

A successful 2019

Fourth quarter summary

- Consolidated net sales amounted to SEK 13,040 m (12,370), an increase of 5.4%.
- Operating profit totalled SEK 487 m (425), an increase of 14.6%. The operating margin was 3.7% (3.4%). The new accounting standard for leasing (IFRS 16) had a positive effect on operating profit of SEK 45 m and on the operating margin of 0.3 percentage points.
- Net profit for the period totalled SEK 359 m (328), and earnings per share before dilution were SEK 1.68 (1.54).
- Agreement signed with Witron on automation of Axfood's new, highly automated logistics centre in line with previously communicated Letter of Intent.

Summary January–December

- Consolidated net sales amounted to SEK 50,740 m (48,085), and increase of 5.5%.
- Operating profit totalled SEK 2,288 m (2,025), an increase of 13.0%. The operating margin was 4.5% (4.2%). The new accounting

standard for leasing (IFRS 16) had a positive effect on operating profit of SEK 174 m and on the operating margin of 0.3 percentage points.

- Net profit for the period totalled SEK 1,679 m (1,577), and earnings per share before dilution were SEK 7.87 (7.41).

Significant events after the balance sheet date

- The Board of Directors proposes an increased dividend of SEK 7.25 per share (7.00). In addition, the Board has decided to change the Group's dividend policy, entailing payment of the dividend on two occasions.
- Capital expenditures in 2020 are expected to amount to SEK 900–1,000 m excluding acquisitions and right-of-use assets.
- During 2020 Axfood plans to establish 5–10 new stores.
- Simone Margulies took office as Managing Director of Hemköpskedjan AB on 1 February 2020.

5.4%

Net sales growth for the Axfood Group during the fourth quarter of 2019.

6.2%

Growth in store sales for the Axfood Group during the fourth quarter of 2019.

Key ratios

SEK m	Q4 2019	Q4 2018	Change	12 mos 2019	12 mos 2018	Change
Net sales	13,040	12,370	5.4%	50,740	48,085	5.5%
Operating profit	487	425	14.6%	2,288	2,025	13.0%
Operating margin, %	3.7	3.4	0.3	4.5	4.2	0.3
Profit for the period	359	328	9.5%	1,679	1,577	6.4%
Earnings per share before dilution, SEK	1.68	1.54	9.1%	7.87	7.41	6.2%
Cash flow from operating activities per share, SEK	5.26	3.90	34.9%	16.98	12.89	31.7%
Return on capital employed, % ¹⁾	30.1	40.4	-10.3	30.1	40.4	-10.3
Return on shareholders' equity, % ¹⁾	39.6	36.2	3.4	39.6	36.2	3.4
Shareholders' equity per share, SEK	-	-	-	19.21	20.54	-6.5%
Equity ratio, %	-	-	-	24.6	37.0	-12.4

1) Rolling 12-month figures.

Starting in 2019, leasing is reported in accordance with a new standard, IFRS 16. Comparison figures have not been recalculated.

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. The information was submitted for publication, through the agency of the contact person listed above, at 7 a.m. CET on 6 February 2020.

Invitation to presentation of 2019 year-end report

Axfood will present the 2019 year-end report at 9.00 a.m. today at Norra Stationsgatan 80A, Stockholm. The report will be presented by Klas Balkow, President and CEO, and Anders Lexmon, CFO. To follow the presentation, visit www.axfood.se or call:
 Sweden: +46 850 558 350, UK: +44 333 300 9269, USA: +1 833 823 0587.

A successful year with investments for the future

2019 was a year in which we once again grew more than the market and improved our earnings at the same time that we made ambitious investments that will create value over time. We also continued our work for a more sustainable society and are well-equipped to continue meeting the challenges and opportunities that we will face in 2020.

It is with pride that I look back on the past year and the clear progress we made in many areas. A strong fourth quarter rounded off a successful 2019 with good growth in our stores as well as in e-commerce, and our net sales exceeded SEK 50 bn for the first time. We have all been able to follow Willys' progress, but important to note is that all our brands and businesses are contributing to the steady strengthening of our market position.

On top of this strong financial performance, during the year we consistently advanced our positions in the area of sustainability. We are creating conditions for more sustainable consumption by continuing to make it easy for our customers to choose good and sustainable food. For example, during the quarter Mat.se launched the largest carbon footprinting initiative for foods ever conducted, covering some 3,000 food products.

A house of successful brands

Willys' position as Sweden's leading discount grocery chain was strengthened during the year as we once again grew considerably faster than the market. It is clear that the ambition to offer Sweden's cheapest bag of groceries combined with a focus on quality, sustainability and simplicity is appreciated and sought after. At Willys we have also improved profitability and have continued to invest in the business by establishing new stores, expanding our e-commerce presence and modernizing existing stores.

We also continue to invest in our positioning and stronger competitiveness for Hemköp and Tempo. During the year Hemköp continued to grow its share of the market, not least during the fourth quarter, driven by positive development in the retailer-owned stores. We have now also opened up the opportunity for franchise stores to offer e-commerce, and Hemköp Munkedal – which was first out – was able to take its first order just before Christmas. I am also happy to have had the opportunity this week to welcome Simone Margulies, previously Vice President of Dagab, as the new Managing Director of Hemköpskedjan.

Axfood Snabbgross, which serves the rapidly growing café and restaurant market, also delivered a successful year with higher growth and significantly improved profitability.

Intensive year for Dagab

Our purchasing and logistics company Dagab had an intensive year. Important steps have been taken in the establishment of our new, highly automated logistics centre outside Stockholm. The work is proceeding according to plan, we have all key pieces of the puzzle in place for continued progress of the construction, and the automation solution and ground work are in full swing. Parallel with this we have established a joint dark store for home deliveries in the greater Stockholm area. The integration has taken longer than expected, but it has also given us valuable lessons in our continued work on creating sustainable e-commerce logistics for the future. I also want to stress that Dagab's purchasing and logistics operation continued to improve its processes during the year and showed high efficiency. However, the segment's profitability was negatively affected by costs for the dark store in Stockholm and investments in Apohem, Urban Deli and Mat.se.

High ambitions for 2020

Our ambition is to continue developing our customer offering so that everyone can enjoy affordable, good and sustainable food. We also intend to continue on our change journey toward a more data-driven work approach in order to further develop our own efficiency as well as how we interact with our customers.

During 2020 we estimate that our capex need will be in the range of SEK 900–1,000 m, which is lower than the 2019 level owing to how the capex plan coupled to the automation of the new logistics centre is structured. We also expect to establish 5-10 new stores and increase our presence online.

Axfood has a strong financial position, and at the Annual General Meeting the Board will propose an increased dividend of SEK 7.25 per share and that the dividend will be paid out on two occasions in accordance with the Board's revised dividend policy.

All-in-all, 2019 was a very successful year for the Axfood house of brands – a year in which we took important steps to strengthen our position also over time. We look with confidence toward a successful 2020 – the year in which Axfood turns 20 years!

Klas Balkow
President and CEO, Axfood AB



"A strong fourth quarter rounded off a successful 2019 for Axfood, when our net sales reached more than SEK 50 bn for the first time and we delivered on all of our long-term financial targets."

The Swedish food retail market

The food retail industry is generally less sensitive to economic swings than other trade sectors. The industry is mainly affected by population growth and inflation, but also by large trends such as digitalization, demographic changes, sector convergence, health and sustainability, and price value.

The share of household expenses that go to groceries has hovered around 12% during the last 20 years. At the same time, the market for prepared food has grown strongly, and the share of household expenses spent at cafés and restaurants is now nearing 6%, an increase from around 4% at the turn of the millennium. In recent years food retail sales online have grown rapidly, but e-commerce still accounts for a very small share of the food retail market. Another important trend is that today's grocery consumers are increasingly conscious about the impact that food has on the environment, climate and health.

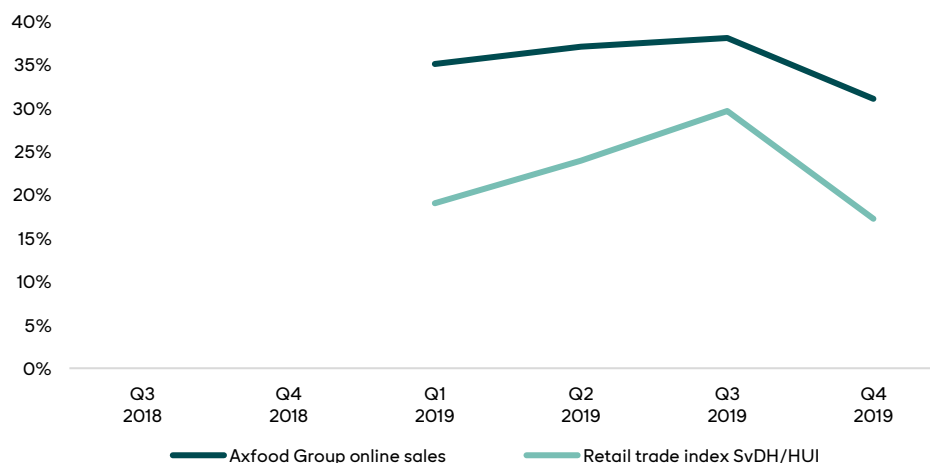
According to the Swedish Food Retailers Federation's (SvDH) food retail index, total sales growth during the fourth quarter of 2019 was 3.7%, including 17.2% growth for the online segment, and 3.1% and 21.9% for the full year, respectively. Food price inflation during the period January–December was preliminarily 2.8%, according to Statistics Sweden.

Growth in store sales for the Axfood Group¹⁾ compared with SvDH's food retail index



1) Willys and Hemköp (Group-owned and franchises).

Growth in online sales for the Axfood Group¹⁾ compared with SvDH's food retail index



1) Axfood began reporting e-commerce sales starting with the first quarter of 2019.

Net sales

Fourth quarter

Net sales for the Axfood Group grew 5.4% during the fourth quarter to SEK 13,040 m (12,370). The sales improvement is mainly attributable to Willys' strong growth, but also to continued favourable growth for other food concepts.

Store sales for the Axfood Group (Group-owned stores and Hemköp franchises) amounted to SEK 11,221 m (10,567), an increase of 6.2%. Like-for-like growth was 4.3%. The increase is attributable to growth for all store chains, where Willys and Hemköp in total grew more than the market. Lower growth for Hemköp's Group-owned stores, in part due to conversions, was compensated by strong performance for Hemköp franchises, supported by the addition of the nine Östenssons stores starting on 1 September.

In online sales to consumers, Axfood once again grew more than the market during the fourth quarter. Net sales totalled SEK 373 m (285), an increase of 31%, which can be credited to favourable like-for-like sales growth and the roll-out by Willys to new cities and more stores.

Sales of private label products accounted for 30.0% (29.2%) of total store sales during the fourth quarter.

4.3%

Axfood Group's like-for-like store sales growth during the fourth quarter of 2019.

31%

Increase in the Axfood Group's online sales to consumers during fourth quarter of 2019.

January–December

Net sales for the Axfood Group amounted to SEK 50,740 m (48,085) during the period, an increase of 5.5%. Store sales for the Axfood Group (Group-owned stores and Hemköp franchises) grew 6.0%, while like-for-like sales increased by 5.0%. Online sales to consumers increased during the period by 35%, to SEK 1,333 m (989).

Net sales per segment

SEK m	Q4 2019	Q4 2018	Change	12 mos 2019	12 mos 2018	Change
Willys	7,488	7,033	6.5%	29,029	27,066	7.3%
Hemköp	1,652	1,667	-0.9%	6,378	6,403	-0.4%
Axfood Snabbgross	845	795	6.2%	3,443	3,241	6.2%
Dagab	11,657	11,066	5.3%	44,895	42,456	5.7%
Joint-Group	237	210	12.9%	928	830	11.8%
<i>Internal sales between segments that are eliminated</i>						
Dagab	-8,620	-8,203	5.1%	-33,068	-31,130	6.2%
Axfood Snabbgross	-1	-2	-57.6%	-3	-5	-44.9%
Joint-Group	-218	-196	11.4%	-862	-775	11.2%
Net sales, total	13,040	12,370	5.4%	50,740	48,085	5.5%

Store sales (including online)

SEK m	Q4 2019	Q4 2018	Change	Change in like-for-like stores	12 mos 2019	12 mos 2018	Change	Change in like-for-like stores
Willys	7,488	7,033	6.5%	5.1%	29,029	27,066	7.3%	6.2%
Hemköp, Group-owned	1,616	1,634	-1.1%	1.7%	6,236	6,268	-0.5%	1.3%
Hemköp franchises	2,118	1,900	11.4%	3.1%	7,940	7,423	7.0%	3.4%
Hemköp total	3,734	3,534	5.7%	2.5%	14,177	13,691	3.6%	2.5%
Axfood Group store sales	11,221	10,567	6.2%	4.3%	43,206	40,757	6.0%	5.0%
Axfood Snabbgross	845	795	6.2%	6.2%	3,443	3,241	6.2%	6.4%

Change in store structure

	31 Dec 2018	New establishments/ acquisitions	Sales/ closures	31 Mar 2019	New establishments/ acquisitions	Sales/ closures	30 Jun 2019	New establishments/ acquisitions	Sales/ closures	30 Sep 2019	New establishments/ acquisitions	Sales/ closures	31 Dec 2019
Number of stores													
Willys ¹⁾	208	1	-	209	3	-	212	1	-	213	1	-1	213
Hemköp	70	-	-2	68	2	-2	68	-	-	68	1	-2	67
Axfood Snabbgross	24	-	-	24	-	-	24	-	-	24	-	-	24
Total, Group-owned	302	1	-2	301	5	-2	304	1	-	305	2	-3	304
Hemköp franchises	117	3	-	120	1	-	121	9	-2	128	1	-	129
Axfood Group total	419	4	-2	421	6	-2	425	10	-2	433	3	-3	433
¹⁾ Of which, Willys Hemma	49	1	-	50	-	-	50	-	-	50	-	-	50
Of which, Eurocash	8	-	-	8	-	-	8	-	-	8	-	-1	7

Operating profit

Fourth quarter

Operating profit for the fourth quarter improved to SEK 487 m (425), corresponding to an operating margin of 3.7% (3.4%). IFRS 16 had a positive effect on operating profit of SEK 45 m and on the operating margin of 0.3 percentage points.

The earnings improvement is attributable to strong growth in like-for-like sales and higher earnings for Willys, Hemköp and Axfood Snabbgross. The increase in operating profit for Willys and Axfood Snabbgross can be credited to good sales growth and cost control. For Hemköp, higher like-for-like sales in Group-owned stores and a slightly higher gross margin resulting from improved efficiency of campaigns carried out were underlying factors for the increase in operating profit. Dagab's earnings were weighed down by costs associated with the ongoing implementation of a joint-Group e-commerce logistics solution in Stockholm and by initiatives in Urban Deli, Apohem and Mat.se.

Profit after financial items amounted to SEK 460 m (422). IFRS 16 had a negative effect on net financial items of SEK 25 m. Profit after tax was SEK 359 m (328).

January–December

Operating profit for the period was SEK 2,288 m (2,025), corresponding to an operating margin of 4.5% (4.2%). IFRS 16 had a positive effect on operating profit of SEK 174 m and on the operating margin of 0.3 percentage points.

Profit after financial items totalled SEK 2,173 m (2,016). IFRS 16 had a negative effect on net financial items of SEK 109 m. Profit after tax was SEK 1,679 m (1,577).

Operating profit per segment

SEK m	Q4 2019	Q4 2018	Change	12 mos 2019	12 mos 2018	Change
Willys	312	264	18.3%	1,429	1,197	19.4%
Hemköp	65	38	71.2%	243	227	7.1%
Axfood Snabbgross	34	25	37.9%	167	121	37.8%
Dagab	152	170	-10.7%	678	685	-1.1%
Joint-Group	-76	-72	6.3%	-229	-206	11.2%
Operating profit for the period	487	425	14.6%	2,288	2,025	13.0%
Net financial items	-27	-3		-115	-9	
Profit for the period after financial items	460	422		2,173	2,016	

Operating margin per segment

%	Q4 2019	Q4 2018	Change %-pts	12 mos 2019	12 mos 2018	Change %-pts
Axfood	3.7	3.4	0.3	4.5	4.2	0.3
Willys	4.2	3.8	0.4	4.9	4.4	0.5
Hemköp	3.9	2.3	1.6	3.8	3.5	0.3
Axfood Snabbgross	4.0	3.1	0.9	4.8	3.7	1.1
Dagab	1.3	1.5	-0.2	1.5	1.6	-0.1

Operating segment performance

Willys

Fourth quarter

Willys showed continued strong performance, and net sales for the fourth quarter grew 6.5% over the same period a year ago to SEK 7,488 m (7,033). The sales growth is mainly attributable to the positive development of like-for-like sales, where net sales increased by 5.1%. An increase in the customer base, a higher average ticket value and online expansion contributed to the favourable sales growth. All of the concepts – Willys, Willys Hemma and Eurocash – contributed to the positive performance.

At the end of the fourth quarter the operating segment had 213 stores (208), including 206 Willys and seven Eurocash. The number of Eurocash stores was lower than during the third quarter of this year due to the conversion of one unit to Willys. During the fourth quarter, online shopping was expanded to an additional three Willys stores. At the end of the fourth quarter Willys offered online shopping at 78 stores (56) in 40 cities (30).

Operating profit for the fourth quarter improved to SEK 312 m (264), corresponding to an operating margin of 4.2% (3.8%). IFRS 16 had a positive effect on operating profit of SEK 27 m and on the operating margin of 0.4 percentage points. The earnings improvement can be credited to continued strong like-for-like sales growth and continued good cost control.

January–December

Willys' net sales for the period totalled SEK 29,029 m (27,066), an increase of 7.3% compared with the same period a year ago. Like-for-like sales increased by 6.2%. Operating profit was SEK 1,429 m (1,197), and the operating margin was 4.9% (4.4%). IFRS 16 had a positive effect on operating profit of SEK 103 m and on the operating margin of 0.4 percentage points. The earnings improvement can be credited to strong like-for-like sales growth and continued good cost control.

SEK m	Q4 2019	Q4 2018	Change	12 mos 2019	12 mos 2018	Change
Net sales	7,488	7,033	6.5%	29,029	27,066	7.3%
Change in like-for-like sales, %	5.1	5.4	-0.3	6.2	4.3	1.9
Operating profit	312	264	18.3%	1,429	1,197	19.4%
Operating margin, %	4.2	3.8	0.4	4.9	4.4	0.5
Number of Group-owned stores	-	-	-	213	208	5
Average number of employees during the period	-	-	-	5,603	5,337	266
Private label share, %	-	-	-	31.6	30.8	0.8

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

Net sales, SEK bn, and operating margin, %



Hemköp

Fourth quarter

Net sales for Group-owned Hemköp stores (including franchise fees) during the fourth quarter totalled SEK 1,652 m (1,667).

Growth in store sales including Hemköp franchises and online was 5.7%. The number of Group-owned stores decreased by three compared with the fourth quarter a year ago. Since the fourth quarter of 2018, 12 new franchise stores were added, in large part owing to the addition of nine stores in the Östenssons chain since 1 September. At the end of the fourth quarter Hemköp offered online shopping at 19 stores (18) in 9 cities (8).

Sales for Group-owned Hemköp stores totalled SEK 1,616 m (1,634). Like-for-like sales for Group-owned stores increased by 1.7%. Sales for franchise stores grew 11.4% to SEK 2,118 m (1,900). Apart from the addition from Östenssons, the increase is attributable to the 3.1% increase in like-for-like sales.

Operating profit for the fourth quarter totalled SEK 65 m (38), corresponding to an operating margin of 3.9% (2.3%). IFRS 16 had a positive effect on operating profit of SEK 13 m and on the operating margin of 0.8 percentage points. Earnings were positively affected mainly by higher like-for-like sales in Group-owned stores and by a slightly higher gross margin owing to improved efficiency of campaigns carried out.

During the fourth quarter, Simone Margulies was recruited as the new Managing Director of Hemköpskedjan AB, taking office on 1 February 2020.

January–December

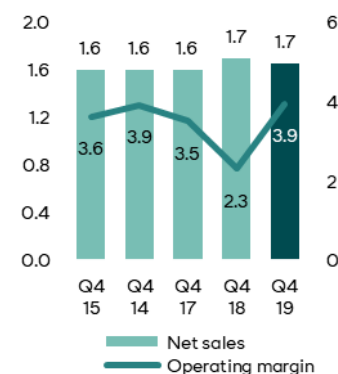
Net sales during the period for Group-owned stores totalled SEK 6,236 m (6,268), a decrease of 0.5%. Like-for-like sales for Group-owned stores increased by 1.3%. Sales for franchise stores totalled SEK 7,940 m (7,423), an increase of 7.0%, while like-for-like sales increased by 3.4%.

Operating profit for the period was SEK 243 m (227), corresponding to an operating margin of 3.8% (3.5%). IFRS 16 had a positive effect on operating profit of SEK 42 m and on the operating margin of 0.7 percentage points. Adjusted for IFRS 16, the negative earnings development is mainly attributable to weak like-for-like sales performance in Group-owned stores and to the year's investments in strengthening Hemköp's position in the market, such as by developing the concept and customer meeting.

SEK m	Q4 2019	Q4 2018	Change	12 mos 2019	12 mos 2018	Change
Net sales	1,652	1,667	-0.9%	6,378	6,403	-0.4%
Change in like-for-like sales, Group-owned stores, %	1.7	2.0	-0.3	1.3	1.1	0.2
Operating profit	65	38	71.2%	243	227	7.1%
Operating margin, %	3.9	2.3	1.6	3.8	3.5	0.3
Number of Group-owned stores	-	-	-	67	70	-3
Average number of employees during the period	-	-	-	1,739	1,798	-59
Private label share, %	-	-	-	26.0	25.1	0.9

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

Net sales, SEK bn, and operating margin, %



Axfood Snabbgross

Fourth quarter

Axfood Snabbgross's net sales totalled SEK 845 m (795) during the fourth quarter, representing growth of 6.2% compared with the same period a year ago. Axfood Snabbgross grew faster than the market and had 24 stores (24) at the end of the quarter.

Operating profit for the fourth quarter improved to SEK 34 m (25). The operating margin increased to 4.0% (3.1%). IFRS 16 had a positive effect on operating profit of SEK 2 m and on the operating margin of 0.2 percentage points. The improved profit can be credited to good growth and maintained cost efficiency.

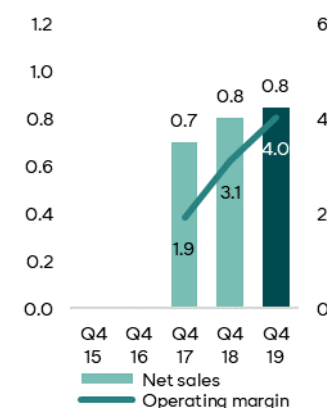
January–December

Net sales for Axfood Snabbgross totalled SEK 3,443 m (3,421) during the period, an increase of 6.2%. Operating profit for the period was SEK 167 m (121), and the operating margin was 4.8% (3.7%). IFRS 16 had a positive effect on operating profit of SEK 6 m and on the operating margin of 0.2 percentage points. The improved profit can be credited to good growth and maintained cost efficiency.

SEK m	Q4 2019	Q4 2018	Change	12 mos 2019	12 mos 2018	Change
Net sales	845	795	6.2%	3,443	3,241	6.2%
Operating profit	34	25	37.9%	167	121	37.8%
Operating margin, %	4.0	3.1	0.9	4.8	3.7	1.1
Number of stores	–	–	–	24	24	–
Average number of employees during the period	–	–	–	411	401	10

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

Net sales, SEK bn, and operating margin, %¹⁾



1) 2017 figures are pro forma as a result of reorganization carried out in 2018. Since comparison figures for 2015 and 2016 are not recalculated, they are not reported.

Dagab

Fourth quarter

Net sales for the fourth quarter totalled SEK 11,657 m (11,066), an increase of 5.3%. Growth was affected by favourable sales mainly to Willys, Hemköp franchises and Axfood Snabbgross.

Operating profit was SEK 152 m (170), corresponding to a profit margin of 1.3% (1.5%). IFRS 16 had a positive effect on operating profit of SEK 3 m and a marginal effect on the operating margin. Dagab's purchasing and logistics operation continued to improve its processes and showed high efficiency. The drop in earnings is attributable instead to the higher costs incurred in connection with the implementation of the dark store that handles the Group's home deliveries in Stockholm. Over time this investment will lead to improved efficiency in the handling of the Group's steadily growing online volumes. Operating profit for the quarter was also weighed down by costs for continued investments for the future in Apohem, Urban Deli and Mat.se.

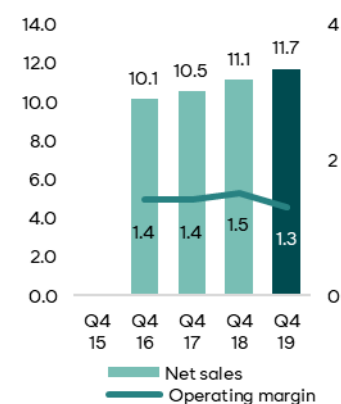
January–December

Dagab's net sales for the period totalled SEK 44,895 m (42,456), an increase of 5.7%. Operating profit was SEK 678 m (685), corresponding to an operating margin of 1.5% (1.6%). IFRS 16 had a positive effect on operating profit of SEK 20 m and a marginal effect on the operating margin. The purchasing and logistics operation showed continued positive development during the year. Earnings were weighed down by the changeover to a joint-Group dark store for home deliveries in Stockholm and continued investments for the future in Urban Deli, Apohem and Mat.se. All agreements are in place for continued progress on construction of the highly automated logistics centre in Bålsta, and the work is proceeding according to plan. For more information, see page 9.

SEK m	Q4 2019	Q4 2018	Change	12 mos 2019	12 mos 2018	Change
Net sales	11,657	11,066	5.3%	44,895	42,456	5.7%
Operating profit	152	170	-10.7%	678	685	-1.1%
Operating margin, %	1.3	1.5	-0.2	1.5	1.6	-0.1
Average number of employees during the period	–	–	–	2,699	2,301	398
Delivery reliability, %	–	–	–	96.8	96.1	0.7

Dagab handles the assortment, purchasing and logistics for the entire Axfood house of brands as well as for other B2B customers. The Dagab segment includes the online grocery store Mat.se, the meal kit company Middagsfrid, the online pharmacy Apohem, and Urban Deli, a combined restaurant and market hall concept with own food production.

Net sales, SEK bn, and operating margin, %¹⁾



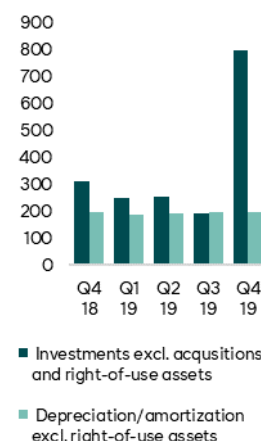
1) There are no comparison figures for 2015 due to the acquisition of the fruit & vegetable warehouse operation in 2017 and a reorganization in 2015. Figures for 2016 and 2017 are pro forma. 2016 pertains to the acquisition of the fruit & vegetable warehouse operation. 2017 figures are pro forma due to reorganization carried out in 2018.

Capital expenditures

Total capital expenditures during the period January–December amounted to SEK 1,481 m (1,021), of which SEK – m (116) pertained to acquisitions of operations, SEK 535 m (439) pertained to investments in non-current assets in the retail operations, SEK 683 m (237) pertained to non-current assets in wholesale operations – including SEK 510 m (–) in partial payment for the automation solution – and SEK 248 m (221) pertained to IT.

Investments in right-of-use assets (mainly premises) amounted to SEK 971 m during the period January–December, of which SEK 325 m pertained to newly acquired assets and SEK 647 m pertained to remeasurement of leases – mainly renewals of existing rental agreements for premises. Of total investments in leases, SEK 862 m pertained to retail operations, SEK 95 m pertained to wholesale operations and SEK 14 m pertained to joint-Group operations.

Capital expenditures, depreciation/amortization, SEK m



Logistics of the future

Establishment of automated logistics centre

In November 2019, in accordance with a previously communicated Letter of Intent, Axfood signed an agreement with the German automation supplier Witron to invest in that company's technology for the highly automated logistics centre in Bålsta, northwest of Stockholm, which is planned to be in full operation in 2023 and which will handle both picking and deliveries to stores and e-commerce customers. The total contracted investment with Witron will amount to EUR 240 m during the period 2019–2023. In short, the investment undertaking will be allocated as follows: 20% in 2019, approximately 25% in 2021, approximately 45% in 2022, and the remainder in 2023.

A long-term lease has been signed with the property owner NREP Logicens. The lease has a rental term of 25 years and is an open-book arrangement. The rent is related to the construction cost and will not be determined until the construction has been completed. This arrangement gives Axfood control over the project and will minimize long-term rental costs. The rental obligation under the lease will be reported when the facility is available for use.

Axfood has signed an agreement with Swedbank and SEB on a five-year revolving credit facility of SEK 3.5 bn with the aim of securing the financing of the investment and to serve as the Company's liquidity reserve. In connection with the signing of the Witron agreement, Axfood took out currency hedges for the payment flows as follows: 100% of payments in 2019, 75% of payments in 2021, 50% of payments in 2022, and 25% of payments in 2023. During each of the coming fourth quarters starting in 2020, Axfood will hedge an additional 25 percentage points of each year's investment commitment until full hedging is achieved.

Efficiency improvement in dark store

During 2019, picking of orders for Willys' and Hemköp's online sales in the greater Stockholm area was moved to Dagab's dark store in Årsta instead of being handled by the stores themselves as previously. The joint dark store will provide better service to customers along with coordination gains, and will improve profitability for e-commerce sales. Preparations are currently being made to move picking of Willys' and Hemköp's e-commerce orders also in the Gothenburg region, and the first home deliveries from the joint dark store in Gothenburg are planned for the first quarter of 2020.

Owing to low e-commerce volumes for Mat.se in the Malmö region, the decision has been made to close the dark store in Malmö. Existing online customers in the Malmö region who today use Mat.se will be given the opportunity to instead choose Willys' or Hemköp's online offerings, which are picked in stores for home deliveries. The closure of the dark store in Malmö will have a marginal financial effect during the first quarter of 2020.

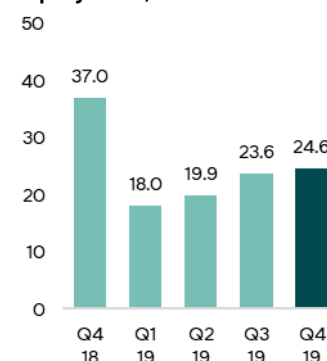
Financial position and cash flow

Cash flow from operating activities amounted to SEK 3,555 m (2,702) during the period. Paid tax totalled SEK –477 m (–434). Net capital expenditures affected cash flow by SEK –1,386 m (–992). Payment of shareholder dividend affected cash flow by SEK –1,488 m (–1,485), and amortization of lease liabilities affected cash flow by SEK –1,419 m (–). Cash flow from financing activities decreased through adoption of the new lease standard, as the amortization portion is now reported as an outgoing payment in financing activities. Cash flow from operating activities thereby increased.

Cash and cash equivalents held by the Group amounted to SEK 798 m, compared with SEK 1,571 m in December 2018. Interest-bearing liabilities and provisions totalled SEK 5,929 m, compared with SEK 524 m in December 2018. Interest-bearing net debt amounted to SEK 5,131 m at the end of the period, compared with a net debt receivable of SEK 1,047 m in December 2018. The changes are mainly due to application of the new accounting standard for leases (IFRS 16). Excluding the effect of IFRS 16, the Group had an interest-bearing net debt receivable of SEK 377 m at the end of the period.

The equity ratio was 24.6%, compared with 37.0% in December 2018. The lower equity ratio is mainly due to effects of the transition to IFRS 16.

Equity ratio, %



Derivation of total investments and net capital expenditures in cash flow

SEK m	12 mos 2019	12 mos 2018
Total investments	-2,452	-1,021
Investments in finance leases	-	59
Investments in leases	971	-
Divestment of tangible/intangible assets	4	12
Acquisition of financial assets	-31	-17
Acquisition of operations, other items	-	77
Divested operations	23	2
Divestment/acquisition of assets held for sale	99	-104
Cash flow from investing activities	-1,386	-992

Parent Company

The Parent Company's net sales and other operating revenue during the period January–December amounted to SEK 265 m (251). After selling and administrative expenses of SEK 402 m (376) and net financial items of SEK 25 m (21), profit after financial items was SEK –111 m (–104). Capital expenditures during the year totalled SEK 15 m (7).

The Parent Company had an interest-bearing net debt receivable of SEK 141 m at the end of the period, compared with SEK 246 m in December 2018. The Parent Company has no significant transactions with related parties, other than transactions with subsidiaries.

Sustainable development

Axfood's current sustainability programme has been structured with a starting point in a materiality analysis that was performed in 2015. The programme sets out the Axfood Group's direction, ambitions and goals in the entire area of sustainability: economic, environmental and social. In autumn 2019 Axfood began work on following up the extensive materiality analysis that was performed in 2015. The aim is to set the right priorities for sustainability work going forward. As a first step, the survey firm Kantar Sifo asked the following question to 1,083 consumers, together with 21 different sustainability factors: "How important is it that the company you buy your food from works with the following sustainability issues?". The result showed that the most important issues for consumers are: food with clear labelling on the country of origin, reduced use of hazardous chemicals/pesticides, and good animal care. Thus the same material issues were cited as in 2015, but with one interesting difference: animal care has become more important for consumers.

In 2019 Axfood introduced the goal that the share of sustainability certified products shall amount to at least 25% of sales by 2025. To better reflect the breadth of this ambition, in 2019 we decided to redefine the goal with the wording that the share of sustainability labelled products, which encompasses a broader range of products, shall increase to 30% by 2025. The outcome for 2019 was nearly 27%.

Axfood has also introduced a goal to cut food waste in half by 2025, with 2015 as the base year. Compared with the base year's outcome of 1.73%, the outcome for 2019 was 1.47%. This shows that the efforts we are constantly making in our chains are producing results.

The lower growth rate for plant-based protein substitutes is mainly explained by very high comparison figures. The decrease in the share of KRAV certified meat is believed to be due to the general declining trend that is taking place for organic food products in the market as a whole.

As a consequence of a strategic decision taken by Axfood in 2018 to stop using fuel with a blend of palm oil derivatives and instead switch over to other types of fuel, CO₂ emissions/per tonne goods have increased.

Key ratios, Group

	Q4 2019	Q4 2018	12 mos 2019	12 mos 2018
Sustainability labelled products as % of total sales	25.9	26.4	26.9	27.0
Organic products as % of total grocery sales				
Axfood	5.9	6.5	6.2	6.6
Willys	5.4	5.7	5.6	5.9
Hemköp	8.5	9.1	8.9	9.3
Growth in plant-based protein substitutes, ¹⁾ %				
Axfood	10	18	13	22
Willys	13	21	17	25
Hemköp	5	11	8	16
KRAV certified meat as % of total meat sales				
Axfood	3.1	3.6	3.4	3.9
Willys	2.1	2.3	2.3	2.5
Hemköp	6.9	8.1	7.8	9.0
Waste for incineration ²⁾ (tonnes), share of net sales (SEK m), %				
Willys	32	35	32	35
Hemköp	n.a.	n.a.	n.a.	n.a.
Axfood Snabbgross	16	24	16	24
Private label product recalls from stores		5	36	32
Product recalls from stores, other brands		19	73	78
Number of social audits ³⁾	25	18	96	95
Electricity consumption, kWh/m ² (stores and warehouses) ⁴⁾	313.1	322.2	313.1	322.2
Electricity consumption (kWh) as share of net sales (SEK), % ⁵⁾	0.53	0.57	0.53	0.57
CO ₂ , kg/tonne goods ⁶⁾	17.2	16.6	17.2	16.6
Work attendance rate, %	94.1	93.9	94.4	94.4

1) Compared with same period a year ago.

2) Rolling 12-month figures, with one quarter delay.

3) Both under own management and via the organization Amfori BSCI.

4) Rolling 12-month figures. Pertains to Group-owned stores and warehouses under joint electricity contracts.

5) Inflation-adjusted net sales.

6) Rolling 12-month figures. Pertains to total volume for transports from warehouses to stores using own delivery fleet.

Selection of sustainability news from Axfood*

- In November Mat.se launched the largest carbon footprinting initiative for food ever carried out, with a unique carbon footprint database that encompasses some 3,000 food products. The products have been labelled with their own carbon footprint measure created in cooperation with Research Institutes of Sweden (RISE). Customers who want to make conscientious choices can now influence the carbon footprint of their grocery purchases as they are shopping.
- When Hemköp began packaging and selling blemished fruit at a lower price, food waste was reduced by five tonnes a week. Cutting the price of products that are nearing their best-before date, optimizing purchasing, partnering with the food rescue company Karma, and donating to charitable organizations are other activities that are being carried out to achieve the goal of cutting food waste in half by 2025.
- The project Nyanländ i Axfood ("Newcomer at Axfood") is a job track programme that Axfood is carrying out in collaboration with the City of Stockholm and the Swedish Public Employment Service. In October 2019 a second round of the programme began, whereby 19 newcomers – guys and girls – have been given the opportunity to gain experience in a store environment at Axfood's Willys and Hemköp chains. The programme involves a mix of training and apprentice work in stores. Parallel with this, the participants are studying Swedish for immigrants to get a further boost in learning Swedish. Fifteen Willys and Hemköp stores in Stockholm are participating in the initiative.
- To bring a little joy to life for homeless and other socially outcast people, more than 50 Willys stores donated Christmas food to various relief organizations across Sweden. The relief organizations, in turn, treated those in need to a Christmas feast or handed out food packages.
- In connection with its 50-year jubilee, Eldorado donated more than SEK 120,000 to Musikhjälpen ("Music Aid"). The funds went in their entirety to initiatives to counter sexual violence in wars and conflicts around the world.
- Axfood's Vegobarometer for the year showed that the share of customers who eat vegetarian food two to six days a week has risen to 28% (24%). However, the number who refrain from eating meat entirely or who eat vegetarian food every day has remained constant. During 2019 Garant launched more than 20 new plant-based products, and Eldorado plant-based bacon met with quick success.

*Communicated during the fourth quarter of 2019. [For more information, visit axfood.se](https://axfood.se).



5 tonnes

of fruit were saved weekly when Hemköp began selling blemished fruit at lower prices.



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newcomers were accepted to Axfood's job track programme, which is being conducted in collaboration with the City of Stockholm and the Swedish Public Employment Agency.

Other information

Long-term targets and capital expenditures 2020

- Axfood's long-term financial targets:
 - Grow more than the market
 - Long-term operating margin of at least 4%
 - Equity ratio of at least 20% at year-end
- Axfood's dividend policy sets the goal that the shareholder dividend shall be at least 50% of profit after tax. The dividend will be paid out on two occasions.
- Axfood's capital expenditures in 2020 are expected to amount to SEK 900–1,000 m excluding acquisitions and right-of-use assets.

Long-term share-based incentive programme

The Board of Directors proposes that the Annual General Meeting resolve to introduce a long-term share-based incentive programme (LTIP 2020). The programme corresponds in all essential respects to LTIP 2019. The programme is proposed to include approximately 75 employees, consisting of the members of Axfood's Executive Committee, members of the management teams of Axfood subsidiaries, and certain other persons in management functions. The incentive programme entails the following in short:

- Participation in LTIP 2020 requires a personal shareholding in Axfood that is allocated to LTIP 2020. The participants will be given the opportunity to allocate a maximum of 4,700, 1,250 or 250 shares to the programme, depending on their participant category.
- After the set vesting period, the participants will be granted shares in Axfood free of charge provided that certain conditions are met. To receive such share grants requires in short continued employment in the Axfood Group during the vesting period, that the individual continues to own shares in Axfood during the same period of time, and that certain performance targets have been met related to Axfood's share price, sales, earnings and sustainability.
- The maximum, combined number of shares in Axfood that may be granted under LTIP 2020 is limited to 310,000.
- Based on an unchanged share price during the term of the programme, a three-year vesting period and certain other assumptions, the total cost for LTIP 2020 including social security charges will be a maximum of SEK 51 m.

The main motives for establishing LTIP 2020 are to align the shareholders' interests with those of the members of the Executive Committee and other key persons in ensuring maximum long-term value creation and to encourage personal shareholding in Axfood. Further, it is believed that LTIP 2020 will facilitate Axfood in recruiting and retaining persons for the company management teams and other key persons.

The Board of Directors will issue a notice of the Annual General Meeting shortly, and in connection with this it will make public the Board's complete recommendations for decision.

Three long-term share-based incentive programmes are currently in effect that were adopted at the 2017, 2018 and 2019 Annual General Meetings. The term of the first incentive programme, LTIP 2017, expires in May 2020.

Dividend

Revised dividend policy

The Board of Directors has decided to change the dividend policy so that dividends will be paid out on two occasions in order to facilitate more efficient liquidity management.

Proposed dividend

The Board of Directors recommends that the Annual General Meeting resolve in favour of an increased dividend for the 2019 financial year of SEK 7.25 per share (7.00), corresponding to 92% of profit for the year. In addition, the Board proposes that the dividend be split into two payments, SEK 3.75 per share in March 2020 and SEK 3.50 per share in September 2020.

Annual General Meeting 2020

The Annual General Meeting (AGM) will be held at 5 p.m. on 18 March 2020 at Oscarsteatern in Stockholm. All AGM documents including the 2019 Annual and Sustainability Report will be available on the Company's website not later than three weeks prior to the AGM. The documents will also be available at the Company's head offices and can be sent by post to shareholders upon request, after providing their postal address.

This year-end report has not been reviewed by the Company's auditor.

Stockholm, 6 February 2020

Klas Balkow
President and CEO

Future reports and 2020 Annual General Meeting

- The 2019 Annual and Sustainability Report will be published on 25 February 2020
- The 2020 Annual General Meeting will be held on 18 March 2020
- The interim report for the first quarter of 2020 will be presented on 22 April 2020, at 7 a.m. CET
- The interim report for the second quarter of 2020 will be presented on 15 July 2020, at 7 a.m. CET
- The interim report for the third quarter of 2020 will be presented on 22 October 2020, at 7 a.m. CET

Selection of press releases from Axfood during the fourth quarter

28 Oct. 2019	Decision made to open Willys Hemma store in Lund in spring 2020
31 Oct. 2019	Opening of Willys Strömstad
7 Nov. 2019	Agreement signed for automation at logistics centre in Bålsta
12 Nov. 2019	Unique carbon labelling of food launched by Mat.se and RISE
12 Nov. 2019	Hemköp opens new store in Västerås
15 Nov. 2019	Simone Margulies named as new Managing Director of Hemköp
5 Dec. 2019	Axfood presents logistics solution of the future
11 Dec. 2019	Axfood launches Gastrino, a new private label for restaurant and foodservice customers

Financial statements, Group

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

SEK m	Q4 2019	Q4 2018	12 mos 2019	12 mos 2018
Net sales	13,040	12,370	50,740	48,085
Cost of goods sold	-11,077	-10,604	-42,797	-40,904
Gross profit	1,963	1,766	7,942	7,181
Selling and administrative expenses, etc.	-1,476	-1,341	-5,654	-5,156
Operating profit	487	425	2,288	2,025
Interest income and similar profit/loss items	1	0	5	5
Interest expense and similar profit/loss items	-29	-3	-120	-14
Profit after financial items	460	422	2,173	2,016
Tax	-100	-94	-494	-439
Profit for the period	359	328	1,679	1,577
Other comprehensive income				
<i>Items that cannot be reclassified to profit or loss for the period</i>				
Revaluation of defined benefit pension plans	-2	-15	-37	-21
Tax attributable to items that cannot be reclassified to profit or loss for the period	0	3	8	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
Change in fair value of forward exchange contracts	-40	2	-41	1
Tax attributable to items that have been reclassified or can be reclassified to profit or loss for the period	8	0	9	0
Other comprehensive income for the period	-33	-10	-61	-17
Total comprehensive income for the period	327	318	1,617	1,560
Operating profit includes depreciation/amortization of	543	193	2,146	760
Earnings per share before dilution, SEK	1.68	1.54	7.87	7.41
Earnings per share after dilution, SEK	1.68	1.54	7.85	7.40
Profit for the period attributable to				
Owners of the parent	352	323	1,648	1,553
Non-controlling interests	7	5	30	24
Total comprehensive income for the period attributable to				
Owners of the parent	320	313	1,587	1,536
Non-controlling interests	7	5	30	24

Condensed statement of financial position, Group

SEK m	31/12/2019	31/12/2018
Assets		
Goodwill	2,767	2,767
Other intangible assets	705	682
Property, plant and equipment	2,744	2,202
Right-of-use assets	5,407	-
Financial assets ¹⁾	22	27
Deferred tax assets	237	141
Total non-current assets	11,882	5,819
Inventories	2,387	2,340
Accounts receivable – trade	1,062	1,102
Other current assets	1,165	1,308
Cash and bank balances	798	1,571
Assets held for sale	-	104
Total current assets	5,411	6,425
Total assets	17,293	12,244
Shareholders' equity and liabilities		
Equity attributable to owners of the parent	4,020	4,304
Equity attributable to non-controlling interests	229	224
Total shareholders' equity	4,249	4,528
Non-current lease liabilities	4,131	-
Other non-current interest-bearing liabilities	421	472
Deferred tax liabilities	902	832
Other noninterest-bearing non-current liabilities	100	50
Total non-current liabilities	5,554	1,354
Current lease liabilities	1,377	-
Other current interest-bearing liabilities	-	52
Accounts payable – trade	3,832	3,836
Other current noninterest-bearing liabilities	2,280	2,474
Total current liabilities	7,490	6,362
Total shareholders' equity and liabilities	17,293	12,244
¹⁾ Of which, interest-bearing assets	-	-

Condensed statement of cash flows, Group

SEK m	Q4 2019	Q4 2018	12 mos 2019	12 mos 2018
Operating activities				
Operating profit	487	426	2,288	2,025
Adjustments for non-cash items	549	204	2,160	758
Interest paid	-31	-7	-123	-17
Interest received	1	1	5	5
Paid tax	-112	-89	-477	-434
Changes in working capital	207	283	-298	365
<i>Cash flow from operating activities</i>	<i>1,101</i>	<i>818</i>	<i>3,555</i>	<i>2,702</i>
Investing activities				
Acquisitions of operations	-	-35	-2	-45
Acquisitions of intangible assets	-37	-30	-175	-129
Acquisitions of property, plant and equipment	-757	-259	-1,304	-711
Other changes in investing activities	5	-6	95	-107
<i>Cash flow from investing activities</i>	<i>-789</i>	<i>-330</i>	<i>-1,386</i>	<i>-992</i>
Financing activities				
Amortization of debt	-344	-	-1,419	-
Share repurchases	-	-	-36	-30
Dividend payout	-	-	-1,488	-1,485
<i>Cash flow from financing activities</i>	<i>-344</i>	<i>-</i>	<i>-2,943</i>	<i>-1,515</i>
Cash flow for the period	-32	488	-774	195

Condensed statement of changes in equity, Group

SEK m	31/12/2019	31/12/2018
Amount at start of year	4,528	4,478
Changed accounting policy	-394	-5
Adjusted shareholders' equity at start of year	4,134	4,473
Total comprehensive income for the period	1,617	1,560
Change in non-controlling interests	0	0
Share repurchases	-36	-30
Share-based payments	21	10
Recalculation reserve, divested company	-2	-
Dividend to shareholders	-1,488	-1,485
Amount at end of period	4,249	4,528

Key ratios and other data, Group

	12 mos 2019	12 mos 2018
Operating margin, %	4.5	4.2
Margin after financial items, %	4.3	4.2
Equity ratio, %	24.6	37.0
Net debt (+)/net receivable (-), SEK m	5,131	-1,047
Net debt (+)/net receivable (-) excluding IFRS 16	-377	-1,047
Net debt-equity ratio (+)/Net receivable equity ratio (-), multiple	1.2	-0.2
Net debt-equity ratio (+)/Net receivable equity ratio (-), multiple excl. IFRS 16, multiple	-0.1	-0.2
Capital employed, SEK m	10,178	5,052
Return on capital employed, %	30.1	40.4
Return on shareholders' equity, %	39.6	36.2
Average number of employees during the year	10,854	10,215
Capital expenditures, SEK m	2,452	1,021
Capital expenditures excluding IFRS 16	1,481	1,021
Number of shares outstanding at the end of the period	209,298,712	209,494,712
Average number of shares outstanding before dilution	209,380,332	209,563,072
Average number of shares outstanding after dilution	209,878,569	209,867,642
Key data per share		
Earnings per share before dilution, SEK	7.87	7.41
Earnings per share after dilution, SEK	7.85	7.40
Ordinary dividend per share, SEK	7.25 ¹⁾	7.00
Shareholders' equity per share, SEK	19.21	20.54
Cash flow per share, SEK	-3.70	0.93

1) Proposed by the Board of Directors.

Quarterly overview

SEK m	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Net sales	11,444	12,221	12,050	12,370	11,931	13,038	12,731	13,040
Operating profit	435	545	620	425	485	601	715	487
Operating margin, %	3.8	4.5	5.1	3.4	4.1	4.6	5.6	3.7
Earnings per share before dilution, SEK	1.61	2.01	2.24	1.54	1.68	2.01	2.50	1.68
Shareholders' equity per share, SEK	14.95	16.83	19.06	20.54	13.37	15.15	17.64	19.21
Return on shareholders' equity, %	47.3	43.8	38.7	36.2	52.8	46.8	42.1	39.6
Cash flow from operating activities per share, SEK	3.06	2.39	3.54	3.90	3.44	5.18	3.10	5.26
Capital expenditures excluding IFRS 16	189	232	178	422	245	252	192	792
Net debt (+)/net receivable (-)	122	-6	-581	-1,047	6,047	5,449	5,082	5,131
Share price, SEK	142.75	172.30	166.40	151.70	173.00	183.75	209.10	208.40

Financial statements, Parent Company

Condensed income statement, Parent Company

SEK m	Q4 2019	Q4 2018	12 mos 2019	12 mos 2018
Net sales	1	1	4	3
Selling/administrative expenses, etc.	-114	-106	-402	-376
Other operating revenue	65	63	261	248
<i>Operating profit</i>	-47	-42	-136	-125
Net financial items	0	0	25	21
<i>Profit after financial items</i>	-47	-42	-111	-104
Appropriations, net	1,825	1,681	1,825	1,681
<i>Profit before tax</i>	1,778	1,639	1,714	1,577
Tax	-383	-365	-364	-353
Net profit for the period	1,396	1,274	1,350	1,224
Operating profit includes depreciation/amortization totalling	1	3	3	11

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

Condensed balance sheet, Parent Company

SEK m	31/12/2019	31/12/2018
Assets		
Property, plant and equipment	17	5
Participations in Group companies	3,397	3,386
Other financial non-current assets	0	-
Deferred tax assets	8	8
Total non-current assets	3,421	3,399
Receivables from Group companies ¹⁾	3,360	2,854
Other current assets	33	12
Cash and bank balances	373	848
Total current assets	3,765	3,714
Total assets	7,187	7,113
Shareholders' equity and liabilities		
Restricted shareholders' equity	287	287
Unrestricted shareholders' equity	2,399	2,531
Total shareholders' equity	2,686	2,818
Untaxed reserves	2,907	2,639
Non-current interest-bearing liabilities	20	24
Noninterest-bearing non-current liabilities	3	2
Total non-current liabilities	23	26
Accounts payable – trade	18	19
Liabilities to Group companies ²⁾	1,482	1,512
Other current noninterest-bearing liabilities	71	99
Total current liabilities	1,571	1,630
Total shareholders' equity and liabilities	7,187	7,113
¹⁾ Of which, interest-bearing liabilities	1,180	920
²⁾ Of which, interest-bearing liabilities	1,392	1,498

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 – Accounting 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, except for what is stated below.

All amounts in the interim report are rounded off to the nearest million Swedish kronor (SEK m), unless indicated otherwise, entailing that tables and calculations do not always add up. In text and tables, figures between 0 and 0.5 are reported as 0.

New accounting policies effective in 2019 and later

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.

Starting on 1 January 2019 the Group has begun applying IFRS 16 *Leases*. IFRS 16 introduces a uniform lease recognition model for lessees. A lessee recognizes a right-of-use asset that represents a right to use the underlying asset and a lease liability that represents an obligation to make lease payments. Exceptions are made for short-term leases and leases of assets with a low value. IFRS 16 replaces the previous standard IAS 17 *Leases*.

In 2018 a project group was created to work on preparations ahead of adoption of the new standard together with external accounting specialists. The project has involved compiling and reviewing the Group's leases, system updates, and workshops and training for employees affected by IFRS 16.

The Group has elected to apply the modified retrospective method. This entails that the accumulated effect of adoption of IFRS 16 will be recognized in retained earnings in the opening balance as per 1 January 2019 without recalculation of comparative figures. Right-of-use assets attributable to previous operating leases will be recognized at their depreciated value from the commencement of the lease with the addition of advance payments recognized on the balance sheet as per 31 December 2018.

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

The lease term is the non-cancellable contract period where consideration is given to the opportunity to extend or terminate the contract and to how reasonably certain it is that this opportunity will be exercised. If it is not reasonably certain that an extension or termination will be made, the extension is not included in the calculation of the lease liability.

Reconciliation of operating lease obligations (SEK m)

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

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

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

The Axfood Group's right-of-use assets consist almost exclusively of premises.

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 6–8 of this interim report. For a more detailed description of the segments, please refer to the 2018 Annual Report.

Reporting of leases is allocated to the operating segments that use the respective right-of-use assets. The earnings effect of sub-leasing to franchise stores is recognized in the segment that the store belongs to.

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 2018 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 during the year.

Note 6 Disclosures about financial assets and liabilities

In connection with the signing of the Witron agreement, Axfood took out currency hedges for the payment flows. These are measured at fair value, which means that the reported asset/liability pertaining to the fair value of derivatives used in the hedge accounting has increased. Axfood has hedged the payment flows as follows: 100% of payments in 2019, 75% of payments in 2021, 50% of payments in 2022, and 25% of payments in 2023. During each of the coming fourth quarters starting in 2020, Axfood will hedge an additional 25 percentage points of each year's investment commitment until full hedging is achieved.

Note 7 Pledged assets and contingent liabilities

Group, SEK m	31/12/2019	31/12/2018
Pledged assets	-	6
Contingent liabilities	21	21
Parent Company, SEK m	31/12/2019	31/12/2018
Pledged assets	-	-
Contingent liabilities	302	309

Note 8 Long-term share-based incentive programmes

The 2019 Annual General Meeting resolved to adopt a third long-term share-based incentive programme, LTIP 2019, the principles and scope of which in all essential respects correspond to the previously adopted programmes. For more information about the two earlier incentive programmes, LTIP 2017 and LTIP 2018, see the 2018 Annual Report.

To secure the Company's obligation to provide conditional matching and performance shares under LTIP 2019, during the second quarter of 2019 Axfood repurchased 196,000 shares at an average price of SEK 186.00 per share, for a total of SEK 36 m. Axfood's holding of treasury shares thereby amounts to 572,000 shares, which secure delivery of shares for LTIP 2017, LTIP 2018 and LTIP 2019.

Note 9 Events after the balance sheet date

- The Board of Directors proposes an increased dividend of SEK 7,25 per share (7.00). In addition, the Board has decided to change the Group's dividend policy, entailing payment of the dividend on two occasions.
- Capital expenditures in 2020 are expected to amount to SEK 900–1,000 m excluding acquisitions and right-of-use assets.
- During 2020 Axfood plans to establish five to ten new stores.
- Simone Margulies took office as Managing Director of Hemköpskedjan AB on 1 February 2020.

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. Definitions of the key ratios are provided below.

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 (share-based).

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.

Growth in store sales: Percentage change in the Axfood Group's store sales between two periods.

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.

Net debt/net receivable: Interest-bearing non-current and current receivables and liabilities including cash and bank balances, plus interest-bearing financial assets.

Net sales growth: Percentage increase in net sales between two periods.

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

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

Return on capital employed: Profit after financial items, plus financial expenses, 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 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.

Share price: Closing share price.

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 franchises.

Total capital expenditures: Investments in intangible and tangible non-current assets, and in right-of-use assets.

About Axfood

Axfood aspires to be the leader in good and sustainable food. Axfood includes the Willys and Hemköp chains as well as Tempo and Handlar'n. B2B sales are conducted through Axfood Snabbgross, and Dagab is responsible for the Group's product development, purchasing and logistics. The Axfood house of brands also includes Mat.se, Middagsfrid and Urban Deli, and partly owned Apohem and Eurocash. Together they reach more than 4 million customers every week. Axfood's shares have been listed on Nasdaq Stockholm since 1997, and the principal owner is Axel Johnson AB.

Vision

Axfood will be the leader in good and sustainable food.

Mission

Axfood enables a better day 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 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 concepts. Efficient logistics then create conditions for favourable and profitable growth together with sustainable transports and efficient use of energy. A distinct sustainability profile, attentive customer service and smart store layout are key aspects in creating an inspiring in-store experience.

Long-term financial targets and investments 2020

- Axfood's long-term financial targets:
 - Grow more than the market
 - Long-term operating margin of at least 4%
 - Equity ratio of at least 20% at year-end
- Axfood's dividend policy sets the goal that the shareholder dividend shall be at least 50% of profit after tax. The dividend will be paid out on two occasions.
- Axfood's capital expenditures in 2020 are expected to amount to SEK 900–1,000 m excluding acquisitions and right-of-use assets.

Strategy

Axfood's strategy is built upon six strategic areas: the customer offering, the customer meeting, expansion, supply chain, work approach, 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 online. 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 top 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

Factors that Axfood believes are important regarding an investment in Axfood:

- The food retail industry, which is driven by population growth and inflation, is relatively insensitive to economic swings. Axfood's strategy also addresses drivers such as digitalization, discount retailing and convenience.
- Axfood has a solid balance sheet, and its business model generates stable cash flow. During the last five years the dividend has amounted to 88% of profit after tax.
- With a refined focus on food and distinctive concepts, Axfood is a house of brands that are all strongly positioned in their respective segments. The Group's joint purchasing & logistics operation creates economies of scale and cost efficiency.
- Axfood aspires to be a positive force in society and has clear goals for sustainability. Axfood's private label products gladly lead the charge with respect to sustainability and health.

Our segments

- Willys is Sweden's leading discount grocery chain, featuring a wide and deep assortment in Group-owned stores and online. With Sweden's cheapest bag of groceries, Willys aspires to lead and develop the discount segment of food retail. Willys also includes the cross-border grocery chain Eurocash.
- Hemköp offers an attractively priced and wide assortment with a rich offering of fresh products. Hemköp's Group-owned stores, franchise stores and online business aim to inspire good meals in a simple and painstaking manner. Hemköp also includes Tempo, a mini-mart format comprising retailer-owned stores.
- Axfood Snabbgross is one of Sweden's leading restaurant wholesalers with a customer base of restaurants, fast food operators and cafés. From its stores and online the chain offers personal service, availability and quality.
- Dagab handles the assortment, purchasing and logistics for the entire Axfood house of brands as well as for other B2B customers. Dagab includes the online grocery store Mat.se, the meal kit company Middagsfrid, the online pharmacy Apohem, and Urban Deli, a combined restaurant and market hall concept with own food production.

Axfood

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WILLYS

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HANDLARN

Tempo

UP
URBAN DELI

mat.se

MIDDAGS
FRID

eurocash

Snabbgross