

Axfood

Annual Report 2016



Willys' and Hemköp's online shopping reached more than 2 million consumers in 2016. And the roll-out continues as we welcome mat.se to Axfood!



Every day, at more than 380 stores across Sweden, Axfood greets customers with an ever-greater commitment to sustainability.

Our customers want food that is good both for them and for others. Food produced in a way that does not cause undue suffering for animals or people. Food that does not put a strain on Earth's resources. And food that is good, wholesome and provides value for money. Good food, quite simply.

We are happy about our performance. Axfood's assortment is meeting customers' demands and is constantly evolving. Through inspiration, information and the demands we put on suppliers and decision-makers, we are a positive force for change in society.

With passion for food and people we develop and operate successful grocery formats so that everyone in Sweden will have access to good, wholesome, attractively priced and sustainable food.

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For information on the 2017 Annual General Meeting, see page 57.

About this annual report

The Annual Report describes Axfood's operations, financial results and position in 2016, and includes the Corporate Governance Report. Sustainability issues are integrated in the operations and thereby in the annual report. Axfood has taken inspiration from the Integrated Reporting (IR) framework. A complete sustainability report prepared in accordance with the Global Reporting Initiative's (GRI) guidelines, G4 Core, can be downloaded from axfood.se/en/sustainability. This annual report is an English translation of the Swedish original. In the event of any discrepancies, the Swedish version shall govern.

Everyone in Sweden should have the attractively priced and sustainable

Customers

18



right to good, wholesome, food



Axfood at a glance

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

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

1,083

Axfood collaborates with 1,083 stores, of which 263 are wholly owned stores.

#2

Axfood is number two in the Swedish food retail market, with a market share of approximately 21%.

50.1%

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

Key ratios

	2016	2015	Change
Net sales, SEK m	43,355	41,247	5.1%
Operating profit, SEK m	1,902	1,760	8.1%
Operating margin, %	4.4	4.3	0.1
Profit after tax, SEK m	1,473	1,361	8.2%
Earnings per share, SEK	7.02	6.48	8.3%
Equity ratio, %	39.1	43.0	-3.9
Ordinary dividend per share, SEK	6.00 ¹⁾	5.00	20.0%
Extra dividend per share, SEK	— ¹⁾	4.00	-100.0%
Average number of employees during the year	9,211	8,803	4.6%
Electricity consumption, kWh/m ²	334.0	331.6	0.7%
CO ₂ , kg/tonne goods ³⁾	8.7	16.9	-48.5%

¹⁾ Proposed by the Board of Directors.

²⁾ Pertains to Group-owned stores and warehouses.

³⁾ Pertains to total volume for transports from warehouses to stores with own delivery vehicles.

WILLY:S



Hemköp



axfood Närlivs

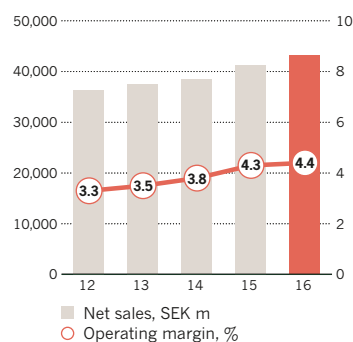


dagab

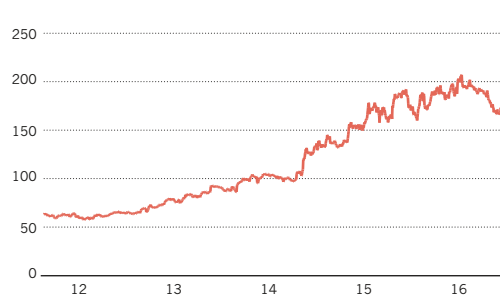




Net sales and operating margin



Total return, Axfood shares 2012–2016, index



5.1%

growth in net sales in 2016

Net sales

Willys is Sweden's leading discount grocery chain, offering a wide assortment at 196 stores. Willys aspires to develop the discount grocery segment by offering Sweden's cheapest bag of groceries as well as the cheapest bag of organic groceries, both in physical stores and online.

Read more on p. 34



23,164 SEK m

Operating profit



922 SEK m

Hemköp offers a wide product assortment that gives customers value for money and a rich selection of fresh products. With 67 Group-owned stores and 118 retailer-owned stores, Hemköp aims to inspire passion for food and make it easy for customers to find good meal solutions.

Read more on p. 36



6,171 SEK m
(excl. franchise stores)



260 SEK m

Axfood Närlivs is a leading B2B wholesaler in Sweden. The company serves customers with varying needs in three distinct segments: Handlar'n & Tempo, Convenience, and the wholly owned Axfood Snabbgross cash and carry chain, with 22 stores.

Read more on p. 38



2,880 SEK m
External
2,884 SEK m
Total



202 SEK m

Dagab is the support company for the Group's purchasing and logistics operations. Dagab is responsible for an efficient product flow, from assortment development and purchasing to warehousing and distribution. Warehousing is conducted at seven distribution centres.

Read more on p. 40



11,092 SEK m
External
42,319 SEK m
Total



670 SEK m

CEO's message

Best sales and operating profit thus far

2016 was yet another year of excellent sales growth. Axfood thereby strengthened its position as number two in the Swedish food retail market. The goal was to prioritize growth with maintained profitability, and that is exactly what we have done. All companies in the Group lived up to my expectations, and operating profit for 2016 was our best ever.



Strong profitability – especially for Hemköp

In 2016 Willys' sales grew more than the market at the same time that the company maintained its operating margin. Willys established five new stores and saw an increased number of customers. The Willys Plus customer programme now has more than 2 million members, who contributed to the sales success.

For Hemköp, 2016 was a fantastic year. Combined sales growth for both Group-owned and retailer-owned stores was strong throughout the year. The positive performance for the retailer-owned stores shows that the store managers are willing to invest in order to grow sales and further strengthen the Hemköp brand. Owing to strict cost control and high efficiency, the operating margin exceeded the 4% goal.

Axfood Närlivs experienced strong growth driven by an upswing in business in the restaurant sector, which contributed to high profitability during the year despite costs for recent expansion. Operating profit was also buttressed by favourable growth in wholesale business. In 2017 we will continue our investments in growth by establishing another two Axfood Snabbgross stores.

During the year the support company Dagab continued to record success and improved its efficiency. Delivery reliability, the metric that shows how well Dagab is delivering to the other companies, improved and exceeded the target at year-end 2016. Dagab's sales grew in pace with the strong growth for the Group's stores and wholesale business. Supported by its higher level of efficiency, Dagab improved its operating margin.

We can now be faster at reaching the critical sales volume needed to achieve profitability in e-commerce.

E-commerce will ensure future growth

Owing to thorough preparations, our e-commerce got off to a good start. At year-end Willys and Hemköp offered groceries online to more than 2 million consumers in four cities. The roll-out is continuing in 2017. Willys plans to offer e-commerce in an additional 20 cities, and Hemköp in another ten.

The shopping pattern for consumers online differs from sales in physical stores inasmuch as the average spend and share of organic products are considerably higher online. Hemköp had almost exclusively home deliveries, while Willys – in pace with a widening of delivery areas – changed over from a dominant share of store pick-ups to an increasing share of home deliveries.

Food retailing requires attention to detail and an ability to continuously deliver. Our successes in recent years prove that we know food, but selling groceries online puts new demands on our organization. If our successful launch of e-commerce is to continue, we will need to build upon the expertise we already have today. We need more employees with knowledge and experience in e-commerce. This was the background to our decision in December to make a public offer for Matse Holding AB (publ), the company that operates the online grocery store mat.se. The acquisition was completed at the end of January 2017.

With an online platform supported by all of our store brands, including mat.se, we have good prospects to grow our sales going forward. In this way we can also be faster at reaching the critical volume needed to achieve profitability in e-commerce.

New sales in stores with cross-border shopping

In early 2017 we announced that we are acquiring Eurocash Food AB in partnership with Norgesgruppen. The acquisition further strengthens our leading position in the discount segment and marks our entry into the cross-border shopping segment. Since we are already the main supplier to Eurocash, this step in itself was not so large. But it signifies a further extension of our market penetration to customers in the cross-border shopping segment.



Axfood's distinct sustainability image is a competitive advantage.

Sustainability rewarded

Axfood aspires to be a good company and positive force in society. One goal is to have as little environmental impact as possible; another is to meet consumers' interest in sustainable solutions. We know that consumers reward companies that take a great involvement in sustainability. That is good news for us, since we have long worked for greater sustainability throughout the value chain. By virtue of their purchasing power, Axfood's distinct sustainability image is a competitive advantage.

We have concrete, long-term environmental targets and can see that we are well on our way toward achieving them. Compared with 2009, we had reduced our carbon footprint by more than 70% already last year. All of our statistics show that consumers are increasingly looking for organic products or products with sustainability certification. For example, Hemköp increased its share of organic product sales by nearly 10%. In 2016 we steadily introduced new, sustainable private label products in many categories.

The greatest difference we made in our carbon footprint during the year was in our transports of goods. By beginning to use HVO fuel in our trucks, which is based on 100% renewable ingredients, we managed to nearly halve the level of CO₂ emissions from our delivery fleet.

Market outlook and price trend

We estimate food inflation in 2017 to be in the range of 1%–2% and that the market will continue growing. We expect competition to grow through the establishment of more stores and increased prevalence of e-commerce.

Forecast

Axfood stands on a solid foundation today with well-profiled brands and attractive offerings. Our strategy is based on continued profitable growth. To achieve this we will need to adapt to our customers' preferences, which will require more investment going forward. In 2017 we expect capital expenditures to be approximately SEK 800–900 m excluding acquisitions. Axfood is focusing on growth and new investments, and the forecast is an operating profit in 2017 to be level with the outcome for 2016.

Long-term value

At Axfood the team is more important than the efforts of any single individual. Axfood's team is strong. And the team remains! I, however, am passing on the baton to Klas Balkow, who will take over as CEO directly after the Annual General Meeting. I am fully confident that going forward Axfood will continue to have the ability to deliver long-term value to all of its stakeholders.

Finally, I want to extend my sincere thanks to all of our customers and owners for your confidence and loyalty. I feel the same gratitude to all of Axfood's employees who every day contribute to our success through their most important efforts – not only during the past year, but during all 12 of my years with Axfood. Thank you!

Anders Strålmán
President and CEO

Performance 2007-2016

Compound average sales growth rate, %

+4.5

Increase in operating profit, %

+70

Increase in number of stores (Group- and retailer-owned)

+124

Increase in private label share of total food sales, percentage points

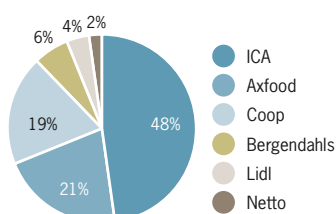
+8.1

Market and trends

Axfood is strengthening its number two position in Sweden's food retail market

Sweden's food retail sector is a mature market, where Axfood is the second largest player – a position that has strengthened in recent years. The three largest retailers together account for nearly 90% of the market. The competition is fierce and has grown in recent years due to the growth of discount chains, establishment of e-commerce, and to the fact that people in Sweden are eating out more often.

Market shares, largest competitors in Sweden 2015¹⁾



¹⁾ Based on sales figures for 2015 for groceries, as data for 2016 was not available at the time of this report's publication.

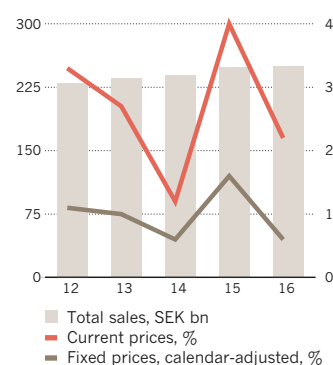
Source: Sales figures for ICA, Coop, Bergendahls, Lidl and Netto are from a compilation performed by Delfi/DLF/HUI Research. Axfood's data includes own sales estimates for Tempo, Handlar'n and other collaborating stores as per December 2015.

The grocery sector's performance generally follows the population trend and is on the whole less sensitive to economic swings than other retail sectors. At the same time, the rate of growth is moderate. Apart from population growth, sales growth is driven by inflation. Sales are also being driven by a growing share of organic and prepared foods, which have a higher price level. Achieving continued, stable growth requires that Axfood pays attention to every detail in operations – from the assortment, purchasing and logistics, to customer service and the in-store experience.

Retail food sales (excluding alcoholic beverages) in Sweden showed continued positive development in 2016. Measured in current prices, sales rose 2.2% (4.0%), based on preliminary data from Statistics Sweden and HUI Research. At constant prices, adjusted for price and calendar effects, volume increased by 0.6% (1.6%). Total food retail sales in 2016 are estimated at approximately SEK 254 bn (249).

The lower growth compared with 2015 is due to a levelling in price growth, among other things. The influx of asylum-seekers has not yet had any impact on grocery consumption, since the Swedish state provides them with food until they have been granted residence permits. In

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



addition, during the year certain consumption-curbing measures were introduced, such as a reduction in home renovation and remodelling subsidies and the imposition of amortization requirements for home mortgages.

During the last 25 years, the amount spent each year by households on food has nearly halved. A growing share of consumption is going towards restaurant visits and telecommunication.

Segmentation in Sweden

Hard Discount	Discount	Hypermarkets	Traditional grocery	Mini-marts
6%	12%	24%	48%	10%
Items: 1,500–2,000	5,000–12,000	12,000–20,000	10,000–15,000	1,000–
Price index: – ¹⁾	90–100	96–103	100–108	110–130
Location: Residential and external	Residential and external	External	City centres, residential	Traffic- or residential-oriented
Trademarks: Netto, Lidl	Willys, Willys Hemma, Eurocash	ICA Maxi, Stora Coop, City Gross	Hemköp, Coop, ICA Supermarket, ICA Kvantum and others	Tempo, Handlar'n, Direkten, ICA Nära, 7-Eleven, Pressbyrån, Lilla Coop, and others

Market share: Based on grocery sales in 2015, since data for 2016 was not available at the time of this report's publication. Partly estimated values.

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

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

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

Five megatrends

– and how Axfood is addressing them

- Urbanization and demographic changes
- More convenience in daily life provided by digital services and e-commerce
- Health and lifestyle – trendy and healthy foods
- Sustainability and responsibility – a matter of course
- Value for money – more than just price



55+

is an age group that is growing sharply and becoming increasingly important.

The dominant megatrends of urbanization, digitalization and focus on sustainable lifestyles affect all of society and thus also the food retail trade. Axfood's strategy ensures that the Group is both a driver of development in the industry and continuously develops its business to meet customer demands. We have defined five particularly important areas that affect the industry. We engross ourselves in these, align our operations to them, and draw benefit from them.

Trend 1. Urbanization and demographic changes

Population growth in Sweden is expected to be higher than ever in coming years due to the high level of immigration, low level of emigration, and more births than deaths. People born outside Sweden also account for a considerable share of the population, which is affecting demand in the food retail market.

Urbanization has been a strong trend for several years, and there are no signs of this slowing. Populations are being concentrated increasingly to Stockholm, Gothenburg and Malmö. According to Statistics Sweden (SCB) more than 1.7 million people lived in these three municipalities in 2016, and the number is expected to grow by 37% in the next 40 years. In sparsely populated rural municipalities, on the other hand, populations are expected to decline by 10%. Between 2010 and 2015, population growth in Stockholm Municipality was 9%, while growth nationwide was 4%. However, urbanization is no longer taking place through major migrations from the countryside to cities. Sweden's metropolitan areas are growing mainly as a result of immigration and more births.

Moreover, Sweden's major cities have a higher share of residents aged 20–64 than the rest of the country, and this is expected to remain so also in the future. Their purchasing power is

stronger, since people in the major metropolitan areas have higher incomes than the national average. People aged 55 and over as well as retirees and households without children will increase sharply going forward and will be increasingly important for the retail trade, especially since people in these categories also have higher incomes and wealth.

Modern urbanites are typically young, active, and value services that simplify everyday life. They also expect to a high degree that the food they buy is produced with care for people, animals, and the environment. Major metropolitan areas have more small households and a smaller share of people with driving licences. As a result, more people shop close to home or online with home delivery instead of driving to the store. Increasingly, consumers shop more frequently during the week, but less each time.

The number of stores in central city locations and residential areas is growing, both in the traditional grocery store segment and for mini-marts, which are drawing customers away from hypermarkets. The larger store formats are cutting back on their retail space.

Seventy per cent of Swedish households consist of singles or couples, which also puts special demands on product selection in stores.

Axfood's response

Axfood is addressing urbanization in several ways, among other things by establishing stores in growth locations with convenient access and offering a modern assortment that includes store-prepared foods, a rich selection of fruits and vegetables, international products, and a high share of organic and country of origin-labelled products. Modern city dwellers also value that Axfood offers digital services that simplify their everyday lives and has high ambitions for sustainability. As part of its efforts to gain an understanding of what inspires urban customers, Axfood has become a part-owner of Urban Deli, a concept that is a combination of restaurants, food market and specialty stores all under one roof. Through Hemköp and Willys Hemma, and as a supplier of mini-marts nearby residential areas, Axfood is also meeting a need among consumers to do small shopping close to home.

Read more under Strategy – customers



Trend 2. More convenience in daily life provided by digital services and e-commerce

Digital services are a natural part of everyday life for consumers today. More and more everyday errands can be performed online, and expectations are rising for easy-to-use digital services that make daily life easier. For Axfood, digitalization is about offering e-commerce as well as making shopping in stores easier.

During the past two years grocery shopping online has achieved a breakthrough, and people who shop online name convenience and time savings as the main advantages.

The bulk of sales in Sweden's food retail market will continue to be in physical stores. In 2016 e-commerce accounted for just over 1.5% of total retail sales volume. But grocery purchases online are growing steadily, and in 2016 online sales grew by 30%. Sweden has lagged behind many European countries in this respect, mainly owing to strict food regulations and to sparse populations in vast areas of Sweden, and volume is critical for profitability of online grocery shopping.

Technical solutions that make shopping easier are being unveiled at a rapid pace. Examples include digital, personalized customer programmes, self-scanning with smartphones, smoother online ordering functions, and apps

that offer inspiration and shopping list suggestions. Development of mobile payment systems and self-service is accelerating and making great advances.

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

Complete dinner solutions delivered in pre-packed grocery bags continue to develop strongly in Sweden. Apart from making everyday life easier, the grocery packing companies are helping customers vary their diets, find new recipes and eat more vegetarian.

Swedes are spending more and more money in cafés and restaurants. While grocery retail had annual growth of 3.2% between 2007 and 2015, the restaurant sector (including alcoholic beverages) has grown by 15.6%. At the same time, cafés and pharmacies are carving out areas to operate in grocery stores, and discount retailers like ÖoB and Dollarstore are expanding their assortment and offering certain grocery products.



Axfood's response

Axfood is successively adapting its business to the digital trend. The Group offers mobile payment and cardless customer programmes, and through digital customer programmes some 3 million customers receive increasingly personalized offerings. In 2017, Tempo and Handlar'n stores will be offering their customers paperless receipts.

Axfood Närlivs has long offered digital shopping solutions. And in 2016 Willys and Hemköp also introduced e-commerce. At year-end Willys and Hemköp reached more than 2 million customers via the Internet. Hemköp also offers pre-defined dinner solutions on a subscription basis in ten cities in Sweden. At year-end 2016 Axfood acquired the pure play online grocery store mat.se. The acquired group also includes the online recipe sites kokaihop.se and spisa.nu. Axfood also supplies goods to several of the largest suppliers of pre-defined dinner solutions in Sweden.

With 22 cash and carry stores throughout Sweden, Axfood Snabbgross has a strong position as a wholesaler to café and restaurant operators.

Read more under Strategy – growth



Fair trade in the banana kingdom

JOVIBANANA, DOMINICAN REPUBLIC

Bananas. We reach for them in fruit baskets at workplaces across the country, find them in baby prams at playgrounds and slice them on top of our breakfast cereal. But how much do we really know about the work that goes into the bunches at our corner store?

We paid a visit to the Dominican Republic to see with our own eyes how the company Jovibanana is taking responsibility for nature and its employees.

Read the full report at garantskafferiet.se.



Trend 3. Health and lifestyle – trendy and healthy food

Food continues to be trendy, and savvy consumers show their lifestyle choices and affiliation through food. Health and exercise also continue to be symbols of high status. As a result, demand is rising for healthy, vegetarian, organic, freshly prepared and protein-rich foods. More and more people are choosing plant-based alternatives and other protein sources than meat. A third of Swedes today are so-called flexitarians. According to a survey conducted by the research firm Sifo in 2016, nearly one in two Swedes (45%) eats vegetarian one or more times a week, and one in four (24%) plans to choose vegetarian food over meat to an even higher degree in the coming year.

Allergies and hypersensitivity are becoming increasingly common, and as a result many people are starting to avoid gluten and lactose. Consumption of non-alcoholic beverages and so-called raw foods is also on the rise, as is consumption of natural fats – like butter and fat from seeds and nuts. Functional food, i.e., food

that also has specific, documented health effects, is becoming increasingly common. Moreover, customers also want more information about the origin, quality and content of the food they eat as part of their efforts to live more healthy lives.

Sales of organic products and vegetarian food are being driven by concerns for personal health as well as for the environment and animals. Offering a large selection of organic products is also a motivational factor for discount chains. While sales of organic products are being driven by consumer demand, food retailers are also influencing the trend by narrowing the price difference from conventionally produced products, increased marketing, and broader offerings. For the industry as a whole, sales of organic groceries increased by 18% in 2016, to 8.7% (7.7%) of total food retail sales.

In connection with this strong lifestyle trend, bloggers and other public profiles are having a greater impact on the types of food that are coming into demand.

Axfood's response

Axfood is making a contribution through both inspiration and advice, which is creating opportunities to build relationships with consumers. In 2016, Axfood's Garant private label expanded its organic selection by 50 items. More products were also released in the "Hej vego" vegetarian line. At Hemköp stores, organic and certified products are increasingly being displayed all in one place to make it easier for shoppers to find sustainable products. In addition, all of the Group's chains continue to build up bigger offerings of fruits and vegetables as well as vegetarian protein substitutes. In 2016 Axfood's sales of vegetarian alternatives grew 36.9% (24.8%).

Read more under Strategy – Customers



Trend 4. Sustainability and responsibility – a matter of course

Taking responsibility for a sustainable society and ensuring that the products people eat are produced responsibly are becoming increasingly important for Axfood's customers. Their expectations on the industry are growing for every year. According to a study conducted by the Swedish Trade Federation, seven of ten consumers buy an ecolabelled product at least once a month. Customers are also taking a greater involvement in reducing food waste.

Sustainability requirements encompass, among other things, that the food retail trade verifies that vendors are taking their own social responsibility, strives for the lowest possible

climate impact, contributes to better animal welfare and advocates for diversity.

Axfood's customers are attaching greater importance to country of origin labelling and are keen on choosing locally produced foods. According to a survey conducted by Sifo in 2015, seven out of ten Swedes indicate that they prefer Swedish meat. And in a 2016 YouGov survey, 68% of respondents stated that they are prepared to pay more for Swedish meat than for meat from abroad.

Transparency in the production chain is a key factor in upholding customers' trust in the future.

Axfood's response

Issues surrounding sustainable development are a central part of Axfood's strategy, and the Group's goal is to be best in the industry at sustainability. This strategy requires that Axfood offers safe and environmentally adapted foods, continuously reduces the climate impact of transports,

ensures good working conditions among its suppliers, and clearly labels the country of origin of products, among other things. All of these are aspects that are cited as being highly important in the company's dialogue with consumers.

During the past year the organic product range continued to grow, and further efforts were made to reduce food waste. For example, Willys cut prices or donated products that were nearing their best-by date or with damaged packaging. Axfood has also been an initiative-taker behind Matmissionen, Sweden's first social supermarket, which is run by the charitable organisation Stadsmissionen.

During the year Axfood provided political input towards a sustainable food strategy for Sweden, and the ideas and suggestions generated were presented in the report "Matkassen 2030". Axfood believes that by 2030 consumers will choose more or less the same groceries they do today, but that meat consumption will decrease. At the same time, the concept of sustainability has found an even bigger audience among the masses, and customers are more conscious about sustainable food and are spending their money accordingly. We will continue to eat good food, but with a better conscience. Axfood is urging politicians and authorities to support sustainable development through taxes and fees that not only fill the state's coffers, but also provide an incentive for sustainable solutions and choices.

Read more under Strategy – Sustainable development, the Matkassen 2030 report, and Axfood's 2016 Sustainability Report



Trend 5. Value for money – more than just price

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

At the same time, it is not only price that determines what is perceived as offering value for money, but also aspects such as a high-quality assortment and inspiring food ideas. In Axfood's annual customer survey, respondents

voiced a greater importance for an organic selection in 2016 than a year earlier.

Axfood's chains have different core customer groups, but what they all share in common is that value for money is not only a matter of the lowest price. Some customers feel it should be easy to shop and gladly embrace new solutions such as self-scanning and e-commerce. For others, it is important to find well known brands at good prices or to gain inspiration, follow new trends, and get really good service at stores.

Axfood's response

For Axfood, offering value for money is an important part of business. The Group works continuously to offer attractive prices as well as pay attention to all details in its stores. Willys pledges to offer Sweden's cheapest bag of groceries. Hemköp is – and according to customers surveys is perceived as being – a grocery store chain that is increasingly offering its customers value for money and with a business concept that calls for it to inspire its customers in a simple yet painstaking manner. All the while, Axfood Närlivs is meeting the needs of business customers for deliveries of the right goods at the right time and in a simple manner.

The continuous and successful development of private label products is giving Axfood's chains good opportunities to offer an attractive assortment that gives customers value for their money.

Read more under Willys, Hemköp, and Private Label Products



Drivers of consumers' perceptions of value for money



Source: Consumer survey Nepa/Axfood 2016, 4,615 respondents.

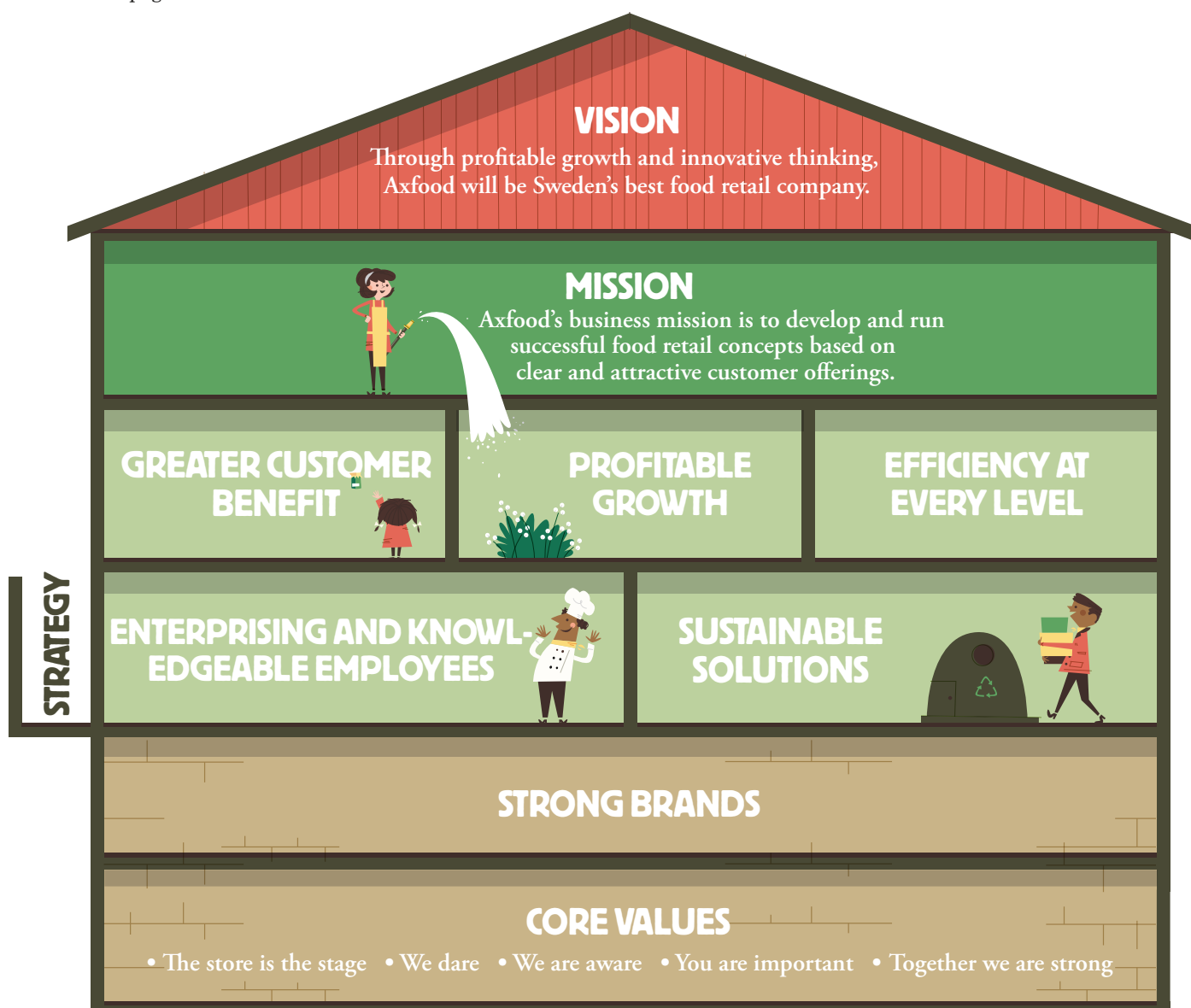
Vision, mission and values

Axfood will be Sweden's best food retail company

Axfood's vision – to be Sweden's best food retail company – will be achieved by developing an attractive and sustainable assortment, maintaining a high level of innovation for enhanced customer benefit, and reaching more consumers, both through strategic locations of its physical stores as well as online. Long-term approach, customer focus and responsibility are the essence of Axfood's strategy for profitable growth.

Axfood's foundation

The house below illustrates Axfood's foundation. At the bottom are the Group's core values, which permeate everything we do. The Group's strong brands are driven by a shared strategy for profitable growth. The five different parts of this strategy are described on pages 18–33.



Business model

Distinct processes for offering good and sustainable food for everyone

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

1 Choice of suppliers, price negotiations, and purchasing *Attention to detail begins with the assortment*

Axfood's joint-Group assortment and purchasing function allows it to offer good prices and high quality. Suppliers and the assortment are decided on and negotiated centrally for all of Axfood's stores. Each store thereafter can adapt its assortment to local demand.



2 Logistics *Striving for optimal operations*

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



3 Stores, customers and passion for food *Giving customers freedom of choice and creating an inspiring in-store experience*

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



Different types of capital¹⁾

- Natural resources
- Plant
- Relationships
- Knowledge
- Financial capital
- Intellectual capital

Value chain

By using a wealth of resources and capital that are refined in Axfood's operations, value is created for the Group's various stakeholder groups. The descriptions below provide some insight into initiatives that are



Capital	Activities
Product and business development - Continued development of established processes for innovation and product development based on input from customer surveys and insight work. - Private labels with distinct identities and products that provide value added and offer value for money. - Effective cooperation with suppliers who are keen on developing the offering.	- A smart checkout solution with paperless receipts is offered to stores in the Tempo and Handlar'n formats. - Focus on attractively priced sustainable and healthy products. - Continuous testing of private label products to ensure quality that is at least as good as well known brands, on top of being healthy and distinctive. - Greater commitment to more sustainable packaging. - Development of a platform for and launch of e-commerce.
Purchasing - Financial strength to develop the assortment and be an attractive partner to supplier with ambitions in sustainability and attractively priced products. - Knowledgeable buyers with high standards for sustainability. - Clear frameworks and risk mapping for risk assessments of suppliers. - Joint assortment and purchasing function in the Group and for certain products via Nordic or European purchasing organizations.	- At every step of the purchasing process, conscious choices are made based on responsibility, quality and price. - Axfood's private label offering is quality-assured through both internal and external controls. - Adapt the assortment to the growing number of customers born outside Sweden.
Warehousing - High turnover rate and low level of tied-up capital. 1,435 employees at seven warehouses with focus on effective planning, warehousing and logistics. - Smart warehouses with high energy efficiency and renewable electricity.	- Approximately 75% of products go from suppliers to stores via Dagab, which results in good control and economies of scale. - Reduce environmental impact by boosting energy efficiency and sorting waste. - Work with district heating companies to look into the possibility of being a net seller of surplus heat.
Transports 138 trucks fuelled with diesel based on renewable ingredients. - Follow-up system for reducing vehicle emissions and fuel costs. - Drivers with training in eco-driving. - Axfood's nationwide organization that enables efficient deliveries to independent stores, especially in the countryside.	- During the year Axfood gradually changed over to using HVO fuel. - Pilot initiative with external transport firms to measure their carbon footprint for Axfood's deliveries.
Retail/B2B customers - The Axfood Group has a total of 381 stores in 161 municipalities across Sweden. - Normally SEK 650-750 m is invested yearly in new stores, maintenance and IT. - Approximately 83% of product orders from stores are made via Autoorder. - Axfood's stores employ 6,266 people with a passion and drive for customers and food. 54% women and 21% of employees with an international background vouch for diversity and innovation. 35% of employees are younger than 26.	- Following a halt to investments in solar panel systems due to a newly instituted solar panel tax, Axfood resumed its capex plans for solar panel systems after the government reversed its position on the tax. - To accelerate work on reducing food waste during the year, prices were cut on products in stores with short best-by dates, and left-over products were donated to charity organizations.

¹⁾ Axfood has drawn inspiration from the value creation model provided in the integrated reporting (IR) framework, which is based on these six types of capital.

broken down into the three processes in Axfood's business model. The colours of the bullet points before the resources refer to the different types of capital: natural resources, plant, relationships, knowledge, financial capital and intellectual capital.

Results

Product and business development

- During 2016 the private label assortment was expanded with 50 new organic products and more vegetarian products, lactose-free alternatives, and gluten-free products.
- Private label products have a lower price level than their name-brand counterparts.
- Essentially all private label products containing meat, and charcuterie and fish products, have country of origin labelling.

Purchasing

- A total of 54 social audits were carried out in 2016.
- First draft of Axfood's strategy for living wages.
- Launch of IP Sigill Arbetsvillkor, an industry certification for working conditions for which Axfood was an initiative-taker and worked for.
- Position statements and responsibility in practice, e.g., active exclusion of alcoholic ice cream from the assortment.
- Complementing of the product assortment with large packs of spices from regions such as northern Africa, the Middle East and Afghanistan.

Warehousing

- In 2016 Dagab handled approximately 2 billion products and turned over its inventory every 12th day.
- In connection with the construction of a new transit warehouse for perishables in Jönköping, the warehouse will be highly automated.
- Electricity posts for refrigeration of trucks while idle result in lower emissions and efficient product loading and unloading.

Transports

- Deliveries are made to some 7,000 stores and customers nationwide.
- 72% of all fuel used in 2016 was based on renewable ingredients.
- More than 300 stores in the countryside are supplied with Axfood products.
- CO₂ emissions from own transports decreased by 49% per tonne of transported goods in 2016.

Retail/B2B customers

- Axfood uses store and warehouse rooftops to generate renewable electricity for its own use from solar panels. The solar panel systems generate the greatest output during the summer months, when the stores need the most electricity for refrigeration of products. During the year Axfood's solar panels generated approximately 180,000 KWh of electricity.
- Every week some 3 million customers shop at a Willys or Hemköp store.
- Hemköp's customer programme has more than 1 million members, and Willys Plus has 2 million members.
- During the year, newly established stores created 135 new jobs.

Value

Society

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

SEK 2,833 m



Suppliers

Cost of goods for sale

SEK 31,654 m



Employees

Salaries and remuneration

SEK 3,597 m

Average number of employees

9,211



Axfood

Total capital expenditures

SEK 580 m



Shareholders

Dividend (proposed by the Board of Directors)

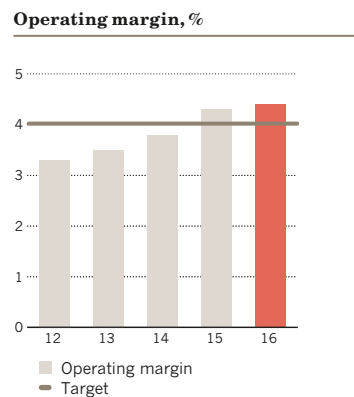
SEK 1,259 m



Targets and target achievement

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

Financial targets



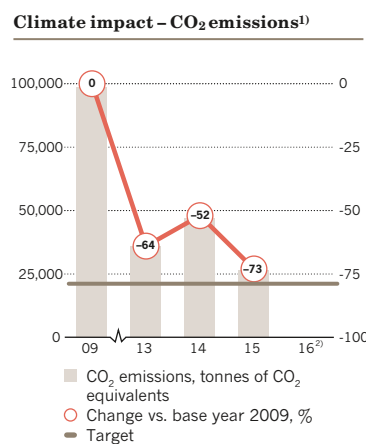
Target:

Long-term operating margin of 4%.

Outcome:

In 2016 the long-term target was reached, with an operating margin of 4.4%.

Environmental targets



Target:

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

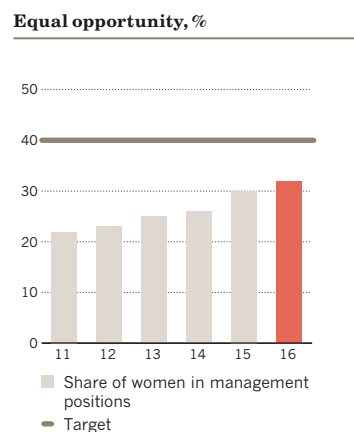
Outcome:

From 2009 through 2015 Axfood decreased its climate impact by 73%.

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

²⁾ The outcome for 2016 is dependent on the residual mix, which will be published later in 2017.

Employee targets



Target:

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

Outcome:

Axfood has met its long-term target at the mid-management level; in other management positions the share of women was 32%.

Equity ratio, %



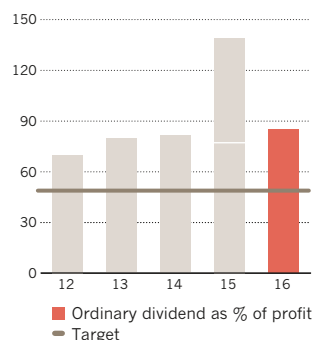
Target:

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

Outcome:

The equity ratio as per 31 December 2016 was 39.1%, and the target was achieved during every quarter.

Dividend in relation to profit, %



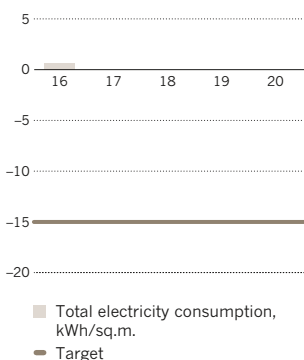
Target:

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

Outcome:

The Board of Directors proposes an ordinary dividend of SEK 6.00 (5.00) per share, corresponding to 85% of profit after tax. In the preceding year an extra dividend of SEK 4.00 per share was also paid.

Electricity consumption, %



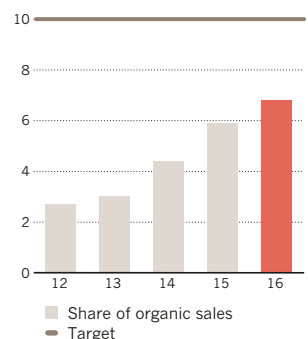
Target:

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

Outcome:

Axfood increased its energy consumption in 2016 by 0.7% per square metre.

Share of organic sales, %



Target:

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

Outcome:

Organic products accounted for 6.8% of net sales in 2016. Organic products accounted for 9.3% of total for Hemköp and 6.0% for Willys.

Diversity, %



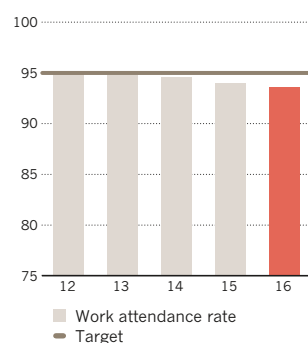
Target:

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

Outcome:

In 2016, 11% of Axfood's managers and 21% of employees came from an international background. More than 30 languages are spoken within the Group.

Work attendance rate, %



Target:

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

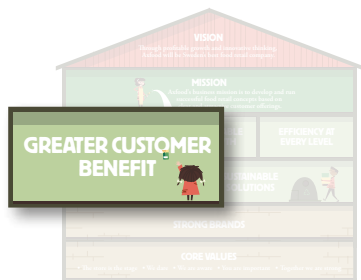
Outcome:

The work attendance rate in 2016 was 93.9%.

Strategy – customers

The best shopping experience

Axfood will continuously adapt to customers' preferences and offer the best shopping experience for the respective formats' target groups.



Customer strategy:

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

28%

of net sales consisted of private label products.



Offer appealing stores with a wide assortment

The core of the strategy to create the best shopping experience for customers is to have appealing stores with a wide assortment. Willys carried out an extensive modernization programme in recent years, and Hemköp's modernization programme is still in progress. Smaller upgrades and development work at stores are conducted on a regular basis to ensure that customers' expectations for a modern, inspiring grocery store are met.

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

Demand for organic food is being driven by environmental and health awareness as well as concerns about residual pesticides in foods. In 2016 organic products as a share of Axfood's total sales amounted to 6.8% (5.9%). Broken down by store format, Willys had a share of 6.0% and Hemköp had a share of 9.3%.

In addition, Axfood regularly screens certain products from its assortment out of concern for the environment, people and animals – such as foie gras, prime veal and products that are contrary to the company's values. Axfood gives preference to meat certified by KRAV, since it has the most stringent standards for animal welfare.

Private label assortment growing and evolving

The profitable focus on private labels will be further developed, and the product range is being broadened continuously. Sales of private label products increased by roughly one percentage point in 2016 to approximately 28% of total sales, which is above the Group's target of at least 25%.

The growing interest in health and sustainability is a central theme in Axfood's continuing efforts to further develop its offering of private label products. Existing products are reviewed and new ones are being developed, such as vegetarian dishes and organic products, to meet consumer demand. Focus is also on products for consumers with special needs, such as lactose or gluten intolerance.

For some time essentially all private label products in the seafood, meat and charcuterie categories have been labelled with information on the country of origin for the main ingredient. Country of origin labelling has now been

Prioritized activities 2017:

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



ex-panded in the categories dairy, cheese, dried and tinned legumes, rice, and frozen vegetables. The strategy for country of origin labelling is based on the principle that the product should come from the area that is best suited for that specific product. For example, parmesan cheese should come from Italy and dairy products from Sweden. Where suitable, preference is given to Swedish products. During the year an industry-wide label for Swedish products was launched – Från Sverige (“From Sweden”). In order for a product to bear this Swedish country of origin label, all steps in the production of meat, eggs and milk, including processing and packaging, must take place in Sweden. At year-end 258 private label products carried the Från Sverige label.

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

Make it easy for customers to make responsible choices

Axfood has high aspirations for sustainability, and this includes also having a distinct environmental and sustainability image among customers. The chains strive not only to meet, but also to be a driver of demand for environmentally adapted, wholesome and safe foods. Moreover, they strive to provide clear information to consumers about product origin and content.

To further help customers find organic, certified and healthy products that offer value for money, most Hemköp stores now gather this carefully selected assortment in a special department.

During the year Hemköp took the decision to sell only Fairtrade certified roses, and Axfood took the initiative as the first food retailer in Sweden to offer a new line of Fairtrade certified chocolate. Examples of other decisions taken by Axfood in recent years include selling only organic bananas at Hemköp and assuring that all Garant tea and coffee is sourced from Rainforest Alliance certified plantations. By 2020, all seafood sold in Axfood stores must have a green light from WWF, and Garant dried foods such as rice and pasta will be certified according to IP (integrated production), Global Gap, or an equivalent standard.

Axfood Snabbgross is more clearly highlighting its profile as the conscientious restaurant wholesaler through product displays and communication at its cash and carry stores.

According to Axfood's own studies, customers feel that the most important sustainability issues are pesticides and chemicals, animal welfare, and country of origin and traceability. Read more in Axfood's 2016 Sustainability Report.

Increase innovativeness in key product categories

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

To meet customers' demands for convenience, Axfood's stores are continuously developing their offerings of meal solutions and prepared foods. Bread and baked goods are another category that is being developed to simplify daily life for customers. More and more Hemköp stores today have a professional baker on staff.

The assortment must also be increasingly global and suited to customers' varying international preferences. This is important not least to adapt the offering to the growing number of people in Sweden from different countries. Fruit and vegetables is another priority product category that is obtaining an increasingly prominent position in stores, which is in line with customers' interest in eating healthy food. The poultry and seafood offerings are also evolving in pace with the current health trend.

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

The chains' customer programmes are continuously evolving, and the ambition is to be at the forefront in interacting with customers through digital channels. A key part of the work on developing the customer programmes is to increase the number of personalized offers to customers. By using knowledge about customers' frequent purchases, offers can be made more individualized and relevant.

Improve local and regional customer offerings

To be the most attractive choice for every customer category, Axfood will also continue to adapt and strengthen its offerings to local and regional demand – and embrace the offerings provided by regional producers. This entails, for example, offering products from local suppliers and displaying them in stores. It can also entail having a broad offering of prepared foods and heated buffets in stores in areas where such are in demand.



Private labels

Minstingen – popular new brand for parents with babies

In 2016 Axfood launched a new private label – Minstingen – a line of baby diapers, wet wipes and other products for babies up to three years old. High quality, competitive prices and a graphic design based on fun animal caricatures are helping to position Minstingen in the market. The selection of Minstingen products will be expanded going forward.

Garant – a seal of good quality

Garant offers products with a level of quality that is at least as high as the leading name brands in the respective product categories, but at a lower price.

Driven by awareness and an interest in health and the environment, consumer demand for organic products, vegetarian alternatives, and gluten- and lactose-free products continues to grow. The Garant organic product range was expanded during the year by some 50 items and now includes a total of 260 products. The Garant vegetarian range was also expanded and now includes, among other things, pulled veg, vegetarian mince and vegetarian burgers in refrigerator and freezer displays.

Brand surveys show that Garant has established itself as a brand that repre-

sents price value, but also inspiration and environmental awareness.

Axfood's private labels leading the charge for sustainability

Producing and selling food products will always have some environmental impact. Axfood is working actively to reduce this impact and strives to be better at making more sustainable choices. Through its private labels Axfood is leading the charge in setting standards for products as well as suppliers in order to make a difference in social, environmental and natural resource issues.

Eldorado – modern discount products

Eldorado is Axfood's private label with a distinctive low price profile. Backed by thorough quality assurance, Eldorado features a range of reliable and smart discount alternatives in modern packaging.

Fixa – growing selection of laundry and cleaning products

Under the Fixa brand Axfood offers kitchen and cleaning supplies as well as laundry and household cleaning products. The product range was expanded during the year with new laundry, cleaning and specialty products.

Thorough process ensures high quality products

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



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



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



The samples are tested again, after which – for mid-range and value-added products – the products are rated by an external consumer panel of 60 persons.



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



The products are delivered to Dagab, which then distributes them to stores.

The magic behind our baby peas

Some people say that a bag of frozen green peas represents a slice of frozen time. We visited our pea farms in the fields surrounding Lake Vänern in south-central Sweden to find out more about what might be behind this assumption. We also learned what it takes to grow the perfect pea.

Read the entire report at garantskafferiet.se.





AXFOOD'S PRIVATE LABELS AND THEIR FOCUS

Brand	Segment	No. of products
	 MID-RANGE food products. Quality at least as good as the market leader, but at a lower price for consumers.	1,000 items
	 VALUE-ADDED PRODUCTS that meet criteria for organic certification by KRAV and/or EU organic labelling.	260 items
	 VALUE-ADDED body care, laundry and household cleaning products, all of which are ecolabelled, perfume-free, asthma and allergy-labelled, and climate-compensated.	15 items
ELDORADO	 DISCOUNT food and nonfood products.	800 items
fixa	 MID-RANGE nonfood products and household cleaning supplies.	350 items
	 MID-RANGE baby care products.	12 items

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

Category definitions in the food retail trade:

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



Strategy – growth

Number two with growth ambitions

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



Growth strategy:

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

Drive organic growth

Axfood aims to grow sales by developing operations in its chains and stores, and by offering competitive prices.

An extensive modernization programme is currently being carried out at Hemköp stores. A number of the Group's wholly owned stores have obtained a more modern appearance, while more and more retailer-owned stores are also carrying out upgrades, either department-by-department or store-wide.

Apart from offering an atmosphere that makes shopping more enjoyable for customers, the store renovations contribute to more efficient and more sustainable store operation.

Ambitious pace of establishment

New store establishment is imperative for growth. The Group is maintaining an ambitious pace of growth, with an average of five to ten new, Group-owned stores opening in metropolitan areas and regional growth areas per year. Both Hemköp and Willys are successively opening additional stores in growing municipalities. For Hemköp, central and residential locations are decisive, while Willys is searching to a greater extent for store locations at easy-to-access shopping centres or close to residential areas.

As the only nationwide chain in its niche, Axfood Snabbgross has 22 cash and carry stores, and its ambition is to continue expanding. Its stores will also be modernized with a view to contributing to greater food inspiration.

Six entirely new stores were established in the Group in 2016: five Willys (of which one Willys Hemma) and one Axfood Snabbgross.

The number of Hemköp proprietor-run stores operating under the 91/9 model will also increase. The 91/9 model is a financing solution that enables store managers to buy their store. The model is part of Axfood's commitment to encouraging entrepreneurship and entails that Axfood retains a majority stake in the store during the first two years of the agreement. The store manager can thereafter buy the store from Axfood and then own it more than 99%. The various ownership forms serve to strengthen and drive the chain forward. During the year, five stores (one) were converted to the 91/9 model.

In January 2017 Axfood reached an agreement, together with Norgesgruppen, to acquire Eurocash Food AB, see page 25. The acquisition

further strengthens Axfood's leading position in the discount segment while also marking the Group's entry to the cross-border shopping segment.

Grow in digital business

Axfood has long offered e-commerce to business customers and wholesale service to the leading providers of pre-packed groceries and pure-play e-commerce actors. In 2016 both Willys and Hemköp launched online sales. The services include both in-store pick-up and home delivery and were offered at year-end to more than 2 million consumers in Stockholm, Gothenburg, Uppsala and Norrköping. In 2017 e-commerce will be rolled out in additional locations.

In early 2017 Axfood acquired the online grocery store mat.se (see page 24). Axfood thereby gained access to more employees with experience in online sales, home deliveries under own management, three picking warehouses and two recipe websites.

Hemköp also launched five types of pre-packed grocery concepts in ten cities throughout Sweden. The service will be extended to additional cities in 2017.

Develop service offering

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

Prioritized activities 2017:

- Roll out e-commerce in some 20 cities
- Establish 11 new stores
- Continue modernizations, primarily of Hemköp stores
- Offer more stores under the 91/9 model





The king of the Arctic Ocean is spelled skrei

LOFOTEN, BARENTS SEA

Deep below the surface of the Barents Sea, huge populations of Norway's pride are hiding. Our skrei (Norwegian arctic cod) is line-caught far out at sea by Hanne Kristin, Kjell and Andre, and is the source of the caviar on our crispbread and the delicate fillets in our fish casseroles.

But what is it that makes skrei so special? Is it the special climate created by the Gulf Stream or quite simply a trade secret that has been passed down through generations of fishermen in Lofoten?

Read the full report at garantskafferiet.se.



Mat.se – the store that exists only online

On 15 December 2016 Axfood made a public offer for Matse Holding AB (publ). In January 2017 the Swedish Competition Authority gave its approval, and shareholders with more than 90% of the capital had accepted the offer. Axfood thereby executed the offer, and Matse Holding AB's shares are being delisted from Nasdaq First North Stockholm.

The offer in short:

- Axfood offered SEK 17.00 in cash for each share in Matse Holding AB.
- The offer represented a premium of approximately 43% over the stock's closing price the day before the offer was announced.
- In total the offer was worth approximately SEK 554 m.
- Shareholders with holdings corresponding to 83.2% had committed themselves to accepting the offer.

Matse Holding will be consolidated in the Axfood Group starting with the first quarter of 2017 and will be included in Dagab in the segment reporting.

Matse Holding makes daily life easier

Matse Holding consists of:

- mat.se – an online full assortment grocery store
- the recipe sites kokaihop.se and spisa.nu
- home deliveries under own management.

Mat.se was launched in Gothenburg in 2012. Today the company serves customers in Gothenburg, Stockholm and the western part of Sweden's Skåne province. Mat.se is striving to revolutionize the food retail industry by developing ideas and services that make life easier and better for consumers. Through its recipe sites, ingredients for a recipe can be ordered with a simple click, and customers are offered a smart shopping list that is based on their previous purchases with the help of artificial intelligence.

In partnership with Volvo, mat.se delivers groceries directly to the trunks of Volvo cars.

With the help of smart locks, tests are currently being made of deliveries directly home to customers' refrigerators – all to make life easier for customers.

In a short period of time Mat.se has attained a strong position in the online grocery market. In 2016 the online store had food retail sales of approximately SEK 256 m.

Matse Holding delivers primarily groceries ordered online via mat.se and has critical volumes for cost-effective routes. At year-end 2016 the company had a fleet of 68 delivery vehicles. To utilize the fleet's full capacity, external transport assignments are also handled, mainly in the refrigerated transport segment. Every week more than 10,000 deliveries are made directly to end customers.

Future challenges and priorities 2017

In 2017 Matse Holding will increase the pace of development in order to further improve the offering. This applies to both the assortment and deliveries. As a company in the Axfood Group, Matse Holding now has strong support to realize its ongoing expansion – and help customers shop better!

The recipe sites provide inspiration to home cooks and make cooking easier and more fun.



Kokaihop.se is a natural, digital meeting place for Sweden's home cooks, featuring recipes, food blogs, menus and news articles.



Spisa.nu features professional recipes with pictures. It also has one of the world's largest compilations of food and product information as well as a beverage guide that helps consumers match the right drink with their recipes.



Eurocash – leading discounter in cross-border shopping

In January 2017 Axfood and Norgesgruppen acquired Eurocash Food AB. Through the acquisition Axfood further strengthens its leading position in discount food retail while at the same time entering the cross-border shopping segment.

Partnership with Norgesgruppen:

- After receiving clearance from the Swedish Competition Authority, Axfood agreed to sell 49% of Eurocash to Norgesgruppen.
- Norgesgruppen's acquisition requires approval from the European Commission.
- Axfood's initial acquisition is not contingent upon approval of the subsequent transfer to Norgesgruppen.

The first stores under the Eurocash name appeared in the Swedish market in 1999. Today Eurocash is the second-largest food retail chain along the Norwegian border. Annual sales in the cross-border shopping segment amount to approximately SEK 14 bn. Some 2 million Norwegians live less than 1.5 hours by car from a Eurocash store.

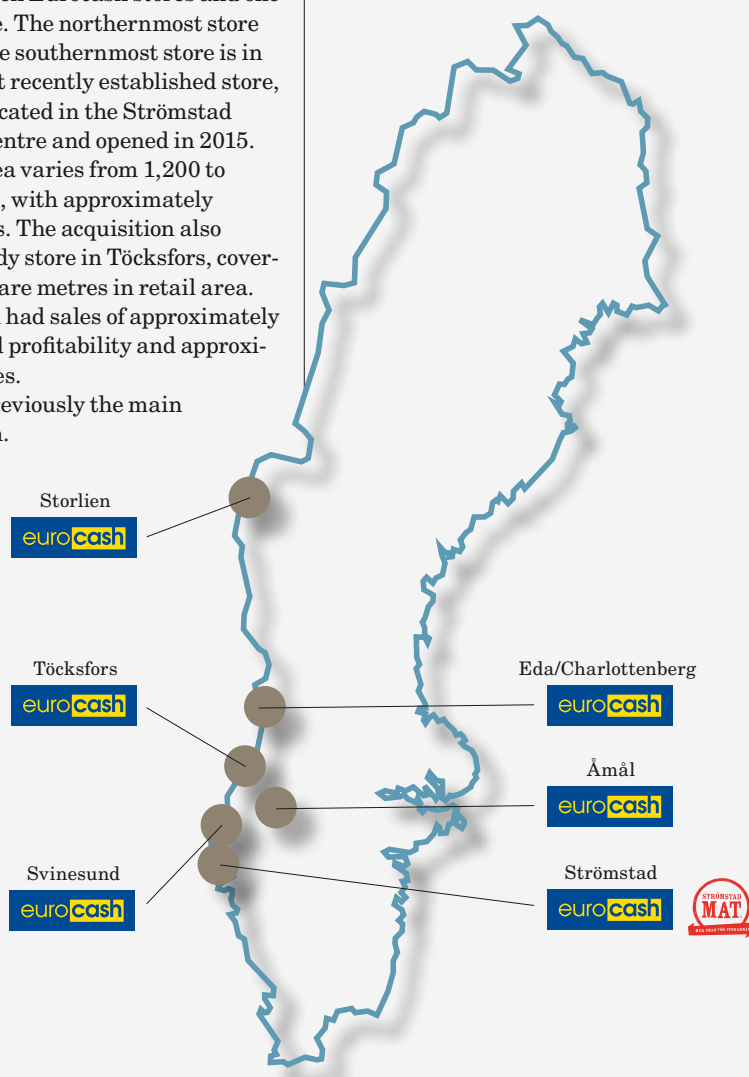
The acquisition included eight grocery stores, including seven Eurocash stores and one Strömstad Mat store. The northernmost store is in Storlien, and the southernmost store is in Strömstad. The most recently established store, Strömstad Mat, is located in the Strömstad centrum shopping centre and opened in 2015. The stores' retail area varies from 1,200 to 3,200 square metres, with approximately 10,000–20,000 items. The acquisition also included a large candy store in Töcksfors, covering nearly 1,000 square metres in retail area.

In 2016 Eurocash had sales of approximately SEK 1.2 billion, good profitability and approximately 280 employees.

Axfood is since previously the main supplier to Eurocash.

Future challenges and priorities 2017

During 2017 Eurocash will make continued improvements for its customers and create the best grocery store near the border. Among other things, the stores will introduce a customer programme and continue developing its ethnic assortment in order to meet shoppers' diverse preferences for tastes and products.



Strategy – profitability

Efficiency and cost control

Through efficiency and strict cost control Axfood will be the most profitable company in Sweden's food retail market.



Improve effectiveness of assortment

Axfood is to have an effective assortment that consumers find attractive. Achieving this requires a well thought-out, efficient and long-term work approach.

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

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

Increase efficiency in logistics and at stores

Axfood's logistics are becoming increasingly efficient, with a focus on opportunities, sales and simplification. All logistics operations are now coordinated within the Group through Dagab. Dagab offers large-scale and flexible, customer-unique solutions that draw from coordination benefits, see pages 40–41.

The aim is to increase the percentage of purchases that stores make via Dagab, and a number of measures are being taken on a regular basis to contribute to this. A higher purchasing percentage leads to larger volumes, which creates economies of scale in supplier negotiations, more efficiently packed transports, and better delivery reliability towards stores.

Delivery reliability is one of the logistics



Profitability strategy:

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

Prioritized activities 2017:

- Begin introduction of Autoorder also for direct deliveries from vendors
- Improve product and staff planning at stores
- Improve administrative efficiency
- Increase the share of private label products

operation's most important key performance indicators. In 2016 it was 96.8% (96.9%), which is in line with the Group's target.

Product handling is improving steadily across the value chain. Among other things, expanded use of Autoorder is leading to more efficient ordering processes and less food waste. Parallel with this, new solutions are being developed for customized order flows and to deliver products all the way to store shelves.

In stores as well, continuous development is being conducted of work methods, routines, premises and equipment to optimize the Group's profitability. Prioritized activities include improving staff planning and product placement, and improving checkout efficiency, such as by installing self-checkout lanes.

Strict cost control

Strict cost control is an important part of Axfood's profitability strategy. In 2014 a new business system was implemented which creates conditions for improved management and control of the entire Group's value chain. Management via the business system is being fine tuned on a continuous basis.

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



A bow to the king of cheeses

NUOVA CASTELLI REGGION EMILIA

Does a specific location on the world map get a hard cheese to taste better than another?

Today Parmigiano Reggiano is as much a basic staple in Swedish refrigerators as eggs and milk. But in pace with its growing popularity, parmesan cheese has also attracted countless copies in cheese counters. We travelled to northern Italy to visit our supplier Castelli and find out what distinguishes the real thing from copies.

Read the full report at garantskafferi.se.



Garant is best!

Garant continues to receive accolades for its high quality products and attractive packaging design. During the year Garant received the following awards and distinctions, among others:

- Garant organic barleycorn sausage was voted as the best vegetarian and semi-vegetarian sausage in a taste test conducted by the evening tabloid Aftonbladet.
- Garant organic Fairtrade certified chocolate with 70% cacao received the top score from food magazine Allt om mat.
- Garant Vego kale bites were included in the magazine Må Bra's list of best health products.
- Garant frozen graviola and Garant organic spice mix received a Salute to Excellence Award for innovation from the international Private Label Manufacturers Association, PLMA.

Strategy – employees and organization

Proud and committed employees

A distinctive Axfood culture and values-steered leadership instil pride, commitment and collaboration among employees and grocers.



Employee strategy:

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

Attract, retain and develop employees

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

Diversity & equal opportunity

Axfood's employees reflect the diversity of the Group's customers; everyone is to have the same opportunities to develop.

The Group works actively with these issues through measures ranging from obligatory recruitment training for managers to offering a diverse, ethnic product selection in stores.

Axfood's goal is that 20% of all managers will have an international background by 2020 and to achieve an even balance of men and women in management positions. In 2016 11% of Axfood's managers and 21% of employees came from an international background, while 32% of managers were women.

The main drivers of greater diversity include the Group's work with culture, attitudes and prejudices. But practical conditions are also needed. In 2016 Axfood introduced the opportunity for salaried employees to switch shortened work days – usually a day before a holiday – to another day. Employees can thereby use these days for other holidays than the traditional Swedish holidays.

Clearly map out competencies and career paths

At Axfood there are many areas in which

employees can make a difference. The strength lies more with the collective body of employees than with a few chosen elite. Axfood offers equal opportunities by ensuring diversity in its processes. The HR department strives to clearly map out career paths, and employees take active responsibility for their own personal development. During the year Axfood defined the behaviours that contribute to success for employees within the Group. These are now used for support in the further development of all employees within the Group.

Succession planning

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

Employer brand

Axfood's brand as an employer is an area of priority focus and is growing ever-stronger, among other things through initiatives to promote diversity and internal mobility, collaboration



Axfood's core values

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



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

with colleges and universities, dialogue in social media and clarity surrounding Axfood's sustainability work.

In 2016 the Group received 83,000 applications for its advertised job openings. This is double the amount received in 2015. Of the 78 applicants per position, three were internal. This indicates that measures to increase Axfood's reputation as an attractive employer and map out career paths within the Group have been fruitful.

Through the one-year youth trainee programme Ung i Axfood ("Young at Axfood"), which was started in 2015, the Group is working to address youth unemployment. Axfood is also participating in a research project focusing on competency building among young people.

Values-based leadership, employeeship and a distinctive Axfood culture

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

Apart from the core values, the desired leadership qualities are laid out in a Group-wide leadership profile, which is used as a benchmark in recruitment, development and evaluations.

Axfood conducts employee surveys every

other year. Ninety-eight per cent of employees participated in the 2016 survey. The Group's goal is to achieve an Employee Satisfaction Index (ESI) score of at least 90. Axfood's ESI score in the 2016 survey was 92, which continues to be far higher than the industry benchmark of 86. The survey also found that more than 8 in 10 employees are proud to work for the Group. Axfood also measures the share of employees who accept the role as ambassadors. In this area the Group's score was three times higher than the benchmark – 23 compared with 7.

Customer-centric organization with strong entrepreneurial spirit

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

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

In 2016 a total of 1,662 employees participated in 3,521 training days via Axfood Academy. A total of 22 instructor-led courses were completed on 128 separate occasions. In addition, more than 34,000 e-learning courses were held.



92

Axfood scored a 92 in its 2016 Customer Satisfaction Index. The industry benchmark score was 86.

Many newcomers as interns

Axfood works actively to include and give people opportunities to gain experience in the job market. The employee survey conducted during the year confirms that this topic is valued highly by store managers.

At Willys and Hemköp, 90%–95% of stores offered internships during the year. More than half of these stores have subsequently indicated that their internships led to employment. One in three stores have provided internships for nearly 200 newcomers or asylumseekers.

The share of stores in the respective chains that provided internships for newcomers is shown below.

Willys

36%

Hemköp

41%

Axfood Snabbgross

21%

Prioritized activities 2017:

- Continue work with succession planning
- Offer internships for youths and people with a multicultural background
- Strengthen Axfood's reputation as an attractive employer
- Focus on reducing illness-related absences
- Group trainee programme



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

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

To counter the current trend of ill-health in society, which has also affected the level of absenteeism due to illness within the Group, Axfood is conducting training of all managers. During the year an obligatory course on rehabilitation was held, since leadership has a great impact on wellness work. The aim is to create a clearer process and better tools that enable managers to act upon early signs of ill-health.

Company health services was made into a Group-wide function and now offers the same wellness services and smoother control and follow-up for the all of Axfood's Group companies.

Whistleblower function with symbolic value

In 2016 Axfood instituted a whistleblower function for the types of matters that employees may be hesitant about raising via the ordinary channels. Providing this opportunity to report improprieties via a whistleblower function shows that Axfood takes violations and ethical behaviour seriously. Employees can report anonymously through an external party.

Details on sustainability work are presented in Axfood's 2016 Sustainability Report

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

The Group's sustainability programme is reported in detail in the 2016 Sustainability Report. The report also lays out prior-

ities and the results of measurements of important key performance indicators. The Sustainability Report describes Axfood's view of its interaction with its stakeholder groups: customers, employees, suppliers, society and owners. The issues that these stakeholders consider to be the most important provide guidance to Axfood in its sustainability work.





Cacao and hope for the future

FRANCISCO CANTALICIO, DOMINICAN REPUBLIC.

Most people are familiar with the Fairtrade certified mark. But what exactly does a primary ingredient certification entail, and how can it affect an entire village in Central America? We paid a visit to the

Dominican Republic to find out how the cacao beans, the people and their culture have been affected after this certification became established in the country. *Read the full report at garantskafferiet.se.*

Strategy – sustainable development

Best in the industry

Axfood aspires to be a good company and positive force in society. Axfood shall drive the industry towards being more sustainable with the goal of being the best in the industry in this area and to have the reputation as such.



Sustainability strategy:

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



Be at the forefront at reducing climate impact

Reducing the climate impact of operations is a central part of Axfood's strategy for sustainable development. The Group strives to work actively with proven measures and to be a forerunner in testing new, technical solutions in its own operations. The most relevant environmental aspects are energy consumption, transports and material flows. Environmental work is conducted systematically and contributes to continuous improvements.

The overarching goal for the Group's climate impact is to be climate-neutral by 2020 and to reduce the Group's own climate impact by 75%. From 2009 through 2015 Axfood reduced its climate impact by 73%. The greatest climate impact today comes from emissions of refrigerants. It will not be able to assess the climate impact for 2016 until the data on the residual mix has been published later in 2017. This is because certain individual stores are located in shopping centres with central electricity contracts without any demands for renewable electricity. This is a requirement that Axfood makes when it is the direct electricity customer.

Energy consumption

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

The Group has set a target to reduce its electricity consumption by 15% per square metre by 2020. Despite energy-savings measures, electricity consumption increased by 0.7% per square metre during the year due to a higher share of refrigerated products and more customers in stores.

The solar energy tax that was introduced during the year interrupted Axfood's future plans to install solar panel systems at warehouses and stores. After the government promised to review the conditions for the tax, Axfood resumed its investment plans.

Transports

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

The climate impact of transports is decreased with the help of route planning, capacity utilization, driver training in eco-driving and the use of renewable fuels. In addition, Axfood strives to reduce the number of trips by offering alternative meeting forms, such as digital meeting platforms. In 2016 the environmental impact of Axfood's delivery fleet was reduced considerably, mainly by adopting the use of HVO fuel. HVO is 100% renewable fuel produced by hydrogenation of vegetable oils and/or waste animal fats. In 2016, CO₂ emissions from the Group's own fleet decreased by 49% per tonne of transported goods.

Material flows

To increase material recycling, all stores, warehouses and offices sort many different fractions. All warehouses and Group-owned stores work extensively with waste sorting and are improving their profitability by selling waste fractions for material recycling. During the year the Group companies continued their work on increasing recycling through sorting.

Good control of the supply chain

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

Social responsibility

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

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

Through its participation in the Business Social Compliance Initiative (BSCI), Axfood has strengthened its efforts to bring about improved conditions among suppliers. In 2016 a total of 54 social audits were performed – both under own management and through BSCI.

Country of origin labelling

The foundation for responsible work with products involves having control over their origin. Moreover, customers want to know. For this reason, all of Axfood's private label products are to include information on the packaging about the origin of the main ingredient. For private label products that contain meat, the goal is that the meat's country of origin shall always be indicated.

Sustainable certifications

Axfood is working actively with sustainability certifications for the environment, animal care and social responsibility in order to be able to support and buy products from small producers. For example, through certifications Axfood is contributing to more sustainable production of palm oil and soy.

Active and responsible societal actor

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

Axfood has been a signatory of the UN Global Compact since 2002. The Global Compact serves as the starting point for activities related to human rights, labour issues, the environment and anti-corruption.

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

Through its membership in the retail trade organization Svensk Dagligvaruhandel, Axfood advocates for issues that are pertinent for the entire food retail industry, such as standards and guidelines on how to implement EU regulations in Sweden.

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

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

During the year Axfood provided political input toward Sweden's national food strategy that the Swedish government subsequently adopted. Axfood's ideas are highlighted in the report "Matkassen 2030" and include, among other things, promoting Swedish agriculture, refining Swedish value added, and making requirements for innovation. In January 2017 the Swedish government presented the country's national food strategy, which incorporates some of the aforementioned themes, but which is more comprehensive and will require a complementary practical action plan.

Charity

In the area of charity work Axfood has long-standing relationships with Save the Children, SOS Children's Villages and SSNC, among other organizations. In partnership with charity organizations, Hemköp participated in initiatives for the benefit of EU migrants and financially disadvantaged people in Sweden.

Axfood is also making efforts to create better conditions for newcomers to establish themselves in Sweden. This includes offering jobs or internships to newly arrived refugees.

During the year the store chains worked actively on finding local charity organizations that can take care of food waste from stores instead of it being discarded. At present around 80 stores have ongoing partnerships in this area.

Prioritized activities 2017:

- Measure climate impact of external transports
- Expand use of solar panel systems on store roofs
- Advocate for rules against excessive use of antibiotics
- Influence the action plan for Sweden's food strategy
- Conduct more effective recycling of plastics
- Map out water risks



Matkassen 2030 – the key to sustainable development

Grocery shoppers today have an eye for sustainability. Axfood has shared its insights on this topic with producers and decision-makers in a report that advocates for a sustainable food strategy for Sweden, "Matkassen 2030".

Matkassen 2030 is based on the premise that businesses, politicians, authorities and consumers together must contribute to sustainable development in the food retail industry. The concrete recommendations of the report are gathered under five main areas:

- Promote sustainable consumption
- Change Swedish value-added and innovation
- View the countryside as a resource
- A fossil-free Sweden and green proteins
- Sustainable production that improves both organic and conventional farming

Swedish farmers are pioneers in caring for the environment and animal welfare. However, value-added such as low use of antibiotics, grazing requirements for cattle and high standards of food safety need to be made even clearer for customers and be marketed as competitive advantages – especially if exports of Swedish foods are to be increased. These are just a few ideas and recommendations set forth in the report.

Read more in the Matkassen 2030 report.



Willys

Strong earnings and successful start for e-commerce

In 2016 Willys continued to gain market shares in a highly competitive market. New store establishment and digital business ventures contributed to sales, which grew 3.8%. Willys started e-commerce business in Stockholm, Gothenburg, Uppsala and Norrköping, and the digital offerings were further developed. Operating profit increased by 2.9%.

WILLYS

Business concept

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

Vision

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

Customer structure

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

Store facts

- 196 wholly owned stores, of which:
 - 148 Willys stores
 - 48 Willys Hemma stores
- Willys stores can be found nationwide
- Store retail area:
 - Willys stores range from 1,100 to 4,700 sq. m. and carry approximately 9,000 items
 - Willys Hemma stores range from 300 to 1,200 sq. m. and carry some 5,000 items

E-commerce reaching more customers

In May 2016 Willys launched e-commerce. The service began at three stores in Stockholm and in Kungälv outside Gothenburg, and was followed up at an additional five stores, including in Uppsala and Norrköping. At year-end all customers in the greater Stockholm area and in large parts of central Gothenburg could order groceries online from Willys. The concept is the same regardless of whether customers shop at any of the chain's 196 physical stores or online. Willys' business concept is to offer Sweden's cheapest bag of groceries. The prices and campaigns are the same, and the product selection is basically the same no matter which channel the customer chooses to shop in. This transparency is Willys' strength – that customers know they will get the best price for their bag of groceries. Since Willys has chosen to keep the same low prices for groceries online, one fee is charged for picking and one for home delivery. Many e-commerce customers appreciate the ability to pick up their ready-packed groceries at the easily accessible pick-up stations that have been installed at Willys stores adjacent to parking areas. During 2016 more than half of online shoppers chose to pick up their groceries themselves.

Expansion through new establishment and investments

Willys' ambition is to continue growing across Sweden. In addition to reaching out to more customers via the online channel, four new Willys stores opened for business during the year. The number of Willys Hemma stores decreased by two, net, after three were closed and one was opened. At year-end 2016 a total of 148 Willys and 48 Willys Hemma stores were in operation. Willys stores are located adjacent to shopping centres, traffic routes, mass transit stations and residential areas, while Willys Hemma stores are situated primarily at central locations in cities and towns.

Following recent years' refurbishments, investments in 2016 were focused on giving stores an appealing and modern design. More than half of Willys stores today offer self-scanning or self-checkout. During the year, the

Willys Plus customer programme grew to two million subscribers. The programme is being developed on a continuing basis, including a higher degree of personalized offerings, among other things. Communication with Willys Plus customers is done via digital channels.

Organics for everyone

Apart from low prices, an attractive assortment is important for customers. Willys aims to offer the right balance of popular products in all product categories. Willys also has a high ambition to offer organic products to price-conscious shoppers as well. Everyone should be able to eat organic food. Following a concerted effort to expand its selection of organic products, today Willys offers a number of organic alternatives in breads, processed meats and cheeses, where the offering was previously limited. The focus on organics also means that Willys has narrowed the price difference between organic and conventionally produced foods. In 2016 more than one in three customers' carts included an organic product. In the central fruit and vegetable business, more than one in ten fruit or vegetable sold was organic. Willys' sales of organic products in 2016 accounted for 6.0% of total (5.2%).

Willys has also continued to develop the offering of vegetarian foods in its stores and now offers more protein substitutes than ever before. Sales of vegetarian products grew 37% during the year, albeit from low levels.

Reduced food waste

Food production accounts for a substantial share of the world's climate impact. When food is tossed in the trash, this environmental impact has been

More than
2,000,000
 customers
 in Willys Plus

entirely unnecessary. Moreover, it is a waste of resources. One way of reducing food waste is to make left-over food available for the benefit of financially disadvantaged people. During the year Willys increased its work with relief organizations and is now involved in more than 50 different partnerships dedicated to reducing food waste.

Within the industry, cutting prices for products that are nearing their best-by date is another common way of reducing food waste. Willys is testing new approaches and in some stores cut prices in half for fruits and vegetables with cosmetic defects, for example. To make it easier for customers to find these and other price-reduced products, they have been gathered at special displays.

Good environmental choice

All Willys stores meet the standards set by the Swedish Society for Nature Conservation's (SSNC) "Good environmental choice" marking, which is one of the most rigorous ecolabels in the Swedish market. This certifies, among other things, that the stores offer a wide selection of organic products, avoid particularly environmentally hazardous products, and work with energy efficiency and waste sorting.

Effective management and economies of scale

To be able to offer low prices, a store must have low costs. This requires daily follow-up and consistent, long-term work on matters big and small. Since all Willys stores are Group-owned, they can maintain a uniform store format, work methods and policies, which creates an effective organization.

Future challenges and priorities 2017

Willys will continue to expand and challenge its competitors in the market. The roll-out of e-commerce at more Willy stores will be accelerated in 2017. The number of stores that will open e-commerce in 2017 is dependent upon how many can adapt their retail area to offer customer-friendly pick-up of orders. The plan for the years ahead is to reach e-commerce customers by expanding delivery areas and offering online shopping in an additional some 20 cities or towns. Relationships with Willys Plus customers will be prioritized in improvements of Willys' digital offerings.

In addition to the major digital ventures, three new stores will be established in 2017. This entails a slightly lower pace of establishment than in recent years. To further promote sales growth, it is highly important to continue investing in upgrades of existing stores. Together with low prices and an effective and more sustainability-oriented assortment, Willys' combined resources will create conditions to continue taking market shares. Willys' strategy will also consolidate its position as the leading discount grocery chain in Sweden and its profile as a responsible grocery store dedicated to sustainability.

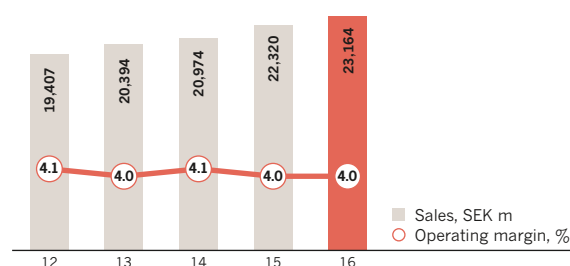
Charity instead of waste

In 2016 Willys took measures to radically reduce the already low level of food waste at its stores by donating left-over food to various relief organizations. The donated food products are fully fit for consumption, but may have dents or other packaging defects – or are nearing their best-by date. Across Sweden more than 50 charity organizations are taking care of food that Willys would otherwise have been forced to discard. This is a win-win situation, because the need among disadvantaged groups of people is great. Among the recipients are various churches, women's shelters, Stadsmis-sionen and other organizations for people in socially at-risk living situations. Store manager Jan-Eric Bergenholtz at Willys in Gislaved explains:

"We think it is great that this food comes to use. And our customers think it is good, too. Every week there are customers who see our sign and praise us for the work we are doing to donate food."



Sales and operating margin



Key ratios

SEK m	2016	2015	Change
Net sales	23,164	22,320	3.8%
Like-for-like sales growth, %	1.4	4.4	-3.0
Operating profit	922	896	2.9%
Operating margin, %	4.0	4.0	0.0
Number of Group-owned stores	196	194	2
Average number of employees during the year	4,685	4,464	5.0%
Private label share, %	30.1	29.1	1.0



Hemköp

Yet another year of record sales and earnings

Hemköp continues to grow and reap success. The chain set new records for both sales and earnings in 2016. Customers enjoy the chain's inspiring and well-managed stores, and in several metropolitan areas Hemköp also offers online shopping – with both pre-defined dinner solutions and grocery shopping. Word is spreading that Hemköp's products offer value for money and that the stores have a large selection of fresh, quality and sustainable products in their assortments.

Hemköp

Business concept

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

Vision

Customers' favourite grocery store.

Customer structure

Hemköp's store locations in urban and residential areas – now backed up by e-commerce and pre-packed grocery bags – offer proximity and convenience to the chain's customers and make it easy for them to shop often. Customers are looking for inspiration, opportunities to be responsible consumers, and a wide product selection that offers value for money. They are active and engaged people who enjoy good food and are conscious about their health and the environment.

Store facts

- Hemköp's stores are centrally located in city centres and residential areas.
- Hemköp stores range from 400 to 4,000 sq. m. of retail area.
- Hemköp stores carry approximately 10,000–12,000 items.
- At year-end the Hemköp chain comprised 185 stores, of which 67 were Group-owned.

Comprehensive digital solution in place

During 2016 Hemköp launched two e-commerce variants. In August the chain introduced pre-packed grocery bags with dinner solutions and recipes, which are available in ten cities from Uppsala in the north to Linköping in the south. In September Hemköp launched grocery shopping online at three stores in Stockholm. Prior to year-end, online shopping was introduced at an additional five stores, including in Gothenburg. The aim of efforts to offer a comprehensive digital solution is to continue inspiring customers and a passion for food, but also to reinforce the chain's reputation as a personal grocery store. The personal meeting is still important, whether it involves picking up an online order at the store or having it delivered home to customers. For Hemköp's online sales, the home delivery option is the dominant alternative.

Hemköp's digital communication was developed during the year, and today Hemköp offers more personalized offerings to the more than one million customers who are members of the chain's customer programme. Apart from these targeted

offerings, customers in the programme also receive a bonus of up to 2% on their purchases.

New store establishments and modernizations strengthening the brand

At year-end 2016 the Hemköp chain included 67 Group-owned and 118 retailer-owned stores. This represents a net decrease of one Group-owned store and a net increase of seven retailer-owned stores during the year. The different forms of ownership strengthen the chain and are driving its development forward. Apart from contributing to greater sales, the modernizations are also creating conditions for more sustainable business through improved energy efficiency, waste sorting and recycling. A majority of stores today offer self-checkout lanes to speed up customers' shopping visits. A growing number of retailer-owned stores also increased investments in their stores during the year, which shows the strength of the Hemköp brand.

During the year five Group-owned stores were converted to so-called 91/9 stores. 91/9 is a financing solution that makes it possible for

Climate-smart family chooses Hemköp

The Hallströms, a family of five, volunteered in October 2016 to live as climate-smart as possible during a one-year period. They want to see if – by making conscious choices and using smart solutions – they can reach the UN's highly set carbon footprint target of one tonne of CO₂ per person by 2050. Today the average person in Sweden is responsible for 10–14 tonnes of CO₂ emissions per year.

The Hallströms have made climate-smart renovations to their home, they drive electric and hybrid cars, and during the 12-month period they will get their groceries from Hemköp.

Hemköp is supporting the family in its undertaking by providing inspiration for how to eat well and climate-smart at the same time, such as by eating foods when they are in season and making sure that they use everything in their refrigerators and cupboards.

"Shopping at Hemköp will make a big difference," says the family patriarch, Anders Hallström. "They have a large selection of organic and local products."

Follow the Hallström family's experiment at hemkop.se/klimatsmartafamiljen.

store managers to buy their store. Under the model, the store manager initially acquires a 9% share of ownership during a minimum two-year period with an option to acquire more than 99% of the company. After the option has been exercised, Axfood owns one share. During 2016 options were exercised for three stores, which thereby became retailer-owned.

Successful adaptation of assortment

Hemköp's customers appreciate sparkling, modern stores and good service, but also attach a premium to a large offering and sustainable products. Households made up of singles and couples are over-represented in urban locations and increasingly want products that offer greater convenience – either semi-processed raw ingredients such as pre-cut vegetables or fully prepared dishes. Hemköp stores in several large cities have installed warm buffets and salad bars, staffed fish counters and pastry corners. For example, by having a professional pastry cook on staff, a store can offer not only high-quality baked goods, but also competence that can inspire and provide answers to customers' questions.

Demand for vegetarian, organic and other sustainability-certified products continues to grow. Hemköp's sales of protein substitutes grew by 40%. Hemköp's organic share during the year was 9.3%, which is higher than 8.7% level for the industry as a whole. One contributing factor behind Hemköp's success with sustainable products has been the decision to gather these products in a special sustainability department to make it easier for customers to find attractively priced organic and health-oriented products.

Starting on Valentine's Day in 2016, all roses sold by Hemköp are Fairtrade certified.

Sustainability

To reduce food waste at Hemköp, during the year most stores began partnering with local relief organizations. Hemköp donates products that otherwise would not be sold – mainly owing to cosmetic defects in packaging, but also for products nearing their best-by date. At year-end 22 Hemköp stores were cooperating with local charity organizations.

Hemköp is sponsoring a project in which a family is striving to live as climate-smart as possible during a one-year period. The goal is to reach the UN's highly set target for reducing the carbon footprint. Hemköp is providing advice and groceries during the year with the aim of showcasing the full breadth of climate-smart products in its assortment.

Since 2015 Hemköp has been participating in a three-year project with SOS Children's Villages and Stockholms Stadsmission that is providing support to EU migrants of Romanian descent. The goal is to find a transnational model for helping and empowering this group of exploited people and enable parents to stay home with their children in Romania. Hemköp and its customers are also providing support to other projects sponsored by SOS Children's Villages.

Future challenges and priorities 2017

Hemköp will continue to strengthen and distinguish its position as a modern, sustainability-oriented grocery chain that offers customers value for their money. During 2017 Hemköp will invest heavily in organic expansion by opening six new Hemköp stores at the same time that it continues its modernization of existing stores. Stores in another some ten locations in Sweden will introduce e-com-

merce, and development of personalized digital offerings and targeted events will continue.

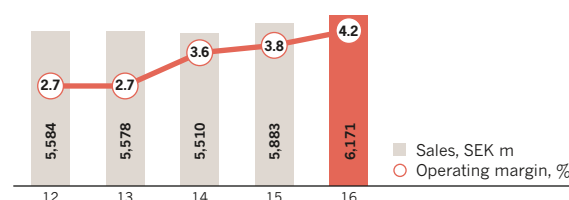
Going forward, adaptation of the assortment will continue to have central priority. A key part of this work will involve continuously updating the offering of global products that are in demand by the growing share of customers from international backgrounds. Success at this will require attaining greater knowledge about which products and product qualities are in most demand. In addition, a larger array of semi-processed products and ready-made dishes will be offered to attract those customers who otherwise might eat at a restaurant. Several stores will begin offering heated buffets and catering. Hemköp is also reviewing its assortment to open up opportunities to work with more local vendors.

Hemköp's stores are situated at central locations, and more and more customers today are learning that Hemköp provides value than a few years ago. Together with good cost control and a carefully executed strategy, this will ensure that the chain continues to gain market shares. Hemköp's ambition is to be the most sustainability-oriented brand in Sweden's food retail market.

More than
1,000,000
customers
in Hemköp's customer programme



Sales and operating margin



Key ratios

SEK m	2016	2015	Change
Net sales	6,171	5,883	4.9%
Like-for-like sales growth, %	4.0	5.0	-1.0
Operating profit	260	221	17.6%
Operating margin, %	4.2	3.8	0.4
Number of Group-owned stores	67	68	-1
Average number of employees during the year	1,817	1,745	4.1%
Private label share, %	22.7	21.4	1.3



Business concept

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

Customer structure and organization

Axfood NärLivs is organized in three business areas:

- **Handlar'n & Tempo**, which serves independent grocers in the Handlar'n and Tempo formats
- **Convenience**, which serves large convenience store chains, such as service stations, 7-Eleven, Pressbyrån and Direkten as well as independent convenience retailers.
- **Axfood Snabbgross**, which is a subsidiary with 22 cash and carry stores, serving primarily lunch restaurants, neighbourhood taverns, fast food restaurants and cafés. Axfood Snabbgross also delivers to leading suppliers of pre-packed grocery bags.



Axfood NärLivs

Stronger market position through accessibility and customized solutions

Axfood NärLivs reported higher sales and strong earnings for 2016. The year was characterized by efforts to improve the efficiency both of delivery flows and the assortment while at the same time making the assortment more attractive and sustainable. A number important long-term agreements were extended during the year, and the expansion of Axfood Snabbgross continued. Today Axfood Snabbgross has 22 stores throughout Sweden.

Axfood NärLivs has been a market company since 2015, when the logistics operations were transferred to Dagab. Operations cover several segments whose customers have different needs and opportunities. For this reason Axfood NärLivs is split into the three business areas Handlar'n & Tempo, Convenience, and the Group-owned cash and carry chain Axfood Snabbgross.

FOOD RETAIL AND CONVENIENCE RETAILING – OFFERING EFFECTIVE PRODUCT SUPPLY

Axfood NärLivs supplies its own store formats – Handlar'n and Tempo – with products as well as selling to stores under long-term contracts, including all of Sweden's leading service station companies, the convenience retail chains 7-Eleven, Pressbyrån and Direkten, and independent convenience retailers. Axfood NärLivs' size and extensive industry experience enable the company to adapt its solutions to the unique conditions and needs of its various customers regarding assortment, product supply and other services.

Axfood NärLivs has offered its customers e-commerce for many years. Today customers almost exclusively place their orders electronically.

During the year Axfood NärLivs, together with its major customers, conducted a review of its order schedules and frequencies to optimize handling and ensure more efficient and sustainable product supply.

Handlar'n & Tempo

The Tempo and Handlar'n store concepts had favourable performance in 2016. During the year, focus was on reviewing and strengthening the assortment in order to more closely align it with end customers' needs. Customers are increasingly demanding fresh products and ready-made meal solutions. Organic products as a share of total increased, mainly for Tempo.

At year-end Tempo had 148 stores, a decrease of six. Three of these were converted to Hemköp stores during the year.

The number of Handlar'n stores decreased during the year and was 209 at year-end.

In 2016 the Swedish government introduced a rural development subsidy to support a living countryside. Axfood NärLivs has a nationwide distribution network and can thereby serve grocers in the countryside who run local stores. By year-end more than 100 of Axfood NärLivs' customers across Sweden had received such a subsidy, accounting for nearly two-thirds of the stores in total that have received the rural development subsidy.

Convenience

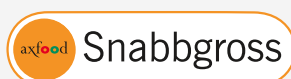
During 2016 the market trend for the leading service station companies and chains was favourable. In convenience retailing, demand increased for ingredients for meal solutions, such as salads and sandwiches. The agreements with Preem and OKQ8 were renewed and will continue for another three years.

An agreement for the supply of loose candy, beverages and snacks to the entertainment chain Hemmakväll's more than 70 stores throughout Sweden took effect during the year and will continue for two years.

The Direkten format grew by one store, and at year-end there were 338 stores affiliated with the Direkten chain.

Future challenges and priorities 2017

Focus in 2017 will continue to be on customizing the assortment to end customers' needs in an effort to maintain as attractive, effective and sustainable assortment as possible. The share of fresh products will be increased along with the number of organic alternatives in several product categories. Work on increasing delivery frequency and the supply of fresh products will continue. For the Handlar'n and Tempo brands, priority will be given to further development in pricing, product placement, and in creating an improved in-store experience.



Business concept

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

Vision

The customer's obvious choice, every day.

AXFOOD SNABBGROSS EXPANDING

Axfood Snabbgross continued its strong development during the year. The business is being driven by favourable market conditions, but also by increasingly efficient ways of working, assortment development with stricter management, successful campaigns and close dialogue with customers. Two new stores were established in late 2015 until year-end 2016 – the third store in Stockholm and the first store in Umeå. Axfood Snabbgross increased its market share during the year, owing to a higher average spend and to stores expanding their reach to more customers.

During the year several stores were refurbished and modernized. Apart from upgrading their physical appearance, operating improvements were also made at the stores from a sustainability perspective. Intensive work was also carried out on creating an entirely new e-commerce platform and website. The transition to the new platform will take place in 2017. The goal is that orders for all products distributed to customers will be handled through this channel.

Support from responsible and knowledgeable staff

Success factors for the business include customers' close proximity to local stores and knowledgeable staff who can provide support and advice to customers. Having staff on hand for purchases also ensures personal contact. Maintaining a dialogue with customers is highly important, since custom-tailoring operations to their needs and preferences leads to better business and future success for both parties. For customers who would rather have their products distributed to them, the entire assortment is available via Axfood Snabbgross's e-commerce channel.

Communication surrounding sustainable products and social responsibility is increasing at stores. Axfood Snabbgross is striving to create a clear coupling between sustainability and profitability from both the customer and employee perspectives.

Strengthening of business with supplier of pre-defined dinner solutions

Axfood Snabbgross also works with Sweden's supplier of pre-defined dinner solutions. During the year, the agreement with Linas Matkasse was extended, covering product supply for three years. The collaboration with Middagsfrid, which covers both product supply and packing, continues. Axfood Snabbgross also produces Hemköp's pre-defined dinner solutions.

Future challenges and priorities 2017

Competition between suppliers to cafés, fast food restaurants, neighbourhood taverns and lunch restaurants is fierce. Axfood Snabbgross has strengthened its position in the market through improved accessibility with respect to business hours as well as geographically, and investments in expansion are continuing. In 2017 two new stores will open in Helsingborg and Gothenburg. The store in Uppsala will move to a new building that will be fitted with a solar panel system. In addition, in pace with ongoing maintenance, a number of stores will be modernized.

Axfood Snabbgross's digital platform, which is set to be upgraded in 2017, aims to increase accessibility and efficiency for distribution customers. By further developing employees' knowledge of food and continued work on improving accessibility, the dialogue with customers will be further strengthened. Continuous customization of the assortment and conducting the right campaigns are also high on the agenda. Buying the right products should be easy at Axfood Snabbgross.

Key ratios

SEK m	2016	2015	Change
Net sales	2,884	2,734	5.5%
Operating profit	202	200	1.0%
Operating margin, %	7.0	7.3	-0.3
Group-owned stores, number	22	21	1
Average number of employees during the year	476	451	5.5%

Favourable conditions for good growth in Umeå

In early 2016 Axfood Snabbgross opened for business in Umeå – a newly built store in a new market. Running a store in a brand-new building has many advantages, not least for the employees. The store in Umeå is well-designed for customers and features improved security and easily accessible loading areas for product deliveries. When store operations are simple and smooth, more time is freed up for the store's knowledgeable and multi-lingual staff to personally be able to assist and offer advice to customers. The Umeå store quite simply has very favourable conditions for good growth.

The new premises have been furnished to use as little energy as possible, among other things by creat-

ing different temperature zones, LED lighting, lids and doors on all refrigerator and freezer displays, and recycling of heat from freezer systems. Any deviations in energy consumption are displayed directly by the system. What's more, the sustainability aspects that are so important for Axfood Snabbgross are also reflected in the assortment. The offering of sustainable products is growing, and they are attaining more prominent placement and clearer signage.

As part of efforts to exercise greater social responsibility and at the same time reduce unavoidable food waste, the store donates food to Bakfickan, a local charity organization for people with alcohol and drug addictions.





Dagab

Stable and efficient operation

Dagab is responsible for ensuring that Axfood's assortment, purchasing and logistics work optimally for all of the Group's market formats as well as for Axfood Närlivs' business customers. Key competitive advantages include having an attractive and effective assortment, a high purchasing percentage and optimal logistics. Sales rose 6.4% during the year, and the operating margin was 1.6%.



Business concept

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

Vision

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

Customer structure

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

Effective assortment

The starting point of Dagab's work on developing an effective assortment for the chains' varying needs is always to meet the needs of end customers. Insights into customer preferences steer development of the assortment. The business is then optimized within the respective product categories based on availability, price and quality. This process ensures that the assortment is as attractive as possible. By coordinating purchases of the Group's total volumes, Dagab gains a strong negotiating position, which enables the chains to offer products that give value for money.

A number of new Swedish dairy products, organic and vegetarian alternatives, and products in the global assortment were launched during the year. In 2016 organic products accounted for 6.8% of the Group's total grocery sales.

During the spring the food retail industry introduced the new Från Sverige ("From Sweden") label to help consumers more easily identify products made in Sweden. At year-end 258 of Axfood's private label products had the new Swedish label.

Dagab assisted Hemköp and Willys in their e-commerce ventures in 2016 by providing large volumes of food product information. Approximately 14,000 items including photos are now available on the chains' e-commerce platforms.

Greater share of private label products

The aim of private labelling is to offer consumers a large and varied selection of products that have the same good quality as well known brands, but at a lower price. Axfood's private label assortment includes quality products that offer value for money and accounted for roughly 28% (27%) of the Group's total sales in 2016. Examples of Axfood's private labels include Garant, Eldorado and Fixa. During the second half of the year a new private label, Minstingen, was launched, which offers attractively priced baby care products. Read more about Axfood's private labels on page 20.

Higher internal purchasing percentage and steady product flow

Dagab is striving to increase the percentage of

purchases made by stores via the Group's own warehouses. A higher internal purchasing percentage contributes to more efficient transports and higher capacity utilization of delivery trucks, resulting in a lower environmental impact. In addition, fewer product deliveries simplify work for store employees, who can focus on serving their customers. Dagab's internal purchasing percentage continued to increase in 2016.

To improve ordering efficiency and ensure uninterrupted product restocking in stores, Dagab is working to increase the share of automatically generated orders through its Auto-order system. With the system, a product order is automatically sent to Dagab's warehouse when the number of items remaining on the store shelf falls to a set level. During the year Dagab's Autoorder system was expanded to also include products ordered directly from vendors, such as milk.

Need-based logistics

Dagab is contributing to growth in store sales and profitability through need-based logistics solutions. The aim is to create both large-scale and flexible customized solutions for meeting the chains' varying needs and at the same time draw coordination benefits. One of the logistics operation's most important key performance indicators is delivery reliability, which hovered around the 97% target during the year.

Automated warehousing technology has improved substantially in recent years. In connection with the construction of a new transit warehouse for perishables in Jönköping, the warehouse will be eventually automated with robots that pick products 24 hours a day. The same technology will over-time also be employed at Dagab's other warehouses.

During the year an agreement was signed to acquire Saba Logistics' warehouse operation in Helsingborg, which has long handled Dagab's warehousing of fruits and vegetables. Through the acquisition, Dagab took over the some 150 employees working in the operation as from January 2017. By integrating this warehouse operation Dagab will gain better control over the entire value chain for fruits and vegetables



and can thereby improve the level of service it provides to the store chains.

Climate-neutral by 2020

By 2020 the goal is that Axfood's own operations will be climate-neutral. The Group's carbon footprint is strongly affected by emissions from refrigerants and energy consumption for refrigerated and frozen products. Dagab has previously invested in solar panel systems on warehouse and store rooftops as an effective way to contribute to the Group's environment-friendly energy supply. As a result of new tax legislation for solar panel systems at mid-year 2016, such investments were brought to a halt. However, during the third quarter the investment plans were resumed after the government decided to conduct a review of the tax rules. Transports of products to stores also have a high environmental impact, which is why Dagab during the year changed over to using HVO fuel as much as possible. This led to a 49% lower carbon footprint from transports using the Group's own fleet compared with a year ago.

Future challenges and priorities 2017

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

One challenge going forward is to meet consumer demand for Swedish and organic products due to their limited availability. With higher demand comes higher prices. The greatest shortage is for Swedish meats and high-fat dairy products. One way of securing supply of Swedish meat, for example, is to purchase entire animals

and then distribute the large meat sections to suppliers for further processing.

During 2017 Dagab will integrate its warehousing of fruits and vegetables, start up a partly automated warehouse for perishables in Jönköping, make further efficiency improvements in transports and continue to improve the assortment, which will also involve developing private label products and business.

Key ratios

SEK m	2016	2015	Change
Net sales	42,319	39,756	6.4%
Distributed sales	27,639	25,995	6.3%
Operating profit	670	600	11.7%
Operating margin, %	1.6	1.5	0.1
Average number of employees during the year	1,888	1,809	4.4%
Delivery reliability, %	96.8	96.9	-0.1

11.7%

Increase in operating profit 2016

Minstingen – new private label

Minstingen is the name of an all-new line of baby and child care products which initially includes nursing pads, baby diapers, wet wipes and dry wipes for babies up to three years of age. The line will be gradually expanded with new and additional products.

Minstingen is distinguished by its unique packaging design that features various animal caricatures called Vildingarna ("the Wild Ones"), such as Kajsa Crocodile, Ada Ape and Billy Bear.



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

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

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

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

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

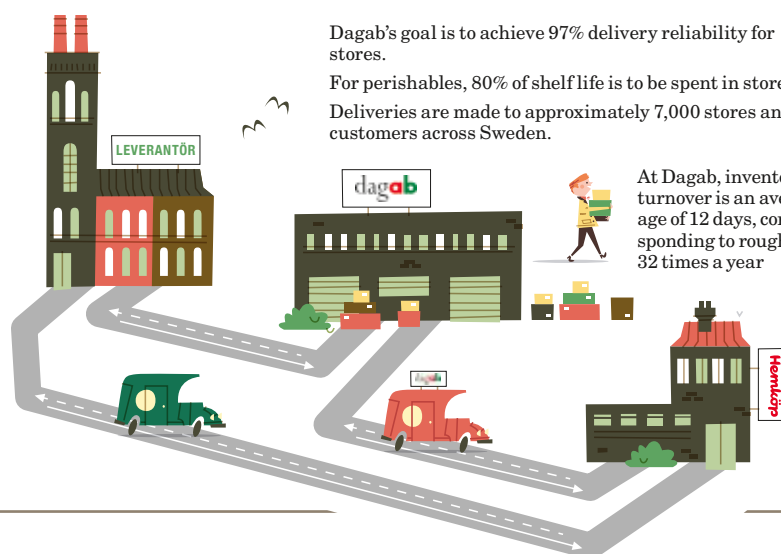
increasing inventory turnover, improving distribution and creating more efficient order flows and transports.

Dagab's goal is to achieve 97% delivery reliability for stores.

For perishables, 80% of shelf life is to be spent in stores.

Deliveries are made to approximately 7,000 stores and customers across Sweden.

At Dagab, inventory turnover is an average of 12 days, corresponding to roughly 32 times a year



Investment case

Axfood value drivers

Historically favourable total return

During the last five years the total return for Axfood's shares has been 184%. The dividend policy is to distribute at least 50% of profit after tax.

Total return, Axfood 2012–2016, index



Strategy for profitable growth

Through its focus on profitable growth, Axfood has the opportunity to achieve favourable growth in value over time. In 2017 Axfood plans to establish 11 new stores, offer e-commerce to consumers in another some twenty cities and integrate the two new recently acquired companies.

Sustainable products have a higher price level, and many customers who choose organic products have a higher average spend.

The Group is working continuously to improve efficiency and hold costs down with the goal to maintain an operating margin of 4%. Reducing energy consumption and focusing on energy efficiency both lowers costs and reduces the carbon footprint.



Stable industry and financial position

The food retail market is relative resilient to fluctuations in the economy, with stable growth that is driven primarily by population growth and inflation. Swedish consumers' demands to know the origin and quality of products are driving development towards an industry dedicated more to sustainability.

Moreover, Axfood has stable operations and a strong financial position with solid key ratios and good cash flow, a high equity ratio, and a low level of debt.



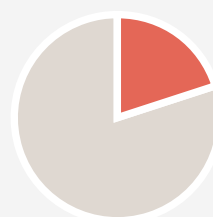
Strong positions and good brands

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

Willys is Sweden's leading discount grocery chain, with 196 wholly owned stores. Willys pledges to offer Sweden's cheapest bag of groceries and advance the discount segment with a wide and varied assortment. Hemköp and Axfood Närlivs (with Axfood Snabbgross) also have strong positions in their respective segments.

Being able to offer a distinctively sustainable product selection is important for Axfood's store chains. Consumers are keenly interested in organic products, certified products and plant-based protein substitutes. Organic products as a share of total grocery sales by Willys and Hemköp amounted to 6.0% and 9.3%, respectively.

Axfood's own Garant private label has a strong position in the market, with high brand awareness that is associated with wholesome, good food. Private label products as a share of net sales amounted to 28%.



Market share

21%

Annual Report 2016

CFO's message

Our growth in net sales of 5.1% to SEK 43 m in 2016 was driven mainly by higher sales in existing stores, but also by the establishment of six new stores. In addition, we launched e-commerce in Stockholm, Gothenburg, Uppsala and Norrköping, and the roll-out is continuing in 2017. Owing to the higher sales combined with greater efficiency and good cost control we increased the operating margin during the year and reached 4.4%.

Our capital expenditures were slightly lower than normal in 2016 as we were forced to push back four store establishments due to construction processes or permits that took longer than expected. Of the SEK 580 m that Axfood invested in 2016, SEK 349 m was in stores.

In order to get more employees with expertise and experience in e-commerce and to achieve faster customer penetration, at the end of 2016 Axfood made a public offer for Matse Holding AB (publ). We completed the deal in early 2017 after more than 90% of the shareholders in Matse Holding AB (publ) accepted the offer and the Swedish Competition Authority gave its approval.

We have continued to run the business in a capital-efficient manner, which is shown by the 34.1% return on shareholders' equity and 39.1% equity ratio.

At year-end we had a strong cash position and a net debt receivable. In early 2017 payment will be made for Matse Holding AB (publ) and for the acquisition of Eurocash Food AB. Based on our remaining cash holdings the Board of Directors proposes an ordinary dividend of SEK 6.00 per share, corresponding to a dividend ratio of 85%.

Stockholm, 6 February 2017

Karin Hygrell-Jonsson
CFO



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Administration report

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

The Board of Directors and President of Axfood Aktiebolag (publ), with domicile in Stockholm, Sweden, herewith submit the annual report and consolidated accounts for the 2016 financial year.

Operations

Axfood conducts food retail and wholesale business in Sweden. Retail business is conducted through the Willys and Hemköp chains, with a total of 263 Group-owned stores at year-end (262). During the year a number of stores were established, acquired, sold or closed. Store conversions are also conducted between Axfood's various store formats.

In 2016 seven stores were established or acquired, and six stores were closed or sold.

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

Dagab is responsible for Axfood's assortment, purchasing and logistics, and approximately 75% of sales are made to Group-owned stores. Axfood Närlivs conducts B2B sales to mini-marts, service stations and other convenience retailers. Axfood Närlivs also operates 22 cash and carry stores via Axfood Snabbgross.

The assortment that Axfood offers its customers also includes private label products. The largest private label is Garant. Apart from a lower price level than brand-name products, the success of Axfood's own brands can be credited to high quality and innovative products. Private label products as a share of net sales increased to 27.9% (26.8%) in 2016.

Market

Retail food sales (excluding alcoholic beverages) in Sweden showed continued positive development in 2016. Measured in current prices, sales rose 2.2% (4.0%), based on preliminary data from Statistics Sweden and HUI Research. At constant prices, adjusted for price and calendar effects, volume increased by 0.6% (1.6%). Total food retail sales in 2016 are estimated at approximately SEK 254 bn (249).

Important events 2016

Q1

- Starting on Valentine's Day 2016, Hemköp begins selling only Fairtrade certified roses.
- Axfood Snabbgross opens its 22nd store in Sweden – its first in Umeå.



Q2

- Axfood is an initiative-taker behind the new industry-wide origin label for food produced in Sweden ("Från Sverige"), which was launched in April.
- Willys is first discount chain to offer e-commerce with online sales of groceries.
- Dagab signs Declaration of Intent to take over Saba's warehouse operation for fruits and vegetables.



Q3

- Hemköp launches pre-packed grocery bags with pre-defined dinner solutions and recipes in ten cities in Sweden.
- Hemköp starts e-commerce with sales of groceries in Stockholm.
- Axfood announces that Klas Balkow will succeed Anders Strålman as President and CEO, effective in March 2017. Anders Strålman has served as CEO since 2005.
- Axfood presents the Matkassen 2030 report, which sets forth concrete recommendations for sustainability in Sweden's national food strategy.



Q4

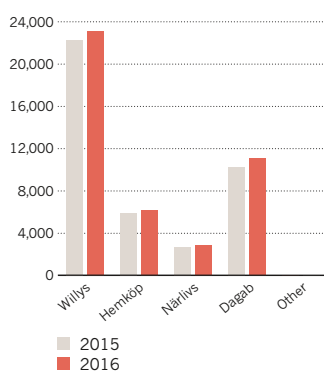
- Axfood launches Minstingen, a new line of private label products in the baby care category.
- Axfood resumes its investment in solar panel systems after the Swedish government backs from its plans to tax small-scale solar energy.
- Axfood Närlivs and OKQ8 sign new three-year cooperation agreement.
- In December Axfood makes a public offer for Matse Holding AB (publ). Axfood offers SEK 17 per share. Shareholders with holdings corresponding to 83.2% commit themselves to accepting the offer. On 23 January 17 the Swedish Competition Authority decides to not take any further action, and Axfood completes the deal on 25 January.



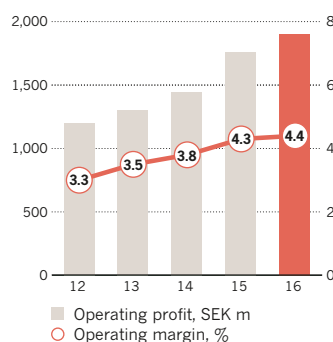
Statement of profit or loss and other comprehensive income, Group

Amounts in SEK m	Note	2016	2015
Net sales	2, 5	43,355	41,247
Cost of goods sold	6, 8	-37,151	-35,352
Gross profit		6,204	5,895
Selling expenses	6, 8	-2,609	-2,515
Administrative expenses	6, 8, 9	-2,109	-1,970
Share of profit in associated companies and joint ventures	22	-4	-7
Other operating income	5	432	372
Other operating expense	6	-12	-15
Operating profit	2	1,902	1,760
Interest income and similar profit/loss items	13	5	6
Interest expense and similar profit/loss items	13	-13	-17
Net financial items		-8	-11
Profit before tax		1,894	1,749
Current tax	15	-319	-297
Deferred tax	15	-102	-91
Net profit for the year		1,473	1,361
Other comprehensive income			
<i>Items that cannot be reclassified to profit or loss for the period</i>			
Revaluation of defined benefit pension plans	28	0	8
Tax attributable to items that cannot be reclassified to profit or loss for the period	15	0	-2
<i>Items that have been reclassified or can be reclassified to profit or loss for the period</i>			
Translation differences during the year upon translation of foreign operations	33	0	0
Change in fair value of forward contracts	33	4	-5
Change in fair value of available-for-sale financial assets	3	-	3
Tax attributable to items that have been reclassified or can be reclassified to profit or loss for the period	15	-1	0
Other comprehensive income for the year		3	4
Comprehensive income for the year		1,476	1,365
Profit for the year attributable to:			
Owners of the parent		1,473	1,361
Non-controlling interests		0	0
Profit for the year		1,473	1,361
Comprehensive income for the year attributable to:			
Owners of the parent		1,476	1,365
Non-controlling interests		0	0
Comprehensive income for the year		1,476	1,365
Earnings per share before and after dilution, SEK ¹⁾	16	7.02	6.48
Operating profit includes depreciation/amortization of	10	719	696

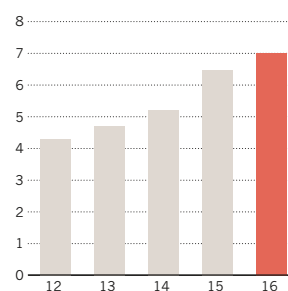
Consolidated net sales per segment, SEK m



Consolidated operating profit and operating margin



Earnings per share, SEK¹⁾



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

Net sales and operating profit

Group

Consolidated net sales totalled SEK 43,355 m (41,247), an increase of 5.1% (7.2%) compared with 2015.

Net sales for the Group consist to 74% (75%) of store sales and 25% (25%) of external wholesale volume and store compensation. Retail sales for Group-owned stores increased by 4.0% for the year (6.5%), with a 2.0% rise (4.5%) in like-for-like sales. A breakdown of sales per chain is shown in the table below.

The Group's gross margin was 14.3% (14.3%). Operating profit totalled SEK 1,902 m (1,760), corresponding to an operating margin of 4.4% (4.3%). Operating profit included SEK 719 m (696) in depreciation and amortization.

Willys

Willys' sales grew 3.8% (6.4%) to SEK 23,164 m (22,320), with a 1.4% rise (4.4%) in like-for-like sales.

Five new stores opened in 2016 and 15 were refurbished. The total number of stores was 196 (194), of which 148 (144) were Willys and 48 (50) were Willys Hemma.

In May 2016 Willys launched e-commerce for customers in Stockholm and Gothenburg. The number of members in the Willys plus customer programme increased to 2.1 million (1.8).

Willys' operating profit was SEK 922 m (896), corresponding to an operating margin of 4.0% (4.0%).

Hemköp

Hemköp's sales grew 4.9% (6.8%) to SEK 6,171 m (5,883), with a 4.0% rise (5.0%) in like-for-like sales.

Hemköp also launched e-commerce for customers in Stockholm and Gothenburg in 2016. Store sales including Hemköp franchises totalled SEK 12,701 m (12,005), an increase of 5.8% (4.9%) compared with the preceding year. The number of stores at year-end was 185 (179), of which 118 (111) were proprietor-run and 67 (68) were Group-owned. During the year, three Group-owned stores were modernized.

Hemköp's operating profit was SEK 260 m (221), corresponding to an operating margin of 4.2% (3.8%).

Axfood Närlivs

Axfood Närlivs' sales rose 5.5% (8.4%) to SEK 2,884 m (2,734). During 2016 supply agreements were renewed with Preem and OKQ8, and a new agreement was signed with Hemmakväll.

Axfood Snabbgross continued its strong development during the year, which can be credited both to more customers and a higher average spend. In 2016 Axfood Snabbgross opened an additional store, and the total number of stores at year-end was 22 (21).

Operating profit was SEK 202 m (200), corresponding to an operating margin of 7.0% (7.3%).

Dagab

Dagab includes both the Group's logistics function and the assortment and purchasing function. During the year Dagab reached an agreement to acquire Saba Logistics' warehouse operation in Helsingborg. The acquisition was carried out in January 2017 and entailed that Dagab took over the warehousing of fruits and vegetables.

Dagab's total sales grew 6.4% (13.7%) to SEK 42,319 m (39,756). External sales amounted to SEK 11,092 m (10,269). During the year improvements were made in both delivery reliability and productivity. Operating profit strengthened to SEK 670 m (600), corresponding to an operating margin of 1.6% (1.5%).

Net financial items

Net financial items improved by SEK 3 m during the year, from SEK -11 m to SEK -8 m. Interest-bearing liabilities decreased by SEK 6 m during the year, from SEK 504 m to SEK 498 m, resulting in a lower interest expense by SEK 4 m. Interest income was SEK 1 m lower than in the preceding year.

Tax, profit for the year and earnings per share

The tax expense was SEK 421 m (388), corresponding to an effective tax rate of 22.2% (22.2%). Profit for the year after tax was SEK 1,473 m (1,361), or SEK 7.02 per share (6.48).

Seasonal variations

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

Research and development

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

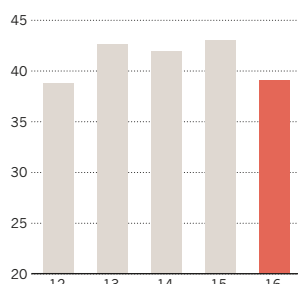
Store sales, Group-owned and franchises

SEK m	2016	2015	%	Like-for-like stores, 2016	Like-for-like stores, 2015	%
Willys total	23,164	22,320	3.8	22,480	22,159	1.4
Hemköp	6,072	5,794	4.8	5,771	5,549	4.0
Hemköp franchises	6,629	6,211	6.7	6,307	6,092	3.5
Hemköp total	12,701	12,005	5.8	12,078	11,641	3.8
Store sales, Axfood Group	35,865	34,325	4.5	34,558	33,800	2.2

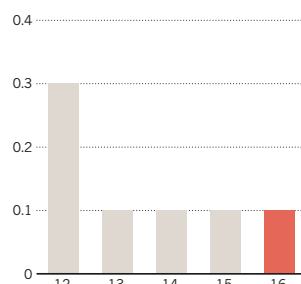
Statement of financial position, Group

Amounts in SEK m	Note	31/12/2016	31/12/2015
ASSETS			
Non-current assets			
<i>Intangible assets</i>	17		
Goodwill		1,864	1,860
Other intangible assets		614	668
		2,478	2,528
<i>Property, plant and equipment</i>	18, 20		
Land and buildings		52	54
Equipment, tools and fixtures		1,701	1,751
Construction in progress		46	125
		1,799	1,930
<i>Financial assets</i>			
Participations in associated companies and joint ventures	22, 23	18	22
Other long-term securities holdings	23, 29	100	51
Other non-current receivables	23, 24, 29	20	22
		138	95
Deferred tax assets	15	61	60
Total non-current assets		4,476	4,613
Current assets			
<i>Inventories</i>			
Finished products and goods for resale	25	2,191	2,035
		2,191	2,035
<i>Current receivables</i>			
Current tax assets	26, 29	926	852
Other current receivables	24	105	101
Prepaid expenses and accrued income	27	1,115	1,003
		2,146	1,956
<i>Cash and cash equivalents</i>	29		
Cash and bank balances		1,726	1,933
		1,726	1,933
Total current assets		6,063	5,924
TOTAL ASSETS		10,539	10,537

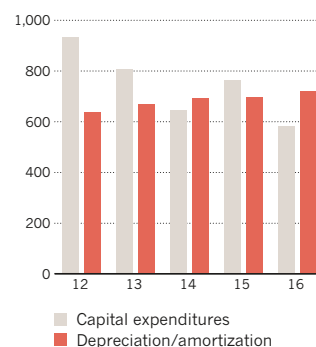
Equity ratio, %



Debt-equity ratio, multiple



Capital expenditures/depreciation & amortization, SEK m



Amounts in SEK m	Note	31/12/2016	31/12/2015
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	33		
Share capital		262	262
Other capital contributions		496	496
Reserves		10	7
Profit brought forward		3,349	3,765
		4,117	4,530
Non-controlling interests		1	1
		4,118	4,531
Non-current liabilities			
Provisions for pensions and similar obligations	28, 30	418	428
Other interest-bearing liabilities	20, 29, 30	41	36
Deferred tax liability	15	674	569
Other non-current liabilities		27	30
		1,160	1,063
Current liabilities			
Other interest-bearing liabilities	20, 29, 30	39	40
Accounts payable – trade	29	3,224	2,782
Current tax liabilities		32	41
Other current liabilities	29	168	199
Accrued expenses and deferred income	19, 31	1,798	1,881
		5,261	4,943
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		10,539	10,537

Financial position

Non-current assets

The Group's non-current assets decreased during the year by SEK 137 m, from SEK 4,613 m to SEK 4,476 m. Non-current assets consist primarily of goodwill, SEK 1,864 m (1,860), and machinery and equipment, SEK 1,701 m (1,751). Of total goodwill, SEK 1,325 m (1,325) consists of consolidated acquisition goodwill.

Capital expenditures

Total capital expenditures by the Group amounted to SEK 580 m (764). Of these SEK 6 m (44) pertained to investments in businesses, SEK 349 m (425) to investments in retail operations, SEK 85 m (65) to investments in wholesale operations, and SEK 135 m (223) to investments in IT.

During 2016, two stores and one in-store service counter were acquired. Both stores were converted to Hemköp. The combined consideration paid for acquisitions in 2016 amounted to SEK 9 m (84). The consideration was paid in cash, and no amounts remain to be paid for previous years' acquisitions. Axfood's share of ownership in the acquired stores is 100% after the acquisitions. Acquisitions were made after the balance sheet date. For further information about acquisitions, see Note 3.

Working capital

Of current assets, inventories make up the single largest item, SEK 2,191 m (2,035). Inventories consist of finished goods in the retail operations, 52% (53%), and wholesale operations, 48% (47%). Trade payables make up the single largest item in current liabilities, totalling SEK 3,224 m (2,782).

Shareholders' equity and liabilities

Shareholders' equity amounted to SEK 4,118 m (4,531), including non-controlling interests of SEK 1 m (1), which is a net decrease of SEK 413 m.

During the year SEK 1,889 m (892) was distributed to the company's shareholders.

Provisions for pensions and similar obligations pertain mainly to liabilities in the FPG/PRI system. Interest-bearing liabilities including interest-bearing pension provisions decreased from SEK 504 m to SEK 498 m. The interest-bearing net debt receivable decreased from SEK 1,449 m on 31 December 2015 to SEK 1,249 m on 31 December 2016.

The equity ratio was 39.1% (43.0%), and the net debt receivable ratio was 0.3 (0.3).

Change in interest-bearing net debt receivable for the Group

	31/12/2015	Cash flow	Other changes	31/12/2016
Cash and cash equivalents	1,933	-207		1,726
Non-current interest-bearing receivables	20		1	21
Non-current interest-bearing liabilities	-36		-5	-41
Current interest-bearing receivables	-40		1	-39
Interest-bearing pensions	-428		10	-418
Interest-bearing net debt receivable	1,449	-207	7	1,249

Statement of cash flows, Group

Amounts in SEK m	Note	2016	2015
Operating activities			
Operating profit		1,902	1,760
Depreciation/amortization charged against profit		694	671
Interest paid		-2	-5
Interest received		4	6
Adjustments for non-cash items		-26	-24
Paid tax		-327	-270
Cash flow from operating activities before changes in working capital		2,245	2,138
Cash flow from changes in working capital			
Change in inventories		-165	67
Change in current receivables		-193	-42
Change in current liabilities		354	332
Cash flow from operating activities		2,241	2,495
Investing activities			
Acquisitions of intangible assets		-93	-93
Acquisitions of property, plant and equipment		-435	-581
Acquisitions of businesses	3	-9	-89
Sales of businesses	4	7	7
Sales of property, plant and equipment		20	25
Change in other financial assets		-49	-20
Cash flow from investing activities		-559	-751
Financing activities			
Amortization of debt		-	-21
Shareholder dividend		-1,889	-899
Cash flow from financing activities		-1,889	-920
CASH FLOW FOR THE YEAR		-207	824
Cash and cash equivalents at start of year		1,933	1,109
Cash and cash equivalents at year-end		1,726	1,933

Adjustments for non-cash items amounted to SEK -26 m (-24), net, and pertained mainly to changes in provisions for pensions, capital gains and disposals.

Group cash flow from operating activities

The Group's cash flow from operating activities before changes in working capital increased by SEK 107 m to SEK 2,245 m (2,138) and consisted mainly of the net sum of purchases and sales of food retail items. Excluding paid tax of SEK -327 m (-270), cash flow from operating activities before changes in working capital increased by SEK 164 m (258). Reversed depreciation and amortization has been adjusted with the portion that pertains to leased assets, totalling SEK 25 m (25). Adjustment for non-cash items amounted to SEK -26 m, net (-24), and pertains mainly to changes in provisions for pensions, capital gains and disposals. Interest received during the year totalled SEK 4 m (6), and interest paid totalled SEK 2 m (5).

Investments and divestments

The Group's total investments amounted to SEK 580 m (764) and pertained mainly to investments in machinery and equipment, totalling SEK 331 m (407). Investments in businesses totalled SEK 9 m (84). Investments in IT development totalled SEK 135 m (223). Acquisitions in the investment activities, totalling SEK 586 m (783), affected the Group's cash flow. Investments have been adjusted by SEK -46 m (-46) in cash flow pertaining to finance leases.

Financing activities

The Group's change in interest-bearing liabilities affected cash flow by SEK - m (-21). During the year, new loans of SEK - m (-) were raised, and amortization of previously raised loans totalled SEK - m (21). The dividend paid to the owners of the Parent Company totalled SEK 1,889 m (892), corresponding to SEK 5.00 per share (4.25) in ordinary dividend and SEK 4.00 per share (-) in extra dividend, based on the current number of shares outstanding, 209,870,712.

Statement of changes in equity, Group

Amounts in SEK m	Equity attributable to owners of the parent							Total	Non-controlling interests	Total share-holders' equity
	Share capital	Other capital contributions	Translation reserve	Fair value reserve	Hedging reserve	IAS 19 pensions ¹⁾	Profit brought forward			
Opening shareholders' equity 2015	262	496	1	7	1	-112	3,374	4,029	36	4,065
Comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	1,361	1,361	0	1,361
Other comprehensive income for the year	-	-	0	2	-4	6	-	4	-	4
Comprehensive income for the year	-	-	0	2	-4	6	1,361	1,365	0	1,365
Shareholder dividend	-	-	-	-	-	-	-892	-892	-7	-899
Acquisition of non-controlling interest	-	-	-	-	-	-	28	28	-28	-
Closing shareholders' equity 2015	262	496	1	9	-3	-106	3,871	4,530	1	4,531
Opening shareholders' equity 2016	262	496	1	9	-3	-106	3,871	4,530	1	4,531
Comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	1,473	1,473	0	1,473
Other comprehensive income for the year	-	-	0	-	3	0	-	3	-	3
Comprehensive income for the year	-	-	0	-	3	0	1,473	1,476	0	1,476
Shareholder dividend	-	-	-	-	-	-	-1,889	-1,889	0	-1,889
Acquisition of non-controlling interest	-	-	-	-	-	-	0	0	0	-
Closing shareholders' equity 2016	262	496	1	9	0	-106	3,455	4,117	1	4,118

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

Shareholders' equity

Shareholders' equity in the Group, which is defined as total, reported shareholders' equity, amounted to SEK 4,118 m (4,531) at year-end, including non-controlling interests of SEK 1 m (1). Profit for the year attributable to non-controlling interests amounted to SEK 0 m (0).

The equity ratio was 39.1% (43.0%) at year-end 2016.

Return on equity was 34.1% (31.8%).

Share capital

The share capital as per 31 December 2016 amounted to SEK 262,338,390 (262,338,390). The share capital is distributed among 209,870,712 shares (209,870,712). The Company has only one class of stock, with equal voting power and equal entitlement to the Company's profits and equity.

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

Translation reserve

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

Fair value reserve

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

Hedging reserve

The hedging reserve includes the effective portion of the accumulated net change in the fair value of cash flow hedge instruments attributable to hedge transactions that have not yet been carried out. The change in the hedging reserve pertains to the change in the fair value of forward contracts, totalling SEK 4 m (-5), and deferred tax, totalling SEK -1 m (1). A compilation of the change in value of the hedging reserve during the year is provided in Note 33.

Capital management

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

Axfood does not have any externally assigned capital requirement. During the year, no changes were made in the Group's principles for capital management. Other than interest-bearing pension liabilities and finance leases, Axfood has no external borrowing, whereby the Group defines capital as shareholders' equity.

Axfood shares on the stock market and ownership structure

Axfood's shares were introduced on the stock market in 1997 and have been traded since 2006 on Nasdaq Stockholm's Large Cap list. Since February 2012 the shares have been included in the Consumer Services sector classification. Based on the last price paid on 30 December 2016, which was SEK 143.20, Axfood's market capitalization was SEK 30,053 m (30,809).

Share performance 2016

Axfood's share price decreased by 2.5% in 2016, while the Consumer Services index fell by 13.7%. The Nasdaq Stockholm composite index rose 5.8% in 2016. The total return for Axfood's shares in 2016 including reinvested dividends was 3.1%. The highest closing price quoted during the year was SEK 164.20, on 14 July, and the lowest closing price was SEK 131.40, on 2 December.

Trading volume

In 2016 a total of 139.3 million (92.6) Axfood shares were traded in all marketplaces, with average daily trading volume of 557,360 shares (370,497). Trading on Nasdaq Stockholm accounted for 65% (49%) of total trading volume in Axfood shares.

In 2016 the average turnover rate for shares listed on Nasdaq Stockholm decreased to 67%, compared with 72% in 2015. The average turnover rate for Axfood shares on Nasdaq Stockholm in 2016 increased to 43%, compared with 30% in 2015. The total average turnover rate for Axfood shares in 2016, based on trading in all marketplaces, was 66% (44%).

Ownership structure

The number of shareholders increased in 2016 and was 33,164 at year-end 2016 (19,888). The principal owner is Axel Johnson AB, with ownership of 50.1% of the shares (votes and capital). No other shareholder owns – directly or indirectly – more than 10% of the shares in Axfood (votes and capital). Axel Johnson's shareholdings were unchanged in 2016. During the year Reitangruppen AS sold its entire shareholding, which at the start of 2016 amounted to 15.6%. Axfood AB does not own any treasury shares.

Of Axfood's share capital, 80.3% (69.3%) is owned by Swedish investors and 19.7% (30.7%) is owned by foreign investors. Swedish ownership is dominated by private persons and companies, with 62.6% (60.8%) of the capital, while mutual funds own 11.6% (4.8%) and institutions 6.1% (3.7%).

The USA and the UK account for the largest share of foreign ownership.

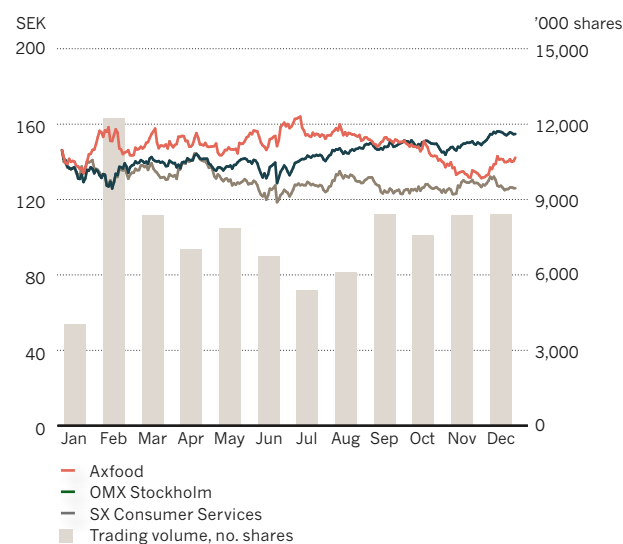
Dividend

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 2016 financial year the Board has proposed an ordinary dividend of SEK 6.00 per share (5.00), corresponding to 85.5% (77.0) of profit after tax. Based on 209,870,712 shares, the dividend will amount to SEK 1,259 m. Based on the last price paid on 30 December 2016 (SEK 143.20), the proposed dividend represents a dividend yield of 4.2%.

In addition to the ordinary dividend, Axfood also paid an extra dividend of SEK 4.00 for the 2015 financial year. Extra dividends have also been paid on three previous occasions, for the 2004, 2005 and 2006 financial years.

During the last five years, the ordinary dividend has averaged 79.4% of profit after tax.

Axfood share price and trading volume, 2016



Axfood shares, total return 2012–2016



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

Ownership structure, 31 December 2016

Size class	No. share-holders	Share-holders, %	No. of shares	Share of votes and capital, %
1 – 500	24,226	73.0%	3,356,634	1.6%
501 – 1,000	4,189	12.6%	3,386,607	1.6%
1,001 – 5,000	3,605	10.9%	8,219,581	3.9%
5,001 – 10,000	534	1.6%	3,954,098	1.9%
10,001 – 15,000	120	0.4%	1,496,554	0.7%
15,001 – 20,000	98	0.3%	1,756,687	0.8%
20,001 –	392	1.2%	187,700,551	89.4%
Total	33,164	100.0%	209,870,712	100.0%

Ten largest shareholders at 31 December 2016

Name	No. of shares	Share of capital and votes, %
Antonia Ax:son Johnson (family and companies)	105,080,264	50.1%
AMF Försäkringar & Fonder	10,314,403	4.9%
Swedbank Robur funds	5,595,359	2.7%
SEB Investment Management	5,030,159	2.4%
Odin funds	3,475,000	1.7%
Nordea Investment Funds	2,736,335	1.3%
Norges Bank	2,626,577	1.3%
Göran Sax (family and companies)	1,839,796	0.9%
Lazard Freres Banque Norden	1,770,000	0.8%
JP Morgan Chase NA	1,457,913	0.7%
Total	139,925,806	66.7%
Others	69,944,906	33.3%
Total	209,870,712	100.0%

Key data per share, SEK

	2016	2015	2014 ¹⁾	2013 ¹⁾	2012 ¹⁾
Ordinary dividend	6.00 ²⁾	5.00	4.25	3.75	3.00
Extra dividend	– ²⁾	4.00	–	–	–
Dividend as % of net profit	85.5 ²⁾	138.8	81.4	79.8	69.8
Number of shares outstanding	209,870,712	209,870,712	52,467,678	52,467,678	52,467,678
Share price at year-end	143.20	146.80	116.63	80.68	61.25
Market cap at year-end, SEK m	30,053	30,809	24,476	16,931	12,855
Highest/lowest price paid	164.20/131.40	165.70/110.68	121.45/78.50	84.40/61.38	64.43/54.75
Dividend yield, %	4.1 ²⁾	6.1	3.6	4.6	4.9
Earnings per share	7.02	6.48	5.22	4.70	4.30
Shareholders' equity per share	19.62	21.58	19.20	17.96	16.19
P/E multiple	20.4	22.6	22.3	17.2	14.2
Turnover rate, %	43	30	23	21	51
Volatility, standard deviation	20.82	20.99	19.10	14.84	17.59
Beta	0.61	0.73	0.54	0.31	0.42
Number of shareholders	33,164	19,888	16,191	15,701	15,363

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

²⁾ Proposed by the Board of Directors.

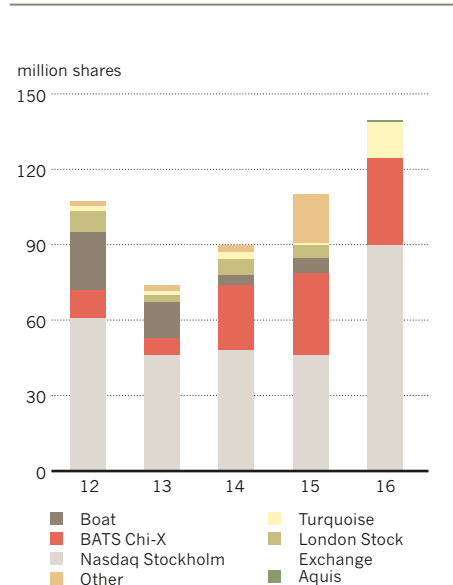
Analysts who continuously monitor Axfood

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

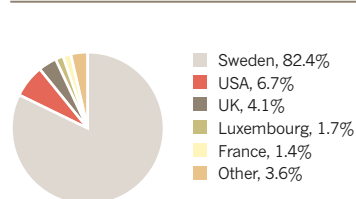
Financial calendar 2017

Report	Date
Interim report January–March	20 April 2017
Half-year interim report January–June	14 July 2017
Interim report January–September	19 October 2017

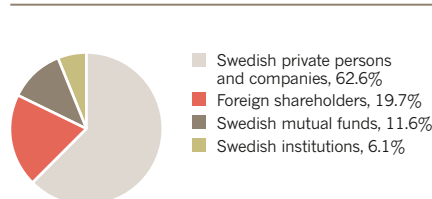
Trading volume for Axfood shares on all marketplaces, 2012–2016



Geographical distribution of shareholders



Breakdown of ownership



Share data

ALL TIME HIGH 5 FEB. 2016

SEK 167.60

TRADING BLOCK

1 share

LISTING

**Nasdaq Stockholm
Large Cap list**

ABBREVIATION

AXFO

SECTOR CLASSIFICATION

Consumer Services

ISIN CODE

SE0006993770

Employees

Axfood had an average of 9,211 full-time employees in 2016 (8,803), of whom 54% were women (54%) and 46% were men (46%). The share of employees who work in the retail operations was 75% (74%), while the share who work in the logistics operations was 22% (22%).

Axfood's employees are to reflect the diversity of the Group's customers, and all shall have the same opportunities for development. Axfood's goal is that 20% of all managers will have an international background by 2020. In 2016, 21% of Axfood's employees and 11% of the Group's managers came from an international background. During the year Axfood introduced the opportunity for salaried employees to switch shortened work days – usually a day before a holiday – to another day. The employees can thereby use these days for other holidays than the traditional Swedish holidays. In addition, in 2016 nearly 200 newcomers or asylum-seekers served in internships within the Axfood Group.

Equal opportunity is part of the Group's diversity work. Axfood's long-term goal is to achieve an even gender balance in management positions. Today the Group meets this goal at the mid-management level, while in other management positions the target has almost been reached. In 2016 the share of women in management positions was 32% (30%), and the share of store managers who are women was 31% (29%). The Group's management training programmes have an even gender balance.

The work attendance rate decreased by 0.1 percentage point to 93.9% in 2016 and thereby fell short of the 95% target. Several initiatives were taken to increase work attendance, such as new training in psychosocial illness and rehabilitation.

Depending on what business they are engaged in, Axfood AB

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

With respect to guidelines for compensation and other terms of employment for the President and other senior executives, see the Corporate Governance Report on page 65.

54%
women

46%
men



Environmental impact and sustainable development

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

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

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

Sustainability programme

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



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

Energy consumption

A new long-term target was set in 2016: By 2020 Axfood will reduce its energy consumption by 15% per square metre (base year 2015). Towards achievement of this target, major focus has been put on efficiency measures in the refurbishment and new construction of stores. Despite energy savings measures, electricity consumption increased by 0.7% per square metre during the year. A higher share of refrigerated products and more customers in stores had a negative impact on efforts to reduce electricity consumption.

On 1 July 2016 a solar energy tax was instituted in Sweden. After coming under pressure during the autumn, the government decided to expedite its work on reviewing the conditions for creating a tax incentive for solar energy. Axfood thereafter resumed its investments in installing solar panel systems at warehouses and stores.

CO₂ emissions

Dagab, which handles the Group's own transports, is working to minimize the environmental impact of transports through route planning, maximizing capacity utilization, driver training in eco-driving, and by switching over to more environment-friendly fuels. During 2016 the environmental impact of Axfood's own fleet decreased significantly, especially through the use of HVO fuel. HVO is made of 100% renewable ingredients and is produced through hydrogenation of vegetable oils and/or waste animal fats. In 2016, CO₂ emissions from Group-owned delivery vehicles decreased by 48.5% per tonne of transported goods.

Selected environmental targets

Key ratios	2016	2015
Change in own climate impact, % ¹⁾	e/t	-43.5
Electricity consumption, kWh/sq. m. (Group-owned stores and warehouses)	334.0	331.6
CO ₂ , kg/tonne goods (own trucks from warehouses to stores)	8.7	16.9

¹⁾ The outcome for 2016 is dependent on the residual mix, which will be published later in 2017.

48.5%

reduction in CO₂ emissions per tonne of goods in 2016.



Business ethics and product responsibility

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

During the year, Axfood sharpened its routines for assessing suppliers. For purchases of private label products in high-risk countries or in high-risk categories, supplier assessments that take sustainability aspects into account are conducted early in the selection process. Through its participation in the Business Social Compliance Initiative (BSCI), Axfood is stepping up its efforts to bring about improved conditions among suppliers. In 2016 a total of 54 social audits were performed.

Axfood also adheres to a set of ethical guidelines that are updated every year, and pertinent employees certify in writing that they have read the guidelines. In 2016, 905 (1,010) employees signed such a certification.

Axfood's customers are showing a keener interest in local products and organic alternatives at the same time that they want safe foods that give them value for money. During the year, work was focused on expanding the offering of organic products and on making it easier for consumers to make conscious and well informed choices in stores, among other things through continued expansion of country of origin labelling. All private label products essentially meet the country of origin labelling principle for their main ingredients in the meat, seafood and charcuterie product categories. Sales of organic products as a share of total sales grew by 8.9% during the year, to

6.8%. At year-end, the assortment included 1,882 organic items (1,616). Demand for vegetarian products grew significantly during the year, albeit from low levels.

Axfood's goal is that all important risk crops, including palm oil and soy, will be certified and thereby contribute to sustainable production.

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

Events after the balance sheet date

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

Future outlook

In 2017 Axfood will continue to develop the Group with great commitment at the same time that we take responsibility for the environment and sustainable development. Axfood continues to focus on offering customers products that give them value for their money and inspire passion for food. Capital expenditures are expected to total SEK 800–900 m in 2017, excluding acquisitions. Axfood is focusing on growth and new investments, and the forecast is an operating profit in 2017 to be level with the outcome for 2016.

Annual General Meeting 2017

The Annual General Meeting (AGM) of Axfood AB (publ) will be held at 5 p.m. (CET) on Wednesday, 15 March 2017, at Stockholm City Conference Centre, Folkets Hus (Barnhusgatan 12-14), Stockholm. Registration will open at 4 p.m.

Notification

Shareholders who wish to attend the AGM must notify the Company of their intention not later than 4 p.m. (CET) on Thursday, 9 March 2017, at the following address:

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

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

Participation at the AGM

To be entitled to participate at the AGM, shareholders must be recorded in the register of shareholders maintained by Euroclear Sweden AB not later than Thursday, 9 March 2016, and notify the Company of their intention to participate at the AGM not later than 4 p.m. (CET) on Thursday, 9 March 2016.

Shareholders whose shares are registered in the name of a nominee must temporarily re-register their shares in their

own names with Euroclear Sweden AB to be entitled to vote at the AGM. Shareholders must notify their nominees well in advance of Thursday, 9 March 2017.

Recommendations for decision at the 2017 AGM

The Board of Directors proposes an ordinary dividend of SEK 6.00 per share (5.00) for 2016, corresponding to a total dividend of SEK 1,259 m (1,889), based on the number of shares outstanding at year-end 2016. For the 2015 financial year an extra dividend of SEK 4.00 per share was also paid.

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

Calendar – 2017 AGM

- 9 March Record date for 2017 AGM
- 9 March Last day to notify to attend the 2017 AGM
- 15 March Final day of trading in Axfood shares including the right to the dividend
- 15 March 4 p.m., doors open to AGM
- 15 March 5 p.m., 2017 AGM is called to order
- 17 March Record date for payment of dividends
- 22 March Payment date for dividends



Income statement and balance sheet, Parent Company

INCOME STATEMENT

Amounts in SEK m	Note	2016	2015
Net sales		0	–
Selling expenses		–1	–1
Administrative expenses	7, 8, 9, 10	–316	–291
Other operating income	7	228	205
Operating result		–89	–87
Profit from participations in Group companies	13	–	1
Interest income and similar profit/loss items	13	4	5
Interest expense and similar profit/loss items	13	–1	–3
Result after financial items		–86	–84
Appropriations	14	1,501	1,358
Profit before tax		1,415	1,274
Current tax	15	–314	–282
Deferred tax	15	0	0
Profit for the year		1,101	992

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

BALANCE SHEET

Amounts in SEK m	Note	31/12/2016	31/12/2015
ASSETS			
Property, plant and equipment			
Equipment, tools and fixtures	18	22	30
		22	30
Financial assets			
Participations in Group companies	21, 23	3,136	3,136
Other long-term securities holdings	29	52	3
Deferred tax assets	15	5	5
Other non-current receivables	24, 29	3	3
		3,196	3,147
Total non-current assets		3,218	3,177
Current assets			
Current receivables			
Accounts receivable – trade	29	2	7
Receivables from Group companies	29	2,705	2,681
Prepaid expenses and accrued income	27	9	8
		2,716	2,696
Cash and cash equivalents	29		
Cash and bank balances		1,303	1,489
Total current assets		4,019	4,185
TOTAL ASSETS		7,237	7,362

Parent Company

Other operating income for the Parent Company amounted to SEK 228 m (205) for the year. After selling and administrative expenses of SEK –317 m (–292) and net financial items totalling SEK 3 m (3), profit totalled SEK –86 million (–84). Appropriations totalled SEK 1,501 m (1,358). Of appropriations, SEK 1,975 m (1,785) pertains to Group contributions received and rendered.

Capital expenditures totalled SEK 5 m (7). Cash and cash equivalents held by the Parent Company totalled SEK 1,303 m (1,489). At year-end the Parent Company had no interest-bearing receivables outside the Group.

The interest-bearing net receivable of SEK 716 m at the start of the year decreased to SEK 188 m at year-end.

The Board of Directors proposes an ordinary dividend of SEK 6.00 per share for 2016. Based on 209,870,712 shares, the total dividend will amount to SEK 1,259 m.

BALANCE SHEET, cont.

Amounts in SEK m	Note	31/12/2016	31/12/2015
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted shareholders' equity			
Share capital		262	262
Revaluation reserve		25	25
		287	287
Unrestricted shareholders' equity			
Profit brought forward		1,718	2,615
Profit for the year		1,101	992
		2,819	3,607
Total shareholders' equity		3,106	3,894
Untaxed reserves	14	2,127	1,653
Provisions			
Provisions for pensions and similar obligations	28, 30	22	20
Non-current liabilities			
Other non-current liabilities		1	1
Current liabilities			
Accounts payable – trade	29	19	11
Liabilities to Group companies	29, 30	1,823	1,648
Current tax liability		85	85
Other current liabilities		4	5
Accrued expenses and deferred income	19, 31	50	45
		1,981	1,794
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		7,237	7,362

INTEREST-BEARING NET DEBT RECEIVABLE, PARENT COMPANY

Amounts in SEK m	31/12/2016	31/12/2015
Interest-bearing portion of Receivables from Group companies	725	875
Cash and cash equivalents	1,303	1,489
Provisions for pensions and similar obligations	–22	–20
Interest-bearing portion of Liabilities to Group companies	–1,818	–1,628
Interest-bearing net debt receivable	188	716

Cash flow statement and shareholders' equity, Parent Company

CASH FLOW STATEMENT

Amounts in SEK m	2016	2015
Operating activities		
Result before financial items	-89	-87
Interest paid	-1	-3
Interest received	4	5
Dividend from participations in Group companies	-	1
Depreciation/amortization charged against result	10	10
Adjustments for non-cash items	2	6
Paid tax	-314	-252
Cash flow from operating activities before changes in working capital	-388	-320
Cash flow from changes in working capital		
Change in current receivables	151	-51
Change in current liabilities	206	446
Cash flow from operating activities	-31	75
Investing activities		
Acquisitions of property, plant and equipment	-2	-2
Acquisitions of subsidiaries	0	0
Acquisitions of shares and participations in other companies	-49	-
Cash flow from investing activities	-51	-2
Financing activities		
Shareholder dividend	-1,889	-892
Group contribution received	1,805	1,581
Group contribution rendered	-20	-33
Cash flow from financing activities	-104	656
CASH FLOW FOR THE YEAR	-186	729
Cash and cash equivalents at start of year	1,489	760
Cash and cash equivalents at year-end	1,303	1,489

SHAREHOLDERS' EQUITY

Amounts in SEK m	Restricted share-holders' equity		Unrestricted shareholders' equity	Total share-holders' equity
	Share capital	Revaluation reserve	Profit brought forward	Total
Opening shareholders' equity 2015	262	25	3,507	3,794
Profit for the year	-	-	992	992
Shareholder dividend	-	-	-892	-892
Closing shareholders' equity 2015	262	25	3,607	3,894
Profit for the year	-	-	1,101	1,101
Shareholder dividend	-	-	-1,889	-1,889
Closing shareholders' equity 2016	262	25	2,819	3,106

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

Risks and risk management

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

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

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

This system also allows Axfood to maintain control over claims 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, cyber security, transports, and liability for directors and senior executives. Owing in large part to active loss prevention work, Axfood has been able to lower its insurance costs in recent years.

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

Operational and strategic risks

Business risks

Fire

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

IT structure

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

Suppliers

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

Labour market conflicts

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

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

Liability and trust risks

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

Financial risk management at Axfood is described in more detail on pages 63–64. In the Corporate Governance Report, on pages 65–81, a detailed description is provided of the Company's internal control and risk assessment, which aim to prevent errors in the financial statements. Preventive work for mitigating liability risks, sustainability risks, and risks for violation of laws, rules and regulations, is described in Axfood's Sustainability Report.

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 provide a safeguard for operations in the event of a major IT disruption. Axfood has decided to take out cyber insurance to minimize any costs in the event of a major disruption.	✓
– Supplier risks				
Bankruptcy or extensive fire at a critical supplier.			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				
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 designed to ensure quality standards.	✓
Climate and environmental risks				
– Difficulties in purchasing as a result of climate changes				
Uncertain weather conditions could result in a shortage of primary food ingredients.			Secure supply through purchases from a range of production areas.	n.a.
– Known and potential political decisions				
Higher costs as a result of political decisions without compensation.			Active business intelligence work and adaptation.	n.a.
– Loss of customer trust and adaptation to customers' demands				
Changed dietary habits that are not reflected in Axfood's assortment.			Customer-adapted assortment achieved through statistics, customer surveys and dialogue with customers.	n.a.
Violations of laws, rules and regulations				
Criminal actions or neglect could seriously harm the Company's reputation and result in sanctions or fines.			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.	n.a.
Risk for errors in financial reporting				
A detailed description of the Group's work with internal control is provided in the Corporate Governance Report.				n.a.

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

¹⁾ Fully or in part.

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

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

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

Climate and environmental risks

The risk situation with respect to environmental matters is multi-faceted and covers brand issue, assets and primary ingredients as well as costs that may arise as a result of political decisions. However, risks are at the same time opportunities for those in the industry that are well advanced in relation to their competitors in addressing the risks.

Difficulties in purchasing as a result of climate changes

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

Known and potential political decisions

Environmental policy decisions can affect the cost picture. One of the greatest climate challenges for the industry is the major need for refrigeration and the use of climate-affecting refrigerants, such as R404 for example, in older refrigeration facilities. After 2020 it will no longer be allowed to refill such systems with newly produced refrigerants that have a high environmental impact. This may lead to higher costs both for operations and investment. In its warehouse operations Dagab has changed over to CO₂-based systems, but in the Group's stores there are still many refrigeration systems that use older refrigerants.

It is also conceivable that Sweden's parliament will decide to impose higher environmental and energy taxes. If such tax increases are not compensated by reductions in other taxes, such as payroll taxes, this would result in total higher costs. An increase in value-added taxes on food as a measure to counter food waste would also prompt customers to cut back on their food purchases and lead to lower sales in the food retail segment.

Loss of customer trust and adaptation to customers' demands

To uphold and preferably build upon customers' trust, it is important to maintain good control over the supply chain. Failures in the environmental area, such as high levels of pesticides in food or the use of unsuitable chemicals in other products could diminish trust in Axfood's brands and result in more customers choosing to shop with competitors. The development towards more environmentally aware customers, combined with a failure to be sufficiently fast in adapting the assortment to customers' changed expectations, could also lead to lower sales.

Violations of laws, rules and regulations

For Axfood it is of great importance to comply with laws and other rules and regulations as well as to conduct business in accordance with generally accepted business practice. Violations or negligence in these areas could harm the Company's

Financial risks	RISK LEVEL		Risk management
	Likelihood	Consequence	
Financing and liquidity risk			
The risk of Axfood at any given time not being able to finance the Group's operations.			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 trade accounts receivable and guarantee commitments made by Axfood.			Axfood's customers are subject to credit checks on a regular basis. By coordinating its credit monitoring activities, among other things Axfood ensures that its credit losses will be kept at a low level.

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



reputation and result in sanctions as well as fines. For risk prevention purposes, Axfood has therefore established a number of policies, a well-working system of internal control, and an ethical approach at all levels. The Axfood Code of Conduct is described in more detail in Axfood's Sustainability Report.

Legislation and political decisions

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

Risks for errors in financial reporting

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

Financial risks

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

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 risks

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

To limit the risk and the potential financial loss associated with the Axfood Group's inability to finance the Group's operations at any given time, 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 consists of the Group's cash and cash equivalents along with unutilized, committed credit facilities and shall amount to a minimum of SEK 300 m (300). The refinancing risk reserve may be used during individual weeks in the event of short-term movements in liquidity. On 31 December 2016 the refinancing risk reserve amounted to SEK 1,550 m (1,811). Responsibility for monitoring and overseeing the refinancing risk reserve rests with the finance department.

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

Granted credit lines are to have a minimum average remaining contract term of 12 months. Apart from granted, short-term overdraft facilities of SEK 200 m (220), the Group had no long-term granted credit facilities as per 31 December 2016 and 31 December 2015. Information on granted and drawn credit lines, as well as maturity dates for utilized credits, is provided in Note 30.

The Axfood Group's investment policy aims to ensure the Axfood Group's ability to pay in the short and long term. In addition, the investment policy is designed to reduce the Group's external borrowing as much as possible by coordinating the management of surplus liquidity within the Group and achieving the best possible balance of financial income and expense. Investments may only be made in highly liquid instruments with low credit risk, i.e., investments that can be converted to cash and cash equivalents at any given point in time. Approved instruments include account balances, deposits, and investments in short-term debt instruments with approved counterparties. As per 31 December 2016 the Axfood Group had account holdings only in Swedish banks, which are approved counterparties in the finance policy.

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

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

Market risks

Market risk is the risk of the fair value or future cash flows from a financial instrument varying due to changes in market prices.

The Axfood Group's market risks are broken down into interest rate risk, currency risk and credit risk, which are described below. The goal of the Axfood Group's financial management is to limit the short-term effect on the Group's earnings and cash flow caused by fluctuations in the financial markets.

Interest rate risk

The Axfood Group's interest rate risk associated with interest-bearing assets is to be managed by investing cash and cash equivalents in such a way that maturity dates for investments with fixed rates of interest match the Axfood Group's known outflows and/or amortization of principal. The goal is that no fixed-income investments shall be sold prior to maturity. As per 31 December 2016 the Axfood Group had no restricted fixed-income investments.

Interest rate risk and cash flow risk in the Group's debt portfolio shall be limited. The norm is to have terms of fixed interest that entail a risk-neutral position. This is achieved by maintaining short terms of fixed interest, which is defined as a remaining average term of fixed interest of 12 months. This interest risk norm applies only when the Group has a need for long-term borrowing. For commercial and administrative reasons, the finance department may also act within the framework of a limited deviation mandate. In terms of amount, this deviation mandate is set at SEK 2 m for a one percentage point parallel shift in the yield curve. As per 31 December 2016 the Axfood Group had no long-term borrowing from credit institutions, and in the same way as the preceding year, the deviation mandate was not exercised. At the end of the reporting period, there was no amount pertaining to interest-bearing liabilities excluding pension liabilities and finance leases that would affect earnings and shareholders' equity in the event of a one percentage point change in the interest rate.

Sensitivity analysis for interest rate risk

The effect on interest expense during the coming 12-month period of a one percentage point increase or decrease in interest rates amounts to SEK – m (–), taking into account interest-bearing liabilities – excluding pension liabilities and finance leases – which do not carry fixed rates of interest and which were held at the end of the reporting period. The corresponding effect on interest income/negative interest on interest-bearing assets is SEK +/- 13.3 m (15.6).

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

Currency risks

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

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

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

Approved hedge instruments are spot contracts, forward exchange contracts and currency swap contracts. In 2016 hedges were taken out using these instruments. As per 31 December 2016, all outstanding currency forward contracts, with a nominal value of SEK 495 m (322), were restated to fair value. A compilation of outstanding forward contracts is provided in Note 33.

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

Sensitivity analysis regarding currency risk 2016

Currency	SEK m	10% change in exchange rate vs. SEK, SEK m
EUR	3,350	335.0
USD	167	16.7
DKK	15	1.5
NOK	114	11.4
GBP	1	0.1
Total	3,647	364.7

The sensitivity analysis above shows a hypothetical impact on cash flow and profit before tax, and before taking currency hedges into account. Currency hedges are always taken out no later than at the time orders are placed, and the hedge rate is always coupled to the respective orders. Based on this value, the price in stores is then determined for the respective products. For further information regarding exchange rate differences and exposures, see Note 33.

Credit risks

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

Financial assets are reported in the statement of financial position after deducting provisions for possible credit losses. Added to these provisions are provisions for estimated losses on guarantee commitments made by Axfood. These pertain mainly to guarantees for collaborating stores, associated companies and joint ventures. Outstanding guarantee commitments amounted to SEK 2 m (2) and are reported under contingent liabilities, see Note 32. There is no concentration of credit risks, neither through exposure to individual borrowers nor groups of borrowers whose financial situation is such that it can be expected to be affected in a similar manner by changes in the external environment. For further information on trade receivables, see Note 26. The Parent Company did not have any external credit risks at year-end.

Corporate Governance Report 2016

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



Chairman's message

The Board's duty is to work with continuity and a long-term perspective to ensure Axfood's development and a favourable, sustainable return for the shareholders. Current trends that show changed shopping behaviours and consumption patterns are only the beginning of the changes we will see in the food retail industry. Axfood has a good starting position for the future.

New conditions creating tomorrow's consumption

The food retail industry is influenced today by many different trends that will have an ever-greater impact on tomorrow's consumption. The hunt for low prices, digitalization, the greater inclination to eat at restaurants or take home ready-made dishes – preferably made from sustainable ingredients – are steering consumers' shopping behaviours. Even a protein shift can be seen in shopping carts. A growing share of foods are made with plant-based protein substitutes or flat-out vegan ingredients. The food we buy is increasingly a conscious choice. And this change is only in its infancy. As a result of this consumer awareness and technology, in the future we will be consuming based on an entirely different set of conditions.



that their capital is being managed securely.

The Board has a good composition that encompasses a breadth of expertise in the food retail trade, retailing in general and digitalization. Discussions are open, forward-looking, and are characterized by an entirely non-political culture. Together with an extremely strong level of commitment and individual responsibility from each director, this creates good conditions long-term and sustainable value creation.

Active ownership role

Insight and the flexibility to change along with customers are always at the top of the Board's agenda. This goes not only for the board work at Axfood, but also the entire business that I represent – the Axel Johnson Group. At Axel Johnson we are pursuing what we call our 10/50 strategy, i.e., that within ten years, 50% of revenue will come from new parts of the Group companies' operations. The progress that is being made

at Axfood, such as with its private labels and digitalization, are well in line with this development.

Axfood's strong starting point

By monitoring consumers' behaviours and developing the business based on consumers' needs and preferences, Axfood will continue to grow its market share in Sweden's food retail market. As number two Axfood has a strong starting point. The Group's various brands target different segments, and all of our brands are strong in their respective areas of specialization. An important part of the business also involves advocating for sustainable development in the food retail industry and being a positive force for change in society.

For 12 years Anders Strålman has led the Group's development and created this advantageous position. He has done a fantastic job that has required a constant balance between many different decisions on details here and now along with more long-term decisions for shaping the Group as a whole for the future. Striking such a balance is like squinting – having one eye in the here and now and one in the future. When Anders decided to hand over the operating responsibility in 2017, we began a search for someone who – like Anders – can have one eye on the present and one on the future. With his long record of experience in retailing and a leadership style that fits well into Axfood's entrepreneurial culture, Klas Balkow has the qualities that can take Axfood to the next level.

Good corporate governance in Axfood

Good corporate governance is distinguished by a clearly defined division of responsibility between management and control bodies, and by the good order that exists in Axfood's internal systems. Through risk management, good control and follow-up of business, Axfood is run in such a way that the owners can feel

Flexibility and shared goals

Axfood's business generates a steady cash flow over the year. Despite the negative interest rate situation that currently exists in Sweden, we are careful to maintain a strong balance sheet that gives us flexibility to pay an attractive, stable dividend and yet still be able to act when opportunities arise. The two acquisitions that were carried out in early 2017 are examples of Axfood's financial strength and capacity to act.

To promote the entrepreneurial spirit that permeates Axfood and align key employees' incentives with the shareholders' interests, the Board has proposed the introduction of an incentive programme that is based on Axfood's performance during the next three years.

I have had a very exciting first year as Chairman of Axfood. We are firmly positioned thanks to all of Axfood's employees, customers and shareholders who have made our successes to date possible. That we are gaining market shares is proof that Axfood has attractive customer offerings and a well-managed operation. My thanks to everyone, and a special, warm thanks to Anders Strålman, who is leaving his post as CEO in connection with the AGM. A new phase is now beginning, which we are well equipped to meet.

Mia Brunell Livfors
Chairman of the Board

Governing bodies, rules and regulations

Axfood is a Swedish, public stock corporation with registered number 556542-0824. The Company has its domicile in Stockholm and is listed on Nasdaq Stockholm. This Corporate Governance Report is part of the Company's Administration Report and is reviewed by the Company's auditors. The auditors' review is included in the Audit Report on pages 103–106.

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

External governance instruments

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

Internal governance instruments

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

Swedish Corporate Governance Code

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

Departure from the Code (rule 2.4):

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

Explanation:

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

Departure from the Code (rule 2.5):

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

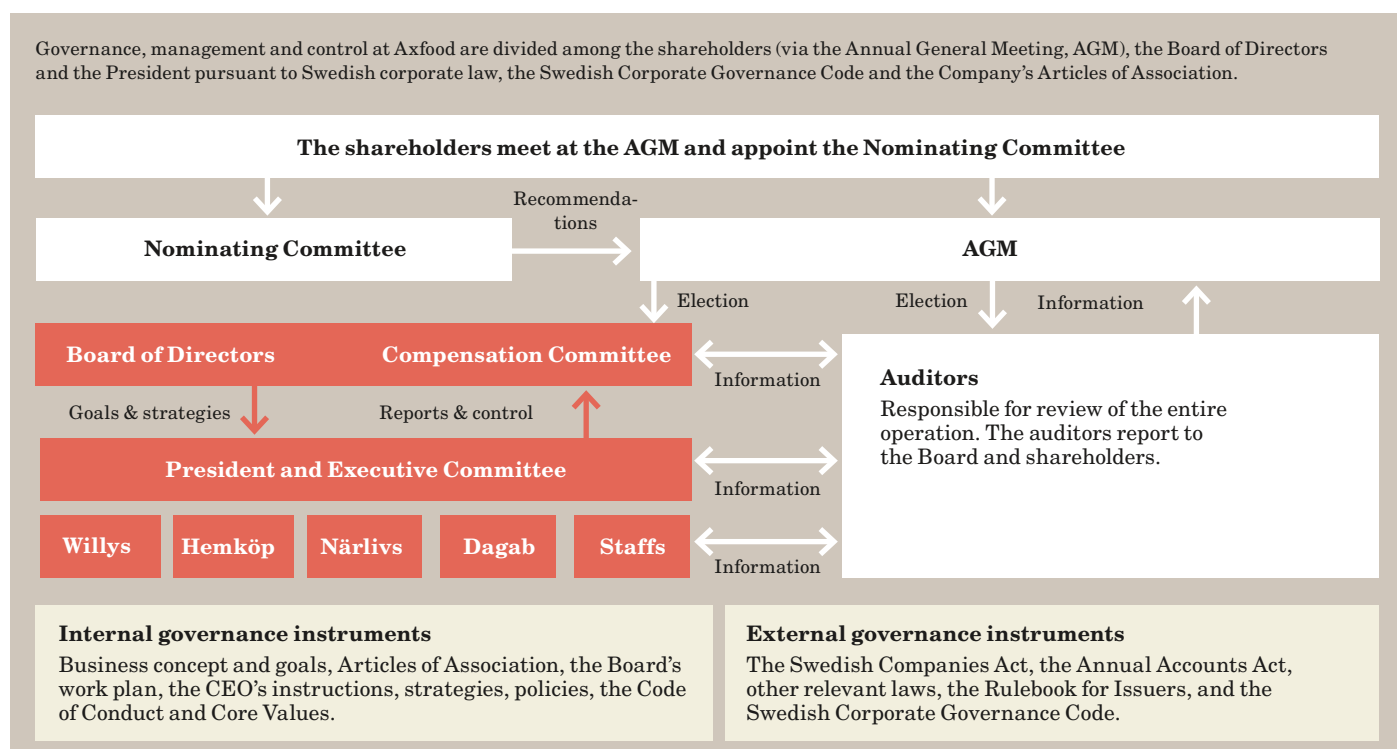
Explanation:

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

Shareholders

Axfood's shares have been listed on the Stockholm Stock Exchange since 1997 and have been traded on Nasdaq Stockholm's Large Cap list since October 2006. The Company has 209,870,712 shares outstanding.

Governance model



Sustainability governance at Axfood

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

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

and Head of Environment and Social Responsibility. The Board monitors this work via reports from the Head of Environment and Social Responsibility. To ensure that this work is conducted in an integrated fashion, it is important that the individual companies in the Axfood Group have operational responsibility for their own sustainability work. Sustainability coordinators have been appointed in all companies and are coordinated at the Group level by the Head of Environment and Social Responsibility.

Read more about Axfood's sustainability work and the 2016 Sustainability Report at axfood.se.

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

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

Annual General Meeting

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

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

Nominating Committee

The Nominating Committee is tasked with making recommendations to the Annual General Meeting (AGM) on the number of directors, the Board's composition and on directors' fees, including any special fees that may be payable for committee work. The Nominating Committee is also tasked with submitting recommendations for the person to be elected as Chairman of the Board, a chairman to preside over the AGM and, where applicable, for election of auditors and their fees. As part of this work the Nominating Committee shall draw from the annual evaluation of the Board's work during the year, which is presented by the Chairman of the Board. The evaluation of the Board's work, together with the requirements in the Code and the company-specific requirements made within Axfood, form the basis of the Nominating Committee's work.

The Nominating Committee's recommendations for board members, directors' fees and election of auditors are presented in the AGM notice. A reasoned statement explaining the Nominat-

ing Committee's recommendations on the Board's composition is posted on Axfood's website in connection with issuance of the AGM notice. All shareholders have the right to submit nominations of board members to the Nominating Committee. Nominations are to be submitted to the Nominating Committee chair by e-mail at the address valberedning@axfood.se.

According to the Code, a nominating committee shall have at least three members, and the majority of these shall be independent in relation to the company and its executive management. Axfood's Nominating Committee consists of five members. The Chairman of the Board of Axfood is a co-opted member of 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. The Articles of Association do not contain any stipulations on the appointment or dismissal of board members. The Board shall be composed of members who possess a well-balanced mix of expertise that is vital for directing Axfood's strategic work in a responsible and successful manner. Examples of such expertise include knowledge about the retail industry, digital trade, corporate governance, compliance, finance, financial analysis and compensation matters. Previous board experience is another important area of expertise. An even gender balance is strived for on the Board.

The Board's work

Each year the Board adopts a written work plan that lays out the Board's responsibilities and regulates the Board's and directors' internal division of duties and the decision-making process within the Board. The Board's meeting schedule, summonses to board meetings, agendas and minutes of board meetings, and the Board's work with accounting and auditing matters are also regulated in this work plan. The work plan also regulates how the Board is to receive information and documentation as a basis for its work so as to be able to make well-grounded decisions.

209,870,712 *shares*



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

Compensation Committee

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

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

Audit Committee

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

The Board meets regularly with the Company's auditors to stay informed about the focus and scope of the audit, gain insight

into the Group's risks, and to establish guidelines for any other services than the audit that the Group may procure from the Company's auditor. The Board also monitors the Group's work with internal control.

Auditors

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

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

Executive Committee

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

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

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

Year in review

Shareholders

Axfood had 33,164 (19,888) shareholders as per 30 December 2016. Compared with a year ago this represents an increase by roughly two-thirds. At year-end, ownership by Axel Johnson AB, the single largest shareholder, was unchanged at 50.1%. The second largest shareholder was AMF Försäkringar & Fonder, whose shareholding was 4.9% of the shares and votes at year-end. The second largest owner in 2015 was Reitangrupen AS, which sold its entire shareholding, 15.6%, in 2016. Private persons and closely held companies held 62.6% (60.8%) of the shares at year-end, and foreign shareholders held 19.7% (30.7%) of the shares.

Axfood AB does not hold any treasury shares.

Axfood's employees do not own shares in which the voting rights for such shares cannot be exercised directly (for example, through a pension foundation). At year-end there were no incentive programmes for Axfood employees that affected Axfood's share structure.

For further information about Axfood's shares, see pages 52–53.

Annual General Meeting 2016

Axfood's Annual General Meeting (AGM) was held in Stockholm on Wednesday, 16 March 2016. A total of 391 shareholders and representatives were in attendance, representing 154,106,812 shares, corresponding to 73.4% of the number of shares and votes in the Company.

Nominating Committee ahead of the 2017 AGM

According to the principles for appointment of the Nominating Committee that were adopted by the 2016 AGM, the owner with the largest number of shares and votes shall, together with the three next largest shareholders, appoint the Nominating Committee.

The largest owners represented on the Nominating Committee as per 31 August 2016 were Axel Johnson AB, SEB funds, AMF Försäkringar & Fonder and Swedbank Robur funds. All of these are considered to be independent in relation to the Company and the Executive Committee. The Nominating Committee ahead of the 2017 AGM held three meetings. No fees were paid for work on the Nominating Committee. The composition of the Nominating Committee is shown in the table below.

Resolutions at 2016 AGM

The 2016 AGM made the following resolutions, among others:

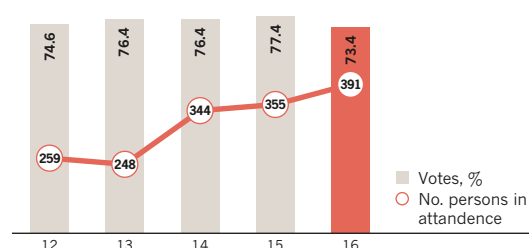
- In accordance with the Board's proposal, to pay an ordinary dividend of SEK 5 per share (4.25) and an extra dividend of SEK 4 (–) for the 2015 financial year
- That the Board shall consist of six members without deputies
- That directors' fees shall be payable in a combined amount of SEK 2,775,000 (2,595,000), in accordance with the Nominating Committee's recommendation. The directors' fees are apportioned as follows:
 - SEK 675,000 for the Chairman
 - SEK 500,000 for the Vice Chairman
 - SEK 400,000 for each of the other directors elected by a general meeting of shareholders
 - No fees are payable for committee work
- Election of the Chairman of the Board and board members in accordance with the Nominating Committee's recommendation:
 - New election of Mia Brunell Livfors as a director and as Chairman of the Board
 - Re-election of directors Antonia Ax:son Johnson, Caroline Berg, Ann Carlsson and Lars Olofsson, and new election of Fabian Bengtsson
- New election of Deloitte as the Company's auditor for a term until the end of the 2018 AGM

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

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

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

AGM attendance 2012–2016



Composition of Nominating Committee

Name	Representing	Share of votes as per 31/8/2016, %
Caroline Berg	Axel Johnson AB, Chair	50.1
Johan Strandberg	SEB funds	2.6
Tomas Risbecker	AMF Försäkringar & Fonder	1.8
Åsa Nisell	Swedbank Robur funds	1.5
Jonas Hillhammar	Axfood's Shareholder Association	1.5 ¹⁾

¹⁾ Share of ownership according to the proxies held by the Shareholder Association at the 2016 AGM.

Board of Directors

Following the 2016 AGM Axfood's board consisted of six AGM-elected directors and no deputies. Prior to the 2016 AGM the Board consisted of seven AGM-elected directors. Each of these directors has essential expertise for Axfood, and their experience amply covers the areas considered to be important for the Company. Three directors and three deputies are appointed by the employees. Axfood's President, Anders Strålmán, is not a member of the Board, but participates at board meetings in a reporting role. Karin Hygrelle-Jonsson, Axfood's Chief Financial Officer, serves as company secretary.

The Board's composition is shown in the table below. A more detailed presentation of the board members is provided on pages 78–79.

Ahead of the 2016 AGM, board member Odd Reitan, who has served as a director since 2009, declined re-election since Reitan-gruppen AS had notified of its intention to sell its shares in Axfood. Axel Johnson AB's former President, Fredrik Persson, and Peggy Bruzelius also declined re-election. In accordance with the Nominating Committee's recommendation, Fabian Bengtsson and Mia Brunell Livfors were elected as new directors at the 2016 AGM.

At the statutory board meeting on 16 March 2016, Lars Olofsson was elected as Vice Chairman of the Board.

Directors' independence

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

Two of the directors, Fabian Bengtsson and Ann Carlsson, are also considered to have met the requirement for independence in relation to the Company's major shareholders.

Four directors have been judged as being non-independent in relation to the Company's major shareholders. Mia Brunell Livfors is President and CEO of Axfood's largest shareholder, Axel Johnson AB, and has not been found to be independent in relation to the Company's major shareholders. Caroline Berg, Antonia Ax:son Johnson and Lars Olofsson, who currently serve as Chairman and directors on Axel Johnson AB's board, respectively, have not been found to be independent in relation to the Company's major shareholders.

The Board's work

The Board held nine meetings in 2016, including a statutory meeting that was held directly after the AGM. The CEO's status report is a standing agenda item at every board meeting, as is a follow-up report on earnings performance. Store investments and establishment matters are also items of business at every board meeting. Every quarter the Company's interim reports are reviewed – in February, April, July and October. The board meeting in February covered the year-end book-closing and annual report, reports from the auditors, the Compensation Committee and Nominating Committee, and matters of business ahead of the Annual General Meeting.

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

At the board meeting in June, strategic issues were discussed. In addition to follow-up and evaluation of the strategy for 2016, the Board also discussed customer and growth strategies, e-commerce, profitability, communication and acquisitions.

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

At the first board meeting in September the Board discussed and decided to appoint Klas Balkow as President and CEO of Axfood, after Anders Strålmán had notified the Board that he

Composition of the Board of Directors

Name	Year elected	Independent	Total fee, SEK	Compensation Committee	Attendance	
					Board meetings	Committee meetings
Mia Brunell Livfors (Chairman) ¹⁾	2016	No	675,000	Yes	9/9	4/5
Fredrik Persson ²⁾	2008	No	–	Yes	1/9	1/5
Lars Olofsson (Vice Chairman)	2013	No	500,000	Yes	9/9	5/5
Antonia Ax:son Johnson	2000	No	400,000	–	6/9	–
Fabian Bengtsson ¹⁾	2016	Yes	400,000	–	7/9	–
Caroline Berg	2014	No	400,000	Yes	9/9	5/5
Peggy Bruzelius ³⁾	2000	Yes	–	–	1/9	–
Ann Carlsson	2015	Yes	400,000	–	9/9	–
Odd Reitan ³⁾	2009	No	–	–	0/9	–
Anders Helsing (Employee representative)	–	–	–	–	5/9	–
Michael Sjöström (Employee representative)	–	–	–	–	8/9	–
Lars Östberg (Employee representative)	–	–	–	–	5/9	–
Ulla-May Iwahr-Rydén (Employee representative) ⁴⁾	–	–	–	–	4/9	–
Inger Sjöstrand (Employee representative) ⁴⁾	–	–	–	–	4/9	–
Total			2,775,000			

¹⁾ Mia Brunell Livfors and Fabian Bengtsson have been board members as from the 2016 AGM.

Mia Brunell Livfors was a co-opted board member for the year's first board meeting.

²⁾ Fredrik Persson was Chairman of the Board through the 2016 AGM.

³⁾ Peggy Bruzelius and Odd Reitan were board members through the 2016 AGM.

⁴⁾ Ulla-May Iwahr-Rydén and Inger Sjöstrand were employee representatives until mid-year 2016.

9
board meetings
2016

wanted to step down from his operating role. At the second board meeting in September Deloitte presented its audit plan for the financial year.

At the board meeting in October Axfood's Executive Committee was given a mandate by the Board which led to Axfood making a public offer to acquire Matse Holding AB in December 2016.

At the board meeting in December the President and the Chairman were given a mandate that led to Axfood in January 2017 reaching an agreement to acquire Eurocash Food AB together with Norgesgruppen.

All of these matters are closely tied to Axfood's goals and strategies, especially the launch of e-commerce for consumers during the year.

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

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

Compensation Committee

The members of the Compensation Committee as from 16 March 2016 were Mia Brunell Livfors (committee chair), Caroline Berg and Lars Olofsson. Axfood's President, Anders Strålman, is a co-opted member of the Compensation Committee.

During the year, the committee dealt with terms and outcomes regarding variable compensation for senior executives of the Group, as well as proposed principles for variable compensation. The Compensation Committee also drafted a recommendation to the Board to introduce a long-term share-based incentive programme for key persons in Axfood.

The Compensation Committee held five meetings in 2016. No fees have been paid to committee members for their work on the Committee.

Evaluation of the Board's work

Mia Brunell Livfors, Chairman of the Board, is responsible for the evaluation of the Board's work and for presenting this evaluation.

Auditor

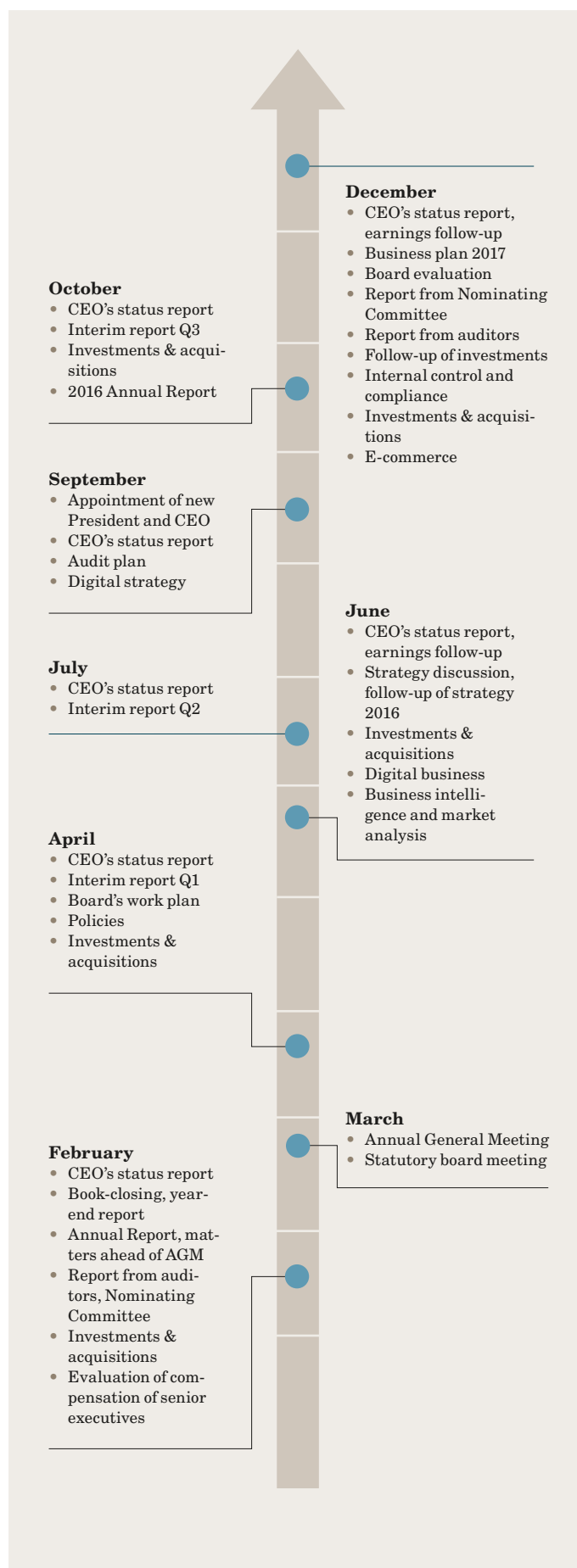
Hans Warén, Authorized Public Accountant and Chairman of the Board of Deloitte Sweden, is auditor in charge. In addition to his assignment for Axfood, he is the chief auditor for Castellum, Gunnebo and Lindab.



Auditors' fees 2014–2016

SEK m	Group			Parent Company		
	2016	2015	2014	2016	2015	2014
Auditing fees, KPMG AB	0	4	4	0	1	1
Auditing fees, Deloitte AB	4	-	-	1	-	-
Consulting fees, KPMG AB	0	3	1	0	2	0
Consulting fees, Deloitte AB	0	0	0	0	0	0
Total	4	7	5	1	3	1

The Board's work in 2016



ation to the Nominating Committee. The aim of the evaluation is to gain insight into the directors' views on how the board work is conducted and on which measures can be taken to improve the effectiveness of the Board's work. This evaluation therefore serves as important documentation for the Nominating Committee's work ahead of the Annual General Meeting.

In 2016 the Chairman conducted an electronic questionnaire survey for all of the board members and also received verbal comments. The survey focused on the directors' views of the effectiveness of the Board's work and on the Board's engagement, expertise and ability to act. The results of this evaluation were thereafter reported to both the Board and the Nominating Committee in December 2016.

The result of the 2016 evaluation showed an improvement compared with the preceding year's already good result. In general, the board work maintains a high standard. One example of an area that improved during the year is that the Board's discussions led to concrete decisions. The interaction between the Board and the President also improved. The criteria that received the highest marks were well-adapted financial targets, and access to information and financial reports. The evaluation indicated that, while the board material and preparation time ahead of board meetings worked well, it was an area in which a slight worsening was noted during the year.

Auditors

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



Executive Committee

Axfood's Executive Committee in 2016 was made up of Axfood's President along with the presidents of four operating companies and five heads of staff. A more detailed presentation of the members of the Executive Committee is provided on pages 80–81.

Guidelines for compensation of members of the Executive Committee

The guidelines for compensation and other terms of employment for the President and other senior executives were adopted by the Annual General Meeting on 16 March 2016. The guidelines are the same as those that have applied since 2010.

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

Total executive compensation consists of the following five components:

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

Fixed base salary

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

Variable compensation

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

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

Salary and compensation for the President and other senior executives

KSEK	Year	Base salary	Variable compensation	Other benefits	Other compensation	Pension cost	Total
President	2016	6,830	4,410	363	–	2,740	14,343
	2015	6,177	2,515	353	–	2,636	11,681
Executive Committee, others	2016	23,155	9,779	1,019	41	8,524	42,518
	2015	22,755	11,250	1,079	54	8,306	43,444
Total	2016	29,985	14,189	1,382	41	11,264	56,861
	2015	28,932	13,765	1,432	54	10,942	55,125



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

- 70% of base salary paid out during the year for the President
- 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 President and the other members of the Executive Committee can amount to a maximum of approximately SEK 17 m. If the Executive Committee is expanded, the level of variable compensation may exceed this amount. No variable salary is paid out in the event an executive gives notice prior to payment of the compensation.

Share-based incentive programmes

No share-based incentive programmes were in effect in 2016 for members of the Executive Committee.

Pension benefits

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

Other benefits and severance pay

A maximum notice period of 12 months applies for members of the Executive Committee. In addition, severance pay corresponding to a maximum of 12 months' salary may be payable.

For the President and all other members of the Executive Committee, deduction shall be made for other earned income during the time termination salary or severance pay is received. The notice period for members of the Executive Committee, by their own initiative, is six months.

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

Information on previously decided compensation

Previous Annual General Meetings adopted guidelines for compensation and other terms of employment for members of the Executive Committee for the time up until the 2017 Annual General Meeting. In short these guidelines entail that, in addition to base salary, variable salary would be payable that was tied to Axfood's targets for earnings and sales growth as well as the achievement of personal goals. In accordance with adopted principles, a certain portion of this variable compensation has been withheld until the 2017 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 2016 Annual General Meeting has been paid out. Variable compensation that has not fallen due for payment amounted to SEK 7.0 m (4.7) as per 31 December 2016. The guidelines adopted by the 2016 Annual General Meeting have been adhered to, and all previously decided compensation that has not yet been paid out is within the framework described above.

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

Ahead of the 2017 Annual General Meeting, the Board of Directors has proposed a change in the principles for compensation and other terms of employment for members of the Executive Committee. The change entails that members of the Executive Committee will have the opportunity to participate in a long-term share-based incentive programme (LTIP 2017). The aim is to align the shareholders' interests with the interests of the members of the Executive Committee and other key persons and thereby ensure maximum long-term value creation and to encourage personal shareholdings in Axfood. In addition, the Board is of the opinion that LTIP 2017 will help Axfood recruit and retain persons in the Executive Committee and other key positions. For details on the structure of LTIP 2017, see the Notice of the 2017 Annual General Meeting on axfood.se.

The Board's report on internal control

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

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

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

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



Control environment

The control environment is the foundation of internal control over financial reporting. An important part of the control environment entails ensuring that decision-making channels, authorizations and responsibilities are clearly defined and communicated between the various levels of the organization and that governing documents such as internal policies, handbooks, guidelines and manuals are on hand.

Axfood's board has established clear work processes and rules of procedure for its work and the work of its committees. An important part of the Board's work involves drawing up and approving various fundamental policies, guidelines and frameworks. These include the Board's work plan, the CEO's instruction, the investment policy, the finance and credit policy, and the communication policy.

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

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

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



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

Work during the year

In 2016 an annual revision was performed of Axekon documents. All document owners have verified that published or linked documents are current. A comparison was also performed of Axfood's existing policies and guidelines against set requirements. In addition, an evaluation was conducted of compliance with rules and regulations, routines and policies.

Risk assessment

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

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

Work during the year

Risk reviews conducted in 2016 identified the following areas, among others: updates of the functionality of the SAP business system that affect financial reporting, and continuous updating of the HR system. With focus on these risks, the Company has worked continuously to strengthen internal control. In addition, the work with internal control continued with focus on the structure of authorizations, roles and limitations in the combination of roles, both with respect to operational roles and IT roles.

Control activities

The Group's control structure is designed to manage the risks that the Board considers to be of material importance for internal control over financial reporting. At Axfood these control structures consist of an organization with clear roles that enable the effective and suitable delegation of responsibility from an internal control perspective as well as specific control activities that are designed to discover or prevent risks for errors in the reporting in a timely fashion.

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

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

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

Internal control process

December

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

October

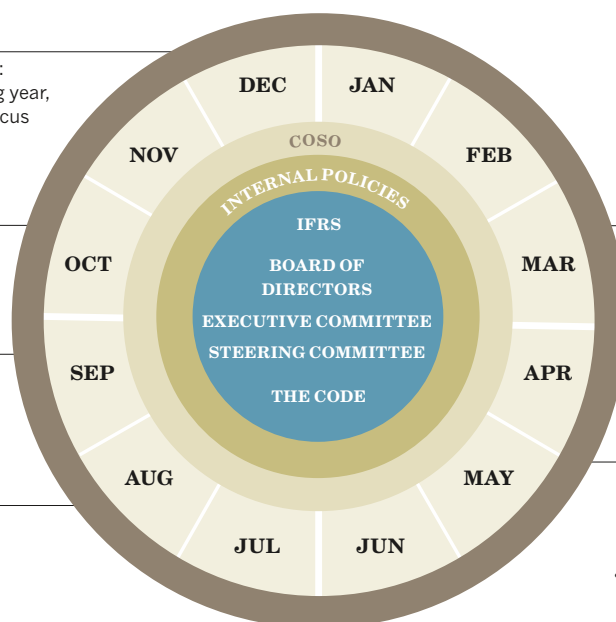
- Follow-up of reporting

September

- Reports from subsidiaries

August

- Auditors' review and audit, audit of administration



March

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

May

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

Work during the year

During 2016 focus continued to be on reviews of new and existing flows coupled to the financial reporting. New controls were identified and tested.

Information and communication

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

For communication with internal and external parties, Axfood adheres to a communication policy that stipulates guidelines for how communication should take place. The purpose of the policy is to provide assurances that all information obligations are met in a correct and complete manner. Internal communication aims to ensure that every employee understands Axfood's values and business. To achieve the objective of having informed employees, active work is conducted internally in which information is communicated on a regular basis via the Group's intranet. Within the framework of internal control activities, Axfood works continuously on improving information security.

Monitoring activities

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

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

Work during the year

During 2016 the Group decided to put more focus on the security function and hired a Risk Manager during the autumn.

Stockholm, 6 February 2017

The Board of Directors of Axfood AB



Further information can be found at axfood.se

- Articles of Association
- Code of Conduct
- Information from previous AGMs, starting in 2001 (notices, minutes, resolutions, CEO's addresses)
- Information on the Nominating Committee
- Information on principles for compensation of senior executives
- The Board's evaluation of guidelines for variable compensation programmes
- Reports on variable compensation systems
- Corporate governance reports starting in 2005
- Information ahead of the 2017 AGM

Board of Directors



1. Fabian Bengtsson, Director since 2016
Director: NetOnNet Group Aktiebolag, Waldir Aktiebolag and Aktiebolaget Remvassen
Education: B.Sc. Business and Economics, Lund University.
Professional experience: Long record of experience in the retail trade and digital trade from the SIBA group, among other things as President 2001–2014; as Chairman of NetOnNet AB 2012–2015; and as a director/Chairman of CE-Konsument-elektronikbranschen AB
Current shareholding in Axfood: 6,300 shares
Independent in relation to the Company and the Executive Committee, and to major shareholders of the Company

2. Lars Olofsson, Director since 2013 and Vice Chairman since 2014
Chairman: TCC Global N.V.
Director: Axel Johnson AB, Bata Shoes and Compass Ltd
Education: B. Sc. Business and Economics, Lund University, studies at IMD in Switzerland
Professional experience: President and Chairman of the Board of Carrefour S.A., Vice President of Nestlé S.A.
Committee membership: Compensation Committee
Current shareholding in Axfood: 8,000 shares
Independent in relation to the Company and the Executive Committee. Non-independent in relation to major shareholders of the Company

3. Caroline Berg, Director since 2014
Chairman: Axel Johnson AB and the Erik and Göran Ennerfelt Foundation for International Studies for Young Swedes
Vice Chairman: Nordstjernan AB
Director: The Axel and Margaret Ax:son Johnson Foundation, Axfast AB, Dustin Group AB and the Stockholm School of Economics Advisory Board
Education: 1987–1991 Middlebury College, Vermont, USA, BA Media/Communications and Psychology
Professional experience: Active in the family-owned Axel Johnson Group since 2005, most recently as Vice President, Human Resources and Communication at Axel Johnson AB and member of the management team, 2006–2014
Committee membership: Compensation Committee
Current shareholding in Axfood: 15,840 shares
Independent in relation to the Company and the Executive Committee. Non-independent in relation to major shareholders of the Company

4. Antonia Ax:son Johnson, Director since 2000
Chairman: Axel Johnson Holding AB and the Axel and Margaret Ax:son Johnson Foundation
Director: Axel Johnson AB, Axel Johnson Inc., AxFast AB, Axfoundation, the Axel and Margaret Ax:son Johnson Foundation for Public Service, the Antonia Ax:son Johnson Foundation for Environment and Development, and others
Education: B.A., Stockholm University, Honorary Doctor of Engineering
Professional experience: Active in the family-owned company Axel Johnson Gruppen since the 1970s
Current shareholding in Axfood: 105,080,264 shares
Independent in relation to the Company and the Executive Committee. Non-independent in relation to major shareholders of the Company



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- 5. Mia Brunell Livfors**, Chairman of the Board and director since 2016
 President and CEO of Axel Johnson AB since 2015
Chairman: Axel Johnson International AB, Kicks Kosmetikkedjan AB, Novax AB and Åhléns AB
Vice Chairman: Martin & Servera AB
Director: Dustin Group AB, Stena AB and Efva Attling Stockholm AB
Education: Economics studies, Stockholm University
Professional experience: Former President and CEO of Investment AB Kinnevik, many years of experience from board work with listed Swedish companies
Committee membership: Compensation Committee
Current shareholding in Axfood: 0
Independent in relation to the Company and the Executive Committee. Non-independent in relation to major shareholders of the Company
- 6. Ann Carlsson**, Director since 2015
 CEO of Apoteket AB (publ)
Director: Svensk Handels and SNS Centre for Business and Policy Studies
Education: Human Resources, Stockholm University
Professional experience: Various executive positions with ICA, including director of various business areas and business manager for ICA Kvantum and ICA Nära
Current shareholding in Axfood: 2,000 shares
Independent in relation to the Company and the Executive Committee, and to major shareholders of the Company



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- 7. Michael Sjören**, Employee representative, Director since 2010
Other assignments: Employee representative on the board of directors of Axfood Närlivs AB and Dagab Inköp & Logistik AB
Professional experience: Axfood Group employee since 1995
Current shareholding in Axfood: 0 shares
Non-independent in relation to the Company and the Executive Committee
- 8. Lars Östberg**, Employee representative, Director 2009-2011 and since 2016
Other assignments: Employee representative on the board of directors of Willys AB
Professional experience: Willys employee since 2002
Current shareholding in Axfood: 0 shares
Non-independent in relation to the Company and the Executive Committee
- 9. Anders Helsing**, Employee representative, Director since 2016
Other assignments: Employee representative on the board of directors of Axfood IT
Professional experience: Axfood employee since 1998
Current shareholding in Axfood: 0 shares
Non-independent in relation to the Company and the Executive Committee

All shareholdings reported as per 31 December 2016.

Executive Committee



- 1. Anders Strålman**, President and CEO Axfood AB *Axfood employee since: 1993¹⁾*
Other assignments: Director of Bergendahls El Holding AB, Svensk Dagligvaruhandel, 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. Member of Axfood's Executive Committee since 2000
Current shareholding in Axfood: 66,000 shares
- 2. Karin Hygrelle-Jonsson**, Chief Financial Officer *Axfood employee since: 1991¹⁾*
Other assignments: Director of Byggmax Group AB (publ) and member of The Swedish Financial Reporting Board *Education:* M.Sc. Econ., Stockholm School of Economics *Professional experience:* Chief Financial Officer and Financial Manager, Axfood AB; Financial Manager, Axel Johnson AB and Dagab AB; Manager Cash & Currency, SAS; banker, PKbanken. Member of Axfood's Executive Committee since 2007
Current shareholding in Axfood: 3,000 shares
- 3. Anders Quist**, Head of Business Development *Axfood employee since: 1995¹⁾*
Other assignments: Director of GS1 Sweden AB and Validoo AB *Education:* Secondary School diploma, grocer training, diverse courses in retailing *Professional experience:* Vice President, Bilhalls; Vice President, Willys; Store Manager, Operations Manager, Grocer, Sales Manager, Dagab väst. Member of Axfood's Executive Committee since 2007
Current shareholding in Axfood: 6,000 shares
- 4. Thomas Evertsson**, President of Willys AB *Axfood employee since: 2008* *Education:* M.Sc. Econ., University of Gothenburg, School of Economics, Business and Law *Professional experience:* Hypermarket Manager, Head of Chain Operations, Coop Supermarkets; President, Coop Sverige AB; Vice President, Coop Norden AB. Member of Axfood's Executive Committee since 2008
Current shareholding in Axfood: 14,000 shares
- 5. Louise Ring**, Head of Human Resources *Axfood employee since: 2003*
Other assignments: Director of the Umeå School of Business and Economics (USBE), Member of the Program Committee for USBE's Master's Programmes, member of the Equality Ombudsman's Committee *Education:* University studies in behavioural sciences, Umeå University; HR executive IFL at the Stockholm School of Economics *Professional experience:* CFO and HR manager, ICA Handlarnas AB; Store Manager, Head of Training, Organizational and Sales Matters, H&M. Member of Axfood's Executive Committee since 2005
Current shareholding in Axfood: 400 shares



6. Nicholas Pettersson, President, Dagab Inköp & Logistik AB *Axfood employee since: 2004 Other assignments:* Chairman of Urban Deli Holding AB *Education:* M.Sc. Econ., Växjö University *Professional experience:* President, Axfood Närlivs; Market Manager, Axfood Närlivs; Business Area Head, Axfood Snabbgross; Supply Chain Manager, AB Svenska Shell; Business Analyst, Shell Detaljist AB. Member of Axfood's Executive Committee since 2009
Current shareholding in Axfood: 800 shares

7. Jan Lindmark, Head of IT *Axfood employee since: 2001 Education:* M.Sc. Econ., Stockholm University *Professional experience:* IT Director, Fritidsresor; IT Manager, Posten Brev; Consultant, Enator. Member of Axfood's Executive Committee since 2007
Current shareholding in Axfood: 0 shares

8. Annika Elmeahen Lundqvist, Head of Corporate Communications *Axfood employee since: 2015 Other assignments:* Director, Föreningen Carlssons skola *Education:* B.A., Uppsala University *Professional experience:* Strategic Communications Advisor, Tetra Pak Asia; Head of Corporate Communications, Eniro and Telenor; Partner, Kreab; Senior Account Executive, PR, Microsoft North America; Consultant, JKL. Member of the Executive Committee since 2015
Current shareholding in Axfood: 0 shares

9. Eva Petterson, President, Axfood Närlivs AB *Axfood employee since: 2004 Other assignments:* Director, Svensk Servicehandel och Fastfood *Education:* M.Sc. Econ., Linköping University; studies at the University of East Anglia; management training at Novare *Professional experience:* Head of Business Development, Dagab; Systems Manager, Axfood IT; food retailing consultant, Accenture AB. Member of Axfood's Executive Committee since 2014
Current shareholding in Axfood: 0 shares

10. Thomas Gäreskog, President, Hemköp AB *Axfood employee since: 2010 Education:* Secondary School diploma, business management training, leadership training *Professional experience:* Store manager, ICA; several positions of trust for ICA; Regional Manager, Hemköp; Sales Manager, Hemköp. Member of Axfood's Executive Committee since 2012
Current shareholding in Axfood: 700 shares

All shareholdings reported as per 31 December 2016.

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

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Notes to the financial statements

1 Significant accounting policies

Conformity with norms and laws

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as endorsed by the EU. In addition, Swedish Financial Reporting Board recommendation RFR 1, Supplementary Reporting Rules for Groups, has been applied.

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

The Annual Report and consolidated financial statements were approved for publication by the Board of Directors on 6 February 2017. The Group's statement of profit or loss and other comprehensive income, and statement of financial position, and the Parent Company's income statement and balance sheet, are subject to adoption by the Annual General Meeting on 15 March 2017.

Basis of measurement applied in preparation of the financial statements

Assets and liabilities are stated at historical cost, except for certain financial assets and liabilities, which are stated at fair value. Financial assets and liabilities stated at fair value consist of derivative instruments and available-for-sale financial assets. A defined benefit pension liability/asset is reported at the net value of the fair value of the plan assets and the present value of the defined benefit liability, adjusted for any asset restrictions.

Functional currency and presentation currency

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

Estimations and assumptions in the financial statements

In order to prepare the financial statements in accordance with IFRS, the Board and the Executive Committee make estimations and assumptions that affect the Company's result and position as well as other disclosures in general. These estimations and assumptions are based on historical experience and are reviewed on a regular basis. Estimations made by the Executive Committee in the application of IFRS that have a material impact on the financial statements, and estimations made that may entail material adjustments in subsequent years' financial statements, are described in more detail in Note 35.

Significant accounting policies applied

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

Changed accounting policies

Changes in IFRS with application as from 2016 have not had any significant effect on the Group's accounting.

New IFRSs that have not yet begun to be applied

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

IFRS 15 Revenue from Contracts with Customers, the new revenue standard that takes effect in 2018 with 2017 as the comparison year, which replaces the IFRS for revenue recognition, will affect Axfood's financial reporting only with respect to increased disclosure requirements, based on our current assessment. Most of all sales in Axfood, approximately 75%, are sales in stores, and recognition according to

current policies is in compliance with the rules of IFRS 15. The impact regarding variable consideration such as discounts and price concessions has not yet been analysed. The effects of the increased disclosure requirement will be determined in 2017.

IFRS 9, which replaces IAS 39 Financial Instruments, will affect Axfood with respect to categorization but is not considered to have any major effect. The extent to which IFRS 9 affects Axfood's financial reporting will be determined in 2017. The standard takes effect in 2018.

IFRS 16 Leases, the new leasing standard that takes effect in 2019 with 2018 as the comparison year, will affect Axfood. The new standard differs significantly from the current IAS 17. The new standard applies for all lease contracts as well as all subleases.

A linear operating lease cost has been replaced with a "top-heavy" cost profile for each individual lease contract. Portfolios with a spread of lease terms are affected less. The disclosures provided in Note 11 about operating leases provide an indication of the type and scope of the leases that currently exist. An analysis of how financial reports will be affected in terms of amount will continue in 2017 and forward. A choice of transitional method has not yet been made.

Classification of current and non-current items

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

Operating segment reporting

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

Principles of consolidation

Subsidiaries

The consolidated financial statements cover, in addition to the Parent Company, all companies in which the Parent Company directly or indirectly has control. Control exists if the Parent Company can affect the investee, is exposed to or has rights to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. When determining if control exists, potential voting stock is taken into account as well whether de facto control exists.

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

The purchase method is used in the preparation of the consolidated financial statements. An acquisition of a subsidiary is regarded as a transaction in which the Group indirectly acquires the subsidiary's assets and takes over its liabilities.

Through purchase price allocation (PPA) of the business acquisition, the fair value is determined of acquired identifiable assets and liabilities taken over on the acquisition date, as well as of any non-controlling interests. Transaction costs that arise are recognized directly in profit or loss for the year.

In business combinations in which the consideration paid, any non-controlling interests and the fair value of previously owned inter-

ests (for business combinations achieved in stages) exceed the fair value of separately reported acquired assets and liabilities taken over, the difference is reported as goodwill. When the difference is negative – a so-called bargain purchase – this is recognized directly in profit or loss for the year.

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

Contingent consideration/earn-out payments are measured at fair value at the date of the acquisition. In cases where the contingent consideration is classified as an equity instrument, no remeasurement is done, and settlement is done in equity. Other contingent consideration is remeasured at every reporting date, and the change is recognized in profit or loss for the year. Acquisitions from non-controlling interests are reported as a transaction within equity, i.e., between the Parent Company's owners (within retained profits) and non-controlling interests.

As a result, no goodwill arises in such transactions. The change in non-controlling interests is based on its proportional share of net assets.

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

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

Associated companies

Companies in which Group companies have a significant influence but not control are classified as associated companies and are reported in accordance with the equity method. The holding amounts to 20%–50% of the number of votes. The equity method entails that the Group's share of the associated company's shareholders' equity, including Group goodwill and remaining Group surplus and deficit values, is reported as shares and participations in associated companies. The equity method is applied starting at the point in time at which control arose and until the point in time at which control ceased. Dividends received from associated companies decrease the carrying amount of shares and participations in associated companies. When the Group's share of reported losses in the associated company exceeds the carrying amount of the participations in the Group, the value of the participations is reduced to zero.

The Group's share of the associated company's net profit/loss including depreciation/amortization, impairment charges and dissolution of any surplus and deficit values reported in connection with the acquisition is reported in consolidated profit.

Any difference at the time of acquisition between the cost of the holding and the acquirer's share of net fair value of the associated company's identifiable assets and liabilities is reported in accordance with the same principles that apply for acquisitions of subsidiaries.

Joint ventures

For accounting purposes, joint ventures are companies in which the Group, through cooperation agreements with one or more parties, has joint control whereby the Group has a right to the net assets instead of a direct right to assets and acceptance of liabilities. In the consolidated accounting, holdings in joint ventures are consolidated in accordance with the equity method, see the above with respect to associated companies. The equity method is applied starting at the point in time at which joint control arose and until the point in time at which joint control ceased.

Transactions that are eliminated upon consolidation

Intra-Group receivables and liabilities, income or expenses, and unrealized gains or losses that arise out of transactions between Group companies are eliminated in their entirety in preparation of the consolidated accounts. Unrealized gains that arise in connection with transactions with associated companies and joint ventures are eliminated to the extent that they correspond to the Group's share of equity in the company. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no need to recognize impairment.

Income

Sales are reported net after VAT and discounts. Income from sales of products is recognized in profit or loss when the material risks and rewards have been transferred to the buyer, which for retail means when the product is paid for in a store and for wholesale when the product is delivered. Bonuses earned by customers on sales to customers with loyalty cards are expensed in pace with their earning and at the

same time reduce net sales. Consolidated net sales pertain primarily to sales in stores and wholesale sales.

Franchise fees

Axfood has agreements with a number of independent grocers for cooperation under the Hemköp, Tempo and Handlar'n formats. The grocers pay an annual sales-based fee to Axfood for participation in marketing programmes, purchasing coordination and support in such areas as technical support, administration and store operations. Franchise income (store fees) is recognized in profit or loss as it is earned.

Rental income

Axfood sublets store premises. Rents from this activity are reported in a linear manner over the term of the rental agreement. Similarly, rental costs are reported over the term of the rental agreement.

Commission income

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

Leasing

Operating leases

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

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

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

Financial income and expenses

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.

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

Receivables and liabilities in foreign currency

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

Taxes

The Group's total taxes consist of current tax and deferred tax. Taxes are recognized in profit or loss for the year except for when the underlying transaction is recognized in other comprehensive income or reported against shareholders' equity, whereby the associated tax effect is recognized in other comprehensive income or shareholders' equity.

Current tax is tax that is to be paid or received in the current year, based on the tax rates that have been decided on or essentially decided on as per the balance sheet date. This also includes adjustments of current tax pertaining to earlier periods.

Deferred tax is calculated in accordance with the balance sheet method and is based on the temporary difference between the reported and taxable value of assets and liabilities. Valuation of deferred tax is based on how the temporary differences are expected to be recognized or settled and using the tax rates and tax rules that have been decided on or essentially decided on as per the balance sheet date.

Temporary differences are not taken into account in consolidated goodwill, nor in differences attributable to participations in subsidiaries or associated companies that are not expected to be taxed in the foreseeable future.

Deferred tax assets in deductible temporary differences and tax-loss carryforwards are reported only to the extent it is probable that they will entail lower tax payments in the future.

Intangible assets

Goodwill

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

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

Other intangible assets

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

Direct external and internal costs for software development for internal use are carried as an asset in the statement of financial 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 valued at cost less any impairment charges and are tested at least once a year for impairment, see the heading Impairment.

Amortization of intangible assets

Amortization of intangible assets is based on the estimated useful life of the assets. Amortization is done on a straight-line basis over the estimated useful life of the assets. Eligible intangible assets are amortized from the date they are put in use. The following percentages have been applied:

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

¹⁾ Leaseholds currently have an amortization period of 5 years.

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

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

Property, plant and equipment

Property, plant and equipment are carried at cost after deducting accumulated amortization and any impairment. Cost includes the purchase price plus direct costs associated with bringing the asset to place and in condition to be used in the operations.

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

Depreciation of property, plant and equipment

Depreciation is done on a straight-line basis over the estimated useful life of the assets. The following percentages have been applied:

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

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

Axfood applies component depreciation for some store equipment. Component depreciation entails that, where necessary, large machinery is broken down into sub-components with different useful lives and thus different depreciation schedules.

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

Financial instruments

Financial instruments reported in the statement of financial position include – on the assets side – cash and cash equivalents, loan receivables, trade receivables and financial investments. The liabilities side includes trade payables and loan liabilities. Currency derivatives are reported either as an asset or liability, depending on whether the fair value is positive or negative.

Recognition of financial assets and liabilities

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

A financial asset is derecognized from the statement of financial position when the rights to the agreement are realized, mature, or the Company loses control over it. The same applies for a part of a financial asset.

A financial liability is derecognized from the statement of financial position when the obligation in the agreement is fulfilled or becomes extinguished in some other way. The same applies for a part of a financial liability. Purchases and sales of derivative instruments are reported on the transaction date.

Classification and valuation

Financial instruments are initially carried at cost, corresponding to the instrument's fair value plus transaction costs, except for instruments measured at fair value through profit or loss, for which transaction costs are expensed immediately. A financial instrument is classified on the initial reporting occasion based on – among other things – the purpose for which the instrument was acquired. All financial assets and liabilities are classified in the following categories:

- Financial assets and liabilities measured at fair value through profit or loss. The option portion of convertible debentures is included in this category.
- Loan receivables and trade receivables. Axfood's trade receivables, other receivables, and cash and cash equivalents are included in this category.
- Available-for-sale financial assets. This category consists of financial assets that are not classified in any other category, such as shares and participations in both listed and unlisted companies. Axfood's ownership of tenant-owner rights is included in this category.
- Financial liabilities measured at amortized cost. Axfood's trade payables and borrowings are included in this category.

Loan receivables and trade receivables

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

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

Cash and cash equivalents

Cash and cash equivalents held by the Parent Company and Group include the Group's balances in Group accounts and other bank accounts, including currency accounts and pending payments. Cash and cash equivalents are measured at amortized cost.

This means that the Group's holdings of cash and cash equivalents are exposed only to a negligible risk for 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 measured on a continuing basis at fair value with changes in value reported in other comprehensive income and the accumulated changes in value as a special component of shareholders' equity, however, not such changes in value that are due to impairment, interest on receivable instruments, dividend income and exchange rate differences on monetary items recognized in profit or loss. Upon the sale of the asset, the accumulated profit/loss that was previously recognized in other comprehensive income is recognized in profit or loss for the year. On each reporting occasion Axfood evaluates whether there is objective evidence that a financial asset is in need of impairment. Assets are assessed individually. Objective evidence consists of observable conditions that have occurred and which have a negative impact on the opportunity to recover the cost, as well as of material or prolonged decreases in the fair value of a financial investment that is classified as an available-for-sale financial asset. A definitive need to recognize impairment arises when the decrease in value exceeds 20% and when a decrease in value lasts at least nine months. Impairment of the asset is reported among other operating expenses.

Financial liabilities measured at amortized cost

Trade payables and loan liabilities are classified in the category "other financial liabilities". Trade payables have a short anticipated duration and are valued without discounting to their nominal amount. Loan liabilities are classified as other financial liabilities, which entails that they are measured at amortized cost in accordance with the effective interest method.

Derivatives and hedge accounting

Derivative instruments consist of forward exchange contracts that are used to cover risks for fluctuations in exchange rates and are reported in accordance with the rules for cash flow hedging.

Axfood's transaction exposure in foreign currency arises in connection with the import of goods paid for in foreign currency. All of these exposures are hedged to 100% through forward exchange contracts. Axfood applies hedge accounting for contracted purchases. For all

orders, hedges are taken out directly after the order is placed with the supplier. This is documented by entering the exchange rate for each order in Axfood's import system, and for each hedge, there is underlying documentation. This documentation ensures that the Group has effectively hedged the item and that it has the option to measure and conduct follow-ups.

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

Inventories

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

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

Inventory includes only marketable products.

Impairment

The carrying amount of the Group's assets, excluding inventories and deferred tax assets, is tested at the end of each reporting period to determine any need to recognize impairment. The carrying amount is also tested when an indication of a decrease in value has been identified. An impairment loss is recognized for an asset if its carrying amount exceeds its recoverable amount, where the recoverable amount is defined as the higher of the asset's net sales value and its value in use. In calculating value in use, future cash flows that the asset is expected to generate are discounted using an interest rate that reflects the current market assessment of the time value of money and the cash-generating units' specific risks. This interest rate is believed to correspond to Axfood's weighted cost of capital. A separate asset is attributed to the smallest cash-generating unit in which independent cash flows can be determined. Impairment is charged against profit. Impairment of assets pertaining to a cash-generating unit is applied primarily to goodwill. Thereafter, a proportional write-down is made of other assets included in the unit.

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

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

Provisions

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

Employee benefits

Short-term compensation

Short-term employee compensation is calculated without discounting and is recognized as an expense when the related services were performed. A provision for estimated bonus payments is recognized when the Group has a legal or constructive obligation to make such payments due to the fact that the services in question have been received from the employees and the provision amount can be estimated in a reliable manner.

Post-employment compensation

Pension plans

Axfood has both defined contribution and defined benefit pension plans.

Defined contribution pension plans are classified as plans in which Axfood's obligation is limited to the contributions that the Company has undertaken to pay. The service cost of defined contribution plans is charged against profit in pace with employees' performance of their services. Obligations are calculated without discounting, since payment for all of these plans falls due within 12 months.

The service cost for defined benefit pension plans is calculated using the Projected Unit Credit (PUC) method, which in short sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation at the end of the reporting period. The obligation is discounted to present value at the end of the reporting period, from which the fair value of any plan assets is deducted. Further, the calculations are affected by actuarial assumptions, such as longevity, future rates of employee retirement and future salary levels. Actuarial gains and losses arise either when an assumption changes or when the actual outcome deviates from underlying assumptions. Revaluation effects are recognized in other comprehensive income. Calculations of defined benefit pension plans are performed by an independent external actuary.

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

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

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

Alecta

Retirement pension and family pension obligations for employees in Sweden are funded partly through insurance with Alecta. According to pronouncement UFR 10 issued by the Swedish Financial Reporting Board (RFR), this is classified as a multi-employer defined benefit plan. For the 2016 financial year Axfood did not have access to such information that makes it possible to report this plan as a defined benefit plan.

The ITP pension plan that is funded through insurance with Alecta is therefore reported as a defined contribution plan. See also Note 28.

Termination pay

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

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

Contingent liabilities

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

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

Statement of cash flows

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

Parent Company accounting policies

The Parent Company complies with the Swedish Annual Accounts Act and Swedish Financial Reporting Board recommendation RFR 2 – Reporting for Legal Entities. The Swedish Financial Reporting Board's pronouncements regarding listed companies are also applied. Application of RFR 2 entails that the Parent Company, in the annual report for the legal entity, applies all EU-endorsed IFRSs and pronouncements as far as possible within the framework of the Annual Accounts Act, the Pension Obligations Vesting Act (Tryggandelagen), and taking into account the connection between reporting and taxation. The recommendation indicates which exceptions from and amendments to IFRS are to be made. The differences between the Parent Company's and Group's accounting policies are described below.

Changed accounting policies 2016

No changes were made in the Parent Company's accounting policies for 2016.

Classification and presentation format

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

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

Subsidiaries and associated companies

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

Employee benefits/defined benefit pension plans

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

Financial instruments

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

Financial guarantees

The Parent Company's financial guarantee agreements consist mainly of guarantees for the benefit of subsidiaries, joint ventures and associated companies. Financial guarantees entail that the Company has an obligation to compensate the holder of a debt instrument for losses it incurs in the event a specified debtor does not make payment upon maturity in accordance with the terms of the contract. For reporting of financial guarantees, the Parent Company applies the relief rule in compared with the rules in IAS 39. The relief rule pertains to financial guarantee agreements pledged to the benefit of subsidiaries, associated companies and joint venture. In these cases, the rules of IAS 37, points 14 and 36, are applied, which entail that financial guarantee agreements are to be reported as a provision on the balance sheet when Axfood AB has a legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. In addition, it must be possible to make a reliable estimate of the amount of the obligation.

Leased assets

In the Parent Company, all lease agreements are reported in accordance with the rules for operating leases.

Taxes

In the Parent Company, untaxed reserves are reported inclusive of deferred tax liabilities. In the consolidated financial statements, however, untaxed reserves are broken down into deferred tax liability and shareholders' equity.

Group contributions and shareholder contributions

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

Mergers

Mergers are reported in accordance with Swedish Accounting Standards Board general recommendation BFNAR 1999:1 Mergers of Wholly Owned Stock Companies. The so-called consolidated value method has been applied, which means that the assets and liabilities of the merged subsidiaries have been reported in the respective companies' parent companies at the values these had in the consolidated accounts. During the year, two mergers took place within the Group; the mergers were not with Axfood AB.

Changed accounting policies 2017 and later

See the changed accounting policies for the Group above.

2 Operating segments

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

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

No significant impairment losses affected profit for the year in 2016 or 2015. No impairment losses were reversed in 2016 or 2015. No significant non-cash items other than depreciation/amortization, impairment and disposals were booked in 2016 and 2015.

Axfood's operating segments have been identified as follows:

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

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

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

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

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

Per operating segment	Willys		Hemköp		Axfood Närilivs		Dagab		Joint-Group		Eliminations		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Result of operations														
External net sales	23,164	22,320	6,171	5,883	2,880	2,730	11,092	10,269	48	45			43,355	41,247
Internal net sales					4	4	31,227	29,487	674	627	-31,905	-30,118	-	-
Net sales	23,164	22,320	6,171	5,883	2,884	2,734	42,319	39,756	722	672	-31,905	-30,118	43,355	41,247
Depreciation/amortization	-275	-272	-105	-99	-21	-20	-92	-96	-226	-209			-719	-696
Share of profit in associated companies					0	0	-4	-7					-4	-7
Operating profit	922	896	260	221	202	200	670	600	-152	-157			1,902	1,760
Financial items, net													-8	-11
Consolidated profit before tax													1,894	1,749
Other disclosures														
Investments in non-current assets ¹⁾	239	262	73	130	37	33	85	65	140	230			574	720

¹⁾ Tangible and intangible non-current assets.

3 Acquired operations

In 2016 two stores and one in-store service counter were acquired. Both stores were converted to Hemköp.

Combined consideration paid for acquisitions in 2016 was SEK 9 m. Payment was made in cash, and no amounts remain to be paid for previous years' acquisitions. Acquisition-related expenses attributable to acquisitions for the year totalled SEK 0 m. Acquired assets and liabilities are carried at fair value in Axfood's statement of financial position.

The following assets and liabilities were acquired in 2016:

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

Identified goodwill is entirely attributable to the synergies that are created in connection with acquisitions. Additional adjustments of carrying amounts to fair value in accordance with IFRS have not been necessary. Acquired goodwill amounted to SEK 4 m in 2016. For information on the year's change in consolidated goodwill in general, see Note 17. Axfood's share of ownership in stores acquired in 2016 amounts to 100% after the acquisitions. One store was acquired in June and one was acquired in September. In the months following the acquisitions of operations, the acquired operations contributed SEK -0.2 m to consolidated profit after tax. The operations have combined annual sales of approximately SEK 93 m. If the acquisitions had been made as per 1 January 2016, the Group's income would have been approximately SEK 60 m higher, i.e., a total of approximately SEK 43,415 m. The profit/loss effect from 1 January 2016 until the date of acquisition is difficult to estimate since the stores were initially charged with one-time costs.

Events after the balance sheet date

In January 2017 Axfood acquired 98.8% of the shares in Matse Holding AB for a purchase price of SEK 547 m, corresponding to SEK 17 m per share. A purchase price allocation analysis will be reported in the interim report for the first quarter of 2017, as no acquisition values are yet available. In December 2016 Axfood AB acquired shareholdings in Matse Holding AB for a value of SEK 49 m, which is reported among other long-term securities holdings, see also Note 23.

Axfood's wholly owned subsidiary NAX AB has reached an agreement to acquire the shares in Eurocash Food AB. The acquisition is conditional upon clearance from the Swedish Competition Authority. The intention is to subsequently sell 49% of the shares to Norges-Gruppen Nordic AS. The purchase price has not yet been finally determined, which is why no purchase price allocation analysis can be reported.

Dagab Inköp & Logistik AB, which is a wholly owned subsidiary of Axfood AB, and Saba Logistics AB, have signed an agreement under which Dagab will acquire Saba's warehouse operation in Helsingborg as from 1 January 2017. The purchase price is approximately SEK 85 m.

On a preliminary basis the purchase price allocation analysis covers inventories, liabilities for personnel, other receivables and goodwill.

Acquisition-related expenses attributable to acquisitions after the balance sheet date amount to SEK 4.7 m.

Acquisitions in the preceding year

In 2015 two stores and four in-store service counters were acquired. Both stores were converted to Hemköp. In addition, 50% of Hall Miba AB was acquired, and Axfood's ownership thereafter amounts to 100%.

The combined consideration paid for acquisitions in 2015 was SEK 84 m. Payment for the remaining 50% in Hall Miba AB amounted to SEK 35 m. Payment was made in cash, and no amounts remain to be paid for previous years' acquisitions. Acquisition-related expenses attributable to the year's acquisitions amounted to SEK 0 m. Acquired assets and liabilities are carried at fair value in Axfood's statement of financial position.

3 Acquired operations, cont.

The following assets and liabilities were acquired in 2015

	Fair value reported in Group
Property, plant and equipment	3
Financial assets	0
Current assets	8
Other current liabilities	-3
Total identified net assets	8
Non-controlling interests	35
Goodwill	41
Purchase price	84
Cash and cash equivalents in acquired companies	0
Consideration paid for previous years' transactions	5
Impact of acquisitions of companies on cash and cash equivalents since the start of the year	89

Identified goodwill is entirely attributable to the synergies that are created in connection with acquisitions. Additional adjustments of carrying amounts to fair value in accordance with IFRS have not been necessary. Acquired goodwill amounted to SEK 41 m in 2015. Axfood's share of ownership in stores and in-store service counters amounted to 100% after the acquisitions.

Both stores were acquired in May 2015. In the months following the acquisitions of operations, the acquired businesses contributed SEK 2.3 m to consolidated profit after tax. The businesses had combined annual sales of approximately SEK 203 m. If the acquisitions had been made as per 1 January 2015, the Group's income would have been approximately SEK 68 m higher, i.e., a total of approximately SEK 41,315 m. The profit/loss effect from 1 January 2015 until the date of acquisition is difficult to estimate since the stores were initially charged with one-time costs.

Acquisitions of non-controlling interests

In February 2015 the Company acquired an additional 50% in Hall Miba AB, for SEK 35 m. Payment was made in cash, and Axfood's ownership increased from 50% to 100%. The carrying amount of Hall Miba in the consolidated financial statements at the time of acquisition was SEK 30 m. The Group reports a decrease in non-controlling interests of SEK 28 m and an increase in retained profits of SEK 28 m.

Effects of ownership changes in Hall Miba AB:

	2015
Holding at start of year	30
Effect of increased holding	35
Share of profit for the year	0
Holding at year-end	65

Parent Company

During the year, the Parent Company increased the value of its participations in Group companies by SEK 0 m (0).

4 Discontinued operations

Sold operations

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

5 Breakdown of income

Group	2016	2015
Net sales:		
Sales of products	42,954	40,993
Other sales	401	254
Total net sales	43,355	41,247
Other operating income	432	372
Total	43,787	41,619

6 Breakdown of expenses

Group	2016	2015
Cost of goods for resale	31,654	30,477
Payroll costs	5,311	4,956
Depreciation/amortization	719	696
Other	4,197	3,723
Total	41,881	39,852

7 Information on intra-Group income and expenses

The Parent Company's income from Group companies amounted to SEK 228 m (183). The Parent Company's expenses from Group companies amounted to SEK 45 m (14). The Parent Company's sales to Group companies consist mainly of compensation to cover shared costs for rents, central administration and shared systems. The Parent Company's compensation to Group companies consists mainly of compensation for system support and rents.

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

Average number of employees¹⁾

	2016	Of whom, men	2015	Of whom, men
Parent Company				
Average number of employees	150	45	141	42
Subsidiaries				
Average number of employees	9,061	4,178	8,662	3,966
TOTAL, GROUP	9,211	4,223	8,803	4,008

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

8

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

Gender breakdown, Group, number

	Board of Directors		Other senior executives	
	2016	2015	2016	2015
Men	60	56	31	30
Women	18	17	16	14
Total	78	73	47	44

Gender breakdown, Parent Company, number

	Board of Directors		Other senior executives	
	2016	2015	2016	2015
Men	2	3	6	7
Women	4	4	4	4
Total	6	7	10	11

Wages, salaries and other remuneration, and social security charges

	2016			2015		
	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	104	55	21	99	52	21
Subsidiaries	3,493	1,340	268	3,318	1,204	240
TOTAL, GROUP	3,597	1,395	289	3,417	1,256	261

Salaries and other benefits paid to other senior executives, KSEK

2016	Base salary	Variable compensation	Other benefits	Pension cost	Other compensation	Total
President ¹⁾	6,830	4,410	363	2,740	–	14,343
Other senior executives, Parent Company ^{2, 3)}	23,155	9,779	1,019	8,524	41	42,518
Total	29,985	14,189	1,382	11,264	41	56,861
Other senior executives, subsidiaries	40,654	6,566	1,478	14,799	2,724	66,221
TOTAL, GROUP	70,639	20,755	2,860	26,063	2,765	123,082

2015

President ¹⁾	6,177	2,515	353	2,636	–	11,681
Other senior executives, Parent Company ^{3, 4)}	22,755	11,250	1,079	8,306	54	43,444
Total	28,932	13,765	1,432	10,942	54	55,125
Other senior executives, subsidiaries	35,839	7,275	1,278	12,521	379	57,292
TOTAL, GROUP	64,771	21,040	2,710	23,463	433	112,417

¹⁾ Anders Strålmán is President of the Parent Company.

²⁾ The Axfood Group's Executive Committee in 2016 (excluding the President) was made up of Karin Hygrel-Jonsson, Hans Holmstedt (through July), Anders Quist, Louise Ring, Jan Lindmark, Nicholas Pettersson, Thomas Evertsson, Annica Elmehagen Lundquist and Thomas Gäreskog.

³⁾ Of base salaries, variable compensation and other compensation paid out by the Parent Company, KSEK 19,084 m (20,618) pertains to compensation that the senior executives received from other Group companies. Of the Parent Company's other benefits, KSEK 634 (711) pertains to compensation from other Group companies.

⁴⁾ The Axfood Group's Executive Committee in 2015 (excluding the President) was made up of Karin Hygrel-Jonsson, Hans Holmstedt, Anders Quist, Louise Ring, Jan Lindmark, Nicholas Pettersson, Thomas Evertsson, Eva Pettersson, Annica Elmehagen Lundquist and Thomas Gäreskog.

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

	2016		2015	
	Boards, presidents and other senior executives	Other employees	Boards, presidents and other senior executives	Other employees
Parent Company ¹⁾	46	76	45	74
Subsidiaries	51	3,424	44	3,254
TOTAL, GROUP	97	3,500	89	3,328

¹⁾ Of the Parent Company's salaries and other compensation to senior executives, SEK 19 m (21) pertains to compensation from other Group companies.

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

	2016		2015	
	Directors' fees	Other compensation	Directors' fees	Other compensation
Parent Company				
Chairman of the Board ¹⁾	647	–	558	–
Vice Chairman of the Board ²⁾	478	–	407	–
Other board members:				
Antonia Ax:son Johnson	381	–	322	–
Fabian Bengtsson ³⁾	300	–	–	–
Caroline Berg	381	–	322	–
Peggy Bruzelius ⁴⁾	81	–	322	–
Ann Carlsson ⁵⁾	381	–	245	–
Odd Reitan ⁴⁾	81	–	322	–
Annika Åhnberg ⁶⁾	–	–	79	–
Michael Sjöström ⁷⁾	–	–	–	–
Ulla-May Iwahr Rydén ⁸⁾	–	–	–	–
Inger Sjöstrand ⁸⁾	–	–	–	–
Anders Helsing ⁸⁾	–	–	–	–
Lars Östberg ⁸⁾	–	–	–	–
Total	2,730	–	2,577	–

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

²⁾ Lars Olofsson was Vice Chairman of the Board.

³⁾ As from the 2016 AGM.

⁴⁾ Up until the 2016 AGM.

⁵⁾ As from the 2015 AGM.

⁶⁾ Up until the 2015 AGM.

⁷⁾ Employee representative.

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

Comments, note 8

Board of Directors

A fee is payable to the Chairman of the Board and the directors in accordance with an AGM resolution. No separate fee is paid for committee work. Employee representatives do not receive any directors' fees. According to a resolution by the 2016 Annual General Meeting, the annual fee payable to directors was set at KSEK 2,775 (2,595), of which KSEK 675 (560) is payable to the Chairman. Seventy-five per cent of the fee was paid out in 2016, with the remainder being paid out after year-end. Expensed compensation paid to the board members is shown in the table.

President

Axfood's President, Anders Strålman, received SEK 11.2 m (8.7) in contractual salary and other benefits in 2016, including SEK 4.4 m (2.5) in variable compensation. The President's variable compensation is based on the performance and development of the business. His variable compensation can amount to a maximum of 70% of his yearly salary. Fifty per cent of the set variable compensation is paid out after the Annual General Meeting in the year following the year in which it was earned. The remaining 50% will be paid out after the 2018 Annual General Meeting, provided he is still employed.

In addition, the President has a taxable housing and travel benefit, a car benefit and private health insurance. The President is entitled to retirement pension from 65 years of age, and a right to pension provisions corresponding to 35% of his yearly cash salary. The provision as per 31 December 2016 amounted to SEK 19.2 m (16.7). In the event Axfood serves notice, the President is entitled to a 12-month notice period plus severance pay corresponding to 12 months' salary, on account. In the event the President gives notice, the notice period is six months.

Other senior executives

Salary and other benefits paid to other senior executives of the Parent Company amounted to SEK 33.0 m (34.0), including SEK 9.8 m (11.3) in variable compensation. By other senior executives is meant the nine persons who together with the President make up the Axfood Group's Executive Committee. See pages 80–81 for the composition of the Executive Committee. Variable compensation is based mostly on the Group's earnings and sales performance, and partly on personal goals. Variable compensation can amount to a maximum of 55% of the executives' yearly salary. Other senior executives have customary terms of employment 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 is set at 65 years. The basic retirement benefit consists of the so-called ITP plan, however, one member of the Executive Committee on this part has a solution corresponding to ITP 1. In addition to this, the company pays defined contribution pension premiums corresponding to 25% of the executives' salary amounts between 30–50 times the Price Base Amount, which is secured through insurance. The Board's compensation committee makes decisions on salary and other terms of employment for members of the Executive Committee (except for the President, for whom the Board in its entirety sets the level of compensation and other terms of employment), according to the principles decided on by the Annual General Meeting.

tives' 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 is set at 65 years. The basic retirement benefit consists of the so-called ITP plan, however, one member of the Executive Committee on this part has a solution corresponding to ITP 1. In addition to this, the company pays defined contribution pension premiums corresponding to 25% of the executives' salary amounts between 30–50 times the Price Base Amount, which is secured through insurance. The Board's compensation committee makes decisions on salary and other terms of employment for members of the Executive Committee (except for the President, for whom the Board in its entirety sets the level of compensation and other terms of employment), according to the principles decided on by the Annual General Meeting.

9 Auditors' fees

	Group		Parent Company	
	2016	2015	2016	2015
KPMG				
Auditing fees	0	4	0	1
Auditing activities in addition to the audit assignment	0	0	0	0
Tax consulting	–	0	–	0
Other services	0	3	–	2
Deloitte				
Auditing fees	4	–	1	–
Auditing activities in addition to the audit assignment	0	–	0	–
Other services	0	0	0	0
Total	4	7	1	3

By auditing fees is meant fees for the statutory audit of the annual report and consolidated financial statements and bookkeeping, the Board of Directors' and President's administration, and other auditing activities performed in accordance with an agreement or contract.

10 Depreciation/amortization

Group	Other intangible assets		Land and buildings		Equipment, tools, fixtures and fittings		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Cost of goods sold	144	138	2	1	456	441	602	580
Selling expenses	0	0	0	0	43	41	43	41
Administrative expenses	4	4	0	0	70	71	74	75
Total depreciation/amortization	148	142	2	1	569	553	719	696

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

11 Operating leases

	Group		Parent Company	
	2016	2015	2016	2015
Minimum lease payments during the financial year	1,477	1,349	8	7
Variable charges	13	13	–	–
Total leasing costs during the financial year¹⁾	1,490	1,362	8	7
Leasing income pertaining to sublet premises	108	91	–	–
Contracted future minimum lease payments				
Within one year	1,298	1,246	8	7
Between one and five years	3,883	3,044	17	18
Longer than five years	893	1,263	4	10
Total future lease payments	6,074	5,553	29	35

¹⁾ Of which, rents for premises SEK 1,423 m (1,302) for the Group and SEK 7 m (6) for the Parent Company.

Axfood rents warehouse and store premises. Premises are rented from external parties, while premises are sublet mainly to Group companies and to franchisees. The terms of rental agreements are in line with the going rate in the market with respect to price as well as duration. The variable charge consists of an arrangement whereby certain rental agreements have minimum rents plus a sales-based portion.

12 Related party transactions

The Axfood Group's transactions with related parties, aside from those covered by the consolidated accounting, consist of transactions with associated companies and joint ventures, and with subsidiaries within the Axel Johnson Group. All prices are set on an arm's length basis. During the year, purchases from associated companies and joint ventures totalled SEK 10 m (4). Sales to associated companies and joint ventures totalled 14 m (2). Axfood's associated companies and joint ventures owned no shares in Axel Johnson AB as per 31 December 2016.

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

Martin & Servera AB, a subsidiary in the Axel Johnson Group, delivers products in the foodservice segment to Axfood companies. Purchases from Martin & Servera amounted to SEK 44 m (40) during the year. Axfood's sales to Martin & Servera during the year amounted to SEK 21 m (25). As per 31 December 2016, the Axfood Group's current liabilities to Martin & Servera amounted to SEK 7 m (6), and current receivables amounted to SEK 2 m (4).

AxFast AB, a company in the Axel Johnson Group, leases properties to companies in the Axfood Group. During the year Axfood's profit was charged with SEK 55 m (56) in rents to AxFast AB. All rents have been set on an arm's length basis. As per 31 December 2016, the Axfood Group's current liabilities to AxFast AB amounted to SEK 0 m (–).

Åhléns AB, a subsidiary in the Axel Johnson Group, runs department stores and specialty shops. The Axfood Group leases premises from Åhléns, among other things. During the year, Axfood's profit was charged with SEK 21 m (29) in rents for premises. As per 31 December 2016, the Axfood Group's current liabilities to Åhléns amounted to SEK 9 m (0).

13 Net financial items

	Group		Parent Company	
	2016	2015	2016	2015
Interest income from bank deposits	0	0	0	0
Interest income from non-impaired loan receivables and trade receivables ¹⁾	5	6	4	5
Interest income from impaired loan receivables and trade receivables	0	0	–	–
Exchange rate movements	0	0	0	0
Dividend from participations in Group companies	–	–	–	1
Other financial income	0	0	–	0
Total financial income	5	6	4	6
Interest expenses on financial liabilities carried at amortized cost				
Borrowings (bank loans and bank lines of credit) ²⁾	0	0	0	0
Trade receivables and other current liabilities	–1	–2	0	0
Pension liability	–11	–12	–1	0
Other financial expenses	–1	–3	0	–3
Total financial expenses	–13	–17	–1	–3
Net financial items	–8	–11	3	3

¹⁾ Interest income in the Parent Company from Group companies amounted to SEK 4 m (5).

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

All interest income pertains to financial items that are not stated at fair value through profit or loss.

14 Appropriations and untaxed reserves

	Parent Company	
	2016	2015
Appropriations		
Group contribution received	1,975	1,805
Group contribution rendered	–	–20
Provision to tax allocation reserve	–476	–427
Change in accumulated excess depreciation	2	0
Total	1,501	1,358
Untaxed reserves		
Tax allocation reserves	2,124	1,648
Accumulated excess depreciation	3	5
Total	2,127	1,653

15 Taxes

	Group		Parent Company	
	2016	2015	2016	2015
Current tax				
Current tax on profit for the year	–321	–297	–314	–282
Adjustment of current tax from previous years	2	0	0	–
	–319	–297	–314	–282
Deferred tax				
Deferred tax pertaining to temporary differences	–102	–91	0	0
	–102	–91	0	0
Total reported tax charge	–421	–388	–314	–282

Group – reconciliation of applicable tax rate and effective tax rate

	2016	%	2015	%
Reported profit before tax	1,894		1,749	
Tax based on applicable tax rate for Parent Company	–416	–22.0	–385	–22.0
Tax effect of:				
Other non-deductible expenses	–10	–0.5	–9	–0.5
Other tax-exempt revenues	3	0.2	6	0.4
Adjustments of current tax pertaining to previous years	2	0.1	0	0
Adjustments of deferred tax pertaining to previous years	0	0	0	0
Reported tax charge/effective tax rate	–421	–22.2	–388	–22.1
Tax attributable to other comprehensive income	–1		–2	

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

	2016	%	2015	%
Reported profit before tax	1,415		1,274	
Tax based on applicable tax rate for Parent Company	–311	–22.0	–280	–22.0
Tax effect of:				
Other non-deductible expenses	–3	–0.2	–2	–0.2
Other tax-exempt revenues	0	0	0	0
Adjustments of deferred tax pertaining to previous years	0	0	0	0
Reported tax charge/effective tax rate	–314	–22.2	–282	–22.2
Current and deferred tax items reported directly against shareholders' equity	–		–	

Reported deferred tax assets and tax liabilities

	Group		Parent Company	
	2016	2015	2016	2015
Intangible assets	–60	–54	–	–
Land and buildings	–1	–1	–	–
Equipment, tools, fixtures and fittings	9	6	–	–
Other receivables	6	7	–	–
Untaxed reserves	–601	–501	–	–
Provisions	31	31	5	5
Other liabilities	3	3	0	0
Total deferred tax asset (+)/deferred tax liability (–), net	–613	–509	5	5
Deferred tax asset	61	60	5	5
Deferred tax liability	–674	–569	–	–

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

15 Taxes, cont.

Tax attributable to other comprehensive income¹⁾

Group	2016			2015		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Translation differences	0	0	0	0	0	0
Cash flow hedges	4	-1	3	-5	1	-4
Available-for-sale financial assets	0	0	0	3	-1	2
Actuarial gains and losses	0	0	0	8	-2	6
Other comprehensive income	4	-1	3	6	-2	4

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

Group, change in deferred tax in temporary differences in 2016

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

Group, change in deferred tax in temporary differences in 2015

	Amount at start of year	Recognized in profit for the year	Recognized in other comprehensive income	Amount at end of year
Intangible assets	-54	0	-	-54
Land and buildings	-1	0	-	-1
Equipment, tools, fixtures and fittings	2	4	-	6
Other receivables	5	2	0	7
Untaxed reserves	-404	-97	-	-501
Provisions	33	0	-2	31
Other liabilities	3	0	-	3
Total	-416	-91	-2	-509

16 Earnings per share

Earnings per share were SEK 7.02 (6.48). Since Axfood does not have, nor has had any outstanding convertible or stock option programmes during the year, there is no dilutive effect on calculations of earnings

per share. The number of shares outstanding is 209,870,712 (209,870,712), and the average number of shares outstanding was 209,870,712 (209,870,712).

17 Intangible assets

Group	Goodwill		Intangible assets in progress		Other intangible assets ¹⁾	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Opening cost	1,860	1,819	70	10	1,524	1,577
Investments	4	41	76	93	17	0
(of which, internally developed)	-	-	(76)	(93)	-	-
Disposals	-	-	-	-	-29	-86
Reclassifications	-	-	-121	-33	122	33
(of which, internally developed)	-	-	(-121)	(-33)	(121)	(33)
Closing accumulated cost	1,864	1,860	25	70	1,634	1,524
Opening amortization	-	-	-	-	-850	-794
Disposals	-	-	-	-	29	86
Amortization for the year	-	-	-	-	-148	-142
Closing accumulated amortization	-	-	-	-	-969	-850
Opening impairment	-	-	-	-	-76	-76
Closing accumulated impairment²⁾	-	-	-	-	-76	-76
Closing planned residual value	1,864	1,860	25	70	589	598

¹⁾ Of other intangible assets, SEK 6 m (6) pertains to trademarks, and SEK 18 M (22) pertains to leaseholds, and SEK 0 m (3) to customer relationships. The remainder, SEK 564 m (566), pertains to IT development.

²⁾ Pertains to impairment of trademarks.

17 Intangible assets, cont.

Goodwill

The Group's reported goodwill as per 31/12/2016 is broken down per segment as follows:

	31/12/2016	31/12/2015
Hemköp	628	624
Willys	594	594
Axfood Närlivs	57	57
Dagab	585	585
Total	1,864	1,860

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 564 m (566). Capitalized IT costs are amortized on a straight-line basis according to the estimated useful life of the assets, which is five to ten years. The remaining amortization period for capitalized IT costs is four years (five).

The useful life of all intangible assets except for goodwill and trademarks is limited and is described in Note 1.

Amortization of other intangible assets is broken down in the statement of profit or loss and other comprehensive income in accordance with Note 10.

Impairment testing of intangible assets

Estimations of the value of the Group's goodwill items and other intangible assets are based exclusively on the cash-generating units' value in use. Value in use is based on the cash flows after tax that are estimated to be generated during the remaining useful life of the units, with an assumption of perpetual useful life.

For the first year, the future cash flows that have been used in calculating the respective units' value in use are based on the business plan for 2017 for the respective units. Thereafter, the cash flows are based on assumed annual growth of 1.5% (1.5%). The forecast cash flows have been discounted to present value using a discount rate of 7.0% after tax (6.3%), which corresponds to a discount rate before tax of approximately 8.6% (7.7%).

The discount rate corresponds to Axfood's estimated average cost of capital, i.e., the weighted sum of the required rate of return on equity and the cost of externally borrowed capital. The required rate of return on equity is based on an assumption of risk-free interest of 3.0% (3.0%), a going-rate risk premium of 4.4% (4.4%), a size premium of 1.3% (0.0%), a company-specific premium of 0.5% (0.0%), and a beta coefficient of 0.5 (0.7). The beta coefficient shows the relationship between the price of Axfood's shares and changes in a benchmark index. With a discounting factor of 7.0% (6.3%), value in use exceeds the carrying amount for all tested units. Thus there is no need to recognize impairment as per 31 December 2016.

Future cash flows for all units are based on the same assumptions. Important assumptions, i.e., assumptions that have a large effect on cash flows in the event of changes, include assumptions on future price and volume developments. In the 2017 business plan, which forms the basis for cash flow calculations, the Executive Committee has made an assumption on price and volume growth of approximately 1.5% (1.0%), which is based on estimates performed both by the Executive Committee and external parties of the price and volume trend in Sweden for food retail products in Axfood's assortment. This estimate is based on previous years' experience and on the anticipated competitive situation in the industry. In the opinion of the Executive Committee, reasonable, possible changes in the variables (assumptions) used in these calculations would not have such large effects that they would individually reduce the recoverable value to a value that is lower than the carrying amount.

18 Property, plant and equipment

Group	Land and buildings ¹⁾		Equipment, tools, fixtures and fittings		Construction in progress	
	31/12/16	31/12/15	31/12/16	31/12/15	31/12/16	31/12/15
Opening cost	66	65	6,496	6,226	125	79
Investments	–	1	379	456	104	173
Sales and disposals	–	–	–378	–313	–	–
Reclassifications	–	–	182	127	–183	–127
Closing accumulated cost	66	66	6,679	6,496	46	125
Opening depreciation	–12	–11	–4,730	–4,450	–	–
Sales and disposals	–	–	322	273	–	–
Depreciation for the year	–2	–1	–569	–553	–	–
Closing accumulated depreciation	–14	–12	–4,977	–4,730	–	–
Opening impairment	–	–	–15	–15	–	–
Sales and disposals	–	–	14	–	–	–
Closing accumulated impairment	–	–	–1	–15	–	–
Closing planned residual value	52	54	1,701	1,751	46	125

¹⁾ The cost of land was SEK 10 m (10).

Parent Company	Equipment, tools, fixtures and fittings	
	31/12/16	31/12/15
Opening cost	71	70
Investments	2	2
Sales and disposals	–	–1
Closing accumulated cost	73	71
Opening depreciation	–41	–32
Sales and disposals	–	1
Depreciation for the year	–10	–10
Closing accumulated depreciation	–51	–41
Closing planned residual value	22	30

19 Government support

Government support in the form of labour market policy grants amounted to SEK 3 m (2) in the statement of financial position (reported under prepaid income) and SEK 47 m (50) in the statement of comprehensive income, which reduced payroll costs.

No other unfulfilled conditions or contingent liabilities exist.

20 Finance leases

Group	Equipment, tools, fixtures and fittings	
	31/12/16	31/12/15
Opening cost	116	127
Investments	46	46
Sales and disposals	-42	-57
Closing accumulated cost	120	116
Opening depreciation	-40	-51
Sales and disposals	25	36
Depreciation for the year	-25	-25
Closing accumulated depreciation	-40	-40
Closing planned residual value	80	76

Finance lease liabilities fall due for payment as follows:

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

2015	Future minimum lease payments	Interest	Present value of minimum lease payments
Within 1 year	40	0	40
Between 1 and 5 years	36	0	36
Total	76	0	76

In the Group, no properties with finance leases have been sublet. In addition, there were no variable fees in profit for the period.

21 Participations in Group companies

2016 Parent Company	Reg. no.	Registered office	Number of shares	Share of capital, %	Book value
Willys AB	556163-2232	Gothenburg	1,000	100	411
Hemköpskedjan AB	556113-8826	Stockholm	100,000	100	594
Dagab Inköp & Logistik AB	556004-7903	Stockholm	3,434,656	100	2,129
Axfood IT AB	556035-6163	Stockholm	1,000	100	2
Dagab AB	556070-3166	Stockholm	20,000	100	0
Axfood Närlivs AB	556742-7074	Stockholm	1,000	100	0
NAX AB	559029-7809	Stockholm	1,000	100	0
Total, Group companies					3,136

2015 Parent Company	Reg. no.	Registered office	Number of shares	Share of capital, %	Book value
Willys AB	556163-2232	Gothenburg	1,000	100	411
Hemköpskedjan AB	556113-8826	Stockholm	100,000	100	594
Dagab Inköp & Logistik AB	556004-7903	Stockholm	3,434,656	100	2,129
Axfood IT AB	556035-6163	Stockholm	1,000	100	2
Dagab AB	556070-3166	Stockholm	20,000	100	0
Axfood Närlivs AB	556742-7074	Stockholm	1,000	100	0
Total, Group companies					3,136

22 Participations in associated companies and joint ventures

Group	Associated companies		Joint ventures	
	2016	2015	2016	2015
Opening cost	2	2	29	29
Closing cost	2	2	29	29
Adjustments of shareholders' equity pertaining to investments in associated companies				
Opening carrying amount	2	2	-11	-4
Share in profit after tax ¹⁾	0	0	-4	-7
Closing carrying amount	4	2	-15	-11
Total	4	4	14	18

¹⁾ Corresponds to total comprehensive income.

2016 Associated companies Group	Reg. no	Registered office	Number of shares	Share of capital/ votes, %	Book value	Share of capital
United Nordic Inc AB	556043-4606	Solna	250	25	0	0
Direktbutikerna Scandinavia AB	556535-8826	Stockholm	105,360	50	4	4
Total					4	4

2016 Joint ventures Group	Reg. no	Registered office	Number of shares	Share of capital/ votes, %	Book value	Share of capital
Urban Deli Holding AB	556958-4781	Stockholm	500	50	14	14
Total					14	14

2015 Associated companies Group	Reg. no	Registered office	Number of shares	Share of capital/ votes, %	Book value	Share of capital
United Nordic Inc AB	556043-4606	Solna	250	25	0	0
Direktbutikerna Scandinavia AB	556535-8826	Stockholm	105,360	50	4	4
Total					4	4

2015 Joint ventures Group	Reg. no	Registered office	Number of shares	Share of capital/ votes, %	Book value	Share of capital
Urban Deli Holding AB	556958-4781	Stockholm	500	50	18	18
Total					18	18

Axfood has no unrecognized obligations in joint ventures. In addition, Axfood is not bound by any limitations to transfer dividends in joint ventures or associated companies. Nor are there any unrecognized losses. The financial year corresponds to the Axfood Group's financial year.

23 Financial assets

	Participations in Group companies, Parent Company	Participations in associated companies and joint ventures, Group	Other long-term securities holdings, Group	Other non-current receivables, Group
2016				
Opening cost	3,486	22	51	22
Acquisitions during the year	–	–	49	1
Share in associated company profit after tax	–	-4	–	–
Reclassifications	–	–	–	-3
Closing accumulated book value	3,486	18	100	20
Opening accumulated impairment	-350	–	–	–
Closing accumulated impairment	-350	–	–	–
Closing accumulated book value	3,136	18	100	20
2015				
Opening cost	3,486	29	28	23
Acquisitions during the year	–	–	20	–
Measurement at fair value	–	–	3	–
Divestments/amortization	–	–	–	-1
Share in associated company profit after tax	–	-7	–	–
Closing accumulated book value	3,486	22	51	22
Opening accumulated impairment	-350	–	–	–
Closing accumulated impairment	-350	–	–	–
Closing accumulated book value	3,136	22	51	22

24 Non-current and current receivables

	Group		Parent Company	
	31/12/16	31/12/15	31/12/16	31/12/15
Non-current noninterest-bearing receivables	20	22	3	3
Total other non-current receivables	20	22	3	3
Other noninterest-bearing receivables	105	101	–	–
Total other current receivables	105	101	–	–

25 Inventories

Inventories	31/12/16	31/12/15
Finished goods and goods for resale	2,191	2,035
Total	2,191	2,035

26 Accounts receivable – trade

Accounts receivable – trade	31/12/16	31/12/15
Trade receivables, gross	942	868
Provision for impaired loans	-16	-16
Trade receivables, net	926	852
Provision account for loan losses	31/12/16	31/12/15
Provision at start of year	-16	-18
Provision/reversal for possible loan losses	0	1
Confirmed and recovered loan losses	0	1
Provision at year-end	-16	-16
Maturity analysis of trade receivables	31/12/16	31/12/15
Trade receivables not due	837	748
Trade receivables past due 0–30 days	77	90
Trade receivables past due >30–90 days	10	8
Trade receivables past due >90–180 days	2	3
Trade receivables past due >180–360 days	2	4
Trade receivables past due >360 days	14	15
Total	942	868

To limit the maximum credit risk associated with trade receivables, Axfood has accepted security which, as per the end of the reporting period, covers SEK 69 m (67) of outstanding trade receivables. Accepted security consists mainly of chattel mortgages, bank guarantees and guarantees. In 2016 a total of SEK 1 m (1) of accepted security was utilized to settle unpaid trade accounts receivable.

The credit quality of non-impaired receivables is judged to be good. For further information on financial risks, see pages 62–64.

27 Prepaid expenses and accrued income

	Group		Parent Company	
	31/12/16	31/12/15	31/12/16	31/12/15
Prepaid rents	340	316	–	0
Accrued bonuses and similar	544	552	4	–
Delivered, uninvoiced	1	3	–	–
Other prepaid expenses	203	110	5	7
Other accrued income	27	22	0	1
Total	1,115	1,003	9	8

28 Provisions for pensions and similar obligations

	Group	
Defined benefit pension plans, Group	2016	2015
Present value of funded obligations	9	10
Present value of unfunded obligations	418	427
Total present value of obligations	427	437
Fair value of plan assets	-9	-9
Present value of net obligations	418	428
Net liability in statement of financial position	418	428
Amounts reported in statement of financial position		
– provisions	418	428
– assets	–	–
Net liability in statement of financial position	418	428

Of Axfood's net liability for defined benefit pension plans in Sweden, SEK 384 m (396) consists of obligations within the FPG/PRI system. Of these obligations, SEK 384 m (396) 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.

28 Provisions for pensions and similar obligations, cont.

Net liability also includes the Company's own defined benefit pension plans for the President and former presidents. These are unfunded plans and are reinsured with FPG/PRI and amount to SEK 22 million (19).

In addition to unfunded pension plans, Axfood has an individually funded pension plan that is managed by the Axel Johnson pension foundation. Axfood is entitled to benefits from the foundation in maximum amounts corresponding to the pension obligation, which entails that the pension plan will not at any time give rise to a net asset on Axfood's balance sheet. The obligation is reported net and amounted to SEK 0 m (0) on 31 December. The actual return on plan assets was SEK 0 m (0), which corresponded to the expected return.

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

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

Changes in the present value of defined benefit obligations	2016	2015
Obligations for defined benefit plans as per 1 January	437	457
Benefits paid	-24	-29
Current service cost	3	3
Interest expense	11	12
Revaluations:		
Actuarial gains and losses on changed financial assumptions	38	3
Actuarial gains and losses on changed demographic assumptions	-33	-
Experience-based adjustments	-5	-9
Obligations for defined benefit plans as per 31 December	427	437

The present value of obligations is distributed among the plans' members as follows:	2016	2015
Active	1	1
Persons on disability pensions	18	12
Owners of paid-up policies	729	778
Retirees	1,403	1,423
Total number of pledges included in the obligation	2,141	2,214

Change in net liability during the year	2016	2015
Net liability at start of year	428	448
Compensation from pension foundation	0	0
Defined benefit direct pensions	1	1
Net expense in profit for the year	13	14
Pension disbursements	-24	-29
Actuarial gains/losses reported as a liability	0	-6
Net liability at year-end	418	428

Costs recognized in profit for the year, Group	2016	2015
<i>Defined benefit pension plans</i>		
Earned benefits	3	3
Interest expense	11	12
Actual return on plan assets	0	0
Total	14	15
<i>Defined contribution pension plans</i>		
Costs during the period ¹⁾	285	258
Total pension cost	299	273

¹⁾ Pension insurance premiums paid during the year to Alecta for pension insurance under the ITP plan amounted to SEK 88 m (77). Alecta's surplus can be apportioned among the policyholders and/or the insureds. As per 30 September 2016, Alecta's surplus in the form of its collective funding ratio was 142% (148%). 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 2016.

Pension costs are broken down per function in profit for the year as follows (Group)	2016	2015
Cost of goods sold	162	148
Selling expenses	66	59
Administrative expenses	60	54
Interest expense	11	12
Total	299	273

Income and expenses reported in other comprehensive income (Group)	2016	2015
<i>Defined benefit pension plans</i>		
Revaluations:		
Net actuarial gains/losses reported for the year ¹⁾	0	8
Net income and expenses reported in other comprehensive income	0	8

¹⁾ Changed demographic assumptions 33 (-), changed discount rate -38 (3), experience-based adjustments 5 (-9).

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

	2016	2015
Discount rate	2.00%	2.70%
Future annual salary increases ¹⁾	0.00%	0.00%
Future annual pension increases	1.50%	1.50%
Employee attrition rate ¹⁾	0.00%	0.00%
Duration	14.3 years	14.0 years
Longevity assumption after 65 years ²⁾		
– men	22 years	23 years
– women	25 years	25 years

¹⁾ Since the Axfood Group funds benefits through insurance with Alecta, this assumption is not used as from 2012.

²⁾ Starting in 2016, the longevity assumption DUS14 is used, which takes the year of birth into account, in contrast with the previous used assumption PRI11.

Effects on future cash flows

The Group estimates that approximately SEK 23 m (24) will be paid towards defined benefit plans in 2017.

Sensitivity analysis

The following table presents possible changes in actuarial assumptions as per the accounting date, other assumptions unchanged, and how these would affect the defined benefit obligation. The calculation has been done according to the Project Unit Credit (PUC) method.

Group	Increase	Decrease
Discount rate (-/+ 0.5% change)	30	26
Inflation (-/+ 0.5% change)	29	26
Longevity (+/- 1 year change)	17	17

Parent Company

The Parent Company's reported pension liability amounted to SEK 22 m (20) and pertains to obligations to the current and former presidents. All pension obligations to the current and former presidents are carried on the balance sheet. The Parent Company does not have any special, detachable assets linked to its pension obligations, which is why the entire present value is carried on the balance sheet. The change in the capital value is shown below.

Reported capital value of pension obligations	2016	2015
Reported capital value on 1 January	20	22
Benefits paid out	-1	-5
Defined benefit direct pensions	0	0
Cost excluding interest expense	2	2
Interest expense	1	1
Reported capital value of pension obligations on 31 December	22	20

Of the Parent Company's reported pension liability, SEK 19 m (17) is covered by credit insurance via PRI.

Pension costs	2016	2015
<i>Own undertakings</i>		
Liability revaluation of undertakings	2	2
Interest expense	1	0
Total	3	2
<i>Undertakings through insurance</i>		
Insurance premiums ¹⁾	15	15
Special employer's payroll tax on pension contributions	3	4
Cost of credit insurance premiums	0	0
Total	18	19
Pension costs for the year	21	21

¹⁾ Of which, premiums paid to Alecta for pension insurance according to the ITP plan, totalling SEK 8 m (7).

28 Provisions for pensions and similar obligations, cont.

Assumptions for defined benefit obligations

The terms of the pension agreements entered into by the Parent Company entail that the value of the obligations is adjusted upward each year by an average of approximately 0% (0%).

It is estimated that approximately SEK 0 m will be paid out in pensions by the Parent Company in 2017.

29 Financial assets and liabilities

The tables below provide disclosures on how fair value has been determined for the financial instruments that are measured at fair value in the statement of financial position. No offsetting of financial assets or financial liabilities has taken place. For a description of financial risks, see the Board of Directors' report, pages 63–64.

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's holding in Matse Holding AB is included in this level.

Level 2: based on direct or indirect observable market data that is not included in level 1. Level 2 includes derivatives used in hedge accounting and available-for-sale financial assets, and financial assets at fair value through profit or loss.

Level 3: based on input data that is not observable in the market. Axfood has no financial instruments at this level.

	Derivatives used in hedge accounting	Initially identi- fied at fair value	Trade and loan receivables	Available- for-sale financial assets	Other financial liabilities	Total carrying amount	Fair value	Non-financial assets and liabilities	Total, Statement of financial position
Group 2016									
Other long-term securities holdings		11	10	79		100	100		100
Other non-current receivables			20			20	20		20
Accounts receivable – trade			926			926	926		926
Cash and bank balances			1,726			1,726	1,726		1,726
Total financial assets	–	11	2,682	79	–	2,772	2,772	–	2,772
Other non-current interest-bearing liabilities					41	41	41		41
Other current interest-bearing liabilities					39	39	39		39
Other current liabilities	7					7	7	161	168
Accounts payable – trade					3,224	3,224	3,224		3,224
Total financial liabilities	7	–	–	–	3,304	3,311	3,311	161	3,472

	Derivatives used in hedge accounting	Initially identi- fied at fair value	Trade and loan receivables	Available- for-sale financial assets	Other financial liabilities	Total carrying amount	Fair value	Non-financial assets and liabilities	Total, Statement of financial position
Group 2015									
Other long-term securities holdings		11	9	31		51	51		51
Other non-current receivables			22			22	22		22
Accounts receivable – trade			852			852	852		852
Cash and bank balances			1,933			1,933	1,933		1,933
Total financial assets	–	11	2,816	31	–	2,858	2,858	–	2,858
Other non-current interest-bearing liabilities					36	36	36		36
Current liabilities to credit institutions					40	40	40		40
Other current interest-bearing liabilities	5					5	5	194	199
Accounts payable – trade					2,782	2,782	2,782		2,782
Total financial liabilities	5	–	–	–	2,858	2,863	2,863	194	3,057

	Trade and loan receivables	Available-for-sale financial assets	Other financial liabilities	Total carrying amount	Fair value	Non-financial assets and liabilities	Total, Balance sheet
Parent Company 2016							
Other long-term securities holdings		52		52	58		52
Other non-current receivables	3			3	3		3
Accounts receivable – trade	2			2	2		2
Receivables from Group companies	730			730	730	1,975	2,705
Cash and bank balances	1,303			1,303	1,303		1,303
Total financial assets	2,038	52	–	2,090	2,096	1,975	4,065
Accounts payable – trade			19	19	19		19
Liabilities to Group companies			1,823	1,823	1,823		1,823
Total financial liabilities	–	–	1,842	1,842	1,842	–	1,842

	Trade and loan receivables	Available-for-sale financial assets	Other financial liabilities	Total carrying amount	Fair value	Non-financial assets and liabilities	Total, Balance sheet
Parent Company 2015							
Other long-term securities holdings		3		3	9		3
Other non-current receivables	3			3	3		3
Receivables from Group companies	875			875	875	1,806	2,681
Cash and bank balances	1,489			1,489	1,489		1,489
Total financial assets	2,367	3	–	2,370	2,376	1,806	4,176
Accounts payable – trade			11	11	11		11
Liabilities to Group companies			1,628	1,628	1,628	20	1,648
Total financial liabilities	–	–	1,639	1,639	1,639	20	1,659

29 Financial assets and liabilities, cont.

Fair value of financial instruments

The carrying amount of interest-bearing assets and liabilities in the statement of financial position can deviate from their fair value due to changes in market interest rates, among other things. To determine the fair value of financial assets and liabilities, the market value has been used for assets and liabilities as far as possible. Axfood's holdings of tenant-owner rights are stated at market value (Level 2). The total carrying amount of tenant-owner rights included in the item "Other non-current securities holdings" is SEK 25 m (25). Financial assets initially measured at fair value through profit or loss consist of the option portion of convertible debentures, and amount to SEK 11 m (11) (Level 2). Interest-bearing financial assets and liabilities that are not derivative instruments are calculated based on future cash flows of principal amounts and interest, discounted to the current market interest rate while taking into account the risk-free interest rate and risk premium for Axfood on the balance sheet date. Finance leases totalling SEK 80 m (76), of which SEK 41 m (36) are long-term, are valued using discounted cash flows. For current financial assets and liabilities with variable interest rates, fair value is considered to be the same as the carrying amount. The carrying amount of trade receivables, other receivables, cash and cash equivalents, trade payables and other liabilities represents a reasonable approximation of fair value.

Interest rates used to determine fair value

Axfood uses the market interest rate in effect on 31 December plus a relevant interest rate spread to discount financial instruments. The interest rates used are provided below.

	2016	2015
Interest-bearing liabilities	0.25%	0.25%

30 Non-current and current interest-bearing liabilities

	Group		Parent Company	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Granted credit lines				
Bank overdraft facilities	200	220	200	220
Total granted credit lines	200	220	200	220
Drawn bank overdraft facilities				
	–	–	–	–
Total utilized credit lines	–	–	–	–
Cash and bank balances	1,726	1,933	1,303	1,489
Total¹⁾	1,926	2,153	1,503	1,709

¹⁾ The Group's refinancing risk reserve, totalling SEK 1,550 m (1,811), consists of granted, unutilized bank overdraft facilities totalling SEK 200 m (220) and disposable funds in bank accounts totalling SEK 1,350 m of SEK 1,726 m (1,591 of 1,933).

30 Non-current and current interest-bearing liabilities, cont.

	Group		Parent Company	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Non-current interest-bearing liabilities²⁾				
Finance leases ³⁾	41	36	–	–
Total other non-current interest-bearing liabilities	41	36	–	–
Provisions for pensions and similar obligations	418	428	22	20
Total non-current interest-bearing liabilities	459	464	22	20
Current interest-bearing liabilities				
Finance leases ³⁾	39	40	–	–
Liabilities to Group companies ⁴⁾	–	–	1,818	1,628
Total other current interest-bearing liabilities	39	40	–	–
Total current interest-bearing liabilities	39	40	1,818	1,628

²⁾ Of non-current interest-bearing liabilities, SEK – m (–) have a term exceeding five years.

³⁾ A maturity analysis of finance leases is provided in Note 20.

⁴⁾ Reported on the Parent Company balance sheet as part of liabilities to Group companies.

	Group	Effective interest rate	Group	Effective interest rate
	31/12/2016		31/12/2015	
Interest exposure, liabilities				
Maturity less than 1 year	39	0.81%	40	0.81%
Maturity later than 1 year but less than 5 years	41	0.81%	36	0.81%
Total interest-bearing liabilities	80	0.81%	76	0.81%

The Parent Company had no interest-bearing liabilities as per 31/12/2016 and 31/12/2015.

For further information on financial risks, see pages 62–64.

31 Accrued expenses and deferred income

	Group		Parent Company	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Payroll-related items	1,096	1,051	46	43
Accrued bonuses and similar	103	82	–	–
Accrued real estate costs	46	63	–	–
Delivered, uninvoiced	223	370	–	–
Other accrued expenses	245	217	4	2
Other deferred income	85	98	–	–
Total	1,798	1,881	50	45

32 Contingent assets, pledged assets and contingent liabilities

The Axfood Group did not have any pledged assets as per 31 December 2016 and 31 December 2015.

	Group		Parent Company	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Contingent liabilities				
Guarantees for subsidiaries	–	–	301	313
Guarantees for others	2	2	–	–
FPG/PRI	6	6	–	–
Other contingent liabilities	6	6	–	–
Total	14	14	301	313

Guarantees for others consist of guarantee commitments for collaborating stores, associated companies and joint ventures. In cases where there is a risk of loss, a provision has been made among possible loan losses. Other contingent liabilities consist primarily of counterbonds for bank guarantees that have been made for the Axfood Group. The likelihood of a contingent liability being settled is judged to be very small.

For further information on financial risks, see pages 62–64.

33 Exchange rate differences and currency exposure

Exchange rate differences reported in operating profit amounted to SEK 0 million (0); exchange rate differences reported in financial items amounted to SEK 0 million (0).

Currency exposure as per 31/12/2016 is shown in the table below.

Currency	Estimated future flow	Of which, contracted flow	Amount hedged through forward exchange contracts	Estimated average forward rate	Outstanding currency risk
EUR	399	399	399	9.72	–
USD	55	55	55	8.95	–
DKK	2	2	2	1.30	–
NOK	39	39	39	1.08	–
GBP	0	0	0	11.37	–
Total outstanding currency risk	495	495	495		

Maturity analysis of outstanding forward exchange contracts
Of outstanding forward exchange contracts on 31 December 2016, totalling SEK 495 m (322), contracts with a value of SEK 422 m (299) have a duration of up to 3 months and contracts with a value of SEK 73 m (23) have a maturity between 3 and 6 months.

Reported fair value of outstanding currency hedges	2016	2015
EUR	–6	–4
USD	1	–1
Other	–1	0
Total	–6	–5

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 17 m (5), and amounts transferred to inventories totalled SEK –17 m (–14). The ineffective portion of cash flow hedges that has been recognized in profit for the year amounts to SEK – m (–).

33 Exchange rate differences and currency exposure, cont.

Transaction exposure

The Group's transaction exposure during the respective full years is broken down into the following currencies:

Currency	2016	%	2015	%
EUR	3,350	91.9	3,054	93.8
USD	167	4.6	174	5.4
DKK	15	0.4	15	0.5
NOK	114	3.1	5	0.1
GBP	1	0.0	7	0.2
Total	3,647	100.0	3,255	100.0

For further information on financial risks, see pages 62–64.

34 Events after the balance sheet date

In December 2016 Axfood AB made an offer to acquire all of the shares in Matse Holding AB. On 23 January 2017, the Swedish Competition Authority decided to not take any further action with respect to the offer, and Axfood declared the offer unconditional. At the end of January 2017, Axfood had acquired 98.8% of the shares in Matse Holding AB. The company will be included in Dagab in the segment reporting.

For further information, see Note 3 and pages 22 and 24.

35 Critical assessments and estimations

Impairment testing of goodwill

In calculating cash-generating units' recoverable value in connection with the Company's testing of any need to recognize goodwill impairment, a number of assumptions have been made about future conditions and estimations of parameters. An account of these can be found in Note 17. As understood in the description in Note 17, changes in 2016 of the underlying conditions for these assumptions and estimations could have a material effect on the value of goodwill. However, the Executive Committee is of the opinion that reasonable, possible changes in these variables (assumptions) in the calculations would not have such a large effect that they individually would reduce the recoverable value to a value that is lower than the carrying amount.

Assumptions for calculations of pension provisions

The actuarial computation of pension obligations and pension costs is based on actuarial assumptions, which are specified in Note 28. A change in any of these assumptions could have a material effect on calculated pension obligations and pension costs.

The discount rate is based on the return for long-term home mortgage bonds with a term that corresponds to the Group's average remaining duration of its obligations, which in Axfood's case amounts to 14.3 years.

None of the assumptions described in Note 28 deviate materially from what can be regarded as standard practice in the Swedish market.

With respect to operational and financial risks, see the particular sections in the Administration report, pages 62–64.

36 Proposed disposition of the Company's profit

Reg. no. 556542-0824

The Board of Directors proposes that, of the retained profits of KSEK 2,818,802, SEK 6.00 per share be paid out in ordinary dividend. Retained profits will be distributed as follows:

	KSEK
Dividend	1,259,224
To be carried forward	1,559,578
	<u>2,818,802</u>

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

The consolidated financial statements and Annual Report have been prepared in accordance with the International

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

The Administration Report for the Group and Parent Company gives a fair overview of the Group's and Parent Company's operations, financial position and results of operations, and describes significant risks and uncertainties that the Parent Company and companies included in the Group face.

The Annual Report and consolidated financial statements were, as stated above, approved for publication by the Board of Directors on 6 February 2017. 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 15 March 2017.

Stockholm, Sweden, 6 February 2017

Mia Brunell Livfors
Chairman of the Board
Director

Lars Olofsson
Vice Chairman of the Board
Director

Antonia Ax:son Johnson
Director

Fabian Bengtsson
Director

Caroline Berg
Director

Ann Carlsson
Director

Anders Helsing¹⁾

Michael Sjören¹⁾

Lars Östberg¹⁾

Anders Strålmán
President and CEO

Our audit report was submitted on 6 February 2017
Deloitte AB

Hans Warén
Authorized Public Accountant

¹⁾ Employee representative

Auditor's report

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

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Axfood AB (publ) for the financial year 2016-01-01–2016-12-31 except for the corporate governance report on pages 65–81. The annual accounts and consolidated accounts of the company are included on pages 43–102 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance report on pages 65–81. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Other matter

The audit of the annual accounts and consolidated accounts for the financial year 2015-01-01–2015-12-31 was performed by another auditor who submitted an auditor's report dated 4 February 2016, with unmodified opinions in the Report on the annual accounts and consolidated accounts.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Revenue recognition

For 2016 Axfood report net sales of SEK 43,355 m. Axfood sell groceries through the store chains Willys and Hemköp and a large number of cooperative stores. Wholesale trading is conducted through Axfood Närlivs. In total, Axfood have 263 wholly owned stores and approximately 820 collaborating stores.

Revenue recognition of sales of goods is considered to be a key audit matter due to the large volume of transactions and the importance of having completeness in related transaction flows to avoid material misstatements.

For further information, please refer to the Group's accounting policies on page 83, note 2 of operating segments and note 5 of breakdown of income.

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

- Auditing Axfood's procedures for revenue recognition and cash management and testing of identified key controls;
- Auditing transfers between critical IT-systems for revenue recognition with the involvement of Information Technology Specialists;
- Evaluating general IT controls in the cash management and accounting system with the involvement of Information Technology Specialists;
- Evaluating the adequacy of relevant disclosures.

Valuation of inventories

Axfood report inventories of SEK 2,191 m as per 31 December 2016. Inventories consist of a central warehouse and store warehouse and both are stated at the lower of cost or net sales value.

Valuation of inventories is considered a key audit matter due to the large volume of transactions and the importance of having completeness in relevant transaction flows, a proper cut-off and making sure all recorded goods physically exist to avoid material misstatements.

For further information, please refer to the Group's accounting policies on page 83.

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

- Auditing Axfood's procedures for inventory management and testing of identified key controls;
- Auditing the valuation of inventories and the model for calculation of obsolescence;
- Participating in physical stock takings centrally and at store level;
- Auditing general IT controls in inventory and purchasing systems with the involvement of Information Technology Specialists;
- Evaluating the adequacy of relevant disclosures.

Valuation of goodwill

Axfood report goodwill of SEK 1,864 m as per 31 December 2016. Goodwill has resulted from historic business combinations.

The value of the reported goodwill depends on future return and profitability in the cash-generating units that the goodwill relates to and is tested annually for impairment.

Valuation of goodwill is considered to be a key audit matter due to the risk of inaccurate judgements and estimates in the impairment testing, such as estimated future cash flows, gross margins, discount rates and growth, which could have a material impact on the Group's result and financial position.

For further information, please refer to the Group's accounting policies, note 3 of acquired operations, note 17 of intangible assets and note 35 of critical judgments and estimates.

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

- Auditing Axfood's impairment test of goodwill and evaluation of made assumptions;
- Evaluating the adequacy of relevant disclosures.

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–42 and 107–108. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Axfood AB (publ) for the financial year 2016-01-01–2016-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis

for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance report

The Board of Directors is responsible for that the corporate governance report on pages 65–81 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance report is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance report. This means that our examination of the corporate governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

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

A corporate governance report has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm, 6 February 2017

Deloitte AB

Hans Warén
Authorized Public Accountant

For signature please see Swedish version of Auditor's report

Five-year overview

Amounts in SEK m	2016	2015	2014	2013	2012 ¹⁾
Result of operations					
Net sales	43,355	41,247	38,484	37,522	36,306
Operating profit	1,902	1,760	1,447	1,302	1,200
Profit after financial items	1,894	1,749	1,430	1,278	1,162
Profit attributable to non-controlling interests	0	0	9	6	0
Tax	-421	-388	-326	-285	-260
Net profit for the year	1,473	1,361	1,104	993	902
Financial position					
Intangible assets	2,478	2,528	2,536	2,645	2,642
Property, plant and equipment	1,799	1,930	1,894	1,916	1,820
Financial non-current assets	138	95	80	60	45
Other non-current assets	61	60	54	36	38
Inventories	2,191	2,035	2,100	1,906	1,932
Other current assets	2,146	1,956	1,919	1,909	1,822
Cash and cash equivalents	1,726	1,933	1,109	457	521
Asset	10,539	10,537	9,692	8,929	8,820
Shareholders' equity	4,117	4,530	4,029	3,768	3,398
Non-controlling interests	1	1	36	34	28
Interest-bearing liabilities and provisions	498	504	585	535	861
Noninterest-bearing liabilities	5,923	5,502	5,042	4,592	4,533
Shareholders' equity and liabilities	10,539	10,537	9,692	8,929	8,820
Cash flow					
Cash flow from operating activities	2,241	2,495	2,029	1,596	1,915
Cash flow from investing activities	-559	-751	-582	-718	-816
Cash flow from financing activities	-1,889	-920	-795	-942	-895
Cash flow for the year	-207	824	652	-64	204

Amounts in SEK m	2016	2015	2014	2013	2012 ¹⁾
Key ratios					
Operating, %	4.4	4.3	3.8	3.5	3.3
Margin after financial items, %	4.4	4.2	3.7	3.4	3.2
Equity ratio, %	39.1	43.0	41.9	42.6	38.8
Net debt-equity ratio (+)/net debt receivable ratio (-), multiple	-0.3	-0.3	-0.1	0.0	0.1
Debt-equity ratio, multiple	0.1	0.1	0.1	0.1	0.3
Capital employed	4,616	5,035	4,650	4,337	4,288
Return on capital employed, %	39.5	36.5	32.4	30.3	28.2
Return on shareholders' equity, %	34.1	31.8	28.1	27.5	27.2
Interest coverage, multiple	146.7	103.9	60.6	43.6	26.8
Capital expenditures	580	764	643	806	932
Earnings per share, SEK ^{2,3)}	7.02	6.48	5.22	4.70	4.30
Net asset value per share, SEK ^{2,3)}	19.62	21.58	19.20	17.96	16.19
Cash flow per share, SEK ²⁾	-1.0	3.9	3.1	-0.3	1.0
Cash flow from operating activities per share ³⁾	10.7	11.9	9.7	7.6	9.1
Number of shares outstanding ³⁾	209,870,712	209,870,712	52,467,678	52,467,678	52,467,678
Weighted average number of shares ³⁾	209,870,712	209,870,712	52,467,678	52,467,678	52,467,678
Average number of employees during the year ⁴⁾	9,211	8,803	8,481	8,285	8,021
Ordinary dividend, SEK/share ³⁾	6.00 ⁵⁾	5.00	4.25	3.75	3.00
Extra dividend, SEK/share	- ⁵⁾	4.00	-	-	-

¹⁾ On account of new accounting policies as from 1 January 2013 regarding pension costs (IAS 19), the comparison figures for 2012 have been adjusted.

²⁾ Pertains to earnings/net asset value before and after dilution.

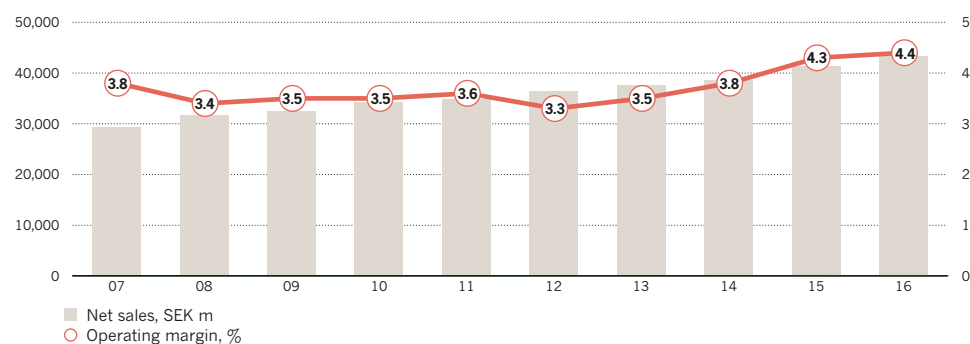
³⁾ In 2015 Axfood carried out 4:1 stock split. The number of shares outstanding after the split is 209,870,712 (52,467,678). Comparison figures have been adjusted.

⁴⁾ In calculating the average number of employees, the normal number of hours worked is 1,920 hours.

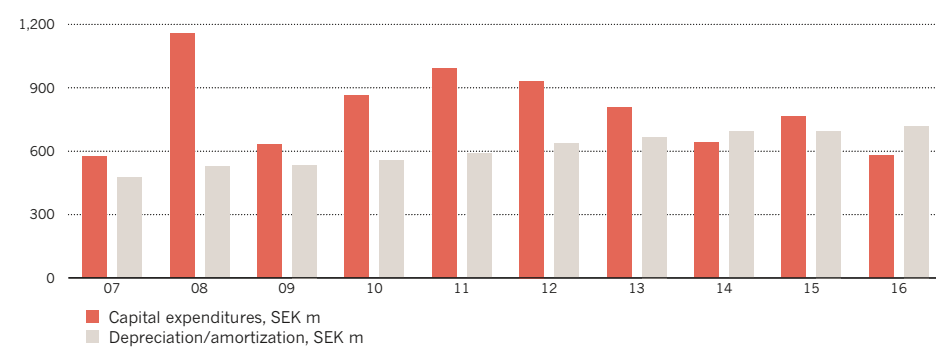
⁵⁾ Proposed by the Board of Directors.

Ten-year overview

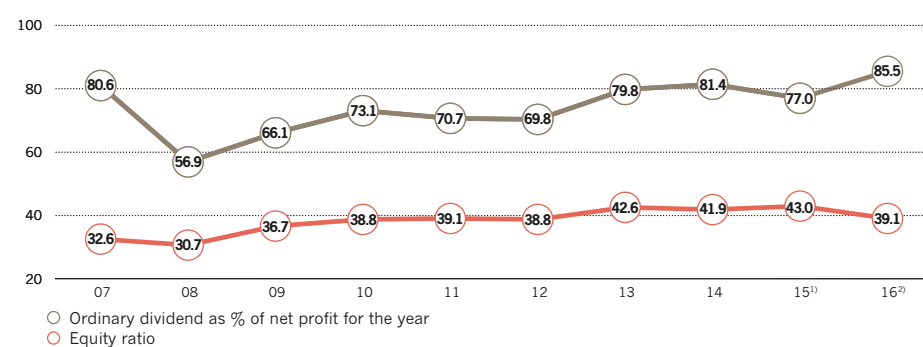
Axfood's net sales and operating margin



Capital expenditures and depreciation/amortization



Ordinary dividend and equity ratio, %



¹⁾ Including the extra dividend, the dividend amounted to 138.8% of net profit for the year in 2015.

²⁾ Proposed by the Board of Directors.

Definitions and glossary

FINANCIAL KEY RATIO DEFINITIONS

The Axfood Group uses various financial measures in its financial reporting that are not defined in IFRS. Axfood believes that these key ratios are relevant for readers of Axfood's financial reports as a complement in assessing Axfood's performance. Since not all companies calculate financial measures in the same way, these are not always comparable with measures used by other companies. These financial measures are therefore not to be regarded as a substitute for measures defined in IFRS. The definitions below include measures not defined in IFRS, unless indicated otherwise.

Capital employed: Total assets less noninterest-bearing liabilities and non-interest-bearing provisions. Average capital employed is calculated as capital employed at start of the year plus capital employed at year-end, divided by two.

Cash flow from operating activities per share: Cash flow from operating activities for the year divided by the weighted average number of shares.

Cash flow per share: Cash flow for the year divided by the weighted average number of shares outstanding.

Debt-equity ratio: Interest-bearing liabilities divided by shareholders' equity including non-controlling interests.

Dividend yield: Dividend per share divided by the share price at year-end.

Earnings per share: Net profit for the year attributable to owners of the parent divided by a weighted average number of shares outstanding.

Equity ratio: Shareholders' equity including non-controlling interests as a percentage of total assets.

Interest-bearing net debt receivable/liability: Interest-bearing non-current and current receivables and liabilities, including cash and bank balances, and the interest-bearing portion of financial assets.

Interest cover ratio: Profit after financial items plus financial expenses, divided by financial expenses.

Inventory turnover rate: 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: Equity attributable to owners of the parent divided by the number of shares outstanding.

Net debt-equity/receivable ratio: Interest-bearing liabilities and provisions less cash and cash equivalents and interest-bearing receivables, divided by shareholders' equity including non-controlling interests.

Operating margin: Operating profit as a percentage of net sales for the year.

P/E multiple: Share price in relation to earnings per share.

Return on capital employed: Profit after financial items, plus financial expenses, as a percentage of average capital employed.

Return on shareholders' equity: Net profit for the year attributable to owners of the parent as a percentage of average equity attributable to owners of the parent. Average equity is calculated as shareholders' equity at the start of the year plus shareholders' equity at year-end, divided by two.

Sales growth: Percentage increase in sales between two periods.

Sales of private label products: Sales of private label products, excluding fruits & vegetables, as a percentage of store sales including Hemköp franchise stores.

Share turnover rate: The number of shares traded during the year divided by the number of shares outstanding at year-end.

Store sales, Axfood Group – Sales for Hemköp and Willys stores, including Hemköp franchise stores.

Total capital expenditures: Investments in intangible and tangible non-current assets, including finance leases.

OPERATIONAL KEY RATIO DEFINITIONS AND GLOSSARY

Autoorder: An automated store restocking system.

Average number of employees during the year: The total number of hours worked divided by an annual working time of 1,920 hours.

BSCI: Business Social Compliance Initiative.

Delivery reliability: The share of delivered goods in relation to the share of ordered goods.

Distributed sales: Volume distributed from Group-owned warehouses.

E-learning: An interactive training program.

EMAB: EMAB is collaborative organization for independent service station stores, with approximately 400 members within the Shell, Statoil 123, Hydro, Bilisten and Preem service station chains.

Employee turnover rate: The number of ended employment positions divided by the number of employees.

Fairtrade certified: Label for products that are made with the aim of improving the working and living conditions for growers and employees in developing countries through certified fair trade practices. The label certifies that the product meets the criteria of the Fairtrade International organization.

GRI: Global Reporting Initiative

Like-for-like sales: Like-for-like sales refer to store sales reported on the basis of an entire comparison period, i.e., both years.

MSC: Marine Stewardship Council

91/9 model: An agreement within Hemköp under which a store is majority-owned by Axfood during the initial years, and subsequently becomes over 99%-owned by the retailer and Axfood holds one share.

Residual mix: Residual mix is the electricity mix a company may be supplied with if it does not make any active choice of the source of the electricity. Consists of a mix of fossil-based, renewable and nuclear powered electricity that remains after factoring out the electricity generated and supplied to customers that have made an active choice of the source of the electricity.

Printed copies of this annual report are distributed only to shareholders upon request, approximately one week before the Annual General Meeting.

Text and production: Axfood in cooperation with Hallvarsson & Halvarsson .

Design and final art: Hallvarsson & Halvarsson. **Photos:** Fredrik Ottoson, pp. 9, 20, 21, 23, 26, 31. Mats Lundqvist, Magnus Fond, Joakim Folke and others. **Illustrations:** Jimmie Bergqvist. **English translation:** Joseph Brennan, NewStart Communications LLC. **Printing:** Larsson Offsettryck AB, Linköping 2017.



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