains and losses arise either when an assumption changes or when the actual outcome deviates from underlying assumptions. The net value of actuarial gains and losses affects earnings to the extent these fall outside a corridor of 10%. The limit of the corridor consists of 10% of the larger of the present value of the defined ben-

efit obligation and the fair value of the plan assets. The net amount of the actuarial gains and losses that exceeds the corridor limit is apportioned over the employees' average remaining service period, beginning with the year after the current financial year. Calculations of defined benefit pension plans are performed by an independent external actuary.

When there is a difference between how the service cost is established for legal entities and groups, a provision or receivable is reported with respect to the special employer's payroll tax based on this difference. The provision or receivable is not discounted.

Alecta

Retirement pension and family pension obligations for employees in Sweden are secured partly through insurance with Alecta. According to pronouncement UFR 3 issued by the Swedish Financial Reporting Board (RFR), this is classified as a multi-employer defined benefit plan. For the 2011 financial year Axfood did not have access to such information that makes it possible to report this plan as a defined benefit plan. The ITP pension plan that is secured through insurance with Alecta is therefore reported as a defined contribution plan. See also Note 27.

Compensation upon termination of employment

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

CONTINGENT LIABILITIES/FINANCIAL GUARANTEES

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

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

PARENT COMPANY ACCOUNTING POLICIES

The Parent Company complies with the Swedish Annual Accounts Act and Swedish Financial Reporting Board recommendation RFR 2 (September 2011) Reporting for Legal Entities. Application of RFR 2 entails that the Parent Company, in the annual report for the legal entity, shall comply with all EU-endorsed IFRSs and pronouncements as far as possible within the framework of the Annual Accounts Act, the Pension Obligations Vesting Act (Tryggandelagen), and taking into account the connection between reporting and taxation. The recommendation indicates which exceptions from and amendments to IFRS are to be made. The differences between the Parent Company's and Group's accounting policies are described below.

Changed accounting policies 2011

Unless indicated otherwise, the Parent Company's accounting policies in 2011 have been changed in accordance with what applies for the Group.

Effective in 2011, Group contributions received are reported as dividends, and Group contributions rendered are reported as other financial expense. Comparative figures for 2010 have been changed in accordance with the new policies. Previously, Group contributions were reported in accordance with UFR 2 Group Contributions, and shareholder contributions were reported directly in shareholders' equity.

Classification and presentation format

For the Parent Company, an income statement and a comprehensive statement of income are presented, whereas for the Group, both of these financial statements form a comprehensive statement of 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, statement of changes in equity and cash flow statement are based on IAS 1 Presentation of Financial Statements and IAS 7 Statement of Cash Flows. The differences in the Parent Company's income statement and balance sheet compared with the Group's financial statements consist mainly of the reporting of equity and the presentation of provisions as a separate heading in the balance sheet.

Subsidiaries and associated companies

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

Employee benefits/defined benefit pension plans

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

Financial guarantees

The Parent Company applies the relief rule in RFR 2, which entails that legal entities are not required to apply the rule in IAS 39 pertaining to the reporting of guarantee agreements for the benefit of subsidiaries and associated companies. In these cases, the rules of IAS 37, points 14 and 36, are applied, which entail that financial guarantee agreements are to be reported as a provision in the balance sheet when Axfood has a legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. In addition, it must be possible to make a reliable estimate of the amount of the obligation.

Leased assets

In the Parent Company, all leases are reported in accordance with the rules for operating leases.

Taxes

In the Parent Company, untaxed reserves are reported inclusive of deferred tax liabilities. In the consolidated financial statements, however, untaxed reserves are broken down into deferred tax liability and shareholders' equity.

Group contributions and shareholder contributions

The Parent Company reports Group contributions received in accordance with same principle as for customary dividends, i.e., as financial income. Group contributions rendered are applied directly to shareholders' equity by the receiver and are capitalized in the shares and participations by the giver, to the extent that there is no need to recognize impairment.

Mergers

Mergers are reported in accordance with Swedish Accounting Standards Board general recommendation BFAR 1999:1 Mergers of Wholly Owned Stock Companies. The so-called consolidated value method has been applied, which means that the assets and liabilities of the merged subsidiaries have been reported in the respective companies' parent companies at the values these had in the consolidated accounts. During the year, three mergers took place within the Group; the mergers did not take place with Axfood AB.

Changed accounting policies 2012 and later

See the changed accounting policies for the Group above.

NOTE 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 the manner in which the Executive Committee follows up sales and operating profit per business area. Since the Executive Committee follows up the result of operations and decides on resource allocation based on these business areas, these make up the Group's operating segments.

External sales pertain exclusively to sales of products, and all sales take place in Sweden. Impairment losses of SEK 1 m (11) were recognized in 2011. No significant items not affecting cash flow other than depreciation of non-current assets were booked in 2011 and 2010.

Axfood's operating segments have been identified as follows:

Hemköp. Sales of food retail products/groceries with a broad product offering and high level of service.

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

PrisXtra. Sales of food retail products/groceries in the Stockholm market.

Dagab. Wholesaling business, with approximately 85% of sales to Group-owned stores.

Axfood Närlivs. Wholesaling and cash and carry business; sales primarily to retailers, chain customers and other convenience stores.

Other. Pertains to Group-wide support functions such as purchasing coordination, IT and corporate offices.

No individual customer accounts for more than 10% of consolidated sales.

	Willys		Hemköp		PrisXtra		Axfood Närlivs		Dagab		Other		Eliminations		Total	
Per operating segment	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Result of operations																
External net sales	18,904	18,613	4,787	4,978	549	637	6,343	5,821	4,021	4,007	191	204			34,795	34,260
Internal net sales							22	26	21,792	21,694	3,970	3,848	-25,784	-25,568	-	-
Net sales	18,904	18,613	4,787	4,978	549	637	6,365	5,847	25,813	25,701	4,161	4,052	-25,784	-25,568	34,795	34,260
Depreciation/ amortization	-213	-188	-87	-93	-11	-12	-45	-35	-51	-55	-181	-172			-588	-555
Share of profit in associated companies			0	0			0	0							0	0
Operating profit	775	772	94	45	15	-5	110	113	192	189	64	95			1,250	1,209
Financial items, net															-36	-37
Consolidated profit before tax															1,214	1,172
Other disclosures																
Investments in non-current assets ¹⁾	338	301	85	89	3	2	56	50	55	43	345	304			882	789

¹⁾ Tangible and intangible non-current assets.

NOTE 3. ACQUIRED OPERATIONS

In 2011 seven stores and six in-store service counters were acquired. Three stores were converted to Willys Hemma, two to Willys and two to Hemköp.

Combined consideration for acquisitions in 2011 was SEK 71 m. All consideration was paid in cash, and SEK 2 m remains to be paid. Acquisition-related expenses attributable to acquisitions for the year totalled SEK 0 m. Acquired assets and liabilities are carried in Axfood's statement of financial position at fair value.

The following assets and liabilities were acquired in 2011:

	Fair value reported in Group
Property, plant and equipment	21
Current assets	9
Non-current liabilities	0
Other current liabilities	-5
Total identified net assets	25
Goodwill	46
Consideration	71
Cash and cash equivalents in acquired companies	0
Consideration not yet paid out	-2
Impact of acquisitions of companies on cash and cash equivalents since the start of the year	69

Identified goodwill is entirely attributable to the synergies that will become available in connection with acquisitions. Additional adjustments of carrying amounts to fair value in accordance with IFRS have not been necessary. Acquired goodwill amounted to SEK 46 m in 2011. Axfood's share of ownership in stores and in-store service counters amounts to 100% after the acquisitions.

In the months following the acquisitions of operations, the acquired operations contributed SEK -21 m to consolidated profit after tax. The operations have combined annual sales of approximately SEK 407 m. If the acquisitions had been made as per 1 January 2011, the Group's income would have been approximately SEK 258 m higher, i.e., a total of approximately SEK 35,053 m. The profit/loss effect from 1 January 2011 until the date of acquisition is difficult to estimate since the stores were initially charged with one-time costs.

Acquisitions of non-controlling interests

In December 2011 Axfood acquired an additional 10% of Falkenberg Seafood AB for SEK 1.1 m. The acquisition was paid in cash, and Axfood's ownership was increased from 90% to 100%. The reported value of Falkenberg Seafood in the consolidated accounts at the time of the acquisition was SEK 2.6 m. The Group reports a decrease in non-controlling interests of SEK 0 m and a decrease in retained profits of SEK 0 m.

Note 3 continued from preceding page

Effects of ownership changes on the Company's holding in Falkenberg Seafood AB:

Axfood's holding at start of year	3
Effect of increased holding	1
Share of profit for the year	0
Axfood's holding at year-end	4

Events after the balance sheet date

In January 2012, three stores and 50% of a wholesale operation were acquired. Axfood has control of the wholesale business through a shareholder agreement and board dominance. Following the acquisitions, Axfood's ownership of the acquired stores amounts to 100%.

The combined consideration for the acquisitions preliminarily amounts to SEK 96 m, of which SEK 28 m pertains to contingent consideration. The most significant acquired assets consist of intangible assets in the form of customer relationships and trademarks with a preliminary, combined fair value of approximately SEK 18 m, less a deduction for deferred tax liability of SEK 5 m. Goodwill amounts on a preliminary basis to SEK 80 m. Goodwill is mainly attributable to the synergies that the acquired operations are expected to give rise to. The value of acquired intangible assets has been preliminarily determined pending final valuation of the assets. Combined sales for the acquired operations amount to approximately SEK 400 m per year. Consideration, excluding contingent payments, was paid in cash. Acquisition-related expenses attributable to the acquisitions totalled SEK 1 m.

For information on the year's change in consolidated goodwill in general, see note 17.

Acquisitions in preceding year

During the preceding year, five stores and four in-store service counters were acquired. Three stores were converted to Willys Hemma and two to Hemköp. In addition, Axfood acquired a cold storage distribution centre in Kungens Kurva outside Stockholm. Axfood Närlivs AB took over this operation on 1 October, and annual sales at the time of acquisition were estimated at approximately SEK 160 m. The acquisition of the cold storage distribution centre creates good opportunities for Axfood Närlivs to strengthen and develop its position as a wholesaler of fast food solutions.

Combined consideration for acquisitions in 2010 was SEK 58 m, and was paid in cash. No consideration remains to be paid. Acquisition-related expenses attributable to acquisitions for the year totalled SEK 0 m. Acquired assets and liabilities are carried in Axfood's statement of financial position at fair value.

The following assets and liabilities were acquired in 2010

	Fair value reported in Group
Intangible assets	38
Property, plant and equipment	1
Current assets	3
Deferred tax liability	-10
Other current liabilities	-2
Total identified net assets	30
Goodwill	28
Consideration	58
Cash and cash equivalents in acquired companies	0
Settlement of consideration for previous years' acquisitions	1
Impact of acquisitions of companies on cash and cash equivalents since the start of the year	59

Intangible assets excluding goodwill pertain to customer relationships coupled to the acquisition of the cold storage distribution centre in Kungens Kurva. Identified goodwill is entirely attributable to the synergies that will become available in connection with acquisitions. Additional adjustments of carrying amounts to fair value in accordance with IFRS have not been necessary. Acquired goodwill amounted to SEK 28 m in 2010. Axfood's share of ownership in stores, in-store service counters and distribution centres amounts to 100% after the acquisitions.

In the months following the acquisitions of operations, the acquired operations contributed SEK -10 m to consolidated profit after tax. The operations have combined annual sales of approximately SEK 300 m. If the acquisitions had been made as per 1 January 2010, the Group's income would have been approximately SEK 206 m higher, i.e., a total of approximately SEK 34,466 m. The profit/loss effect from 1 January 2010 until the date of acquisition is difficult to estimate since the stores were initially charged with one-time costs.

Parent Company

During the year, the Parent Company increased the value of its participations in Group companies by SEK 12 m (-). The increase is attributable to intra-Group transactions.

NOTE 4. DISCONTINUED OPERATIONS

Sold operations

One store operation was sold during the year and pertained to the sale of operating assets and liabilities. No store operations were sold during the preceding year. The sale during the year was not of such size that it needed to be reported separately as a discontinued operation in the statement of comprehensive income and statement of financial position.

Impact on cash flow of closed/sold operations

Cash flow from the sale of operations during the year is shown in the following table.

	Group	
	2011	2010
Cash flow from sale of operating assets and liabilities	1	-
Total	1	-

	Parent Company	
	2011	2010
Cash flow from sale of operations	28	-
Total	28	-

All consideration for sales during the year has been settled. The Parent Company's sale in 2011 pertained to intra-Group restructuring.

NOTE 5. BREAKDOWN OF INCOME

Group	2011	2010
Net sales:		
Sales of products	34,551	34,002
Other sales	244	258
Total net sales	34,795	34,260
Other operating income	253	254
Total	35,048	34,514

NOTE 6. BREAKDOWN OF EXPENSES

Group	2011	2010
Cost of goods for resale	25,727	25,501
Payroll costs	3,899	3,766
Depreciation/amortization	588	555
Other	3,584	3,483
Total	33,798	33,305

NOTE 7. INFORMATION ON INTRA-GROUP INCOME AND EXPENSES

The Parent Company's income from Group companies amounted to SEK 175 m (178). The Parent Company's expenses from Group companies amounted to SEK 77 m (47). The Parent Company's sales to Group companies consisted 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.

NOTE 8. INFORMATION ON EMPLOYEES; COMPENSATION OF DIRECTORS, THE CEO AND OTHER SENIOR EXECUTIVES

Average number of employees¹⁾

	2011	Of whom, men	2010	Of whom, men
Parent Company				
Average number of employees	101	27	93	23
Subsidiaries				
Average number of employees	6,961	3,241	6,802	3,191
TOTAL, GROUP	7,062	3,268	6,895	3,214

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

Wages, salaries and other remuneration, and social security charges

	2011			2010		
	Wages, salaries and other remuneration	Social security charges	Of which, pension costs	Wages, salaries and other remuneration	Social security charges	Of which, pension costs
Parent Company	62	31	12	59	31	13
Subsidiaries	2,660	948	194	2,571	906	194
TOTAL, GROUP	2,722	979	206	2,630	937	207

Gender breakdown, Group, number

	Board of Directors		Other senior executives	
	2011	2010	2011	2010
Men	29	28	53	52
Women	13	12	13	13
Total	42	40	66	65

Gender breakdown, Parent Company, number

	Board of Directors		Other senior executives	
	2011	2010	2011	2010
Men	3	3	8	8
Women	4	4	3	3
Total	7	7	11	11

Note 8, continued from preceding page

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

	2011		2010	
	Boards, presidents and other senior executives	Other employees	Boards, presidents and other senior executives	Other employees
Parent Company¹⁾				
	33	47	32	45
Subsidiaries				
	55	2,587	56	2,497
TOTAL, GROUP	88	2,634	88	2,542

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

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

	2011		2010	
	Directors' fee	Other compensation	Directors' fee	Other compensation
Parent Company				
Chairman of the Board ¹⁾	525	–	500	–
Vice Chairman of the Board ²⁾	375	–	350	–
Other board members:				
Antonia Ax:son Johnson	300	–	275	–
Peggy Bruzelius	300	–	275	–
Maria Curman	300	–	275	–
Odd Reitan	300	–	275	–
Annika Åhnberg	300	–	275	–
Michael Sjören ³⁾	–	–	–	–
Ulla-May Iwahr Rydén ³⁾	–	–	–	–
Lars Östberg ³⁾	–	–	–	–
Total	2,400	–	2,225	–

¹⁾ Fredrik Persson is Chairman of the Board.

²⁾ Marcus Storch is Vice Chairman of the Board.

³⁾ Employee representatives.

Salaries and other benefits paid to other senior executives, KSEK

	2011					
	Base salary	Variable compensation	Other benefits	Pension cost	Other compensation	Total
CEO ¹⁾	5,284	1,163	304	2,196	–	8,947
Other senior executives, Parent Company ^{2, 3)}	20,503	4,231	839	7,598	81	33,252
Total	25,787	5,394	1,143	9,794	81	42,199
Other senior executives, subsidiaries ^{2, 3)}	49,478	4,794	1,892	15,131	623	71,918
TOTAL, GROUP	75,265	10,188	3,035	24,925	704	114,117

	2010					
CEO ¹⁾	4,972	1,763	273	2,188	–	9,196
Other senior executives, Parent Company ^{3, 4)}	17,651	5,667	826	6,389	9	30,542
Total	22,623	7,430	1,099	8,577	9	39,738

Other senior executives, subsidiaries ³⁾	50,105	5,788	1,932	15,592	48	73,465
TOTAL, GROUP	72,728	13,218	3,031	24,169	57	113,203

¹⁾ Anders Strålmán is CEO of the Parent Company.

²⁾ The Axfood Group's Executive Committee in 2011 (excluding the CEO) consisted of Karin Hygrell-Jonsson, Hans Holmstedt, Anders Quist, Louise Ring, Jan Lindmark, Anders Agerberg, Nicholas Pettersson, Thomas Evertsson, Ola Andersson and Anne Rhenman Eklund.

³⁾ Of base salary, variable compensation and other remuneration paid out by the Parent Company, KSEK 18,789 (17,922) pertains to remuneration that the senior executives received from other Group companies. Of the Parent Company's other benefits, KSEK 561 (587) pertains to remuneration from other Group companies.

⁴⁾ The Axfood Group's Executive Committee in 2010 (excluding the CEO) consisted of Karin Hygrell-Jonsson, Mats Sjö Dahl, Anders Quist, Louise Ring, Jan Lindmark, Anders Agerberg, Nicholas Pettersson, Thomas Evertsson, Ola Andersson and Anne Rhenman Eklund.

Comments, Note 8

Board of Directors

A fee is payable to the Chairman of the Board and the directors in accordance with a decision made by the Annual General Meeting. No separate fee is paid for committee work. Employee representatives do not receive any directors' fees. According to a decision by the 2011 Annual General Meeting, the annual fee payable to directors was set at KSEK 2,400 (2,225), of which KSEK 525 (500) is payable to the Chairman. Seventy-five per cent of the fee was paid out in 2011, and the remainder will be paid out after year-end. Expensed compensation paid to the Company directors is shown in the table.

Note 8, continued from preceding page

CEO

Axfood's CEO, Anders Strålman, received SEK 6.4 m (6.7) in contractual salary and other benefits in 2011, including SEK 1.2 m (1.8) in variable compensation. The CEO's variable compensation is based on the performance and development of the business. His variable compensation can amount to a maximum of 70% of his yearly salary. Fifty per cent of the set variable compensation is paid out after the Annual General Meeting in the year following the year in which it was earned. The remaining 50% will be paid out after the 2013 Annual General Meeting, provided he is still employed.

In addition, the CEO has a taxable housing and travel benefit, a car benefit and private healthcare insurance. The CEO is entitled to retirement pension from 65 years of age, and a right to pension provisions corresponding to 35% of his yearly cash salary. The provision as per 31 December 2011 amounted to SEK 8.6 m (6.8). In the event Axfood serves notice, the CEO is entitled to a 12-month notice period plus severance pay corresponding to 12 months' salary, on account. In the event the CEO gives notice, the notice period is six months.

Other senior executives

Salary and other benefits paid to other senior executives of the Parent Company amounted to SEK 24.7 m (23.3), including SEK 4.2 m (5.7) in variable compensation. By other senior executives is meant the ten persons who together with the CEO form the Axfood Group's Executive Committee. See pages 66–67 for the composition of the Executive Committee. Variable compensation is mostly based on the Group's earnings and sales performance, and partly on personal targets. Variable compensation can amount to a maximum of 55% of the executives' yearly salary. Other senior executives have customary terms of employment and are entitled to salary during the notice period plus severance pay corresponding to 12 months' salary, on account. The notice period is between six and 12 months if the Company serves notice, and six months if the employee gives notice. The retirement age has been set at 65 years. The ITP plan serves as the main cost framework, with the addition of a defined contribution pension amounting to 25% of salary amounts between 30–50 times the Price Base Amount. The Board's compensation committee makes decisions on salary and other terms of employment for members of the Executive Committee (except for the CEO, 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.

NOTE 9. AUDITORS' FEES

	Group		Parent Company	
	2011	2010	2011	2010
KPMG				
Auditing fees	5	4	1	1
Auditing activities in addition to the audit assignment	1	0	0	0
Tax consulting	0	0	0	0
Other services	0	1	0	0
Total	6	5	1	1

NOTE 10. DEPRECIATION AND AMORTIZATION

Group	Other intangible assets		Land and buildings		Equipment, tools, fixtures and fittings		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Cost of goods sold	99	80	1	1	374	322	474	403
Selling expenses	0	0	–	–	35	33	35	33
Administrative expenses	27	23	–	–	52	96	79	119
Total depreciation/amortization	126	103	1	1	461	451	588	555

The Parent Company's depreciation of SEK 2 m (6) pertains to equipment, tools, fixtures and fittings and is reported under administrative expenses.

NOTE 11. OPERATING LEASES

	Group		Parent Company	
	2011	2010	2011	2010
Minimum lease payments during the financial year	1,198	1,183	30	32
Variable charges	11	11	–	–
Total leasing costs during the financial year¹⁾	1,209	1,194	30	32
Leasing income pertaining to sublet premises	102	89	22	25
Contracted future minimum lease payments				
Within one year	1,103	1,098	25	25
Between one and five years	2,519	2,469	24	73
Longer than five years	796	675	25	–
Total future lease payments	4,418	4,242	74	98

¹⁾ Of which, rents for premises SEK 1,162 m (1,146) for the Group and SEK 29 m (30) for the Parent Company.

Axfood rents warehouse and store premises. Renting is done from outside parties, while subletting is mainly done to Group companies and to franchisees. The terms of rental agreements are in line with the going rate in the market with respect to price as well as duration. The variable charge consists of an arrangement whereby certain rental agreements have minimum rents plus a sales-based portion.

NOTE 12. RELATED PARTY TRANSACTIONS

The Axfood Group's transactions with related parties, aside from those covered by the consolidated accounting, consist of transactions with associated companies and with subsidiaries of the Axel Johnson Group. During the year, purchases from associated companies totalled SEK 3 m (1). Sales to associated companies totalled SEK 1 m (35). All prices are set at going rates in the market.

Axfood AB is 50.1%-owned by Axel Johnson AB. Axfood AB and Axel Johnson AB have signed joint purchasing agreements in the areas of telephony, travel, transport and lodging in connection with business travel. No transactions between the companies with respect to these agreements took place during the year.

Martin & Servera AB, a subsidiary of Axel Johnson AB, delivers foodservice supplies to Axfood companies. Purchases in 2011 from Martin & Servera AB amounted to SEK 26 m (23). Axfood's sales to Martin & Servera AB in 2011 amounted to SEK 14 m (5). As per 31 December 2011, the Axfood Group's current liabilities to Martin & Servera AB amounted to SEK 1 m (2), and current receivables totalled SEK 1 m (1).

AxFast AB, a company in the Axel Johnson Group, leases property to companies in the Axfood Group. During the year Axfood's profit was charged with SEK 45 m (49) in rents to AxFast AB. All rents have been set according to going rates in the market. As per 31 December 2011, the Axfood Group's current liabilities to AxFast AB amounted to SEK 13 m (14).

Associated companies owned no shares in Axfood AB as per 31 December 2011.

NOTE 13. NET FINANCIAL ITEMS

	Group		Parent Company	
	2011	2010	2011	2010
Interest income from bank deposits	0	0	0	0
Interest income from non-impaired loan receivables and trade accounts receivable ¹⁾	6	2	16	11
Interest income from impaired loan receivables and trade accounts receivable	0	0	0	0
Exchange rate movements	0	0	0	0
Other financial income	0	0	-	-
Group contributions received	-	-	1,212	1,230
Total financial income	6	2	1,228	1,241
Interest expenses on financial liabilities carried at amortized cost				
Borrowings (bank loans and bank lines of credit) ²⁾	-16	-14	-16	-13
Trade accounts receivable and other current liabilities	-5	-4	0	0
Pension liability	-17	-17	-1	0
Other financial expenses	-4	-4	-4	-4
Group contribution rendered	-	-	-30	-38
Total financial expenses	-42	-39	-51	-55
Net financial items	-36	-37	1,177	1,186

¹⁾ Interest income in the Parent Company from Group companies amounted to SEK 16 m (11).

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

All interest income pertains to financial items that are not stated at fair value through profit or loss.

NOTE 14. APPROPRIATIONS AND UNTAXED RESERVES

	Parent Company	
	2011	2010
Appropriations		
Change in tax allocation reserve	-274	-
Change in accumulated excess depreciation	0	4
Total	-274	4
Untaxed reserves		
Tax allocation reserve	274	-
Accumulated excess depreciation	1	1
Total	275	1

NOTE 15. TAXES

	Group		Parent Company	
	2011	2010	2011	2010
Current tax				
Current tax on profit for the year	-223	-312	-217	-301
Adjustment of current tax from previous years	0	1	1	-
	-223	-311	-216	-301
Deferred tax				
Deferred tax pertaining to temporary differences	-100	1	-1	1
Adjustment of deferred tax pertaining to previous years	0	-	-	-
	-100	1	-1	1
Total reported tax charge	-323	-310	-217	-300

Group – reconciliation of applicable tax rate and effective tax rate

	2011	%	2010	%
Reported profit before tax	1,214		1,172	
Tax based on applicable tax rate for Parent Company	-319	-26.3	-308	-26.3
Tax effect of:				
Other non-deductible expenses	-5	-0.4	-4	-0.4
Other tax-exempt revenues	1	0.1	1	0.1
Adjustments of current tax pertaining to previous years	0	0.0	1	0.1
Adjustments of deferred tax pertaining to previous years	0	0.0	-	-
Reported tax charge/ effective tax rate	-323	-26.6	-310	-26.5
Current and deferred tax items reported directly against shareholders' equity via other comprehensive income	-1		0	

Note 15, continued from preceding page

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

	2011	%	2010	%
Reported profit before tax	829		1,143	
Tax according to applicable tax rate for Parent Company	-218	-26.3	-301	-26.3
Tax effect of:				
Other non-deductible expenses	0	0.0	-1	-1.2
Other tax-exempt revenues	0	0.0	1	1.3
Adjustments of current tax attributable to previous years	1	0.1	-	-
Reported tax charge/effective tax rate	-217	-26.2	-301	-26.2
Current and deferred tax items reported directly against shareholders' equity	-		-	

Reported deferred tax assets and tax liabilities

	Group		Parent Company	
	2011	2010	2011	2010
Intangible assets	-82	-82	-	-
Land and buildings	-2	-2	-	-
Equipment, tools, fixtures and fittings	12	12	-	-
Other receivables	7	8	-	-
Untaxed reserves	-211	-122	-	-
Provisions	1	6	9	11
Other liabilities	2	8	0	0
Total deferred tax asset (+)/ deferred tax liability (-), net	-273	-172	9	11
Deferred tax asset	35	42	9	11
Deferred tax liability	-308	-214	-	-

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

Change in deferred tax in temporary differences during the year, Group

	Amount at start of year	Recognized in profit for the year	Recognized in other comprehensive income	Amount at end of year
Intangible assets	-82	0	-	-82
Land and buildings	-2	-	0	-2
Equipment, tools, fixtures and fittings	12	0	-	12
Other receivables	8	0	-1	7
Untaxed reserves	-122	-89	-	-211
Provisions	6	-5	-	1
Other liabilities	8	-6	-	2
Total	-172	-100	-1	-273

NOTE 16. EARNINGS PER SHARE

Earnings per share were SEK 16.99 (16.42).

Since Axfood does not have, nor has had any outstanding convertible or stock option programmes during the year, there is no dilutive effect in calculations of earnings per share.

The number of shares outstanding was 52,467,678 (52,467,678), and the average number of shares outstanding was 52,467,678 (52,467,678).

NOTE 17. INTANGIBLE ASSETS

	Goodwill		Intangible assets in progress		Other intangible assets ¹⁾	
Group	31/12/11	31/12/10	31/12/11	31/12/10	31/12/11	31/12/10
Opening cost	1,567	1,539	199	277	929	618
Investments	46	28	239	192	1	41
(of which, internally developed)	-	-	(37)	(36)	-	-
Sales and disposals	-	-	-	-	0	-
Reclassifications	-	-	-201	-270	201	270
(of which, internally developed)	-	-	(-33)	(-47)	(33)	(47)
Closing accumulated cost	1,613	1,567	237	199	1,131	929
Opening amortization	-	-	-	-	-394	-291
Sales and disposals	-	-	-	-	0	-
Amortization for the year	-	-	-	-	-126	-103
Closing accumulated amortization	-	-	-	-	-520	-394
Closing planned residual value	1,613	1,567	237	199	611	535

¹⁾ Of other intangible assets, SEK 80 m (80) pertains to trademarks, SEK 7 m (14) to leaseholds, and SEK 28 m (38) to customer relationships.

Goodwill

The Group's reported goodwill as per 31 December 2011 is broken down per segment as follows:

Hernköp	248
Willys	499
PrisXtra	270
Axfood Närlivs	79
Dagab	517
Total	1,613

Note 17, continued from preceding page

Intangible assets in progress and other intangible assets

The Group's intangible assets in progress consist exclusively of capitalized costs for IT development. Other intangible assets consist of IT development, trademarks, customer relationships and leaseholds. Of other intangible assets, closing planned residual value pertaining to IT development accounts for SEK 495 m (404). Capitalized IT costs are amortized on a straight-line basis according to the estimated useful life of the assets, which is between five and ten years. The remaining amortization period for capitalized IT costs is seven years (seven).

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 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 have been made based on the cash-generating units' benefit in use. Benefit in use is based on the cash flows after tax that are estimated to be generated during the remaining useful life of the units, with an assumption of perpetual useful life.

For the first year, the future cash flows that have been used in calculation of the respective units' benefit in use are based on the business plan for 2012 for the respective units. Thereafter, the cash flows are based on assumed annual growth of 2% (2%). The forecast cash flows have been discounted to present value using a discount rate of 7.3% after tax (6.7%), which corresponds to a discount rate before tax of approximately 9% (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 4.0% (4.0%), a going-rate risk premium of 4.5% (4.6%), and a beta coefficient of 0.8 (0.6). The beta coefficient shows the relationship between the price of Axfood's shares and changes in a benchmark index. With a discounting factor of 7.3% (6.7%), benefit in use exceeds the carrying amount for all tested units. Thus there is no need to recognize impairment as per 31 December 2011.

Future cash flows for all units are based on the same assumptions. Important assumptions, i.e., assumptions that have a large effect on cash flows in the event of changes, include assumptions on future price and volume developments. In the 2012 business plan, which forms the basis for cash flow calculations, the Executive Committee has made an assumption on price and volume growth of approximately 1% (3%), which is based on estimates performed both by the Executive Committee and external parties on the price and volume trend in Sweden for food retail products in Axfood's product offering. This estimate is based on previous years' experience and on the anticipated competitive situation in the industry. In the opinion of the Executive Committee, reasonable, possible changes in the variables (assumptions) used in these calculations would not have such large effects that they would individually reduce the recoverable value to a value that is lower than the carrying amount.

NOTE 18. PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings ¹⁾		Equipment, tools, fixtures and fittings		Construction in progress	
	31/12/11	31/12/10	31/12/11	31/12/10	31/12/11	31/12/10
Opening cost	67	22	4,919	4,528	44	23
Investments	0	46	589	495	94	69
Increases through acquisitions	–	–	21	1	–	–
Sales and disposals	–	–1	–171	–153	0	–
Reclassifications	–	0	65	48	–65	–48
Closing accumulated cost	67	67	5,423	4,919	73	44
Opening depreciation	–8	–7	–3,419	–3,086	–	–
Increases through acquisitions	–	–	0	0	–	–
Sales and disposals	–	0	142	118	–	–
Depreciation for the year	–1	–1	–461	–451	–	–
Closing accumulated depreciation	–9	–8	–3,738	–3,419	–	–
Opening impairment	–	–	–15	–4	–	–
Impairment for the year	–	–	–1	–11	–	–
Reversal of impairment	–	–	1	–	–	–
Closing accumulated impairment	–	–	–15	–15	–	–
CLOSING PLANNED RESIDUAL VALUE	58	59	1,670	1,485	73	44

¹⁾ The cost of land was SEK 10 m (10).

Parent Company	Equipment, tools, fixtures and fittings		Construction in progress	
	31/12/11	31/12/10	31/12/11	31/12/10
Opening cost	44	46	–	–
Investments	0	1	0	–
Sales and disposals	–	–3	–	–
Closing accumulated cost	44	44	0	–
Opening depreciation	–40	–37	–	–
Sales and disposals	–	3	–	–
Depreciation for the year	–2	–6	–	–
Closing accumulated depreciation	–42	–40	–	–
CLOSING PLANNED RESIDUAL VALUE	2	4	0	–

NOTE 19. GOVERNMENT SUPPORT

Government support in the form of labour market policy grants amounted to SEK 1 m (1) in the statement of financial position (reported under prepaid income) and SEK 43 m (42) in the statement of comprehensive income, which reduced payroll costs.

No other unfulfilled conditions or contingent liabilities exist.

NOTE 20. FINANCE LEASES

Equipment, tools, fixtures and fittings		
Group	31/12/11	31/12/10
Opening cost	119	122
Investments	49	37
Sales and disposals	-42	-40
Closing accumulated cost	126	119
Opening depreciation	-53	-56
Sales and disposals	24	24
Depreciation for the year	-22	-21
Closing accumulated depreciation	-51	-53
CLOSING PLANNED RESIDUAL VALUE	75	66
Minimum lease payments		
Finance lease liabilities falling due for payment:	2011	2010
Within 1 year	30	35
Between 1 and 5 years	45	31
Total current and non-current liability	75	66

In the Group, no properties with finance leases have been sublet. In addition, there were no variable fees in profit for the period.

NOTE 21. PARTICIPATIONS IN GROUP COMPANIES

2011 Parent Company	Reg. no.	Registered office	Number of shares	Share of capital, %	Book value
Hemköpskedjan AB	556113-8826	Solna	100,000	100	260
Axfood Sverige AB	556004-7903	Solna	3,434,656	100	1,548
Willlys AB	556163-2232	Gothenburg	1,000	100	337
Axfood IT AB	556035-6163	Solna	1,000	100	2
Dagab AB	556070-3166	Solna	28,000,000	100	905
PrisXtra AB	556460-9542	Stockholm	500	100	400
Total, Group companies					3,452
2010 Parent Company	Reg. no.	Registered office	Number of shares	Share of capital, %	Book value
Hemköpskedjan AB	556113-8826	Solna	100,000	100	266
Axfood Sverige AB	556004-7903	Solna	3,434,656	100	1,548
Willlys AB	556163-2232	Gothenburg	1,000	100	319
Axfood IT AB	556035-6163	Solna	1,000	100	2
Axfood Närlivs AB	556488-5654	Örebro	1,000	100	28
Dagab AB	556070-3166	Solna	28,000,000	100	905
PrisXtra AB	556460-9542	Stockholm	500	100	400
Total, Group companies					3,468

NOTE 22. PARTICIPATIONS IN ASSOCIATED COMPANIES

Group	2011	2010
Opening cost	2	0
Acquisitions during the year	-	2
Divestments	0	-
Closing cost	2	2
Adjustments of shareholders' equity pertaining to investments in associated companies		
Opening carrying amount	1	1
Share in profit before tax	0	0
Divestments and other changes	0	-
Closing carrying amount	1	1
Total	3	3

2011 Group	Reg. no.	Registered office	Number of shares	Share of capital/ votes, %	Book value	Share of capital
United Nordic Inc AB	556043-4606	Solna	250	25	0	0
Direktbutikerna Scandinavia AB	556535-8826	Stockholm	105,360	50	2	1
Total					2	1
2010 Group	Reg. no.	Registered office	Number of shares	Share of capital/ votes, %	Book value	Share of capital
Nya Vårgårda Matmarknad AB	556085-9653	Vårgårda	250	25	0	1
United Nordic Inc AB	556043-4606	Solna	250	25	0	0
Direktbutikerna Scandinavia AB	556535-8826	Stockholm	105,360	50	2	0
Total					2	1

NOTE 23. FINANCIAL ASSETS

2011	Participations in Group companies, Parent Company	Participations in associated companies, Group	Other long-term securities holdings, Group	Other non-current receivables, Group
Opening cost	3,468	3	23	6
Acquisitions during the year	12	-	-	-
Additional receivables	-	-	1	2
Measurement at fair value	-	-	5	-
Disposals/amortization	-28	0	-	-
Share in associated company profits	-	0	-	-
Reclassifications	-	-	-	4
Closing accumulated book value	3,452	3	29	12
2010	Participations in Group companies, Parent Company	Participations in associated companies, Group	Other long-term securities holdings, Group	Other non-current receivables, Group
Opening cost	3,468	1	22	7
Acquisitions	-	2	-	-
Additional receivables	-	-	-	0
Share in associated company profits	-	0	-	-
Reclassifications	-	-	1	-1
Closing accumulated book value	3,468	3	23	6

NOTE 24. NON-CURRENT AND CURRENT RECEIVABLES

	Group		Parent Company	
	31/12/11	31/12/10	31/12/11	31/12/10
Non-current noninterest-bearing receivables	12	6	3	–
Total other non-current receivables	12	6	3	–
Other noninterest-bearing receivables	139	102	0	0
Total other current receivables	139	102	0	0

NOTE 25. ACCOUNTS RECEIVABLE – TRADE

Accounts receivable – trade	31/12/11	31/12/10
Trade accounts receivable, gross	667	683
Provision for impairment of receivables	–28	–23
Trade accounts receivable, net	639	660

Provision account for loan losses	31/12/11	31/12/10
Provision at start of year	–23	–33
Provision for possible losses	–10	–10
Confirmed losses	5	20
Provision at year-end	–28	–23

Age analysis of trade accounts receivable	31/12/11	31/12/10
Trade accounts receivable not due	540	548
Trade accounts receivable past due 0-30 days	80	101
Trade accounts receivable past due >30-90 days	15	10
Trade accounts receivable past due >90-180 days	8	7
Trade accounts receivable past due >180-360 days	10	12
Trade accounts receivable past due >360 days	14	5
Total	667	683

To limit the maximum credit risk associated with trade accounts receivable, Axfood has accepted security which, as per the end of the reporting period, covers SEK 51 m (73) of outstanding trade accounts receivable. In 2011 a total of SEK 5 m (6) of accepted security was utilized to settle unpaid trade accounts receivable.

NOTE 26. PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
	31/12/11	31/12/10	31/12/11	31/12/10
Prepaid rents	263	249	8	6
Accrued bonuses and similar	442	434	–	–
Delivered, uninvoiced	15	23	–	–
Other prepaid expenses	82	88	2	2
Other accrued income	20	6	0	–
Total	822	800	10	8

NOTE 27. PROVISION FOR PENSIONS AND SIMILAR OBLIGATIONS

Group	2011	2010
Defined benefit pension plans		
Present value of funded obligations	10	10
Present value of unfunded obligations	460	429
Total present value of obligations	470	439
Fair value of plan assets	–8	–9
Present value of net obligations	462	430
Unreported actuarial losses	–98	–68
Net liability in statement of financial position	364	362
Amounts reported in statement of financial position		
• provisions	364	362
• assets	–	–
Net liability in statement of financial position	364	362

Of Axfood's net liability for defined benefit pension plans in Sweden, SEK 329 m (328) consists of obligations within the FPG/PRI system. Of these obligations, SEK 222 m (227) 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.

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 statement of financial position. The obligation is reported net and amounted to SEK 1 m (0) on 31 December 2011. The actual return on plan assets was SEK 0 m (0), which corresponded to the anticipated return. No fees were paid in to the foundation during the year. During the year, SEK 1 m (0) was received in compensation from the foundation.

Changes in the present value of defined benefit obligations	2011	2010
Obligations for defined benefit plans as per 1 January	439	440
Benefits paid	–27	–22
Current service cost	7	7
Interest expense	17	17
Actuarial gains and losses	34	–3
Obligations for defined benefit plans as per 31 December	470	439

Note 27, continued from preceding page

Costs recognized in profit for the year	2011	2010
<i>Defined benefit pension plans</i>		
Benefits earned during the year	7	7
Interest expense	17	17
Actual return on plan assets	0	0
Net actuarial gains/losses reported for the year	3	3
Total	27	27
<i>Defined contribution pension plans</i>		
Costs during the period ¹⁾	194	193
Total pension cost	221	220

¹⁾ Pension insurance contributions made during the year to Alecta for pension insurance under the ITP plan amounted to SEK 40 m (42). Alecta's surplus can be apportioned among the policyholders and/or the insureds. As per 30 September 2011, Alecta's surplus in the form of its collective funding ratio was 113%. 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 2011.

Pension costs are broken down per function in profit for the year as follows

	2011	2010
Cost of goods sold	117	120
Selling expenses	46	44
Administrative expenses	41	39
Interest expense	17	17
Total	221	220
<i>Change in net liability during the year</i>		
Net liability at start of year	362	357
Compensation from pension foundation	1	0
Defined benefit direct pensions	1	0
Net expense in profit for the year	27	27
Pension disbursements	-27	-22
Net liability at end of year	364	362

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

	2011	2010	2009	2008	2007
Discount rate	4.0%	4.0%	4.0%	4.5%	4.0%
Future annual salary increases	3.0%	3.0%	3.0%	3.0%	3.0%
Future annual pension increases	2.0%	2.0%	2.0%	2.0%	2.0%
Employee attrition rate	3.8%	3.8%	3.8%	3.6%	3.8%

Historical information	2011	2010	2009	2008	2007
Present value of defined benefit obligations	470	439	440	432	409
Fair value of plan assets	-8	-9	-9	-9	-9
Deficit in plan	462	430	431	423	400
Experience-based adjustment of defined benefit obligations	-1	-3	7	2	-7

The Group estimates that approximately SEK 29 m will be paid towards defined benefit plans in 2012.

Parent Company

The Parent Company's reported pension liability amounted to SEK 31 m (32) and pertains to obligations to the current and former CEOs. All pension obligations to the current and former CEOs are reported on the balance sheet. The Parent Company does not have any special, detachable assets linked to its pension obligations, which is why the entire present value is reported on the balance sheet. The change in the capital value is shown below.

Reported capital value of pension obligations	2011	2010
Reported capital value on 1 January	32	30
Benefits paid out	-5	-
Defined benefit direct pensions	2	-
Cost excluding interest expense	1	2
Interest expense	1	0
Reported capital value of pension obligations on 31 December	31	32

Of the Parent Company's reported pension liability, SEK 29 m (32) is covered by credit insurance via FPG.

Pension costs	2011	2010
<i>Own undertakings</i>		
Liability revaluation of undertakings	1	2
Interest expense	1	0
Total	2	2
<i>Undertakings through insurance</i>		
Insurance premiums ¹⁾	8	9
Special employer's payroll tax on pension costs	2	2
Cost of credit insurance premiums	0	0
Total	10	11
Pension costs for the year	12	13

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

Assumptions for defined benefit obligations

The terms of the pension agreements entered into by the Parent Company entail that the value of the obligations is adjusted upward each year by an average of approximately 0% (1%).

It is estimated that approximately SEK 5 m will be paid out in pension payments from the Parent Company in 2012.

NOTE 28. FINANCIAL ASSETS AND LIABILITIES

The tables below provide disclosures on how fair value has been determined for the financial instruments that are measured at fair value in the statement of financial position.

The breakdown of how fair value is determined is done according to three levels:

Level 1: according to prices in an active market for the same instrument. Axfood has no financial instruments at this level.

Level 2: based on direct or indirect observable market data that is not included in level 1. Level 2 includes derivatives used in hedge accounting and available-for-sale financial assets.

Level 3: based on input data that is not observable in the market. Axfood has no financial instruments at this level.

Group 2011	Derivatives used in hedge accounting	Trade accounts receivable and loan receivables	Available-for- sale financial assets	Other financial liabilities	Total carrying amount	Fair value	Non-financial assets and liabilities	Total statement of financial position
Other long-term securities holdings			29		29	29		29
Other non-current receivables		12			12	12		12
Accounts receivable – trade		639			639	639		639
Other current receivables					–	–	139	139
Cash and bank balances		317			317	317		317
Total financial assets	–	968	29	–	997	997	139	1,136
Other non-current interest-bearing liabilities				45	45	45		45
Current liabilities to credit institutions				603	603	603		603
Other current interest-bearing liabilities				30	30	30		30
Other current liabilities	3				3	3	127	130
Accounts payable – trade				2,273	2,273	2,273		2,273
Total financial liabilities	3	–	–	2,951	2,954	2,954	127	3,081

Group 2010	Derivatives used in hedge accounting	Trade accounts receivable and loan receivables	Available-for- sale financial assets	Other financial liabilities	Total carrying amount	Fair value	Non-financial assets and liabilities	Total statement of financial position
Other long-term securities holdings			23		23	23		23
Other non-current receivables		6			6	6		6
Accounts receivable – trade		660			660	660		660
Other current receivables		0			0	0	102	102
Cash and bank balances		315			315	315		315
Total financial assets	–	981	23	–	1,004	1,004	102	1,106
Non-current liabilities to credit institutions				5	5	5		5
Other non-current interest-bearing liabilities				31	31	31		31
Current liabilities to credit institutions				407	407	408		407
Other current interest-bearing liabilities				35	35	35		35
Other current liabilities	3				3	3	79	82
Accounts payable – trade				2,208	2,208	2,208		2,208
Total financial liabilities	3	–	–	2,686	2,689	2,690	79	2,768

Note 28, continued from preceding page

	Trade accounts receivable and loan receivables	Available- for-sale financial assets	Other financial liabilities	Total carrying amount	Fair value	Non-financial assets and liabilities	Total balance sheet
Parent Company 2011							
Other long-term securities holdings		3		3	6		3
Other non-current receivables	3			3	3		3
Accounts receivable – trade	0			0	0		0
Receivable from Group companies	888			888	888	1,215	2,103
Other current receivables	0			0	0		0
Cash and bank balances	0			0	0		0
Total financial assets	891	3	–	894	897	1,215	2,109
Current liabilities to credit institutions			603	603	603		603
Accounts payable – trade			14	14	14		14
Liabilities to Group companies			1,003	1,003	1,003	44	1,047
Total financial liabilities	–	–	1,620	1,620	1,620	44	1,664

	Trade accounts receivable and loan receivables	Available- for-sale financial assets	Other financial liabilities	Total carrying amount	Fair value	Non-financial assets and liabilities	Total balance sheet
Parent Company 2010							
Other long-term securities holdings		3		3	6		3
Accounts receivable – trade	0			0	0		0
Receivables from Group companies	872			872	872	1,230	2,102
Cash and bank balances	0			0	0		0
Total financial assets	872	3	–	875	878	1,230	2,105
Current liabilities to credit institutions			406	406	407		406
Accounts payable – trade			15	15	15		15
Liabilities to Group companies			1,404	1,404	1,404		1,404
Total financial liabilities	–	–	1,825	1,825	1,826	–	1,825

Fair value of financial instruments

The carrying amount of interest-bearing assets and liabilities in the statement of financial position can deviate from their fair value due to changes in market interest rates, among other things. To establish the fair value of financial assets and liabilities, the market value has been used for assets and liabilities as far as possible. Axfood's holdings of tenant-owner rights are stated at market value. Interest-bearing financial assets and liabilities that are not derivative instruments are calculated based on future cash flows of capital amounts and interest, discounted to the current market interest rate while taking into account the risk-free interest rate and risk premium for Axfood at the end of the reporting period (the effective interest method). For current financial assets and liabilities with variable interest rates, the fair value is considered to be the same as the carrying amount.

Interest rates used to determine fair value

Axfood used the market interest rate in effect on 31 December 2011 (31 December 2010) plus a relevant interest rate spread to discount financial instruments. The interest rates used are provided below.

	2011	2010
Interest-bearing liabilities	3.42%	3.00%

NOTE 29. NON-CURRENT AND CURRENT INTEREST-BEARING LIABILITIES

	Group		Parent Company	
	31/12/11	31/12/10	31/12/11	31/12/10
Committed credit lines				
Long-term committed credit lines	500	506	500	500
Short-term committed credit lines	–	150	–	150
Bank overdraft facilities	309	305	300	300
Total committed credit lines	809	961	800	950
Drawn long-term credit lines	–310	–5	–310	–
Drawn short-term credit lines	–	–151	–	–150
Drawn bank overdraft facilities	–293	–256	–293	–256
Total drawn credit lines	–603	–412	–603	–406
Cash and bank balances	317	315	0	0
Total disposable credit lines/ refinancing risk reserve¹⁾	523	864	197	544

¹⁾ The Group's refinancing risk reserve, totalling SEK 216 m (572), consists of granted, undrawn credit facilities and lines of credit totalling SEK 206 m (544) and disposable funds in bank accounts totalling SEK 10 m (28).

	Group		Parent Company	
	31/12/11	31/12/10	31/12/11	31/12/10
Non-current interest-bearing liabilities ²⁾				
Loans from credit institutions	–	5	–	–
Finance leases	45	31	–	–
Total other interest-bearing non-current liabilities	45	36	–	–
Provisions for pensions and similar obligations	364	362	31	32
Total non-current interest-bearing liabilities	409	398	31	32
Current interest-bearing liabilities				
Liabilities to credit institutions	603	407	603	406
Finance leases	30	35	–	–
Liabilities to Group companies ³⁾	–	–	1,003	1,364
Total other current interest-bearing liabilities	30	35	–	–
Total current interest-bearing liabilities	633	442	1,606	1,770

²⁾ Of non-current interest-bearing liabilities, SEK – m (5) have a term exceeding five years.

³⁾ Reported in the Parent Company balance sheet as part of liabilities to Group companies.

Group	31/12/11	Effective interest rate	31/12/10	Effective interest rate
Interest exposure, liabilities				
Maturity less than 1 year	633	3.19%	442	3.38%
Maturity later than 1 year but less than 5 years	45	3.49%	31	2.80%
Maturity later than 5 years	–	–	5	4.56%
Total interest-bearing liabilities	678	3.21%	478	3.35%

Parent Company	31/12/11	Effective interest rate	31/12/10	Effective interest rate
Interest exposure, liabilities				
Maturity less than 1 year	603	3.17%	406	3.43%
Total interest-bearing liabilities	603	3.17%	406	3.43%

NOTE 30. ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
	31/12/11	31/12/10	31/12/11	31/12/10
Payroll-related items	768	765	18	22
Accrued bonuses and similar	48	49	–	–
Accrued real estate costs	40	53	–	–
Delivered, uninvoiced	262	268	–	–
Other accrued expenses	150	190	1	1
Other deferred income	20	18	–	0
Total	1,288	1,343	19	23

NOTE 31. CONTINGENT ASSETS, PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Group		Parent Company	
	31/12/11	31/12/10	31/12/11	31/12/10
Pledged assets				
Chattel mortgages	2	7	–	–
Mortgages	–	8	–	–
Other pledged assets	1	1	–	–
Total	3	16	–	–

	Group		Parent Company	
	31/12/11	31/12/10	31/12/11	31/12/10
Contingent liabilities				
Guarantees for subsidiaries	–	–	382	357
Guarantees for others	9	7	–	–
FPG/PRI	7	7	–	–
Other contingent liabilities	4	4	–	–
Total	20	18	382	357

All pledged assets pertain to own provisions and liabilities. Guarantees for others consist for the most part of guarantee commitments pertaining to bank financing and product deliveries for franchisees. In cases where there is a risk of loss, a provision has been made among possible loan losses. Other contingent liabilities consist primarily of counterbonds for bank guarantees that have been made for the Axfood Group.

NOTE 32. EXCHANGE RATE DIFFERENCES AND CURRENCY EXPOSURE

Exchange rate differences reported in operating profit amounted to SEK 0 m (0); exchange rate differences reported in financial items amounted to SEK 0 m (0).

Currency exposure	Estimated future net flow	Of which, contracted net flow	Amount hedged through forward exchange contracts	Estimated average forward rate	Outstanding currency risk
EUR	254	254	254	9.08	–
USD	34	34	34	6.83	–
DKK	3	3	3	1.23	–
NOK	1	1	1	1.17	–
Total outstanding currency risk	292	292	292	–	–

Maturity analysis of outstanding forward exchange contracts

Of outstanding forward exchange contracts on 31 December 2011, totalling SEK 292 m (264), contracts with a value of SEK 286 m (263) have a duration of up to 3 months and contracts with a value of SEK 6 m (1) have a maturity between 3 and 6 months.

Reported fair value of outstanding currency hedges	2011	2010
EUR	–3	–3
USD	0	0
Other	0	0
Total	–3	–3

The reported values of total hedge reserves are presented in the summary pertaining to changes in shareholders' equity. The change in value of the hedging reserve during the year was SEK –5 m (–20), and amounts transferred to inventories totalled SEK 5 m (20). The ineffective portion of cash flow hedges that has been recognized in profit for the year amounts to SEK – m (–).

Transaction exposure

The Group's transaction exposure during the respective full years is broken down into the following currencies:

Currency	2011	%	2010	%
EUR	1,927	91.1	1,842	89.5
USD	110	5.2	129	6.3
DKK	41	1.9	47	2.3
NOK	34	1.6	38	1.8
GBP	1	0.1	1	0.0
CAD	2	0.1	2	0.1
Total	2,115	100.0	2,059	100.0

NOTE 33. CRITICAL ASSESSMENTS AND ESTIMATIONS

Impairment testing of goodwill

In calculating cash-generating units' recoverable value in connection with the Company's estimation of any need to recognize goodwill impairment, several assumptions have been made about future conditions and estimations of parameters. An account of these can be found in Note 17. As understood in the description in Note 17, changes in 2012 of the underlying conditions for these assumptions and estimations could have a material effect on the value of goodwill. However, the Executive Committee is of the opinion that reasonable, possible changes in these variables (assumptions) in the calculations would not have such a large effect that they individually would reduce the recoverable value to a value that is lower than the carrying amount.

Assumptions for calculations of pension provisions

The actuarial computation of pension obligations and pension costs is based on actuarial assumptions, which are specified in Note 27. A change in any of these assumptions could have a material effect on calculated pension obligations and pension costs.

The discount rate is based on the return for long-term mortgage bonds with a term that corresponds to the Group's average remaining duration of its obligations, which in Axfood's case amounts to 22 years.

None of the assumptions described in Note 27 deviate materially from what can be regarded as standard practice in the Swedish market.

With respect to operational and financial risks, see the particular sections in the Administration report, pages 51–54.

Proposed disposition of the Company's profit

REG. NO. 556542-0824

The Board of Directors propose that the following retained profits, totalling KSEK 3,383,585, be distributed as follows:

Shareholder dividend	
SEK 12.00 per share (52,467,678 x SEK 12.00), totalling	629,612
To be carried forward	2,753,973
KSEK	3,383,585

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 6 February 2012. The Group's statement of comprehensive income and statement of financial position, and the Parent Company's income statement and balance sheet, will be subject to approval by the Annual General Meeting on 14 March 2012.

Stockholm, Sweden, 6 February 2012

Fredrik Persson
Chairman of the Board
Director

Marcus Storch
Vice Chairman of the Board
Director

Antonia Ax:son Johnson
Director

Peggy Bruzelius
Director

Maria Curman
Director

Odd Reitan
Director

Annika Åhnberg
Director

Ulla-May Iwahr Rydén¹⁾

Michael Sjören¹⁾

Lars Östberg¹⁾

Anders Strålmán
President and CEO

Our audit report was submitted on 6 February 2012
KPMG AB

Thomas Thiel
Authorized Public Accountant

¹⁾ Employee representative.



Auditor's report

To the annual meeting of the shareholders of Axfood AB (publ)
Corporate identity number 556542-0824

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Axfood AB (publ) for the year 2011. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 48–99.

Responsibilities of the Board of Directors and the President for the annual accounts and consolidated accounts

The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and 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 2011 and of their financial performance and cash flows in accordance with International Financial Reporting Standards, 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 annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of Axfood AB (publ) for the year 2011.

Responsibilities of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the President are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the President is liable to the company. We also examined whether any member of the Board of Directors or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, 6 February 2012

KPMG AB

Thomas Thiel
Authorized Public Accountant



Several-year overview

Amounts in SEK m	2011	2010	2009	2008	2007
Result of operations					
Net sales	34,795	34,260	32,378	31,663	29,189
Operating profit	1,250	1,209	1,128	1,077	1,121
Profit after financial items	1,214	1,172	1,082	1,011	1,086
Profit attributable to non-controlling interests	0	0	0	–	–
Tax	–323	–310	–289	–274	–305
Net profit for the year	891	862	793	737	781
Financial position					
Intangible assets	2,461	2,301	2,143	2,032	1,501
Property, plant and equipment	1,801	1,588	1,476	1,541	1,407
Financial assets	44	32	30	33	43
Other non-current assets	35	42	38	35	29
Inventories	1,916	1,822	1,790	1,769	1,597
Other current assets	1,704	1,564	1,380	1,628	1,560
Cash and cash equivalents	317	315	316	312	471
Assets	8,278	7,664	7,173	7,350	6,608
Shareholders' equity	3,237	2,972	2,635	2,259	2,152
Equity attributable to non-controlling interests	–	0	0	–	–
Interest-bearing liabilities and provisions	1,042	840	848	1,394	967
Noninterest-bearing liabilities	3,999	3,852	3,690	3,697	3,489
Shareholders' equity and liabilities	8,278	7,664	7,173	7,350	6,608
Cash flow					
Cash flow from operating activities	1,384	1,365	1,558	1,152	1,166
Cash flow from investing activities	–941	–831	–580	–1,098	–512
Cash flow from financing activities	–441	–535	–974	–213	–552
Cash flow for the year	2	–1	4	–159	102

Amounts in SEK m	2011	2010	2009	2008	2007
Key ratios					
Operating margin, excluding capital gains and structural costs, %	3.6	3.5	3.5	3.4	3.8
Margin after financial items, %	3.5	3.4	3.3	3.2	3.7
Equity ratio, %	39.1	38.8	36.7	30.7	32.6
Net debt-equity ratio, multiple	0.2	0.2	0.2	0.5	0.2
Debt-equity ratio, multiple	0.3	0.3	0.3	0.6	0.5
Capital employed	4,279	3,812	3,483	3,653	3,119
Return on capital employed, %	31.0	33.2	31.8	32.0	37.6
Return on shareholders' equity, %	28.7	30.7	32.4	33.4	34.2
Interest coverage, multiple	29.9	31.1	22.2	14.7	25.7
Capital expenditures	993	862	633	1,158	576
Earnings per share, SEK ¹⁾	16.99	16.42	15.13	14.05	14.88
Net asset value per share, SEK ¹⁾	61.70	56.64	50.22	43.06	41.02
Cash flow per share, SEK ¹⁾	0.0	0.0	0.08	-3.03	1.94
Cash flow from operating activities per average number of shares outstanding ¹⁾	26.4	26.0	29.7	22.0	22.2
Number of shares outstanding ¹⁾	52,467,678	52,467,678	52,467,678	52,467,678	52,467,678
Weighted average number of shares ¹⁾	52,467,678	52,467,678	52,467,678	52,467,678	52,467,678
Average number of employees during the year ²⁾	7,062	6,895	6,816	6,847	6,463
Ordinary dividend per share, SEK	12.00 ³⁾	12.00	10.00	8.00	12.00

¹⁾ Pertains to earnings/net asset value before and after dilution.

²⁾ In calculating the average number of employees, the normal number of hours worked is 1,920 hours.

³⁾ Proposed by the Board of Directors.



Axfood share data 2011

Axfood's shares have been listed since 1997 and have been traded since 2006 on Nasdaq OMX Stockholm, Large Cap list (sector classification Consumer Staples). Based on the last price paid on 30 December 2011, which was SEK 253.60, Axfood's market capitalization amounted to SEK 13,306 m (13,196).

SHARE PERFORMANCE 2011

Axfood's share price rose 0.8% in 2011, while the total index, OMX Stockholm, fell by 16.7%. The highest closing price quoted during the year was SEK 254.30, on 3 January, and the lowest closing price was SEK 211.90, on 28 June.

TRADING VOLUME

Since implementation of the EU's Markets in Financial Derivatives (MiFiD) directive, equities can be traded in other marketplaces than the exchanges on which they are listed. In 2011, a total of 53.7 million (41.5) Axfood shares were traded in all marketplaces, and the average daily trading volume was 128,407 shares. Trading on Nasdaq OMX Stockholm accounted for 61% (63%) of total trading volume in Axfood shares.

Based on total trading volume in Axfood shares in all marketplaces, the turnover rate in 2011 increased to 102% (79%). The average turnover rate for shares listed on Nasdaq OMX Stockholm increased to 96% (95%), while the turnover rate for Axfood shares in Stockholm increased to 62% (50%).

SHARE CAPITAL

At year-end 2011 Axfood's share capital amounted to SEK 262.3 m, divided among 52,467,678 shares. All shares have a share quota value of SEK 5 and carry equal entitlement to the Company's profit and equity.

OWNERSHIP STRUCTURE

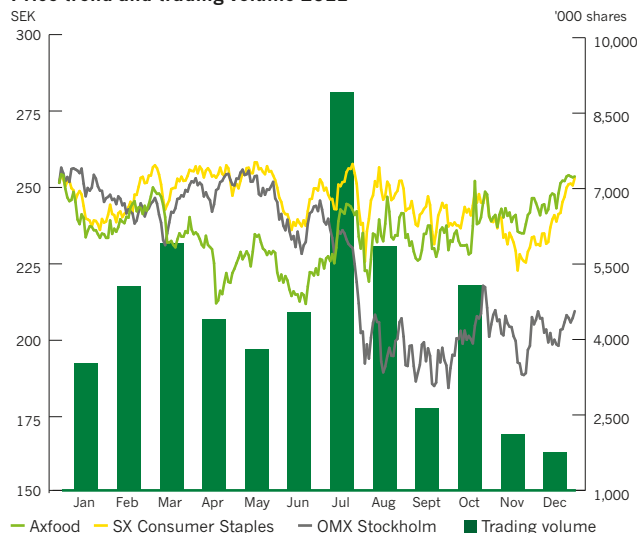
Axfood had 14,247 (14,707) shareholders at year-end 2011. Of Axfood's share capital, 71.1% (74.3%) is owned by Swedish investors and 28.9% (25.7%) is owned by foreign investors. Swedish ownership is dominated by private individuals and companies, with 60.6% (57.2%) of the capital, while mutual funds own 5.8% (11.8%) and institutions own 4.7% (5.3%). Among the largest owners, Antonia Ax:son Johnson (incl. family and companies) and Reitangruppen AS increased their holdings. Norway, the USA and the UK account for the largest share of foreign ownership.

DIVIDEND

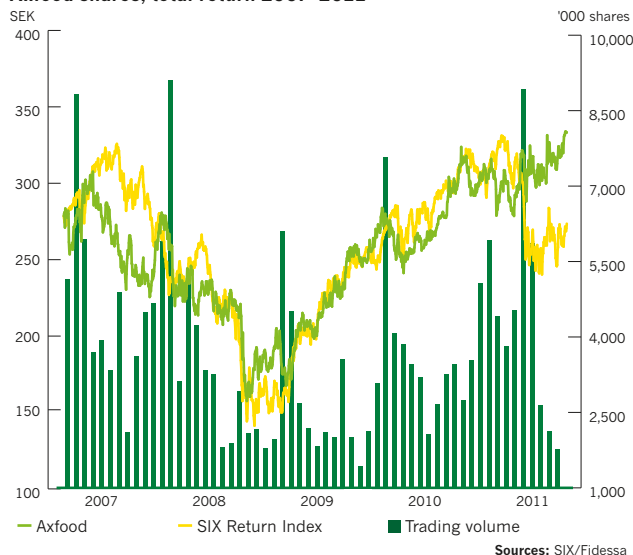
The Board of Directors has set a dividend policy that entails that at least 50% of profit after tax is to be paid out in dividends. For the 2011 financial year the Board has proposed a dividend of SEK 12 per share, corresponding to 71% of profit after tax. Based on the last price paid on 30 December 2011 (SEK 253.60), the proposed dividend represents a dividend yield of 4.7%.

Since 2007 Axfood has paid out an average of 69% of profit after tax in yearly dividends.

Price trend and trading volume 2011



Axfood shares, total return 2007–2011



Sources: SIX/Fidessa

Share data

All time high, 8 March 2007 (SEK)	295
Listing:	Nasdaq OMX Stockholm AB's Large Cap-list
Sector classification:	Consumer staples
ISIN code:	SE0000635401
Trading block:	1 share
Abbreviation:	AXFO

Financial calendar 2011

Report	Date
Annual General Meeting	16 March 2011
Interim report January–March	20 April 2011
Half-year interim report January–June	18 July 2011
Interim report January–September	20 October 2011

Ownership structure, 31 December 2011

Size class	No. share-holders	Share-holders, %	No. of shares	Share of capital and votes, %
1 – 500	12,393	86.9	1,577,583	3.0
501 – 1,000	927	6.5	793,886	1.5
1,001 – 2,000	382	2.7	615,120	1.2
2,001 – 5,000	250	1.8	846,119	1.6
5,001 – 10,000	97	0.7	714,304	1.4
10,001 – 20,000	65	0.5	949,966	1.8
20,001 – 50,000	60	0.4	1,911,578	3.6
50,001 – 100,000	22	0.1	1,510,193	2.9
100,001 –	51	0.4	43,548,929	83.0
Totalt	14,247	100.0	52,467,678	100.0

The 10 largest shareholders at 31 December 2011

Name	No. shares	Share of capital and votes, %
Antonia Ax:son Johnson (incl. family and companies)	26,270,066	50.1
Reitangruppen AS	8,185,817	15.6
SEB funds	983,330	1.9
Swedbank Robur funds	872,532	1.7
Norwegian state	514,800	1.0
CIP-Resolutionasset	472,983	0.9
Göran Sax (incl. family and companies)	460,027	0.9
SHB funds	370,069	0.7
Second Swedish National Pension Fund	296,768	0.6
Capital Group funds	273,609	0.5
Total	38,700,001	73.9
Others	13,767,677	26.1
Total	52,467,678	100.0

Key data per share, SEK

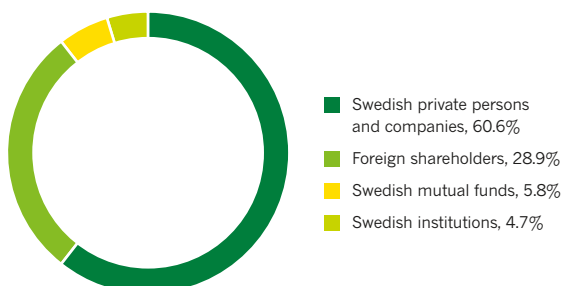
	2011	2010	2009	2008	2007
Ordinary dividend	12.00 ¹⁾	12.00	10.00	8.00	12.00
Dividend as % of net profit	70.6	73.1	66.1	56.9	80.6
Number of shares outstanding	52,467,678	52,467,678	52,467,678	52,467,678	52,467,678
Share price at year-end	253.60	251.50	209.50	167.50	260.50
Market cap at year-end, SEK m	13,306	13,196	10,991	8,788	13,668
Highest/lowest price paid	254.30/211.90	259.90/192.00	219.50/140.25	262.50/135.75	295/205.5
Dividend yield, % ²⁾	4.7	4.8	4.8	4.8	4.6
Earnings per share	16.99	16.42	15.13	14.05	14.88
Net asset value per share	61.70	56.64	50.22	43.06	41.02
P/E multiple	14.9	15.3	13.8	11.9	17.5
Turnover rate, % ³⁾	102	79	61	94	108
Number of shareholders	14,247	14,707	13,404	10,671	9,343

¹⁾ Proposed by the Board of Directors.

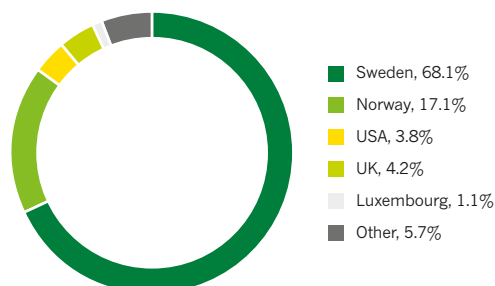
²⁾ Dividend per share divided by the share price at year-end.

³⁾ Pertains to turnover rate for Axfood shares on Nasdaq OMX Stockholm in 2007 and all marketplaces in 2008 and thereafter.

Breakdown of ownership



Geographical distribution of shareholders



Annual General Meeting

ANNUAL GENERAL MEETING

The Annual General Meeting of the shareholders of Axfood AB (publ) will be held at 5 p.m. on Wednesday, 14 March 2012, at Cirkus, Stockholm. Registration will open at 4 p.m.

NOTIFICATION

Shareholders who wish to attend the Annual General Meeting must notify the Company of their intention not later than 4 p.m. on Thursday, 8 March 2012, at the following address: Axfood AGM, c/o Euroclear Sweden, Box 7841, SE-103 98 Stockholm, Sweden. Notification can also be made 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, social security number/company registration number, phone number (daytime), the number of shares held and the number of assistants attending (maximum of two). If participating by proxy, a proxy form must be sent to the Company, in original (along with any authorization documents, such as company certificates of registration) and be in Axfood's possession before the Annual General Meeting.

PARTICIPATION AT THE MEETING

To be entitled to participate at the Meeting, shareholders must be recorded in the register of shareholders maintained by Euroclear Sweden AB not later than Thursday, 8 March 2012, and notify the Company of their intention to participate in the Meeting not later than 4 p.m. on Thursday, 8 March 2012 (CET). 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 Meeting. Shareholders must notify their nominees well in advance of Thursday, 8 March 2012.

PROPOSED DIVIDEND

The Board of Directors proposes a dividend of SEK 12.00 per share (12) for 2011. The record date is 19 March 2012, and dividends are expected to be paid via Euroclear Sweden AB on Thursday, 22 March 2012. The last day for trading in the Company's stock including the right to the dividend is 14 March 2012.

- Final day of trading in Axfood shares including the right to the dividend: 14 March 2012
- Record date for payment of the dividend: 19 March 2012
- Payment date for the dividend: 22 March 2012

NOTICE OF ANNUAL GENERAL MEETING

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

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

Financial information and Investor Relations

Financial calendar

Interim report January–March, 27 April 2012
Interim report January–June, 16 July 2012
Interim report January–September, 23 October 2012

Printed versions of the Annual Report are distributed to shareholders only upon request approximately one week before the Annual General Meeting.

Investor Relations

Axfood's Investor Relations department is responsible for providing relevant information to – and being available for talks and meetings with – shareholders, investors, analysts and the media.

During the year Axfood conducted a number of international road shows and participated in numerous capital market activities. The Company also held regular analyst meetings and spoke at shareholder meetings.



Anne Rhenman Eklund

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and Investor Relations
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Analysts who continuously monitor Axfood

Company	Name
ABG Sundal Collier	Anna-Karin Envall
Carnegie Investment Bank	Niklas Ekman
CA Chevreux Nordic	Björn Gustafsson
Den Danske Bank	Anders Hansson
Handelsbanken Capital Markets	Erik Sandstedt
Nordea	Stellan Hellström
SEB Enskilda	Stefan Nelson
Swedbank Markets	Christian Andersson
E. Öhman J:or Fondkommission	Simon Kjellström

Definitions and glossary

FINANCIAL DEFINITIONS

Average number of employees during the year: Total number of hours worked divided by the number of hours worked per year (1,920 hours).

Capital employed: Total assets less noninterest-bearing liabilities and noninterest-bearing provisions. Average capital employed is calculated as capital employed at the start of the year plus capital employed at the end of the year, divided by two.

Cash flow per share: Cash flow for the year divided by a weighted average number of shares outstanding.

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

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

Earnings per share: Share of net profit for the year attributable to owners of the parent divided by a weighted average number of shares outstanding.

Employee turnover rate: Number of employment positions ended divided by the total number of employees.

Equity ratio: Shareholders' equity including non-controlling interests, as a percentage of total assets.

Interest cover ratio: Profit after financial items plus financial expenses, divided by financial expenses.

Inventory turnover rate: Cost of delivered products divided by average inventory value.

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

Net asset value per share: Shareholders' equity attributable to owners of the parent divided by the number of shares outstanding.

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

Net debt-equity ratio: Interest-bearing liabilities and provisions less cash and cash equivalents and interest-bearing receivables, divided by shareholders' equity including non-controlling interests.

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

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

Return on capital employed: Profit after financial items, plus financial expenses, as a percentage of average capital employed.

Return on shareholders' equity: Share of net profit for the year attributable to owners of the parent as a percentage of the average equity attributable to owners of the parent. Average shareholders' equity is calculated as shareholders' equity at the start of the year plus shareholders' equity at the end of the year, divided by two.

Share turnover rate: Number of shares traded during the year divided by the number of shares outstanding at year-end.

GLOSSARY

Autoorder: An automated store restocking system.

Delivery reliability: The share of delivered goods in relation to the share of ordered goods.

Distributed sales: Volume distributed from Group-owned warehouses.

EAN code: European Article Number – a numeric bar code system used worldwide.

E-learning: An interactive training program.

EMAB: EMAB is a collaborative organization for independent service station stores, with approximately 400 members within the Shell, Statoil 123, Hydro, Bilisten and Preem service station chains.

Fairtrade Certified: Label for products that are made with the aim of improving the working and living conditions for growers and employees in developing countries through certified fair trade practices. The label certifies that the product meets the criteria of the Fairtrade International organization.

GFSI: Global Food Safety Initiative.

GMO: Genetically modified organisms – organisms that have a purposefully manipulated genetic makeup designed to provide specific properties.

GRI: Global Reporting Initiative

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

GRI table

For the fourth year in a row, Axfood is reporting on its sustainability work in accordance with the Global Reporting Initiative (GRI) guidelines, level B. Axfood is a participant in the Global Compact and adheres to its principles for its sustainability work. The calculation methods for carbon dioxide emissions are based in part on the guidelines outlined in the Haga Initiative, which are based on the GHG protocol. The calculation method used in the Haga Initiative is described in more detail on Axfood's website: axfood.se.

The sustainability indicators listed below cover Group-owned retail and wholesale operations. The Group's franchise stores currently do not report sustainability data centrally to Axfood and are therefore not covered by the report. The same applies for external transport contractors in the wholesale operations. In this respect,

the report does not differ from Axfood's previous reports and the methods used there. However, certain emission factors have changed compared with the preceding year. In contrast to a year ago, the reporting of EN16 does not include refrigerants. Axfood is reviewing its data collection method for this.

During the year, Axfood was not issued any fines or sanctions for violations of environmental legislation, food safety or other legislation.

The table below references where the information is presented in the report. In addition to the profile and governance data prescribed by the GRI, the table covers all core indicators as well as the complementary indicators that are judged to be relevant for Axfood. The symbols show if the respective indicators are complete.

 Fully reported
 Partly reported
 Not reported

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2.4 Location of organization's headquarters	Back cover	
2.5 Countries where the organization operates	Cover flap	
2.6 Nature of ownership and legal form	Cover flap	
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Axfood	Page reference	Degree	Axfood	Page reference	Degree
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LA6. Percentage of total workforce represented in formal joint management-worker health and safety committees	45				
LA7. Rates of injury, occupational diseases, lost days, work-related fatalities	45				

¹⁾ Pertains to trading operations, not staff functions at head offices.

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WILLY:S

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