

# Axfood

Interim Report  
1 Jan.–30 Sept. 2018

## Strong growth and investments in the future

### Third quarter summary

- Consolidated net sales amounted to SEK 12,050 m (11,578), an increase of 4.1%.
- Operating profit was SEK 620 m (604), an increase of 2.6%. The operating margin was 5.1% (5.2%).
- Net profit for the period was SEK 482 m (469), and earnings per share before dilution were SEK 2.24 (2.23).

### Summary of January–September

- Consolidated net sales amounted to SEK 35,715 m (34,142), an increase of 4.6%.
- Operating profit was SEK 1,599 m (1,488), corresponding to an operating margin of 4.5% (4.4%).

- Net profit for the period was SEK 1,249 m (1,157), and earnings per share before dilution were SEK 5.87 (5.51).

### Significant events after the balance sheet date

- No significant events have taken place after the balance sheet date.

### Other information

- Axfood plans to realize its vision for the logistics operations by establishing a highly automated warehouse in Stockholm to fulfil orders both to stores and e-commerce customers. It is estimated that the investment need in automation will be in the range of SEK 400–600 m per year over a four-year period.

### Key ratios

SEK m	Q3 2018	Q3 2017	Change	9 mos 2018	9 mos 2017	Change	12 mos 2017
Net sales	12,050	11,578	4.1%	35,715	34,142	4.6%	45,968
Operating profit	620	604	2.6%	1,599	1,488	7.5%	1,886
Operating margin, %	5.1	5.2	-0.1	4.5	4.4	0.1	4.1
Profit for the period	482	469	2.6%	1,249	1,157	7.9%	1,467
Earnings per share before dilution, SEK	2.24	2.23	0.5%	5.87	5.51	6.5%	6.98
Cash flow from operating activities per share, SEK	3.54	2.85	24.2%	8.99	8.11	10.9%	12.08
Return on capital employed, % <sup>1)</sup>	42.5	42.1	0.4	42.5	42.1	0.4	39.4
Return on shareholders' equity, % <sup>1)</sup>	38.7	37.8	0.9	38.7	37.8	0.9	34.9
Shareholders' equity per share, SEK	-	-	-	19.06	18.89	0.9%	20.35
Equity ratio, %	-	-	-	36.7	38.0	-1.3	39.0

<sup>1)</sup> Moving 12-month figures.

All segmental data for 2017 are reported pro forma. For detailed information, see p. 9.

### For further information, please contact:

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The information herein is such that Axfood AB (publ) is required to make public in accordance with the EU Market Abuse Regulation and the Swedish Securities Market Act. The information was submitted for publication, through the agency of the contact person listed here, at 7 a.m. CET on 24 October 2018.

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



## CEO's message

### Strong growth and investments in the future



# 4.0%

*Growth in the Axfood Group's store sales during the third quarter of 2018*

# 620 SEK m

*Operating profit during the third quarter 2018.*

Axfood had good growth during the third quarter, and we strengthened our position in the market. The warm, dry summer had both positive and negative effects on operations. Willys had strong performance at the same time that Axfood Snabbgross was at the top with growth of more than 11%. For our logistics operations, the summer heat had a negative effect with extra costs that weighed down profitability. Despite this, Axfood posted its best quarterly operating profit since the Group was established.

#### Strong growth

Willys showed continued strong performance both in sales and profitability. I am very satisfied with the chain's momentum. In recent days Willys unveiled what its future stores will look like by opening its first store that offers an elevated customer experience and expanded offering. For the past year and a half the discount segment also includes Eurocash. I can certainly say that the cross-border shopping chain has contributed to the segment's good performance, which is proof that we have succeeded well with its integration.

Hemköp, which has many stores in central city locations, was hurt by the summer heat as customer traffic to shopping centres and city centres decreased. Still, Hemköp as a whole delivered good growth.

Axfood Snabbgross was the quarter's brightest star in terms of growth. With double digit sales growth, not only did the average ticket value increase, Snabbgross also welcomed many new customers and took market shares. However, the sales mix, last year's new establishments and a temporary store closure in September had a negative impact on profitability.

#### Lower margin for logistics

The steady, warm summer weather posed challenges for the logistics operations. Despite these challenges, Dagab kept its focus on maintaining high delivery reliability for the stores. In concrete terms, owing to the hot weather the previous years' volumes were exceeded for a number of products. Extraordinary restocking by suppliers required a greater number of both incoming and outgoing deliveries, handling during inconvenient working hours and extra staffing. To secure the cold chain, more trucks were needed. Even though the challenges were largely volume-driven, the situation led to lower productivity. On top of this, fuel prices continued to rise, which has driven up fuel costs considerably.

#### Towards a more fossil fuel-free fleet

By 2020 Axfood aims to have climate-neutral operations, and emissions from our own transports make up a large share of our total carbon footprint. To be able to achieve this goal and at the same time drive development of sustainable transports going forward now that HVO biofuel

is not a sustainable alternative, we are changing over to a more fossil fuel-free fleet. As the first company in Sweden's food industry we have invested in fossil fuel-free trucks that run on liquid biogas. Apart from their low emissions these trucks can handle heavy loads and even extra loads carried on trailers. We are already also using trucks that run on ethanol, electricity and RME (rapeseed biofuel).

#### Future effects of summer drought

The summer heat had a strong impact on Swedish farmers' harvests – affecting everything from animal feed and grain to fruits and vegetables. For the first time ever Sweden will likely be a net importer of grain. As a result of this past summer's drought we have engaged with our suppliers in more in-depth discussions. We are seeing inflationary pressure, but as it is too early to see the extent, today I cannot discern the effects this will have on the market. Axfood is taking responsibility for Swedish farmers by more prominently displaying Swedish products in stores and by continuing to promote Swedish sourcing in promotional campaigns for products such as meat, dairy products, and fruits and vegetables.

#### Future outlook

For Axfood's performance going forward we aim to draw benefit from the strong momentum we have and continue developing our business, including the digitalized customer interface. We will also use new technology to increase automation throughout the Group – everywhere from administration and our offices to warehouses and stores. Automation will lead to new processes and ways of working across our entire value chain.

Dagab has now embarked on the realization of its logistics vision by drawing up plans for a highly automated warehouse in Stockholm. The warehouse will fulfil orders both to stores and e-commerce customers. The plans are at an early stage, but we estimate that over a four-year period, Axfood's investment need in automation will be in the range of SEK 400–600 m per year on top of the normal, annual level of capital expenditures.

Klas Balkow

*President and CEO, Axfood AB*

## The Swedish food retail market

According to Statistics Sweden's (SCB) preliminary retail trade index for January to August 2018, accumulated sales for the food retail segment (excl. alcoholic beverages) grew 3.4% in current prices compared with the same period in 2017. In fixed prices, volume increased by 1.0%. The figures above do not take into account any calendar effects.

Axfood's store sales growth<sup>1)</sup> compared with the food retail market<sup>2)</sup>



<sup>1)</sup> Willys including Eurocash and Hemköp (Group-owned and franchises). <sup>2)</sup> Sales for the Swedish food retail market excl. alcoholic beverages, based on the HUI/SCB retail trade index (Dagligvaruhandel, Mest livsmedel). Preliminary data may be revised in accordance with SCB's revision policy.

## Sales – Axfood Group

# 29.4%

Private label share at the end of Q3 2018.

### Third quarter

Net sales for the Axfood Group amounted to SEK 12,050 m (11,578) during the third quarter, an increase of 4.1%. All segments showed good growth, which was mainly driven by a greater number of customer visits. The steady summer weather further boosted demand from restaurants and cafés, which together with promotional campaigns contributed to strong growth for Axfood Snabbgross. Store sales for the Axfood Group (Group-owned stores and Hemköp franchises) amounted to SEK 10,020 m (9,637), an increase of 4.0%. Growth in like-for-like sales was 3.2%. Sales for Group-owned retail operations increased by 4.2% during the third quarter, with a 3.1% rise in like-for-like sales.

Sales of private label products accounted for 29.4% (29.3%) of total sales at the end of the quarter.

### January–September

Net sales for the Axfood Group amounted to SEK 35,715 m (34,142) during the period, an increase of 4.6%. Sales for Group-owned retail operations increased by 6.1%, with a 3.3% rise in like-for-like sales. Store sales for the Axfood Group (Group-owned stores and Hemköp franchises) grew by 5.5%, while like-for-like sales increased by 3.4%.

#### Net sales per segment

SEK m	Q3 2018	Q3 2017	% <sup>1)</sup>	9 mos 2018	9 mos 2017	% <sup>1)</sup>	12 mos 2017
Willys	6,702	6,417	4.4	20,033	18,782	6.7	25,415
Hemköp	1,520	1,470	3.4	4,735	4,561	3.8	6,199
Axfood Snabbgross	906	813	11.5	2,446	2,257	8.4	2,984
Dagab	10,491	10,178	3.1	31,391	30,601	2.6	41,128
Joint-Group	204	190	7.6	620	573	8.3	770
<i>Internal sales between segments that are eliminated</i>							
Dagab	-7,582	-7,309	3.7	-22,926	-22,092	3.8	-29,802
Axfood Snabbgross	-1	-2	-46.6	-4	-5	-25.7	-7
Joint-Group	-191	-178	6.9	-579	-536	8.1	-719
<b>Net sales, total</b>	<b>12,050</b>	<b>11,578</b>	<b>4.1</b>	<b>35,715</b>	<b>34,142</b>	<b>4.6</b>	<b>45,968</b>

<sup>1)</sup> Percentage change compared with corresponding period a year ago.

### Store sales – Group-owned and Hemköp franchise stores<sup>2)</sup>

SEK m	Q3 2018	% <sup>1)</sup>	Like-for-like sales, % <sup>1)</sup>	9 mos 2018	% <sup>1)</sup>	Like-for-like sales, % <sup>1)</sup>
<b>Willys</b>	<b>6,702</b>	<b>4.4</b>	<b>3.6</b>	<b>20,033</b>	<b>6.7</b>	<b>3.9</b>
Hemköp, Group-owned	1,487	3.4	0.7	4,634	3.8	0.7
Hemköp franchises	1,831	2.8	3.8	5,523	2.9	3.8
<b>Hemköp total</b>	<b>3,317</b>	<b>3.0</b>	<b>2.5</b>	<b>10,157</b>	<b>3.3</b>	<b>2.4</b>
<b>Group-owned retail operations</b>	<b>8,189</b>	<b>4.2</b>	<b>3.1</b>	<b>24,666</b>	<b>6.1</b>	<b>3.3</b>
<b>Axfood Group store sales</b>	<b>10,020</b>	<b>4.0</b>	<b>3.2</b>	<b>30,189</b>	<b>5.5</b>	<b>3.4</b>
<b>Axfood Snabbgross</b>	<b>906</b>	<b>11.5</b>	<b>9.9</b>	<b>2,446</b>	<b>8.4</b>	<b>6.7</b>

<sup>1)</sup> Percentage change compared with corresponding period a year ago.

<sup>2)</sup> See also the table “Store sales – Group-owned and franchise stores” on p. 19.

### Change in store structure

Number of stores	Dec. 2017	New establish-ments	Acquisitions	Sales/ closures	Conversions to/from	Sept. 2018	Sept. 2017
Willys <sup>1)</sup>	207	1	–	-1	1	208	207
Hemköp	67	–	4	–	-1	70	67
Axfood Snabbgross	24	–	–	–	–	24	23
<b>Total, Group-owned</b>	<b>298</b>	<b>1</b>	<b>4</b>	<b>-1</b>	<b>0</b>	<b>302</b>	<b>297</b>
Hemköp franchises	120	–	–	-3	–	117	119
<b>Axfood Group total</b>	<b>418</b>	<b>1</b>	<b>4</b>	<b>-4</b>	<b>0</b>	<b>419</b>	<b>416</b>
1) Of which, Willys Hemma	48	1	–	–	–	49	48
Of which, Eurocash	8	–	–	–	–	8	8

## Earnings – Axfood Group

### Third quarter

Operating profit for the third quarter was SEK 620 m (604), with an operating margin of 5.1% (5.2%). Earnings were positively affected by growth in like-for-like sales and the sales mix during the quarter. The slightly lower margin was due mainly to higher costs in the logistics operations. Willys showed a marked increase in profitability. Other segments had stable or lower profitability than a year ago.

Profit after financial items was SEK 618 m (602). Profit after tax was SEK 482 m (469).

### January–September

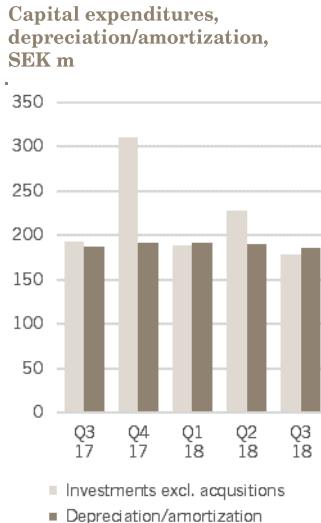
Operating profit for the period was SEK 1,599 m (1,488). The operating margin was 4.5% (4.4%). Net financial items for the period totalled SEK -5 m (-4), and profit after financial items was SEK 1,594 m (1,484). Profit after tax was SEK 1,249 m (1,157). The corporate tax rate will be lowered effective 1 January 2019, which has affected reporting of deferred tax. The entire effect is reported in the second quarter, where net profit for the period was affected positively by SEK 5 m.

### Operating profit per segment

SEK m	Q3 2018	Q3 2017	% <sup>1)</sup>	9 mos 2018	9 mos 2017	% <sup>1)</sup>	12 mos 2017
Willys	385	332	15.9	933	817	14.2	1,059
Hemköp	54	54	0.2	189	175	7.8	234
Axfood Snabbgross	45	47	-4.0	96	96	0.0	110
Dagab	170	208	-18.0	516	556	-7.2	699
Joint-Group	-34	-37	-6.1	-135	-157	-13.9	-216
<b>Operating profit for the period</b>	<b>620</b>	<b>604</b>	<b>2.6</b>	<b>1,599</b>	<b>1,488</b>	<b>7.5</b>	<b>1,886</b>
Net financial items	-2	-2		-5	-4		-5
<b>Profit for the period after financial items</b>	<b>618</b>	<b>602</b>		<b>1,594</b>	<b>1,484</b>		<b>1,881</b>

<sup>1)</sup> Percentage change compared with the corresponding period a year ago.

## Capital expenditures



## Financial position and cash flow

Cash flow from operating activities before paid tax amounted to SEK 2,229 m (2,034) during the period January–September. Paid tax totalled SEK -345 m (-332). Payment of the shareholder dividend affected cash flow by SEK -1,485 m (-1,259), and net capital expenditures affected cash flow by SEK -662 m (-1,210). Net capital expenditures were lower than the same period a year ago, as the acquisitions of mat.se, Eurocash, Saba and Middagsfrid affected the comparison period.

Cash and cash equivalents held by the Group amounted to SEK 1,083 m, compared with SEK 1,376 m in December 2017. Interest-bearing liabilities and provisions totalled SEK 526 m, compared with SEK 528 m in December 2017. The Group had an interest-bearing net debt receivable of SEK 581 m at the end of the quarter, compared with an interest-bearing net debt receivable of SEK 871 m in December 2017. The change is mainly attributable to payment of the dividend during the period.

The equity ratio was 36.7%, compared with 39.0% in December 2017

### Derivation of total investments and net capital expenditures in cash flow

SEK m	9 mos 2018	9 mos 2017
Total investments	-599	-1,624
Investments in finance leases	43	41
Divestment of tangible/intangible assets	12	18
Acquisition of financial assets	-11	-5
Acquisition of mat.se	-	55
Acquisition of other operations	-5	305
Divested operations	2	0
Acquisition of assets held for sale	-104	-
<b>Cash flow from investing activities</b>	<b>-662</b>	<b>-1,210</b>

## Results per operating segment

### Willys

#### Third quarter

Willys' sales totalled SEK 6,702 m (6,417) during the third quarter, an increase of 4.4% compared with the same period a year ago. The positive performance during the quarter can be credited mainly to a larger number of customer visits, favourable like-for-like sales and strong e-commerce. Sales growth was good both for Willys and Eurocash. Like-for-like sales increased by 3.6%.

Operating profit was SEK 385 m (332), an increase of 15.9%. Earnings were positively affected by like-for-like sales performance, the sales mix during the summer months, and by a lower burden from e-commerce. The operating margin was 5.7% (5.2%).

During the third quarter no new stores began offering online shopping. Through expanded delivery in the greater Stockholm area, a total of 47 stores in 27 cities offered online shopping, which is one fewer than at mid-year. This represents a doubling compared with the third quarter of 2017, when it was offered at 23 stores in 13 cities. The continued roll-out is planned for the fourth quarter, in the aim of offering e-commerce at approximately 60 stores in some 30 cities by year-end 2018.

No change took place in the store network during the quarter, entailing that Willys comprised a total of 208 stores at the end of the third quarter, of which 200 were Willys stores and eight were Eurocash. This is one more Willys store than in the third quarter of 2017.

Willys' private label share was 31.1% (30.9%) at the end of the quarter.

#### January–September

Willys' sales during the period January–September 2018 totalled SEK 20,033 m (18,782), an increase of 6.7% compared with the same period a year ago. Like-for-like sales increased by 3.9%. Operating profit was SEK 933 m (817), and the operating margin was 4.7% (4.4%).

Net sales, SEK bn, and operating margin, %<sup>1)</sup>



SEK m	Q3 2018	Q3 2017	Change	9 mos 2018	9 mos 2017	Change	12 mos 2017
Net sales	6,702	6,417	4.4%	20,033	18,782	6.7%	25,415
Change in like-for-like sales, %	3.6	4.9	-1.3	3.9	4.3	-0.4	4.3
Operating profit	385	332	15.9%	933	817	14.2%	1,059
Operating margin, %	5.7	5.2	0.6	4.7	4.4	0.3	4.2
Number of Group-owned stores	-	-	-	208	207	1	207
Average number of employees during the period	-	-	-	5,383	5,080	6.0%	5,070
Private label share, %	-	-	-	31.1	30.9	0.2	29.7

<sup>1)</sup> Only 2017 figures are pro forma.

### Hemköp

#### Third quarter

Hemköp's store sales including Hemköp franchises showed growth of 3.0% during the third quarter, driven mainly by a larger number of customer visits.

Sales for Group-owned Hemköp stores totalled SEK 1,487 m (1,438), an increase of 3.4%. Like-for-like sales for Group-owned stores increased by 0.7%. The steady, warm weather hurt stores in city centres, where most of Hemköp's Group-owned stores are located, which had a negative effect on like-for-like sales. Net sales for Group-owned stores (including franchise fees<sup>1)</sup> increased by 3.4%.

Sales for franchise stores (Hemköp) totalled SEK 1,831 m (1,782), an increase of 2.8%, while like-for-like sales increased by 3.8%.

Operating profit for the third quarter was SEK 54 m (54), corresponding to an operating margin of 3.6% (3.7%). The operating margin was weighed down by low growth in like-for-like sales and costs associated with Hemköp's 60-year anniversary, among other things. E-commerce continued to weigh down earnings, although to a lower extent than previously.

<sup>1)</sup> As a result of the reorganization in January 2018, franchise fees include both Hemköp and Tempo.

At the end of the third quarter Hemköp offered online shopping at 18 stores in eight cities, which is one store and one city more than the same quarter a year ago. During the quarter Hemköp acquired a Tempo store in Uppsala municipality. Compared with the end of the third quarter a year ago, this year Hemköp had three more Group-owned stores.

Hemköp's private label share was 25.2% (25.3%) at the end of the quarter.

### January–September

Sales for Group-owned Hemköp stores totalled SEK 4,634 m (4,465), an increase of 3.8%. Like-for-like sales for Group-owned stores increased by 0.7% during the period. Sales for franchise stores totalled SEK 5,523 m (5,367), an increase of 2.9%, while like-for-like sales increased by 3.8%.

Operating profit for the period January–September was SEK 189 m (175). The operating margin for the period was 4.0% (3.8%).



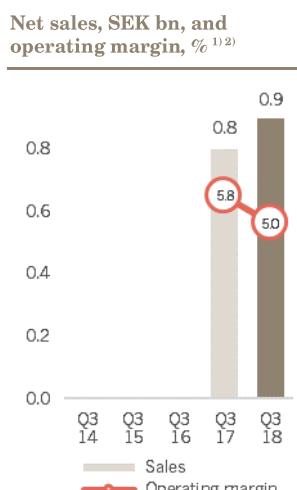
<sup>1)</sup> Only 2017 figures are pro forma.

### Axfood Snabbgross

#### Third quarter

Axfood Snabbgross' sales totalled SEK 906 m (813) during the third quarter, representing growth of 11.5% compared with the same period a year ago. The steady, warm summer weather boosted sales through a higher ticket value, more frequent purchases and more customer visits. The private market for wholesalers grew by 6.3% in July and August, which indicates that Axfood Snabbgross strengthened its position in the market.

Operating profit for the third quarter was SEK 45 m (47), with an operating margin of 5.0% (5.8%). Earnings were negatively affected by the sales mix during the summer months as well as by the new establishment in the preceding year and slightly higher personnel costs. No changes were made in the store structure during the quarter. Axfood Snabbgross had 24 (23) stores throughout Sweden at the end of September.



<sup>1)</sup> Due to a reorganization in January 2015, there are no comparison figures for 2014. Since the comparative figures for 2015 and 2016 are not recalculated, these figures are not reported.

<sup>2)</sup> 2017 figures are pro forma.

SEK m	Q3 2018	Q3 2017	Change	9 mos 2018	9 mos 2017	Change	12 mos 2017
Net sales	906	813	11.5%	2,446	2,257	8.4%	2,984
Operating profit	45	47	-4.0%	96	96	0.0%	110
Operating margin, %	5.0	5.8	-0.8	3.9	4.3	-0.4	3.7
Number of stores	-	-	-	24	23	1	24
Average number of employees during the period	-	-	-	407	396	2.8%	384

## Dagab

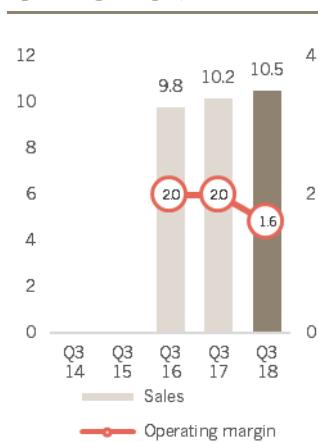
### Third quarter

Sales totalled SEK 10,491 m (10,178), an increase of 3.1%. Growth for the support company Dagab was positively affected by favourable sales to the Group's own store chains and by e-commerce sales via mat.se. External sales were hurt by the loss of sales to Mathem.

Operating profit was SEK 170 m (208), entailing a significantly lower margin of 1.6% (2.0%) compared with the same period a year ago. The lower operating profit is mainly attributable to the steady, warm summer weather, which gave rise to high volatility in deliveries and challenges for the cold storage warehouses, and thereby higher logistics costs both in warehousing and transports as well as higher fuel prices. Strong development in e-commerce also had a negative impact on operating profit.

Dagab plans to realize its vision for the logistics operations by establishing a highly automated warehouse in Stockholm. The warehouse will support deliveries both to stores and e-commerce customers using an automated system designed both for store and online customer orders. The aim is to strengthen the customer offering and improve delivery quality and service through modern and more efficient warehouse processes. The facility will also create coordination gains for the Group and boost productivity. Over a four-year period the investment need for this automation will amount to approximately SEK 400–600 m annually. The ambition is to have the warehouse in operation by 2023.

Net sales, SEK bn, and operating margin, %<sup>1)(2)</sup>



### January–September

Dagab's sales during the period totalled SEK 31,391 m (30,601), an increase of 2.6%. Operating profit was SEK 516 m (556), corresponding to an operating margin of 1.6% (1.8%).

SEK m	Q3 2018	Q3 2017	Change	9 mos 2018	9 mos 2017	Change	12 mos 2017
Net sales	10,491	10,178	3.1%	31,391	30,601	2.6%	41,128
Operating profit	170	208	-18.0%	516	556	-7.2%	699
Operating margin, %	1.6	2.0	-0.4	1.6	1.8	-0.2	1.7
Average number of employees during the period	-	-	-	2,224	2,260	-1.6%	2,278
Delivery reliability, %	-	-	-	95.8	96.8	-1.0	96.9

<sup>1)</sup> No comparison figures are available for 2014–2015 due to the acquisition of the fruit & vegetables warehouse operations in 2017 and a reorganization in 2015.

<sup>2)</sup> Figures for 2016 and 2017 are pro forma. 2016 pertains to the acquisition of the fruit & vegetable warehouse operations.

## Parent Company

Other operating revenue for the Parent Company amounted to SEK 186 m (181) during the period January–September. After selling and administrative expenses of SEK 271 m (270) and net financial items of SEK 21 m (3), profit after financial items was SEK -62 m (-85). Capital expenditures during the period totalled SEK 6 m (3).

The Parent Company had an interest-bearing net debt receivable of SEK 343 m at the end of the period, compared with SEK 241 m in December 2017. The Parent Company has no significant transactions with related parties, other than transactions with subsidiaries.

## Pro forma

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

SEK m	Q1 2017	Q2 2017	Q3 2017	Q4 2017	12 mos 2017
<i>Willys</i>					
Net sales	5,764	6,601	6,417	6,633	25,415
Operating profit	212	273	332	242	1,059
Operating margin, %	3.7	4.1	5.2	3.6	4.2
<i>Hemköp</i>					
Net sales	1,547	1,544	1,470	1,638	6,199
Operating profit	66	56	54	58	234
Operating margin, %	4.3	3.6	3.7	3.5	3.8
<i>Axfood Snabbgross</i>					
Net sales	655	789	813	727	2,984
Operating profit	10	39	47	14	110
Operating margin, %	1.6	4.9	5.8	1.9	3.7
<i>Dagab</i>					
Net sales	9,746	10,677	10,178	10,527	41,128
Operating profit	171	177	208	143	699
Operating margin, %	1.8	1.7	2.0	1.4	1.7

## Sustainable development

### Key ratios, Group

	Q3 2018	Q3 2017	9 mos 2018	9 mos 2017	12 mos 2017
Organic products as % of total food sales					
Axfood incl. Eurocash 2018	6.4	6.5	6.6	6.8	6.8
Willys incl. Eurocash 2018	5.7	5.8	5.9	6.1	6.0
Hemköp	9.1	9.2	9.4	9.5	9.5
Growth in plant-based protein substitutes, <sup>1)</sup> %					
Axfood incl. Eurocash 2018	18	30	24	29	29
Willys incl. Eurocash 2018	22	33	27	32	33
Hemköp	11	26	18	23	23
KRAV-certified meat as % of total meat sales					
Axfood incl. Eurocash 2018	4.0	3.6	4.0	4.0	3.9
Willys incl. Eurocash 2018	2.5	2.6	2.6	2.7	2.7
Hemköp	9.9	8.1	9.3	8.9	8.5
Combustible waste <sup>2)</sup> (tonnes), share of net sales (SEK m), %					
Willys	35	37	35	37	37
Hemköp	n.a.	n.a.	n.a.	n.a.	n.a.
Axfood Snabbgross	17	20	17	20	18
Private label product recalls from stores	10	2	27	22	29
Product recalls from stores, other brands	26	26	58	78	107
Number of social audits <sup>3)</sup>	26	22	77	46	77
Electricity consumption, kWh/m <sup>2</sup> (stores and warehouses) <sup>4)</sup>	322.4	291.8	322.4	291.8	319.9
Electricity consumption (kWh) as share of net sales (SEK), % <sup>5)</sup>	0.59	0.54	0.59	0.54	0.59
CO <sub>2</sub> , kg/tonne goods <sup>6)</sup>	14.1	6.2	14.1	6.2	7.3
Work attendance rate, %	95.3	95.1	94.6	94.3	94.3

<sup>1)</sup> Compared with same period a year ago.

<sup>5)</sup> Inflation-adjusted net sales.

<sup>2)</sup> Moving 12-month figures, with 1 quarter delay.

<sup>6)</sup> Moving 12-month figures. Pertains to total volume for

<sup>3)</sup> Both under own management and via the organization Amfori BSCI transports from warehouses to stores using own delivery fleet.

<sup>4)</sup> Moving 12-month figures. Pertains to Group-owned stores and warehouses under joint electricity contracts.

### **Sales of organic and vegetarian products**

Sales of organic products accounted for 6.6% (6.8%) of Axfood's total food sales during the first three quarters of 2018. The organic product share during the year includes Eurocash. Axfood has set a target for organic products to account for 10% of total food sales by 2020.

Axfood's customers showed continued demand for vegetarian products, i.e., refrigerated and frozen plant-based protein substitutes. Sales of vegetarian alternatives grew 24% during the first three quarters of 2018.

During the summer Urban Deli launched Juicy Vegan Burger, a vegan patty which began to be sold also by Axfood's other stores during the third quarter. Juicy Vegan Burger is sold under Axfood's Garant brand and has a meaty texture and "bleeds" red beetroot juice. Although it is a vegan product, it also appeals to meat lovers who want to cut down on their meat consumption for environmental and health reasons. The burger is soy-free and 100% plant-based.

### **More diversified vehicle fleet**

About 12 months ago Axfood made the decision to avoid using HVO biofuel because it is no longer possible to buy HVO that is free from palm oil, other than in very limited volumes. In the near term this has led to an increase in the Group's CO<sub>2</sub> emissions, which we also see in the key ratios for the quarter, which are more than twice as high as a year ago.

At present Axfood sees no one solution within reach to replace HVO biofuel, and is instead focusing on testing a number of different transport and fuel solutions. Axfood has trucks that run on ethanol, RME (rapeseed biofuel) and electricity, and as the first company in Sweden's food industry has also invested in five fossil fuel-free trucks that run on liquid biogas. Apart from the fact that biogas is a good renewable fuel with very low emissions, the trucks are very powerful and can handle heavy loads, which is beneficial with respect to the carbon footprint per kilo of transported food. Even if municipalities introduce environmental zones, biogas trucks will be allowed to drive in such areas.

Axfood aims to be climate-neutral by 2020, and emissions from own transports make up a large part of its total carbon footprint. To be able to achieve this goal and at the same time drive development of sustainable transports going forward, Axfood is changing over to a more fossil fuel-free vehicle fleet.

### **The summer drought – an industry challenge**

The past summer's warm weather in Sweden had a major impact primarily on the year's harvests. More than half of grain production dried up after two of the year's three harvests. Sweden's harvest of vegetables and root vegetables looks to be 50%–90% of normal. This affects not only Axfood, but the entire industry, with subsequent, increased inflationary pressure in pace with lower supplies of grain, vegetables, dairy products and meat, among other things. The Swedish vegetable growing season will be shortened and the offering will be affected, especially with respect to root vegetables and potatoes, since stores typically sell exclusively Swedish root vegetables and potatoes throughout the year.

To support farmers, Axfood is buying extra beef and increasing the number of promotional campaigns. In addition, we are donating food waste to local farmers to use as animal feed. On the consumer front we are promoting Swedish products in all channels and more clearly communicating this message in stores. Through more prominent exposure of Swedish products, Axfood is supporting domestic production while continuing to provide customers with a wide range of choices.

## **Nominating Committee**

Shareholders who wish to submit nominations to the Nominating Committee ahead of Axfood's Annual General Meeting on 21 March 2019 can do so by email at [valberedning@axfood.se](mailto:valberedning@axfood.se) by 18 January 2019 at the latest.

## **Annual General Meeting**

The Annual General Meeting will be held at 5 p.m. on 21 March 2019 at Konserthuset Stockholm, Hötorget (main entrance), Stockholm. The 2018 Annual and Sustainability Report will be published on 28 February 2019 on Axfood's website, at which time it will be available at Axfood's head offices in Stockholm. The Annual Report will also be distributed by post to shareholders, upon request, approximately one week before the Annual General Meeting.

## Long-term financial targets and capital expenditures 2018

- Axfood's long-term financial targets: – Grow more than the market; – The operating margin shall amount to at least 4% long-term; – The equity ratio shall amount to at least 25% during all quarters; – Axfood's dividend policy sets the goal that the shareholder dividend shall be at least 50% of profit after tax
- Axfood's capital expenditures in 2018 are expected to be in the range of SEK 900–1,000 m excluding acquisitions

### Future reports

The year-end report for Jan.–Dec. 2018 will be presented on 5 February 2019, at 7 a.m. CET.

The Annual and Sustainability Report will be published on 28 February 2019.

The interim report for Jan.–March 2019 will be presented on 25 April 2019, at 7 a.m. CET.

The interim report for Jan.–June 2019 will be presented on 15 July 2019, at 1 p.m. CET.

The interim report for Jan.–Sept. 2019 will be presented on 24 October 2019, at 7 a.m. CET.

### Press releases during the third quarter

26 Sept. 2018 Axfood first with new biogas trucks

18 Sept. 2018 Fixa first out with Swan-labelled tea candles made of rapeseed wax

14 Aug. 2018 Apohem receives permit to operate retail pharmacy

31 July 2018 Promotional campaigns to reduce meat surplus

Stockholm, 23 October 2018

Klas Balkow

*President and CEO*

## Auditors' review report

To the Board of Directors of Axfood AB (publ)  
Reg. no. 556542-0824

### Introduction

We have reviewed the interim report for Axfood AB (publ) for the period January 1 – September 30, 2018. The Board of Directors and the President are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

### Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and is substantially less in scope than an audit conducted in accordance with ISA and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not, in all material respects, prepared for the Group in accordance with IAS 34 and the Annual Accounts Act, and for the Parent Company in accordance with the Annual Accounts Act.

Stockholm, October 23, 2018

Deloitte AB

Hans Warén  
Authorized Public Accountant

## Financial statements, Group

### Condensed statement of profit or loss and other comprehensive income, Group

SEK m	Q3 2018	Q3 2017	9 mos 2018	9 mos 2017	12 mos 2017
Net sales	12,050	11,578	35,715	34,142	45,968
Cost of goods sold	-10,206	-9,842	-30,300	-29,141	-39,306
<i>Gross profit</i>	1,844	1,736	5,415	5,001	6,662
Selling and administrative expenses, etc.	-1,224	-1,132	-3,816	-3,513	-4,776
<i>Operating profit</i>	620	604	1,599	1,488	1,886
Interest income and similar profit/loss items	1	2	5	6	8
Interest expense and similar profit/loss items	-3	-4	-10	-10	-13
<i>Profit after financial items</i>	618	602	1,594	1,484	1,881
Tax	-136	-133	-345	-327	-414
<b>Profit for the period</b>	<b>482</b>	<b>469</b>	<b>1,249</b>	<b>1,157</b>	<b>1,467</b>
<b>Other comprehensive income</b>					
<i>Items that cannot be reclassified to profit or loss for the period</i>					
Revaluation of defined benefit pension plans	-2	-6	-6	-17	-15
Tax attributable to items that cannot be reclassified to profit or loss for the period	1	2	0	4	3
<i>Items that will be reclassified to profit or loss for the period</i>					
Translation differences in calculation of foreign operations	0	0	0	0	0
Change in fair value of forward exchange contracts	-6	-1	-1	-1	0
Change in fair value of available-for-sale financial assets	-	-	-	-	-6
Tax attributable to items that have been reclassified or can be reclassified to profit or loss for the period	1	0	0	0	1
<b>Other comprehensive income for the period</b>	<b>-6</b>	<b>-5</b>	<b>-7</b>	<b>-14</b>	<b>-17</b>
<b>Total comprehensive income for the period</b>	<b>476</b>	<b>464</b>	<b>1,242</b>	<b>1,143</b>	<b>1,450</b>
Operating profit includes depreciation/amortization of	186	187	567	552	744
Earnings per share before dilution, SEK	2.24	2.23	5.87	5.51	6.98
Earnings per share after dilution, SEK	2.24	2.23	5.86	5.51	6.98
Profit for the period attributable to					
Owners of the parent	470	468	1,230	1,156	1,463
Non-controlling interests	12	1	19	1	4
Total comprehensive income for the period attributable to					
Owners of the parent	464	463	1,223	1,142	1,446
Non-controlling interests	12	1	19	1	4

## Condensed statement of financial position, Group

SEK m	30/9/2018	30/9/2017	31/12/2017
<b>Assets</b>			
Goodwill	2,674	2,671	2,671
Other intangible assets	694	720	717
Property, plant and equipment	2,067	1,933	2,032
Financial assets <sup>1)</sup>	64	95	84
Deferred tax assets	130	109	131
<b>Total non-current assets</b>	<b>5,629</b>	<b>5,528</b>	<b>5,635</b>
Inventories	2,284	2,243	2,263
Accounts receivable – trade	1,064	1,068	954
Other current assets	1,292	1,284	1,241
Cash and bank balances	1,083	835	1,376
Assets held for sale	104	-	-
<b>Total current assets</b>	<b>5,827</b>	<b>5,430</b>	<b>5,834</b>
<b>Total assets</b>	<b>11,456</b>	<b>10,958</b>	<b>11,469</b>
<b>Shareholders' equity and liabilities</b>			
Equity attributable to owners of the parent	3,992	3,960	4,266
Equity attributable to non-controlling interests	214	209	212
<b>Total shareholders' equity</b>	<b>4,206</b>	<b>4,169</b>	<b>4,478</b>
Non-current interest-bearing liabilities	477	482	479
Deferred tax liabilities	778	728	784
Other noninterest-bearing non-current liabilities	34	30	29
<b>Total non-current liabilities</b>	<b>1,289</b>	<b>1,240</b>	<b>1,292</b>
Current interest-bearing liabilities	49	48	49
Accounts payable – trade	3,671	3,368	3,458
Other current noninterest-bearing liabilities	2,241	2,133	2,192
<b>Total current liabilities</b>	<b>5,961</b>	<b>5,549</b>	<b>5,699</b>
<b>Total shareholders' equity and liabilities</b>	<b>11,456</b>	<b>10,958</b>	<b>11,469</b>
1) Of which, interest-bearing assets	24	22	23

## Condensed statement of cash flows, Group

SEK m	9 mos 2018	9 mos 2017	12 mos 2017
<b>Operating activities</b>			
Operating profit	1,599	1,488	1,886
Adjustments for non-cash items	554	512	707
Interest paid	-10	-10	-5
Interest received	4	6	6
Paid tax	-345	-332	-382
Changes in working capital	82	38	322
<b>Cash flow from operating activities</b>	<b>1,884</b>	<b>1,702</b>	<b>2,534</b>
<b>Investing activities</b>			
Acquisitions of operations	-10	-746	-746
Acquisitions of intangible assets	-99	-74	-114
Acquisitions of property, plant and equipment	-452	-403	-651
Other changes in investing activities	-101	13	11
<b>Cash flow from investing activities</b>	<b>-662</b>	<b>-1,210</b>	<b>-1,500</b>
<b>Financing activities</b>			
Loans raised	-	0	0
Amortization of debt	0	-96	-97
Share repurchases	-30	-28	-28
Dividend payout	-1,485	-1,259	-1,259
<b>Cash flow from financing activities</b>	<b>-1,515</b>	<b>-1,383</b>	<b>-1,384</b>
<b>Cash flow for the period</b>	<b>-293</b>	<b>-891</b>	<b>-350</b>

## Condensed statement of changes in equity, Group

SEK m	30/9/2018	30/9/2017	31/12/2017
Amount at start of year	4,478	4,118	4,118
Changed accounting policy (IFRS 9)	-5	-	-
Total comprehensive income for the period	1,242	1,143	1,450
Change in non-controlling interests	-	193	193
Share repurchases	-30	-28	-28
Share-based payments	6	2	4
Dividend to shareholders	-1,485	-1,259	-1,259
<b>Amount at end of period<sup>1)</sup></b>	<b>4,206</b>	<b>4,169</b>	<b>4,478</b>

1) Of shareholders' equity, SEK 3,992 m (3,960) is attributable to owners of the parent and SEK 214 m (209) to non-controlling interests.

## Key ratios and other data, Group

	30/9/2018	30/9/2017	12 mos 2017
Operating margin, %	4.5	4.4	4.1
Margin after financial items, %	4.5	4.3	4.1
Equity ratio, %	36.7	38.0	39.0
Net debt (+)/net receivable (-)	-581	-327	-871
Net debt-equity ratio (+)/Net receivable-equity ratio (-), multiple	-0.1	-0.1	-0.2
Debt-equity ratio, multiple	0.1	0.1	0.1
Capital employed, SEK m	4,732	4,699	5,006
Return on capital employed, %	42.5	42.1	39.4
Return on shareholders' equity, %	38.7	37.8	34.9
Average number of employees during the period	10,179	9,875	9,903
Capital expenditures, SEK m	599	1,624	1,934
Number of shares outstanding at the end of the period	209,494,712	209,676,712	209,676,712
Average number of shares outstanding before dilution	209,585,859	209,772,650	209,748,468
Average number of shares outstanding after dilution	209,866,619	209,873,497	209,872,801
<b>Key data per share</b>			
Earnings per share before dilution, SEK	5.87	5.51	6.98
Earnings per share after dilution, SEK	5.86	5.51	6.98
Ordinary dividend per share, SEK	-	-	7.00
Shareholders' equity per share, SEK	19.06	18.89	20.35
Cash flow per share, SEK	-1.40	-4.25	-1.67

## Quarterly overview

	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Net sales	11,116	10,639	11,925	11,578	11,826	11,444	12,221	12,050
Operating profit	401	397	487	604	398	435	545	620
Operating margin, %	3.6	3.7	4.1	5.2	3.4	3.8	4.5	5.1
Earnings per share before dilution, SEK	1.46	1.47	1.81	2.23	1.46	1.61	2.01	2.24
Shareholders' equity per share, SEK	19.62	15.10	16.74	18.89	20.35	14.95	16.83	19.06
Return on shareholders' equity, %	34.1	47.9	42.7	37.8	34.9	47.3	43.8	38.7
Cash flow from operating activities per share, SEK	3.20	0.18	5.09	2.85	3.97	3.06	2.39	3.54
Capital expenditures	172	788	632	204	310	189	232	178
Net debt (+)/net receivable (-)	-1,249	712	267	-327	-871	122	-6	-581
Share price, SEK	143.20	134.60	140.60	139.70	158.10	142.75	172.30	166.40

## Financial statements, Parent Company

### Condensed income statement, Parent Company

SEK m	Q3 2018	Q3 2017	9 mos 2018	9 mos 2017	12 mos 2017
Net sales	1	0	2	1	1
Selling/administrative expenses, etc.	-31	-16	-85	-89	-123
<i>Operating profit</i>	-30	-16	-83	-88	-122
Other net financial items	1	2	21	3	3
<i>Profit after financial items</i>	-29	-14	-62	-85	-119
Appropriations, net	-	-	-	-	1,737
<i>Profit before tax</i>	-29	-14	-62	-85	1,618
Tax	6	3	12	18	-359
<b>Net profit for the period</b>	<b>-23</b>	<b>-11</b>	<b>-50</b>	<b>-67</b>	<b>1,259</b>
Operating profit includes depreciation/amortization totalling	3	3	8	8	10

Profit for the period corresponds to total comprehensive income for the period.

### Condensed balance sheet, Parent Company

SEK m	30/9/2018	30/9/2017	31/12/2017
<b>Assets</b>			
Property, plant and equipment	7	14	12
Participations in Group companies	3,384	3,893	3,338
Other financial non-current assets	7	9	9
Deferred tax assets	8	6	7
<b>Total non-current assets</b>	<b>3,406</b>	<b>3,922</b>	<b>3,366</b>
Receivables from Group companies <sup>1)</sup>	1,029	871	3,076
Other current assets	255	230	13
Cash and bank balances	474	416	804
<b>Total current assets</b>	<b>1,758</b>	<b>1,517</b>	<b>3,893</b>
<b>Total assets</b>	<b>5,164</b>	<b>5,439</b>	<b>7,259</b>
<b>Shareholders' equity and liabilities</b>			
Restricted shareholders' equity	287	287	287
Unrestricted shareholders' equity	1,255	1,466	2,795
<b>Total shareholders' equity</b>	<b>1,542</b>	<b>1,754</b>	<b>3,082</b>
<b>Untaxed reserves</b>	<b>2,400</b>	<b>2,127</b>	<b>2,400</b>
Non-current interest-bearing liabilities	31	26	28
Noninterest-bearing non-current liabilities	2	1	2
<b>Total non-current liabilities</b>	<b>33</b>	<b>27</b>	<b>30</b>
Accounts payable – trade	11	10	20
Liabilities to Group companies <sup>2)</sup>	1,117	1,465	1,594
Other current noninterest-bearing liabilities	61	56	133
<b>Total current liabilities</b>	<b>1,189</b>	<b>1,531</b>	<b>1,747</b>
<b>Total shareholders' equity and liabilities</b>	<b>5,164</b>	<b>5,439</b>	<b>7,259</b>
<sup>1)</sup> Of which, interest-bearing receivables	1,017	858	1,019
<sup>2)</sup> Of which, interest-bearing liabilities	1,117	1,465	1,554

## Notes

### Note 1 Accounting policies

Axfood applies International Financial Reporting Standards (IFRS) as endorsed by the European Union. This interim report has been prepared for the Group in accordance with IAS 34 Interim Financial Reporting and applicable provisions of the Swedish Annual Accounts Act. Disclosures in accordance with IAS 34 Interim Financial Reporting are presented in notes as well as in other parts of the interim report. For the Parent Company, the interim report has been prepared in accordance with recommendation RFR 2 – Reporting for Legal Entities, issued by the Swedish Financial Reporting Board (RFR), and Ch. 9 – Interim Financial Reporting, of the Swedish Annual Accounts Act.

Preparation of the financial statements in accordance with IFRS requires the Board and company management to 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.

The same accounting policies and calculation methods have been used in this interim report as in the most recent annual report, apart from what is stated below. During the period Axfood applied the accounting policies for non-current assets held for sale. A non-current asset is classified as held for sale when its carrying amount will be recovered mainly through a sale and not through use. An asset is classified as held for sale when it is available for immediate sale in existing condition and according to normal terms, and it is highly probable that the sale will be carried out. Such assets are reported on a separate line as a current asset in the statement of financial position. Non-current assets are reported at the lower of their carrying amount and fair value less costs to sell.

#### New accounting policies 2018

The Group has begun applying IFRS 9 Financial Instruments as from 1 January 2018. The effect of the changeover to IFRS 9 on the consolidated financial statements is shown in the table below.

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

The combined effect (after tax) on the opening balance of the Group's shareholders' equity at 1 January 2018 is SEK 5 m. The effects consist of the following:

- A decrease of SEK 1.0 m attributable to profit brought forward owing to expected future credit losses on financial assets (according to the expected credit loss model). Axfood applies a simplified method for recognition of impairment.
- A decrease in the fair value reserve of SEK 4 m attributable to reclassification of financial assets.

Application of IFRS 15 Revenue from Contracts with Customers has not had any effects on opening balances. For further information, see Axfood's 2017 Annual Report.

#### New accounting policies effective in 2019 and forward

To the extent that anticipated effects on the financial statements of application of new or amended standards and interpretations are not described below, Axfood has concluded that they will not have any material effect on the consolidated financial statements.

IFRS 16 Leases, the new leasing standard that takes effect in 2019, will affect Axfood. The new standard differs significantly from the current IAS 17. The standard applies for all lease contracts as well as for subleases. The disclosures provided in Note 11 in the 2017 Annual Report about operating leases provide an indication of the type and scope of the leases that existed at that time. A project is under way to determine how the consolidated financial statements will be affected by the transition to IFRS 16. Axfood has opted to use the modified retrospective approach for the transition, where the right of use asset will be valued at its carrying amount, as if the standard had been applied since the commencement of the lease. The effects of the transition have not yet been quantified, and the standard will not be applied prospectively.

## Note 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 Executive Committee monitors sales and operating profit for each of the business areas, which make up the Group's operating segments. The operating segments that have been identified are Willys, Hemköp, Dagab and Axfood Snabbgross. For information about Axfood's operating segments, see pages 3–9 of this interim report. For a more detailed description of the segments, please refer to the 2017 Annual Report.

Axfood has no significant transactions with related parties other than transactions with subsidiaries.

## Note 3 Significant risks and uncertainties

In the course of their business the Axfood Group and Parent Company are exposed to operational, strategic and financial risks. Operational and strategic risks include business and liability risks, among others, while financial risks include liquidity risk, interest rate risk and currency risk. Axfood works continuously with risk identification and assessment. One of the most significant business risks that Axfood has identified in its safety analysis work is of a total loss, such as from a fire at one of the central warehouses in Stockholm, Gothenburg or Örebro. Major emphasis is put on preventive work, and the organization for this is well developed, as is the Company's planning to maintain operating continuity in the event of unforeseen events.

For a thorough account of the risks that affect the Group, please refer to the 2017 Annual Report.

## Note 4 Seasonal effects

Axfood's sales are affected to some degree by seasonal variations. Sales increase 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.

## Note 5 Acquired operations

No significant acquisitions have been made to date in 2018.

## Note 6 Disclosures about financial assets and liabilities

No significant changes have taken place with respect to fair valuation of financial assets and liabilities since publication of the 2017 Annual Report. Fair values correspond in all essential respects with the carrying amounts.

## Note 7 Pledged assets and contingent liabilities

Group, SEK m	30/9/2018	30/9/2017	31/12/2017
Pledged assets	6	0	6
Contingent liabilities	21	19	17
Parent Company, SEK m	30/9/2018	30/9/2017	31/12/2017
Pledged assets	0	0	0
Contingent liabilities	287	299	287

## Note 8 Long-term share-based incentive programmes

During the second quarter of 2018 the long-term share-based incentive programme LTIP 2018 was implemented following a resolution by the 2018 Annual General Meeting. The programme has the same terms as LTIP 2017. At the programme's start LTIP 2018 included 59 participants who together held 23,700 savings shares. According to a calculation model based on Monte Carlo simulations, the total cost of LTIP 2018 is estimated to be approximately SEK 33 m, with a maximum outcome of approximately SEK 56 m.

To secure the Company's undertaking with respect to conditional matching and performance shares under LTIP 2018, during the second quarter of 2018 Axfood

repurchased 182,000 shares at an average price of SEK 162.89 per share, for a total of SEK 30 m. Axfood's holding of treasury shares thereby amounts to 376,000 shares and ensures the delivery of shares to LTIP 2017 and LTIP 2018.

## Note 9 Events after the balance sheet date

No significant events have taken place after the balance sheet date.

## Financial key ratios

The Axfood Group uses various financial measures in its interim reports 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 table below includes measures not defined in IFRS, unless indicated otherwise, as well as a reconciliation of these measures.

Definitions of the key ratios are provided below.

## Derivation and reconciliation

Store sales – Group-owned and franchise stores, quarterly data

SEK m	Q3 2018	Q3 2017	% <sup>1)</sup>	Like-for-like sales Q3 2018	Like-for-like sales Q3 2017	% <sup>1)</sup>
Net sales, Willys	6,702	6,417	4.4	-	-	-
Of which, sales for Group-owned stores <sup>2)</sup>	6,702	6,417	4.4	6,620	6,388	3.6
Net sales, Hemköp	1,520	1,470	3.4	-	-	-
Of which, sales for Group-owned stores <sup>2)</sup>	1,487	1,438	3.4	1,391	1,381	0.7
Store sales, Hemköp franchises	1,831	1,782	2.8	1,805	1,738	3.8
Store sales, Hemköp Group-owned and franchise stores	3,317	3,220	3.0	3,196	3,120	2.5
<b>Retail sales, Group-owned stores<sup>2)</sup></b>	<b>8,189</b>	<b>7,855</b>	<b>4.2</b>	<b>8,010</b>	<b>7,769</b>	<b>3.1</b>
<b>Axfood Group, store sales</b>	<b>10,020</b>	<b>9,637</b>	<b>4.0</b>	<b>9,816</b>	<b>9,507</b>	<b>3.2</b>
Axfood Snabbgross	906	813	11.5	889	809	9.9

## Derivation and reconciliation

Store sales – Group-owned and franchise stores, nine-month data

SEK m	9 mos 2018	9 mos 2017	% <sup>1)</sup>	Like-for-like sales 9 mos 2018	Like-for-like sales 9 mos 2017	% <sup>1)</sup>
Net sales, Willys	20,033	18,782	6.7	-	-	-
Of which, sales for Group-owned stores <sup>2)</sup>	20,033	18,782	6.7	19,455	18,726	3.9
Net sales, Hemköp	4,735	4,561	3.8	-	-	-
Of which, sales for Group-owned stores <sup>2)</sup>	4,634	4,465	3.8	4,354	4,322	0.7
Store sales, Hemköp franchises	5,523	5,367	2.9	5,443	5,242	3.8
Store sales, Hemköp Group-owned and franchise stores	10,157	9,832	3.3	9,797	9,564	2.4
<b>Retail sales, Group-owned stores<sup>2)</sup></b>	<b>24,666</b>	<b>23,247</b>	<b>6.1</b>	<b>23,809</b>	<b>23,048</b>	<b>3.3</b>
<b>Axfood Group, store sales</b>	<b>30,189</b>	<b>28,614</b>	<b>5.5</b>	<b>29,252</b>	<b>28,289</b>	<b>3.4</b>
Axfood Snabbgross	2,446	2,257	8.4	2,395	2,244	6.7

<sup>1)</sup> Percentage change compared with corresponding period a year ago. <sup>2)</sup> Summation of sales for Group-owned stores.

## Operating key ratio definitions and glossary

**Axfood Group:** Group-owned stores and Hemköp franchise stores.

**Average number of employees during the year:** Total number of hours worked divided by the number of annual full-time equivalents (1,920 hours).

**Delivery reliability:** The share of delivered goods in relation to the share of ordered goods.

**LTIP:** Long-Term Incentive Programme.

## Financial key ratio definitions

**Capital employed:** Total assets less noninterest-bearing liabilities and noninterest-bearing provisions. Average capital employed is calculated as capital employed at end of the period plus capital employed at the same point in time in the preceding year, divided by two.

**Cash flow from operating activities per share:** Cash flow from operating activities for the period divided by the weighted average number of shares outstanding.

**Cash flow per share:** Cash flow for the period divided by the weighted average number of shares outstanding before dilution.

**Debt-equity ratio:** Interest-bearing liabilities divided by shareholders' equity including non-controlling interests.

**Earnings per share:** Net profit for the period attributable to owners of the parent divided by a weighted average number of shares outstanding.

**Equity ratio:** Shareholders' equity including non-controlling interests as a percentage of total assets.

**Interest-bearing net debt receivable/liability:** Interest-bearing non-current and current receivables and liabilities, including cash and bank balances, and the interest-bearing portion of financial assets.

**Interest cover ratio:** Profit after financial items plus financial expenses, divided by financial expenses.

**Joint-Group:** Includes head office support functions, such as the Executive Committee, Finance/Accounting, Communications, Business Development, HR and IT.

**Like-for-like sales:** Sales for stores that existed and generated sales in the comparison period, broken down into Group-owned and franchise stores.

**Margin after financial items:** Profit after financial items as a percentage of net sales for the period.

**Net capital expenditures in cash flow:** Total capital expenditures excluding investments pertaining to leasing, less divestments.

**Net debt-equity ratio/net receivable-equity ratio:**

Interest-bearing liabilities and provisions less cash and cash equivalents and interest-bearing receivables, divided by shareholders' equity including non-controlling interests.

**Operating margin:** Operating profit as a percentage of net sales for the period.

**Pro forma:** Pro forma is a method for reporting changed historical figures that describe financial effects after a change in order to be able to compare with current figures.

**Return on capital employed:** Profit after financial items, plus financial expenses, as a percentage of average capital employed.

**Return on shareholders' equity:** Net profit for the period attributable to owners of the parent as a percentage of average equity attributable to owners of the parent. Average equity is calculated as shareholders' equity at the end of the period plus shareholders' equity at the same point in time in the preceding year, divided by two.

**Sales, Group-owned retail operations:** Sales for Hemköp and Willys stores owned by Axfood.

**Sales growth:** Percentage increase in sales between two periods.

**Sales of private label products:** Sales of private label products, excluding meats and fruits & vegetables, as a percentage of store sales including Hemköp franchise stores. The private label share is based on statistical data from external suppliers. Data from a selection of Axfood's stores are calculated statistically to a total sum based on the stores' annual sales. In this selection, sales for Group-owned and franchise stores are weighted according to the actual historical sales.

**Shareholders' equity per share:** Equity attributable to owners of the parent divided by the number of shares before dilution.

**Store sales, Axfood Group:** Sales for Hemköp and Willys stores, including Hemköp franchise.

**Total capital expenditures:** Investments in intangible and tangible non-current assets, including finance leases.

## About Axfood

At Axfood we work with passion for food and people. Food that is good and sustainable. Axfood includes the Willys and Hemköp chains as well as Tempo, Handlar'n and Direkten, which are retailer-owned stores. B2B sales are made through the Axfood Snabbgross chain, and wholesaling is conducted through Dagab. Axfood is also the owner of mat.se and Middagsfrid, and a part-owner of Apohem, Eurocash and Urban Deli. The number of Group-owned stores is 302. In all, Axfood collaborates with approximately 870 retailer-owned stores. Axfood is listed on Nasdaq Stockholm (Large Cap), and the principal owner is Axel Johnson AB.

### Vision

Axfood will be the leader in good and sustainable food.

### Mission

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

### Business concept

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

### Business model

Axfood's business model is built upon three processes, where every small detail in the process is important for the Company's success. It begins with the choice of suppliers by Axfood's joint-Group assortment and purchasing function for all of the Group's formats (Choice of suppliers, price negotiations, and purchasing). Efficient logistics then create conditions for favourable and profitable growth together with sustainable transports and efficient use of energy (Logistics). A distinct sustainability profile, attentive customer service and smart store layout are key aspects in creating an inspiring in-store experience (stores, customers and joy of food).

### Strategy

Axfood's strategy is built upon six strategic areas: the customer offering, the customer interface, expansion, the product's path, our way of working, and our people. Axfood will offer an affordable and wide product range of good and sustainable food that is a mix of own and popular brands. With sustainable and efficient product supply, customers will be served wherever they may be at any time of the day or night – both in physical stores and via e-commerce. Through new sales channels featuring new and innovative services and segments we will meet our customers' needs. Aside from these areas it is essential that we attract and develop the industry's best talent as part of our efforts to also have a customer-centric and dynamic organization in which efficiency and cost control are in focus. For Axfood it goes without saying that sustainability and community engagement run like a common thread through all our operations.

### Investment case – value drivers

Axfood emphasizes four factors that it believes are important regarding an investment in Axfood:

- The Swedish food retail industry is relatively insensitive to economic swings, with stable growth that is mainly driven by population growth and inflation.
- Historically Axfood has delivered favourable returns. The dividend policy is to distribute at least 50% of profit after tax.
- Axfood's store formats have strong positions in their respective segments. An attractive and sustainable assortment is central to all of the formats, and the affordability and distinct profiles of the Group's private label products – including sustainability aspects – play an important role.
- Through a focus on profitable growth, Axfood has the opportunity to deliver favourable growth in value over time. Axfood's distinct sustainability profile is a competitive advantage.

## Invitation to presentation of third quarter results 2018

Axfood will present the interim report for the third quarter in a conference call today at 9.30 a.m. CET. The report will be presented by Axfood's President and CEO Klas Balkow and CFO Anders Lexmon.

To follow the conference call, visit [www.axfood.se](http://www.axfood.se), or call:

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