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Axfood
Sustainability Report
2008

14.90



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Axfood is a Swedish company governed by Swedish law. All monetary amounts stated herein are in Swedish kronor. Millions of kronor are abbreviated as SEK m, billions as SEK bn and thousands as KSEK. Figures in parentheses pertain to 2007, unless stated otherwise. Market and competitive data are Axfood's own estimates, unless reference is made to a specific source. These estimations are based on the best and most recent data available from published sources in the public sector, the consumer goods industry and competitors.



Axfood reports in conformity with the Global Reporting Initiative (GRI) guidelines for sustainability work and applies level C in its report for 2008.

Sustainable development builds confidence



Axfood intends to exercise a responsible approach in all its activities, which is why, in the past year, we have raised the bar even higher in our sustainability work. We are convinced that the ability to take responsibility for sustainable development is crucial in creating confidence among the company's stakeholders. Ultimately, it is also essential for our ability to run a successful business.

Axfood is one of Sweden's leading retail food companies. Our success is built on being able to offer high quality products at competitive prices, and within the concept of high quality we also include sustainability issues.

Our work is based on the UN definition of sustainable development as "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

STRATEGIC OBJECTIVES PRODUCE RESULTS

When Axfood defined its five strategic objectives for profitable growth, it was only natural to include environmental and social responsibility among them. In this case, our

strategic objective is to be proactive in our work on sustainable development, in order to establish Axfood as the industry leader in this area.

Sustainability is given due consideration in every part of our business. This helps to create the right customer offerings and therefore also generate good business opportunities. Systematic environmental work, for example on energy consumption, also has a positive impact on our costs.

Over the past year, we made considerable progress in a number of areas. We employed a head of environmental affairs to drive the work forward. By adopting a new fish policy, we are playing our part in reducing the strain on threatened fish populations. Our new assortment of Garant organic products allows us to meet our customers' demand for organic products at reasonable prices. We have drawn up a new travel policy, we apply eco-driving techniques and we are systematically reducing energy consumption in our stores and warehouses, all with a view to cutting the environmental impact of our business.

During 2009 we will also be focusing on implementing a comprehensive environmental programme, as well as increasing the number of social audits of Axfood's suppliers.

Another strategic objective relates to our employees and organisation – Axfood wishes to have proud and committed employees who embrace our shared core values in a collaborative and cost-conscious organisation.

In order to give our staff the tools to help achieve this objective, we have invested a great deal of time and energy in skills development and improving leadership, as well as mapping out internal career paths more clearly. We have also prioritised work on creating a living, common value base around Axfood's core values.

This has resulted in several different training programmes over the year, particularly in the form of interactive e-learning courses that have involved around 4,700 employees. This work will continue through 2009, when we will also develop co-worker surveys, providing recruitment training for managers and assessing the remuneration system.

FOCUS ON COMMUNICATION

We have also seen a growing need to communicate what we do in a credible and comparable manner. Over the past year, we have therefore launched a project to produce improved key figures on sustainability, in line with the guidelines of the Global Reporting Initiative (GRI).

The key figures that we measure and communicate must be relevant, correct and open to monitoring and comparison, and support our strategic work. We are confident that, over the past few years, we have become much better at communicating Axfood's responsible approach to its business. I hope that this report will be seen as another step in this direction.

Anders Strålman
President and CEO
Axfood AB

Employees and organization

Every employee should feel that he or she is willing, able and empowered to create tangible results together with co-workers and customers.



Axfood's stakeholders provide guidance in the sustainability work

Axfood's stakeholders are those groups in society that are affected by the company's business or that have an impact on it in various ways. Their priorities lie at the heart of the company's work on sustainability and corporate social responsibility.

CUSTOMERS

Axfood's customers are becoming increasingly environmentally conscious and expect Axfood to meet the growing demand for environmentally adapted, healthy and safe foods at competitive prices. Axfood is meeting this demand with a steadily growing range of organic, fair trade certified and "Keyhole"-labelled products and thorough quality assurance of its private label products. The Group's internal inspection programme for stores and warehouses is also designed to contribute to safe foods.

EMPLOYEES

Axfood strives to be a good employer that gives its employees opportunities to develop and where every individual's contribution is meaningful. Tools used in this area include extensive investment in internal training, competence development and management development. It is the Company's conviction that work on sustainable development – together with Axfood's core values – contributes to greater pride and job satisfaction among the employees.

THE ENVIRONMENT

Environmental responsibility is a key part of Axfood's sustainability work. For the business activities, the climate issue has top priority, and initiatives are focused on increasing energy efficiency in stores, logistics and transports, as well as on developing the product range.

Waste, such as packaging and boxes, also has a climate impact and is a priority area for the Group's environmental work.

SUPPLIERS

Axfood's supplier relationships are to be characterized by high ethics and sound business morals. A guiding framework in this relationship is the Company's Code of Conduct, which among other things prohibits bribes and other forms of corruption and stipulates that suppliers must comply with the UN's and ILO's conventions on human rights and rights of the child. Social audits are conducted on a regular basis of suppliers outside the European Union. Axfood encourages a continuous dialogue that is of mutual benefit both for Axfood and the companies it purchases from and which can contribute to a more sustainable society.

SOCIETY

Axfood's stakeholders also include lawmakers, authorities and non-profit organizations. Axfood participates in numerous cooperation ventures and dialogues with state agencies and municipal administrations, either on its own or through industry organizations. Axfood's intention is also to initiate deeper cooperation with non-profit organizations that are interested in the Group's business.

OWNERS

Axfood's goals and strategies are intended to create shareholder value. The Company's main strategies rest on the conviction that environmental and social responsibility, a strong customer orientation, and proud, committed employees are vital driving forces in the Company's value creation. Moreover, Axfood's corporate governance aims to create clarity and openness towards owners and the capital market.

AXFOOD'S STAKEHOLDERS

Axfood's key stakeholders consist of the groups that are affected most by and/or affect the Company's operations. The issues that are perceived as the most important by the Company's stakeholders provide guidance in the Group's sustainability and CSR work. Some aspects of operations, such as environmental and climate issues, are important for all stakeholders. Others, such as offering a wider range of organic products, are driven by customers at stores

and by non-profit organizations. For the employees and society in general, it is important that Axfood is a good employer and promotes good working conditions among its suppliers.

Axfood's core values and Code of Conduct form the basis of the Company's actions. Through a firmly rooted set of core values and responsible business practices, value is also created for the Company's shareholders.

Important issues for selected stakeholders	AXFOOD					
	Customers	Employees	Environment	Suppliers	Society	Owners
Energy efficiency						
Climate change						
Work conditions among suppliers						
Organic products						
Values/ethics						
Good employer						

Health and environment are strong customer concerns

Axfood's customers are increasingly demanding an assortment that meets their standards with regard to environmental consideration and issues of health. Axfood's new fish policy, the Garant organic assortment and the Fairtrade brand Aware are examples of how Axfood is meeting these new trends in demand.

The "store is the stage" in Axfood's business. Customers should encounter an inspiring and broad offering at competitive prices. To meet rising demand, continuous work is conducted on developing a range of products with a healthy profile, consisting of organic, "Keyhole"-labelled* and fair trade certified products as well as a broad availability of products for diabetics and people with various forms of food allergies.

Customers should also feel confident in the products they buy, which is why Axfood dedicates extensive attention to food safety – both with respect to its private label products and products from external suppliers.

NEW FISH POLICY

During the year Axfood adopted a new fish policy that entails, among other things, that fish and shellfish from threatened populations may not be sold in Axfood stores. The WWF's red list is used to determine which populations are threatened. At the same time, fish and shellfish from sustainable populations shall be promoted, and customers are to be informed about how they can buy fish in a sustainable manner. In May Axfood received a top ranking in a survey conducted by Greenpeace of environmental adaptation of fish sold by Swedish grocery store chains.

OWN ORGANIC BRAND

Garant Ekologiska is Axfood's own organic brand that was launched in autumn 2008. The aim of the Garant Ekologiska brand is to offer organic everyday items at a reasonable price. The products will be sold in all of Axfood's store concepts. At year-end the brand comprised 64 items, and it is being successively expanded. Garant Eko-

logiska products are described in more detail on page 9 and on a dedicated website, www.garant-eko.se.

In January 2009 a fair trade certified line of private label products – called Aware – was launched.

QUALITY ASSURANCE OF PRIVATE LABEL PRODUCTS

Axfood's private label products are a vital part of the Group's work on offering the best possible customer benefit. Axfood has two quality levels for its private label products – mid-range (including the Willys and Hemköp brands), and discount (the Eldorado brand).

Regardless of whether it's a mid-range or discount product, food safety is a keystone on which no compromises can be made. Axfood is working to ensure that all suppliers of private label products are certified according to any of the standards approved by the Global Food Safety Initiative or ISO 22000. Suppliers that have not completed certification can request dispensation if they can present a realistic time plan for their certification.

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

Prior to launch, every mid-range product is blind-tested by an external consumer panel of some 70 people, and to make it all the way to store shelves, it must receive comparable marks to the market-leading product.

Discount products are tested in the same manner internally in Axfood's own test kitchen to ensure that they, as a minimum, are comparable to other discount products on the market.

CONTROL PROGRAMMES AT STORES AND WAREHOUSES

Axfood is increasingly being expected to perform internal controls of various parts of its operations to ensure compliance with regulatory requirements and that its own quality standards are being met.

Internal control programmes are an important tool for such follow-up. Axfood conducts regular internal inspections in the areas of food safety, product shelf life and systematic fire safety work.

	Hemköp			Willys			Willys hemma		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Number of "Keyhole"-labelled products	1,551	1,197	1,100	899	629	645	484	501	450
Sales as % of total	10	8	9	9	8	8	10	9	9
Number of organic products	966	504	260	487	275	97	172	164	49
Sales as % of total	2.98	1.55	0.93	1.04	0.53	0.42	1.52	0.84	0.68
Number of fair trade certified products	51	39	9	31	22	3	18	15	3
Sales as % of total	0.13	0.06	0.02	0.07	0.04	0.01	0.12	0.06	0.01
Number of hypoallergenic products	255	224	251	154	142	98	66	67	39

Food safety

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

In cooperation with the trade organization Svensk Dagligvaruhandel, among others, Axfood has participated in the creation of an internal control programme called "Safe food in your store", which has been endorsed by the Swedish National Food Administration. The programme has been implemented at Axfood's stores since January 2007.

Under this control programme, stores perform certain daily controls, delivery arrival controls and temperature controls at the departmental level. Clear routines are in place for handling unpackaged foods to ensure food hygiene and the integrity of the cold chain. All controls are documented on checklists, which are kept on hand in the respective departments.

Axfood also has a Group-wide agreement with a food safety firm that visits the Group-owned stores four times a year. During these visits, microbiological tests are taken and an assessment is made of the stores' internal control work. Food safety is a key control point in the bi-yearly quality follow-up inspections that are conducted at each store.

Municipal environment and health departments conduct inspections of both the wholesale and retail trades. In connection with these inspections, controls are made to ensure that the operations meet the statutory requirements for food handling permits.

Alcohol, tobacco and gambling

Sweden has a minimum legal age of 18 for the sale of tobacco and alcohol. Since 1 January 2007 the same has applied for all types of gambling, except for lottery tickets. For this reason, Axfood conducts an internal control programme for products with a minimum age requirement. The programme includes routines for employee training and ID controls. Axfood requires all checkout employees to check identification of customers who appear under to be 25 or younger. Internal controls are also conducted in which we measure stores' performance in requesting customer identification in accordance with this policy.

Quality assurance of private label products

	2008	2007	2006
Product recalls from stores, private label products	22	29	32
Product recalls from stores, other	70	36	32
Share of private label suppliers, %*	93	84	78

* Approved according to GFSI, December 2008

Ethical exclusions

In its wholly owned stores, Axfood has decided to refrain from selling products that it considers are in conflict with the Company's values. This includes magazines with a pornographic content as well as cider and so-called alcopop (fruit drinks with an alcohol content of more than 2.25%).



Sustainable fish counters

Fish and shellfish from threatened populations are no longer sold in Axfood's stores. This rule has been in force since 2008, when Axfood adopted a group-wide fish policy. Axfood relies on the WWF's red list to identify populations that are under threat. According to the new fish policy, all fish sold in Axfood's stores must be traceable to a particular population, fishing zone/farm and fishing time.

Axfood will also not sell fish and shellfish farmed using environmentally destructive methods or fish or shellfish fished using environmentally destructive methods, for example damaging trawling methods.

As part of Axfood's fish policy, stores must also offer customers a wide range of ecolabelled and green-listed fish and provide information on good alternatives to red-listed species.

The complete fish policy can be viewed at www.axfood.se.

Axfood investing in employees of the future

One of Axfood's strategic objectives is to have proud and committed employees and an organisation that embraces collaboration and efficiency. Skills development, leadership training and establishing the group's core values are cornerstones of this process.

Axfood's HR concept dictates that every employee should feel that he or she is willing, able and empowered to achieve tangible results together with co-workers and customers.

The core value "*You are important*" is the starting point for Axfood's employee responsibility.

Axfood creates the conditions for its employees to live up to this core value. The aim is to foster a business-driven, collaborative and cost-conscious organization in all parts of the Group.

The foundation for this work is laid with the help of a number of shared tools and processes that focus on competence development, recruitment and leadership succession, among other things.

AXFOOD'S CORE VALUES

The work on instilling the shared core values and building a shared value base is intended to promote an entrepreneurial culture throughout the Group.

The five core values are designed to strengthen cohesion and integration within the Group and provide guidance in the day-to-day activities for managers and employees alike.

The introduction of the core values and systematic activities on putting them into practice were carried out throughout the year by managers, staffs and store employees. The process has entailed a new way of thinking, with a broad focus on internal communication and in-depth dialogue across the organization. A number of internal change leaders have been trained to move this process forward and hold the core values constantly alive in the day-to-day activities.

GROW WITH AXFOOD

The strategic goal for employees and the organization covers leadership training and competence development activities, among other things. These activities are also aimed at strengthening the image of Axfood as an employer.

The Axfood Academy is the Group's centre for training and processes and seeks to give leaders and employees the conditions they need to ensure long-term profitability. Development activities are broken down into three blocks: Leadership development, Basic training and Specialist training. The number of participants doubled in 2008 compared with a year earlier. In 2008, 1,200 employees participated in a total of 2,500 training days conducted by the Axfood Academy.

To create a continuously learning organization, the Axfood Academy works with internal instructors who, by virtue of their experi-

ence and active participation in operations, are helping to raise the aggregate level of competency within the Group.

E-learning. During the year Axfood invested in competence development via an interactive e-learning programme in various competency areas. To enhance the Group's competitive strength in the area of fresh products, a perishables school was created to build employee knowledge and help them run attractive and profitable fresh product departments.

An orientation course has also been created with the aim of giving new employees a solid base of knowledge about the Company, Axfood's core values, sales and customer service.

In addition, to improve the work on compliance with the rules and guidelines prohibiting the sale of tobacco and beer to minors, a web-based course on checking ID has been created. The Group's e-learning initiatives during the year were a major success.

Axfood's core values. The work on building a shared base of values is aimed at developing a business oriented culture throughout the Group.

Axfood's core values are designed to strengthen cohesion and integration within the Group and provide guidance in the day-to-day activities of managers and employees alike.

During the year, a broad-based initiative was carried out for 700 of Axfood's leaders and 4,000 employees with a focus on developing behaviours that contribute to better cooperation and customer focus. The work on the core values and on leadership and employeeship clearly addresses the changes that are taking place in the business environment. In order to support the organization in the course of this work with the core values, a number of change leaders have been appointed and trained.

Leadership succession and regeneration is a priority area for Axfood. Every year a study is performed of which future leaders exist in the Group and who is ready to take a leadership position. The goal is that 75% of future leaders will be recruited internally. Both external and internal recruitment is conducted with the help of professional screening processes. One example is the so-called Axfood exam, which uses tests, interviews and exercises to provide an objective assessment.

EQUAL OPPORTUNITY AND DIVERSITY

Axfood has a Group-wide policy that requires all companies within the Group to draw up plans in support of local equal opportunity and diversity work. Axfood's express goal is to increase the share of women in leading positions. This is being pursued through standardized processes for recruitment and leadership succession. The share of store managers who are women increased during the year by 20%.

HEALTH AND BALANCE

Axfood strives to have competent and engaged employees who are happy in their work and feel a sense of well-being.

Axfood's core values:

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

Axfood employees are encouraged to take parental leave, and the Company tops up the state benefit to ensure that employees receive 80% of their salary during leave if their salary exceeds the ceiling amount provided by the social insurance office. Employees are also encouraged to participate in fitness activities, through a fitness subsidy from Axfood. A growing number of employees have taken advantage of this opportunity.

Axfood conducts systematic work environment and safety activities in all operations to ensure safe and sound workplaces.

This work, which involves all employees, is based on identifying risks as early as possible and ensuring that business is conducted in compliance with the Work Environment Act and the regulations of the Swedish Work Environment Authority. Local responsibility for initiatives rests with the respective site managers. Reporting is conducted to the respective companies' boards to guarantee that work environment matters are brought to the attention of company managements. *Company health services* are provided in close proximity to every individual workplace and are primarily focused on preventive care. Compared with the retail food industry in general, Axfood has a relatively high rate of work attendance. During the year, work attendance increased further within the Group, from 93.9% to 94.6%. A rehabilitation project conducted at Hemköp during the year has been very successful and resulted in a decrease in the number of people on long-term sick leave from 3.7% to 2.8%.

COLLECTIVE AGREEMENTS

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

The collective agreements contain rules on terms of notice whose length varies from 1–6 months, depending on the employee's age and length of employment. They also describe the importance of performance reviews for identifying a need for competence-raising measures.

SATISFIED EMPLOYEES

Axfood conducts a bi-yearly employee survey that measures the categories Response from Managers, Pride and Commitment, Competence Development, Organization and Meetings, and Fitness and Health. In 2008, 4,850 employees of stores, wholesale operations and staffs participated in the survey.

**Competence through e-learning**

Over the past year, Axfood has focused on skills development through interactive e-learning courses in various areas of competence. One such area is fresh goods, where the training gives all employees, whether new or long-serving, the knowledge they need to run attractive and profitable fresh produce departments. One particular course aimed at new employees provides knowledge about Axfood as a company, core values, sales and customer contact. A web-based course on age checks has also been developed. This will make it easier for staff to follow the rules and the law regarding the sale of tobacco and beer to minors.

The e-learning programme has been a great success, with a total of 3,340 employees taking part in 2008.

Employee statistics

	2008	2007	2006
Work attendance, retail, %	94.7	93.8	93.4
Work attendance, wholesale, %	93.5	93.8	93.6
Employee turnover rate, %	8.4	9.0	7.5
Men/women, %	8.9/8.1	–	–
Per age category –29, %	9.4	–	–
Per age category 30–49, %	7.9	–	–
Per age category 50–, %	8.3	–	–
Average service time, years	8.7	9.8	10.5
Number of full-time employees	4,178	4,251	4,266
Number of part-time employees	3,257	3,509	3,342
Average number of employees	6,847	6,463	6,569
Number of men	3,112	2,947	2,966
Number of women	3,735	3,516	3,603

The environment and sustainability one of five strategic objectives

Axfood's aim is to be an environmentally aware company that views environmental issues from a holistic perspective. The strategic objective is to actively tackle issues concerning the environment and sustainable development, in order for the company to become the best in the industry.

In the day-to-day activities, climate and environmental aspects are integrated with product purchasing and selection as well as with logistics, transports, product flows, store operations and waste handling.

Axfood believes that environmental work and sound economics go hand in hand. By being a driver of environmental issues, Axfood creates the right offering for its customers, which in turn leads to better business.

During the year, Axfood stepped up the pace of its sustainability work. Priority areas include energy use, transports and waste handling. All of these are areas of major importance for Axfood's business, and consequently, they have the greatest potential for improvement.

In 2008 Axfood also worked on environmentally adapting its internal work. Newly purchased desktop computers and screens must be environmentally certified, and the ambition is also to introduce such a requirement for laptops. At Axfood's head offices, this environmental adaptation has led to a requirement that all coffee and fruit that is served must be organic. Bottled water has been replaced with tap water. Work is also under way on reviewing electricity consumption, such as regards lighting and environmentally adapting various types of consumables.

A new Group-wide environmental programme will be presented in 2009.



New freezers cut energy consumption

Axfood's business operates in large stores and warehouses with energy hungry installations such as freezer and chiller displays. Refrigeration is the single greatest source of in-store power consumption, accounting for around half of a store's energy use. In order to save energy in the stores, Axfood is consistently working to find and evaluate new solutions. One result is that closable freezers are gradually becoming the standard all our stores.

Willys in Älvsjö is testing closable freezers that consume 40% less energy than normal freezer displays. As the Willys stores are converted to the new generation Willys concept, existing freezers will also be fitted with closable lids. The same changes will also be implemented within Hemköp.

Electricity consumption for Group-owned stores and wholesale operations, MWh¹⁾

	2008	2007	2006
Retail units	281,296	273,748	271,645
Wholesale facilities	38,821	39,453	34,750
Total	320,117	313,201	306,395
Number of stores	226	217	224
Electricity use kWh/sq.m., stores	637	627	641
Electricity use kWh/sq.m., wholesale	260	264	255
Total CO ₂ per tonne ²⁾	39,374	38,524	37,686

CO₂ emissions³⁾

	2008	2007	2006
Total CO ₂ , tonnes	10,680	10,598	11,088
CO ₂ kg/tonne products	25.09	26.84	27.32
CO ₂ kg/SEK m in sales ⁴⁾	976.72	1,097.64	1,167.44
Number of own vehicles	145	152	153

¹⁾ Estimated values.

²⁾ Total volume for Group-owned stores and distribution centres based on a production mix of 20% nuclear power, 22% fossil-based power and 58% renewable energy.

³⁾ Total CO₂ emissions from Dagab's and Närlivs' own delivery vehicles for transports from warehouses to stores.

⁴⁾ Pertains to delivered value, own vehicles.

ENERGY CONSUMPTION

Axfood's business is conducted in large store and warehouse premises with energy-intensive installations such as refrigerators, freezers and stockrooms. Consequently, Axfood attaches great importance to continuous development work aimed at reducing the amount of energy consumed in its operations. In 2008 work was begun on plans to intensify this work. Operational improvements have been assigned top priority, and a review has been started, including measurements that will serve as documentation for actions and future investments. The goal in 2009 is to adopt energy targets and to begin working on proposals for actions and investments.

Refrigeration/freezing is the largest source of energy consumption in stores. At the Willys store in Älvsjö, freezer displays that use 40% less energy are currently being tested.

TRANSPORTS

Axfood's business requires extensive product flows. Axfood strives to ensure that these transports are environmentally sustainable as far as possible.

Axfood manages its logistics flows through the subsidiary Dagab and through a central purchasing and product range function. Transports are conducted under own management via the subsidiaries Dagab and Axfood Närlivs as well as through subcontracted freight companies. Axfood's own delivery fleet currently comprises approximately 145 vehicles.

The rules require all vehicles to have well planned routes and that they are always driven as fully loaded as possible. When renewing the fleet, vehicles with the environmentally best and commercially most viable engines are to be chosen.

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

- Maximizing load capacities, i.e., making sure that delivery vehicles are always filled as much as possible.
- Reducing fuel consumption by setting a maximum speed limit of 85 km/h.
- Restricting use of diesel fuel to environmental grade 1.

ENVIRONMENTAL POLICY AND GOVERNANCE

Axfood's environmental policy provides guidance for all aspects of operations. Environmental work is conducted throughout the Company and involves all employees. Axfood aims to help its customers make educated environmental choices and takes an active role in supporting best methods in the retail food industry.

The baseline for Axfood's policy consists of the EU's fundamental principles for how environmental work is to be conducted, namely, the precautionary principle, the principle of preventive measures, and the principle that pollution shall be dealt with at the source and paid for by the polluter.

With respect to policies, management, guidance and monitoring of environmental work, Axfood works according to the ISO 14001 guidelines.

Data on the Company's environmental impact is to be reported on yearly. The ambition is to develop reporting in such a way that it provides a comprehensive picture of the Company's environmental impact and environmental work.

Axfood's complete environmental policy is available on the Company's website: www.axfood.se.

Environmental work is headed by Axfood's head of environmental affairs, who is also responsible for the overall focus of environmental work conducted by Willys, Hemköp, PrisXtra, Dagab and Närlivs. The head of environmental affairs is co-opted to the executive management on discussions and overall decisions regarding environmental issues.

However, every company in the Group bears own responsibility for its internal operative environmental work. Environmental coordinators have been appointed for all companies, and together with the head of environmental affairs, these persons are to support their respective management teams in day-to-day environmental work.

The head of environmental affairs is responsible for preparing an environmental programme, which is to be updated annually. This programme describes goals, strategies and actions while serving as a means of following up the Group's environmental work. Axfood's executive management serves as a client of the head of environmental affairs, and the environmental plan is adopted by Axfood's executive management.

Axfood's executive management reviews environmental aspects of the business on a regular basis.

So-called eco-driving techniques are already in use by Dagab's drivers, and the incentive for drivers is that the savings will be shared between the company and drivers who drive in an environmentally friendly manner. A similar system has been introduced by Axfood Närlivs. Dagab's goal with these measures is to reduce fuel consumption by 10%.

In 2005 Dagab signed a declaration of intent "for environmental and traffic safety in transports for the retail food industry" together with the National Traffic Safety Board. One concrete measure in line with this is that all new delivery vehicles purchased by the Group are equipped with alcohol ignition locks. Currently approximately 85% of Axfood's vehicles are fitted with alcohol ignition locks; the goal is for all vehicles to be fitted.

TRAVEL AND COMPANY CARS

Axfood strives to reduce internal travel. Accordingly, employees are required to always consider videoconferencing as an alternative to travel. In addition, a new business travel policy has been adopted in the aim of increasing the share of business travel by rail instead of by car or air, where feasible. The goal is that 10% of business trips will be conducted by rail by 2010.

When choosing a company car, Axfood's employees are required to select an environmental car according to the current definitions. Axfood's goal is that 100% of its company car fleet will be environmental cars by 2010.

WASTE

All of Axfood's offices, stores and warehouses have waste sorting routines in place. The ambition is to improve waste sorting in all activities. Since 2002 all of Axfood's private label products have been labelled with sorting instructions. In addition, Axfood stores are equipped to take care of returnable cans and bottles.

An urgent area – both for environmental and economic reasons – involves reducing shrinkage of food which must be discarded for various reasons.

A set of waste management indicators will be developed in 2009.

PRODUCT PURCHASING AND SELECTION

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

All fruit and vegetables purchased for Group-owned stores must be certified according to the rules for integrated production.

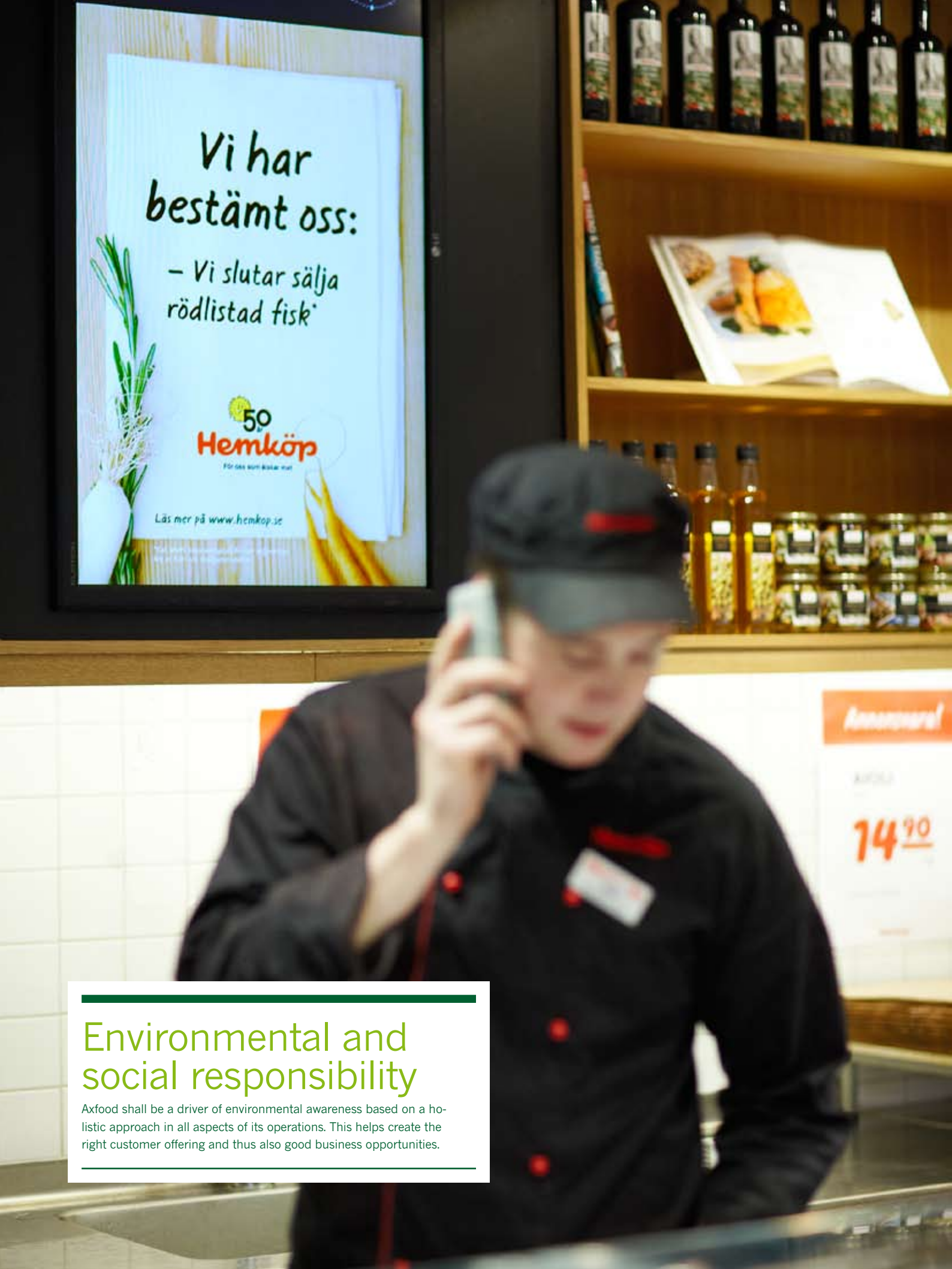
In 2009, guidelines for product purchasing will be further developed from the perspective of environmental and social responsibility.



Eco-driving

Axfood's own fleet of trucks amounts to around 145 vehicles. In order to cut the environmental impact of their use, eco-driving techniques are applied within Dagab, and a similar system has also been introduced at Axfood Närlivs. The aim is to cut fuel consumption by 10%. The incentive for drivers is that any savings are shared between the company and the driver whose eco-driving produces the results.

Other measures to cut fuel consumption include optimal route planning and ensuring that the vehicles carry as full a load as possible, to avoid unnecessary journeys.



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Environmental and social responsibility

Axfood shall be a driver of environmental awareness based on a holistic approach in all aspects of its operations. This helps create the right customer offering and thus also good business opportunities.

Constructive dialogue with suppliers and society

In its relations with suppliers and business partners, Axfood will apply sound business practices and impeccable business ethics. It is also important to ensure that suppliers meet national and international regulations. The company strives to maintain an ongoing dialogue with authorities and organisations in society at large.

HIGH ETHICS IN RELATION TO SUPPLIERS

Business ethics

Axfood is committed, in accordance with the Company's Code of Conduct, to conducting its business in accordance with generally accepted business practice and high standards of business ethics. To ensure uniform conduct among all employees, since 2004 Axfood has had a policy that lays out the Group's position on the offering and accepting of bribes, corruption, and general collaboration within the industry. This policy is updated every year, and pertinent employees are required to certify in writing that they have understood the policy.

In 2008, approximately 680 employees signed the policy.

Human rights

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

Since 2004 Axfood has been conducting audits of selected suppliers outside the EU. Together with local auditors, Axfood visits production facilities to find out how well the suppliers comply with the laws in their own countries with respect to workers' rights and working conditions, as well as to the above-mentioned conventions. These visits are based on SA 8000, the internationally recognized standard for social audits.

Deviations from laws and conventions become the subject of a dialogue between Axfood and the supplier and lead in most cases to improvements – mainly regarding work environments – at many



Constant improvements after inspections

Axfood has been carrying out audits on selected suppliers outside the EU since 2004. Together with local auditors, Axfood visits production facilities to determine how well the company is complying with the laws of its own country on workers' rights and working conditions, and with UN and ILO conventions.

Deviations from the law and conventions become the subject of a dialogue between Axfood and the supplier, leading in most cases to improvements at the companies visited, particularly regarding the working environment.

One example of this is the Indian tea packing company where Axfood carried out its first audit in 2005. Ongoing contact with the company since then has led to constant improvements and, on our latest visit in April 2009, it was clear that the factory maintains a high standard of food safety and that only a few areas remain to be improved in regard to working conditions. The tea company has, of its own initiative, decided to attain the internationally recognised standard for social audits, SA8000, and is planning to be audited for certification in 2009. The company has also adopted a social policy that covers the majority of points relating to human rights and workers' rights in Axfood's Code of Conduct.

Imports of private label products from various regions

	Number	Share, %
Europe, incl. Sweden	1,951	92.2
Asia	139	6.6
Africa	5	0.2
North America	8	0.4
South America	12	0.6
Total	2,115	100.0

companies visited. Axfood views terminating cooperation with a supplier as a final option.

Seven inspections were carried out in 2008. One of these was a return visit to a factory that makes employee apparel for Axfood. During the year, work was also started on developing the inspection activities, including better risk assessments and follow-up of previously performed inspections.

Axfood's representative office in Shanghai, China, plays a key role in improving risk assessments. Inaugurated in August, the office participates in purchasing from China and Southeast Asia, plays a driving role in the build-up of supplier contacts and monitors developments in markets in China and Southeast Asia. The office will be a vital resource in recruiting good suppliers and avoiding quality problems as well as doing business with suppliers that do not live up to Axfood's Code of Conduct.

DIALOGUE WITH SOCIETY AT LARGE

Axfood participates on a regular basis in consultations and discussions with public authorities on current issues. Above all it is the Swedish National Food Administration, the Swedish Board of Agriculture and the Swedish Environmental Protection Agency whose purview concerns Axfood's operations.

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

Axfood's intention is to have a continuing dialogue with non-profit organizations in the area of sustainability. In 2008 discussions were held with WWF and Greenpeace, primarily regarding sustainable fishing practices. Axfood has also had talks with the Swedish Society for Nature Conservation on the product offering in its stores. Other organizations that Axfood has entered into dialogue with include Fair Trade, Action Aid and the Swedish Society for the Protection of Animals. Axfood also plays an active role in CSR Sweden.

GRI table

For 2008 Axfood is reporting on its sustainability work for the first time in accordance with the Global Reporting Initiative (GRI) guidelines, level C.

The sustainability indicators listed below cover Group-owned retail and wholesale operations. The Group's franchise stores currently do not report sustainability data centrally to Axfood and are therefore not covered by the report. The same applies for external transport providers in the wholesale operations. In this respect, the report does not differ from Axfood's previous reports and the methods used there.

Axfood	Page reference	De-gree
Profile		
1. STRATEGY & ANALYSIS		
1.1 CEO statement	1	
1.2 Description of key impacts, risks and opportunities	AR11	
2. ORGANIZATIONAL PROFILE		
2.1 Name of the organization	Cover	
2.2 Primary brands, products, and services	17	
2.3 Operational structure of the organization	16	
2.4 Location of organization's headquarters	19	
2.5 Countries where the organization operates	16	
2.6 Nature of ownership and legal form	16	
2.7 Markets	16	
2.8 Scale of the organization	17	
2.9 Significant changes during the reporting period	18	
2.10 Awards received during the reporting period		■ ■ ■
3. REPORT PARAMETERS		
Report profile		
3.1 Reporting period	Contents	
3.2 Date of most recent previous report	Contents	
3.3 Reporting cycle	Contents	
3.4 Contact point for questions regarding the report	19	
Report scope and boundary		
3.5 Process for defining report content	3	
3.6 Boundary of the report	14	
3.7 Specific limitations on the scope or boundary of the report	14	
3.8 Basis for reporting on joint ventures, subsidiaries, etc.	14	
3.9 Data measurement techniques and calculation principles		■ ■ ■
3.10 Explanation of the effect of any re-statements of information provided in earlier reports	14	
3.11 Significant changes from previous reporting periods regarding scope, boundaries, etc.	14	
GRI content index		
3.12 Table identifying the location of the Standard Disclosures in the report	14	
3.13 Policy and current practice with regard to seeking external assurance for the report		■ ■ ■

The table below shows where the information is reported in Axfood's sustainability report (unless otherwise stated) and Axfood's annual report (AR). In addition to the profile and governance data prescribed by the GRI, the table covers all core indicators as well as the additional indicators that are judged to be relevant for Axfood. The symbols show if the respective indicators are completely reported on.

- ■ ■ Not reported
- ■ ■ Partly reported
- ■ ■ Fully reported

Axfood	Page reference	De-gree
4. GOVERNANCE, COMMITMENTS & ENGAGEMENT		
Governance		
4.1 Governance structure of the organization	AR34	
4.2 The Chairman of the Board's role in the organization	AR33, 36	
4.3 Independent and/or non-executive board members	AR36–37	
4.4 Mechanisms for shareholders and employees to provide recommendations to the board	AR36	
4.5 Principles for compensation to senior executives	AR38	
4.6 Processes for avoiding conflicts of interests in the board	AR35–36	
4.7 Processes for determining the qualifications of board members	AR36	
4.8 Mission, values, Code of Conduct, etc.	3–4, 6, 9, 12	
4.9 The board's monitoring of the sustainability work	AR38–39	
4.10 Processes for evaluating the board's own performance	AR36	
Commitments to external initiatives		
4.11 Explanation of whether and how the precautionary principle is applied	9	
4.12 Endorsement of external voluntary codes, principles or other initiatives	5, 12–13	
4.13 Memberships in associations		■ ■ ■
Stakeholder engagement		
4.14 List of stakeholder groups	3	
4.15 Basis for identification and selection of stakeholders with whom to engage	3	
4.16 Approaches to stakeholder engagement	3	
4.17 Key topics and concerns that have been raised through stakeholder engagement	3	
5. ECONOMIC INDICATORS		
EC1. Direct economic value generated and distributed	AR70, 72–73	■ ■ ■
EC2. Risks and opportunities for the organization due to climate changes	AR11	■ ■ ■
EC3. Coverage of the organization's defined benefit plan obligations	AR77	■ ■ ■
EC4. Financial assistance received from government		■ ■ ■
EC6. Policy, practices, and proportion of spending on locally-based suppliers		■ ■ ■
EC7. Local hiring and proportion of senior management hired from the local community		■ ■ ■
EC8. Infrastructure investments and services provided for public purposes		■ ■ ■

Axfood	Page reference	De-gree
6. ENVIRONMENTAL PERFORMANCE INDICATORS		
EN1. Materials used by weight or volume		■ □ □ □
EN2. Percentage of recycled input materials		■ □ □ □
EN3. Direct energy consumption by primary source	8–9	□ □ ■ □
EN4. Indirect energy consumption by primary source	8–9*	□ □ ■ □
EN5. Energy saved due to conservation and efficiency improvement	8–9	■ □ □ □
EN7. Initiatives to reduce indirect energy consumption and results	8–9	■ □ □ □
EN8. Total water withdrawal by source		■ □ □ □
EN11. Location/scope of land owned near protected areas/areas of biodiversity value		■ □ □ □
EN12. Impacts of products or operations on biodiversity		■ □ □ □
EN16. Direct and indirect greenhouse gas emissions	8–9*	□ □ ■ □
EN17. Other relevant indirect greenhouse gas emissions		■ □ □ □
EN18. Initiatives to reduce greenhouse gas emissions	8–9	■ □ □ □
EN19. Emissions of ozone-depleting substances		■ □ □ □
EN20. NO, SO, and other significant air emissions		■ □ □ □
EN21. Total water discharge		■ □ □ □
EN22. Waste by type and disposal method		■ □ □ □
EN23. Number and volume of significant spills		■ □ □ □
EN26. Initiatives to mitigate environmental impacts of products and services	AR9	■ □ □ □
EN27. Products sold and their packaging materials that are reclaimed	10	■ □ □ □
EN28. Fines and/or non-monetary sanctions for non-compliance with environmental laws		■ □ □ □
EN29. Environmental impact of transports	8–9*	□ □ ■ □
7. SOCIAL PERFORMANCE INDICATORS		
Employment		
LA1. Total workforce by employment type, contract and region	7	□ □ ■ □
LA2. Rate of employee turnover by age group, gender and region	7	□ □ ■ □
LA4. Percentage of employees covered collective bargaining agreements	7	□ □ ■ □
LA5. Minimum notice period(s) regarding operational changes	7	□ □ ■ □
LA6. Percentage of total workforce represented in formal joint management-worker health and safety committees		■ □ □ □
LA7. Rates of injury, occupational diseases, lost days, work related fatalities		■ □ □ □
LA8. Education, training, prevention and risk-control programmes in place		■ □ □ □

Axfood	Page reference	De-gree
LA9. Health and safety topics covered in formal agreements with trade unions	7	■ □ □ □
LA10. Average hours of training per year per employee	6	□ □ ■ □
LA12. Employees receiving regular performance and career development reviews	6	■ □ □ □
LA13. Composition of governance bodies and employees according to diversity indicators	AR40–43	□ □ ■ □
LA14. Ratio of basic salary of men to women		■ □ □ □
Human rights		
HR1. Investment agreements that include human rights clauses		■ □ □ □
HR2. Suppliers that have undergone screening on human rights, and actions taken	12–13	■ □ □ □
HR4. Total number of incidents of discrimination and actions taken		■ □ □ □
HR5. Operations where freedom of association and collective bargaining may be at significant risk and actions taken	12–13	■ □ □ □
HR6. Operations identified as having significant risk for incidents of child labour and actions taken	12–13	■ □ □ □
HR7. Operations identified as having significant risk for incidents of forced or compulsory labour and actions taken	12–13	■ □ □ □
Society		
S01. Programmes for evaluating the operation's impacts on communities		■ □ □ □
S02. Business units analyzed for risks related to corruption		■ □ □ □
S03. Employees trained in the organization's anti-corruption policies and procedures	12	□ □ ■ □
S04. Actions taken in response to incidents of corruption		■ □ □ □
S05. Participation in public policy development and lobbying		■ □ □ □
S08. Monetary value of fines for non-compliance with applicable laws		■ □ □ □
Product responsibility		
PR1. Life cycle stages in which health and safety impacts of products and services are assessed	4–5	□ □ ■ □
PR3. Type of products and service information required by procedures, and percentage of products subject to such information requirements		■ □ □ □
PR6. Programmes for adherence to laws, standards and voluntary codes for marketing communications	5	□ □ ■ □
PR9. Monetary value of fines for non-compliance with regulations concerning the use of products and services		■ □ □ □

* Pertains to trading operations, not staff functions at head offices.

Presenting Axfood

Axfood conducts food retail and wholesale trade in Sweden. The Group's retail operations are conducted through the wholly owned Willys, Hemköp and PrisXtra chains, comprising 226 stores in all. In addition, Axfood collaborates with a large number of proprietor-run stores that are tied to Axfood through agreements. These include stores within the Hemköp and Willys chains as well as stores run under the Handlar'n and Tempo profiles. In all, Axfood collaborates with some 650 proprietor-run stores. Wholesale business is conducted via Dagab and Axfood Närlivs. Axfood is listed on Nasdaq OMX Stockholm AB's Large Cap list. Axel Johnson AB is the principal owner with approximately 46% of the shares. Axfood has a 17.1% market share in Sweden.

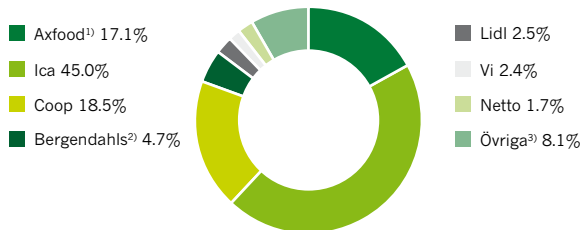
ORGANIZATION

Axfood's organization is characterized by few decision-making levels and strong focus on low administrative costs. At the central level the Group achieves economies of scale in such functions as purchasing, private label products, logistics, IT, finance administration, human resources and leadership development.

The management teams of the individual chains are responsible for store operations, marketing, product range and pricing strategies.

The individual store managers/proprietors have day-to-day responsibility for ensuring that their stores are appealing and well-stocked, and for treating customers in a professional manner that reflects the profile of their respective chains.

Market shares, largest competitors in Sweden 2008



Source: Sales data for ICA, Coop, Bergendahls, Lidl, Netto and Vi are derived from a compilation prepared by the retail trade journal *Fri Köpenskap*.

















Axfood's data include own estimates of sales for Tempo, Handlar'n and other collaborating stores.

¹⁾ Willys, Hemköp (wholly-owned & franchises), PrisXtra, Tempo, Handlar'n and other collaborating stores.

²⁾ AG's, City Gross, Eko, Matöppet and other stores.

³⁾ Other convenience stores, grocery stores and service station stores.



COMPANY	SALES Share of Group total	OPERATING PROFIT Share of Group total	AVERAGE NO. EMPLOYEES Share of Group total	KEY DATA
Hemköp Business concept: Hemköp develops Sweden's best food stores. We promote our customers' well-being by helping them find healthy foods.	SEK 5,640 m 18% 	SEK -8 m -1% 	1,705 25% 	Number of Group-owned stores: 80 Number of franchise stores: 89 Retail area: 131,300 sq.m.
WILLY:S <i>mat du gillar - priser du älskar</i> Business concept: Willys' goal is to lead and develop the discount retail food segment by offering "Sweden's cheapest bag of groceries" and giving its customers an inspiring shopping experience.	SEK 16,776 m 53% 	SEK 730 m 68% 	3,077 45% 	Number of Group-owned stores: 140, of which 31 Willys hemma Number of franchise stores: 3 Retail area (Willys – Group-owned): 266,900 sq.m. Retail area (Willys hemma): 20,400 sq.m.
PrisXTRA Business concept: PrisXtra strives to provide the most fulfilling and trend-inspiring grocery shopping experience to people in Stockholm, at the lowest price.	SEK 653 m 2% 	SEK 9 m 1% 	193 3% 	Number of Group-owned stores: 6 Retail area: 15,700 sq.m. One online store
 Närlivs Business concept: We make it easy for our customers to do good business.	SEK 5,662 m 18% 	SEK 110 m 10% 	595 9% 	Distribution centres: 3 Cash and carry outlets: 19
Dagab Business concept: Dagab streamlines the flow of products and information between suppliers and retailers. Dagab is being integrated increasingly with Axfood's wholly owned store chains in the aim of enhancing efficiency and delivery reliability.	External sales SEK 2,799 m 9% 	SEK 138 m 13% 	907 13% 	Distribution centres: 2 Cold-storage warehouses: 2 Total sales: SEK 23,424 m
OTHER	SEK 133 m 0%	SEK 98 m 9%	370 5%	Total number of Group-owned stores: 226 One online store Total number of distribution centres: 5 Total number of cash and carry outlets: 19
GROUP TOTAL	SEK 31,663 m	SEK 1,077 m	6,847	Total retail area 434,300 sq.m. (Group-owned stores)

Highlights 2008

- Consolidated sales amounted to SEK 31,663 m (29,189), an increase of 8.5%.
- Like-for-like sales increased during the year by 4.7%. Retail sales for Group-owned stores increased by 9.6%.
- Operating profit for the year was SEK 1,077 m (1,121). Operating profit for the preceding year included a one-time positive effect of SEK 19 m.
- Earnings per share were SEK 14.05 (14.88).
- Axfood's acquisition of PrisXtra was completed on 28 January.
- In September Axfood launched its own Garant Ekologiska brand of organic products, which is being sold in all of the Group's store concepts.
- In December Axfood and the Vi Retailers Association entered into a cooperation agreement. Cooperation commences in November 2009 and will continue for a five-year period.
- The Board of Directors proposes an ordinary dividend of SEK 8 (12) per share.

THE YEAR IN FIGURES

	2008	2007	2006	2005	2004
Net sales	31,663	29,189	28,808	28,086	28,658
Operating profit	1,077	1,121	1,204	1,040	1,126
Operating margin, % ¹⁾	3.4	3.8	3.9	3.7	3.9
Profit after financial items	1,011	1,086	1,183	1,026	1,096
Profit after tax	737	781	852	729	786
Earnings per share, SEK	14.05	14.88	16.03	13.37	14.67
Earnings per share after dilution, SEK	14.05	14.88	16.03	13.35	14.42
Average number of employees during the year	6,847	6,463	6,569	7,066	6,941

¹⁾ Operating margin for 2006 excludes payment of SEK 89 m for the settlement with the Vi Retailers Association.

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

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