



**Axfood
Annual Report
2007**

FINANCIAL CALENDAR 2008

Interim report January–March, 16 April

Interim report January–June, 16 July

Interim report January–September,

14 October

Sales reports are released separately for the months January, February, April, May, July, August, October and November. For release dates, visit www.axfood.se. Copies of this annual report will be sent to shareholders upon request.

Axfood is a Swedish company that is 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 2006, 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.

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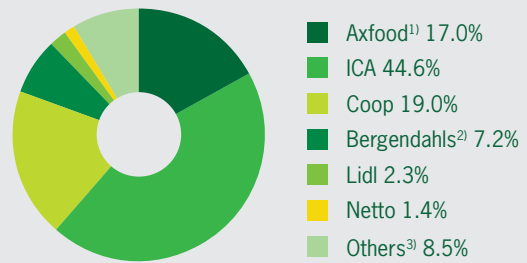
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Presenting Axfood

Axfood conducts food retail and wholesale trade in Sweden. The Group's retail operations are conducted through the wholly owned Willys and Hemköp chains, comprising 217 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 approximately 500 proprietor-run stores. Wholesale business is conducted through Dagab and Axfood Närlivs. Axfood is listed on the Stockholm Stock Exchange, Nordic Large Cap list. Axel Johnson AB is the principal owner with approximately 46% of the shares. Axfood has a 17% market share in Sweden.

MARKET SHARES, LARGEST COMPETITORS IN SWEDEN 2007



¹⁾ Willys, Willys hemma, Hemköp (Group-owned & franchises), Tempo, Handlar'n and other collaborating stores.
²⁾ AG's, City Gross, Eko, Matöppet, Vi retailers, Östenssons.
³⁾ PrisXtra, service station stores, 7-Eleven and others.













ORGANIZATIONAL STRUCTURE

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 by combining 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 selection and pricing strategies.

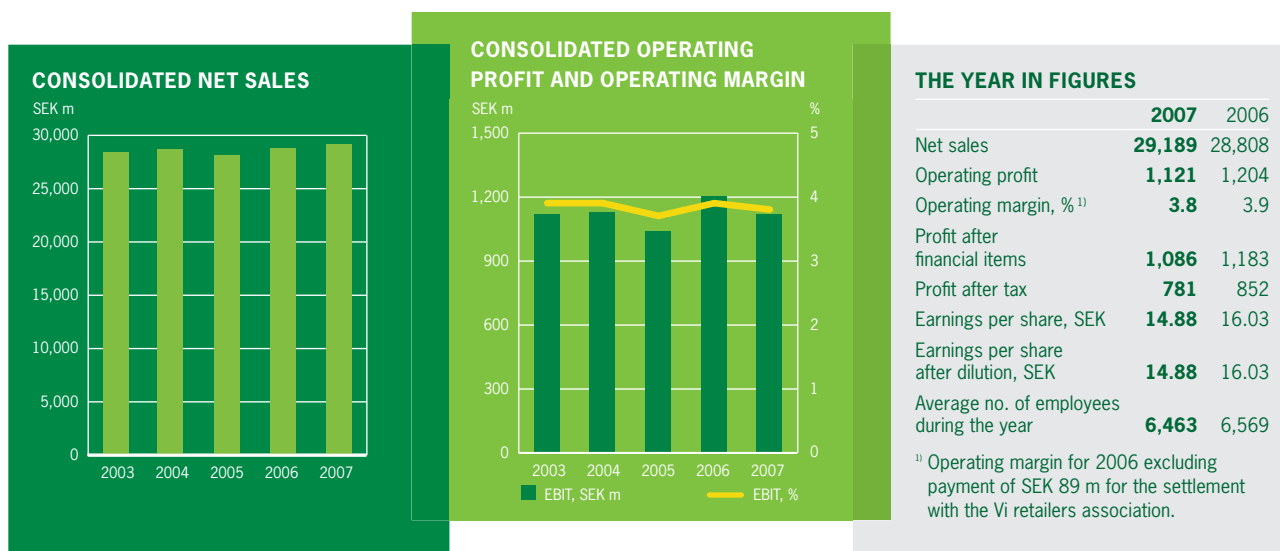
Axfood's store managers and collaborating proprietors work in direct daily contact with their customers and are responsible for making sure that their stores are appealing and well-stocked, and for treating customers in a professional manner that reflects the profile of their respective stores.



COMPANY	SALES Share of Group total	OPERATING PROFIT Share of Group total	NO. EMPLOYEES Share of Group total	KEY DATA
<p>HEMKÖP Business concept: Hemköp develops Sweden's best food stores. Hemköp promotes the well-being of its customers by helping them find healthy foods.</p>	<p>SEK 5,674 m 19%</p> 	<p>SEK 53 m 5%</p> 	<p>1,740 27%</p> 	<p>No. of wholly owned stores: 79 No. of franchise stores: 86 Retail area: 120,200 sq.m.</p>
<p>WILLYS Business concept: Willys seeks 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.</p>	<p>SEK 15,382 m 53%</p> 	<p>SEK 666 m 59%</p> 	<p>2,886 45%</p> 	<p>No. of stores: 138, of which are 33 Willys hemma stores No. of franchise stores: 3 Retail area (Willys – Group-owned): 248,800 sq.m. Retail area (Willys hemma): 24,300 sq.m.</p>
<p>AXFOOD NÄRLIVS Business concept: We make it easy for our customers to do good business.</p>	<p>SEK 5,465 m 19%</p> 	<p>SEK 101 m 9%</p> 	<p>567 9%</p> 	<p>Distribution centres: 3 Cash and carry outlets: 20</p>
<p>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.</p>	<p>External sales SEK 2,525 m 9%</p> 	<p>SEK 131 m 12%</p> 	<p>930 14%</p> 	<p>Distribution centres: 2 Cold-storage warehouses: 2 Total sales: SEK 21,294 m</p>
<p>OTHER</p> <p>GROUP TOTAL</p>	<p>SEK 143 m 0%</p> <p>SEK 29,189 m</p>	<p>SEK 170 m 15%</p> <p>SEK 1,121 m</p>	<p>340 5%</p> <p>6,463</p>	<p>Total no. of wholly owned stores: 217 Total no. of distribution centres: 5 Total no. of cash and carry outlets: 20 Total retail area 393,300 sq.m. (Wholly owned stores)</p>

Highlights 2007

- Consolidated sales totalled SEK 29,189 m (28,808), an increase of 1.3%.
- Like-for-like sales increased during the year by 1.1%. Retail sales for Axfood's wholly owned stores increased by 0.5%.
- Operating profit was SEK 1,121 m. Operating profit for the preceding year, totalling SEK 1,204 m, included SEK 89 m from the settlement with the Vi retailers association.
- Earnings per share were SEK 14.88 (16.03).
- Axfood signed an agreement to acquire PrisXtra, with annual sales of approximately SEK 700 m.
- Labour negotiations resulted in a three-year agreement.
- A new organization for purchasing and distribution of fruit and vegetables was put in place in April.
- The Board of Directors proposes an ordinary dividend of SEK 12 per share (12), based on earnings for the year.





2007 was yet another successful year for Axfood, with stable development, continued good profitability and the best operating margin in the business.

Yet another successful year for Axfood

During the year we succeeded in achieving our earnings target and ended the year with favourable sales growth in the face of rising competition. Our good cost control, together with continued efficiency improvement of our logistics and coordination of our purchasing, also contributed to the positive trend.

Consolidated sales rose during the year to SEK 29,189 m (28,808), an increase of 1.3%. Store sales amounted to SEK 24,677 m (24,256), an increase of 1.7%. Sales by Axfood's wholly owned stores increased during the year by 0.5%, while like-for-like sales rose 1.1%. Operating profit for the year was SEK 1,121 m. Operating profit for the preceding year, totalling SEK 1,204 m, included SEK 89 m from the settlement with the Vi retailers association. The operating margin for the year was 3.8% (3.9%).

For Willys, 2007 was a year of record earnings. At the same time, the challenge remains to maintain and strengthen our position, and to increase sales volumes in a highly competitive market. In 2008 we therefore intend to establish an additional four stores and begin a revitalization of the Willys concept. In addition to more generous opening hours and a general modernization, we will be prioritizing fresh products, organic products and an expansion in the product offering to approximately 1,000 items.

Hemköp continued its development work with a focus on strengthening the brand and creating long-term growth in sales. The strategy includes quality assurance of store operations, a changed price and product strategy, a new customer card and a new, clearer marketing strategy. In addition, nine new stores were opened, mainly toward the end of the year. These investments together have resulted in higher costs which were charged against earnings. This development work is

continuing in 2008, and at least three stores will be established.

Greater efficiency at Dagab is a critical success factor for continued growth. Toward this end, delivery reliability has been successfully improved, a reorganization of the warehouse operations has been initiated, and Autoorder, the new platform for automating stores' product supply, has been tested for implementation in 2008.

Närilivs, which has had favourable development, has successfully refined and streamlined its organization. Several customer contracts were signed or renewed, including a three-year agreement with Reitan Servicehandel. One challenge for 2008 will be the agreements up for renewal against increasing competition.

As part of Axfood's strategy for profitable growth, in December an agreement was signed on the acquisition of PrisXtra, a family-owned company with five grocery stores and an online service in the Stockholm area with combined annual sales of approximately SEK 700 m. The acquisition strengthens Axfood's position in the prospering Stockholm market. It also adds a third store concept aside from Willys and Hemköp.

For several years Axfood has been leading the trend in the development of private label products in Sweden's retail food industry. It has been a very successful undertaking, and our goal is to further increase our private label share from around 20% today to 25% by 2010. The reason this goal has been pushed back in time is that we have encountered longer lead times than expected to develop a new line of more clearly profiled premium and organic products.

Axfood aspires to be an environmentally conscious company and takes a holistic approach to environmental matters – from choice of products and producers to logistics and store operation. In our effort to further

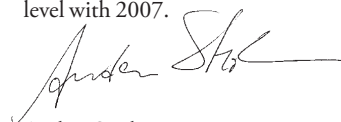
integrate environmental work in our operations and help customers make environmentally conscious choices, a new environmental policy has been adopted and a new position of Head of Environmental Affairs has been established.

Raw material costs increased significantly toward the end of the year as a result of extreme weather, higher global demand and shrinking inventories. To compensate for higher raw material costs, Axfood announced price increases for grain and dairy products during the fourth quarter. In 2008 we expect further price increases for dairy products and meat, as well as higher transport costs.

The past year, which has brought us a host of challenges, would not have been nearly as successful without the impressive contribution made by our committed employees. As we say at Axfood, "the store is the stage", and it is critical that we make sure our customers have a positive experience every time they shop. In this respect we are also setting the stage for yet another successful year.

We believe the market will continue to be characterized by fierce competition and establishment of new store space. Consequently, we will continue to develop and improve our concepts in the aim of investing in a stronger market position, future growth and sustained profitability. Although our growth will be primarily organic, we cannot rule out strategic acquisitions intended to drive development and ensure future positions.

Axfood's goal is to remain the most profitable company in the industry in 2008, and we expect our operating profit to remain level with 2007.



Anders Strålman
President and CEO

Axfood's strategy for profitable growth

MISSION

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

VISION

Axfood will be a leading retail food company in the Nordic region through profitable growth.

GOALS

Axfood's overall goal is to create sustained value for shareholders and other stakeholders through profitable growth. This also entails creating the greatest possible value for customers and employees.

In addition to being the most profitable company in the Swedish retail food market, Axfood will also grow its market shares by strengthening and developing its position, with the aim of being the number two food retailer in the Swedish market by 2012 at the latest.

Axfood will also be the challenger in the market by giving customers the best shopping experiences through clear and unique offerings of quality, wholesome food at attractive prices.

In parallel with its pursuit of profitable growth, Axfood will take its responsibility for the environment and sustainable development.

Axfood's financial targets include an operating margin of 4%, a minimum equity ratio of 25%, and to pay a shareholder dividend of at least 50% of profit after tax.

The Company also aims to increase its private label share from 20% to 25% by 2010.

CORE VALUES

Axfood has five core values that are being gradually implemented throughout the organization:

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

STRATEGIC AGENDA 2008

- Create sales growth at Hemköp
- Develop Willys
- Strengthen Närlivs' position
- Integrate PrisXtra and NetXtra
- Increase cooperation and integration between the various parts of the company
- Continue the implementation of Autoorder
- Launch new range of non-food products
- Further develop private label product offering to achieve 25% share of sales by 2010
- Greater focus on fresh products – organic and locally produced
- Invest in our employees
- Continue work with environment, CSR and sustainability.

STRATEGIES

Axfood's strategy is based on three focus areas: profitable growth, continued development of operations and cost efficiency.

PROFITABLE GROWTH

Growth with sustained profitability requires greater sales. To achieve this, intensive work is being conducted at every level on developing the various concepts as well as on greater integration and continued cost control. With clear strategies for the respective areas and a competent, committed organization, available resources will be used optimally to contribute to profitable growth.

Growth will be primarily organic, although acquisitions and new store establishment will not be ruled out to drive development and ensure future positions. Currently establishment of three new Hemköp stores and four Willys stores is planned for 2008.

Starting in 2008, the Willys concept will be developed with an aim to strengthen its competitiveness and generate greater sales volume. The stores will acquire a more inspiring environment, and the product offering will be increased by 1,000 items – mainly fresh and organic products.

To promote sales growth and strengthen its brand, Hemköp is working according to the strategy it adopted in 2007. In addition to the new customer card, this entails an overhaul of the price and product strategy and a new, more distinct marketing mix. Parallel with this, follow-up is also being conducted of store operations and quality in an effort to enhance customer benefit.

Närlivs will strengthen its position both in distribution and the cash and carry segment. This entails, among other things, further development of the Tempo and Handlar'n profiles, a broadening of the product range, a stronger focus on ready-made meals, and development of differentiated logistics.

Growth will also be pursued by increasing the portion of fresh products and new product categories. Axfood's private label products, which enhance the customer offering while serving as a vital income stream for Axfood, will be further developed toward the goal of achieving a 25% share of sales by 2010. Focus in this area will be primarily on premium products, locally produced foods and organic products. Parallel with this, in 2008 a revitalized non-food product line will be rolled out with the goal of achieving a 6% share of total sales in the years ahead.

To make sure we have the right competence in the right places, we will continue to focus on competence development and our core values. Axfood wants employees who are willing, able and encouraged to generate results together with their colleagues and customers.

OPTIMAL OPERATION

At Axfood the store is the stage, and it is of utmost importance that our customers find our stores appealing. Concept follow-up is conducted on a regular basis to ensure quality and the right development of all stores. Critical success factors such as food safety, routines, quality, sales and service are monitored in the aim of streamlining and improving.

Effective logistics are another critical success factor. By allowing Dagab to focus on cost-efficient solutions and processes, service quality in the stores can be continuously

improved, thereby also improving the service we provide our customers.

As part of this efficiency improvement work, in 2007 Axfood developed and tested Autoorder, an automated ordering system that facilitates order-handling and restocking, thereby allowing store employees to spend more time on their customers. Autoorder is initially being implemented at Willys stores, with Hemköp next in line.

COST EFFICIENCY

Axfood strives for cost-consciousness at every level. In the store chains, personnel, products and premises account for 93% of costs. Major gains can be achieved through continued coordination and integration of purchasing and the product offering. Effective logistics, the right human resources and reduced shrinkage are also making a significant contribution to the bottom line. Strategic projects in all these areas will continue in 2008.

CAPITAL STRUCTURE/DEBT

Axfood's strategy from the start has been to have as little capital as possible tied up in operations and an equity ratio of at least 25%. At year-end 2000, the Group's interest-bearing net debt was SEK 2,206 m, with an equity ratio of 13.7%. This is to be compared with 2007, when net debt was SEK 470 m and the equity ratio was 32.6%. During the same period, the Company has paid SEK 3,144 m in dividends to its shareholders.

Since 2003 Axfood has had an equity ratio in excess of 30% and therefore took measures to adjust its capital structure from 2004 to 2006, including extra dividends totalling SEK 985 m and share repurchases worth SEK 430 m. Moreover, since 2004 the dividend policy has been to pay a shareholder dividend of at least 50% of profit after tax. Axfood's board has proposed an unchanged ordinary dividend of SEK 12 per share (12) to the Annual General Meeting scheduled for 5 March 2008, entailing that 81% of 2007 profit after tax will be distributed, and that the equity ratio after the dividend will be slightly more than 25%.

INCOME

PROFITABLE GROWTH

This is our top priority. Following are the cornerstones of our growth strategy:

STORE ACQUISITIONS AND NEW ESTABLISHMENT

Axfood maintains an active stance in the area of acquisitions by constantly monitoring strategically located stores. At the same time, we are working continuously to establish stores in new locations.

BUSINESS DEVELOPMENT

Our industry is experiencing rapid development. To stay competitive we must constantly renew ourselves.

ENVIRONMENT

Axfood takes a long-term approach to its environmental work. In the day-to-day activities, the primary focus is on transports, waste sorting and energy consumption.

EMPLOYEES

Running a successful business requires that we have our customers' confidence along with knowledgeable and committed employees.

ACTIVITIES IN 2007

In 2007 a Vi store was acquired at Skanstull, in Stockholm. It was inaugurated in November as Hemköp. In December an agreement was signed to acquire PrisXtra, with five stores and an online store in Stockholm. Apart from the Skanstull acquisition, four new wholly owned stores were established, of which two are Hemköp and two Willys stores. In addition, two proprietor-run Hemköp stores were opened and six stores were converted between Axfood's various concepts.

During the year, a revitalization of the Willys concept was drawn up. A new non-food product line was introduced, and several private label development projects were initiated.

Carbon dioxide emissions and fuel consumption by Dagab's own delivery vehicles were lowered as a result of eco-driving and maximized capacity utilization. Greater environmental awareness and upgrades of store equipment are resulting in lower energy consumption.

To ensure the right competence, commitment and understanding for our business, several training initiatives were carried out, including the introduction of an interactive training programme. Implementation of Axfood's core values was begun during the year.

EXPENSES

OPERATIONAL DEVELOPMENT AND CAPITAL EFFICIENCY

Axfood is working actively on operational development and efficient use of capital. Following are a few examples:

CENTRAL PURCHASING
This is the most effective way for us to lower our costs.

INCREASED PRODUCTIVITY
In close cooperation with the employees, Axfood is working to raise productivity without taking away from the customer offering.

EFFECTIVE LOGISTICS
Dagab is working actively on increasing the effectiveness of its logistics and thereby increasing the time that store employees can spend on their customers.

SHRINKAGE
Measures are being continuously taken to lower volumes of this significant cost item.

ACTIVITIES IN 2007

A joint purchasing organization groups together volumes and coordinates category management together with the store chains. In April, a new purchasing and distribution organization for fruits and vegetables was started, with a central base in Helsingborg.

To achieve optimal resource planning, the Group's stores conducted regular reviews of their scheduling. As an extra measure, Dagab changed its organizational routines at its warehouses in Jordbro and Borlänge.

The introduction of Autoorder will streamline store restocking routines in 2008, thereby increasing the amount of time store employees can spend on their customers. Delivery reliability and scheduling of deliveries are also being measured to ensure quality for the stores as well as end customers.

Weekly measurements are being followed up to better adapt ordering routines in parallel with continuous employee training initiatives.

SHAREHOLDER VALUE

FIVE-YEAR TREND

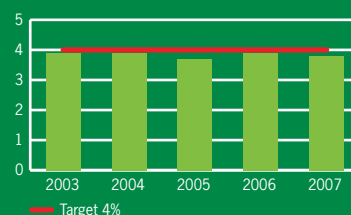
PROFITABLE GROWTH

The result of our work in the preceding steps creates value for Axfood's shareholders. Following are a few examples of this work:

HIGH OPERATING MARGIN

Axfood has one of the highest operating margins in the Swedish retail food industry.

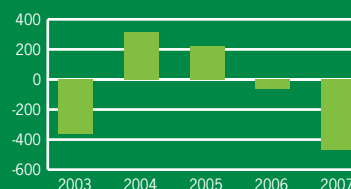
GROUP OPERATING MARGIN, %



LOW NET DEBT

Axfood has a low level of net debt in relation to the Company's business and size.

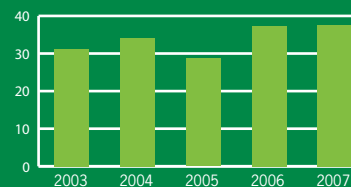
**NET RECEIVABLE(+)/
NET DEBT(-), SEK m**



GOOD RETURN ON CAPITAL EMPLOYED

Average capital employed has decreased from SEK 3,221 m in 2003 to today's level of SEK 3,119 m.

RETURN ON CAPITAL EMPLOYED, %



STABLE EQUITY RATIO

The equity ratio has been at a stable level of slightly more than 30% since 2003. The target is to have a minimum equity ratio of 25%.

EQUITY RATIO, %



HIGH DIVIDEND

Since 2003, Axfood has paid a total of SEK 2,744 m in shareholder dividends. For 2007 the Board has proposed an ordinary dividend of SEK 630 m.

DIVIDEND AS % OF PROFIT



Low prices or luxury – or both. Availability, convenience and one-stop shopping. Demand by consumers today is multifaceted. And so are their demands on food. The health trend remains strong, and growing numbers of people are interested in organic, fair trade certified, locally produced and climate-friendly food.

Complex consumer demands a major challenge for food retailers

Tax cuts, higher incomes and a higher job rate contributed to financially strong households in 2007. The year was characterized by continued optimism, even though the mood was dampened somewhat toward the end of the year. This means that growth in the retail food market continued in 2007, although at a slightly lower pace than a year earlier.

Total retail food sales volume rose 5.2% in current prices compared with a year earlier. The Consumer Price Index for groceries and non-alcoholic beverages rose 4.8% during the same period. Measured by volume and taking into account the number of business days (calendar effect), an increase of 2.8% was achieved.*

TRENDS THAT AFFECT THE RETAIL FOOD TRADE

- Low prices vs. luxury
- Health and ethics
- Internationalization and consolidation
- Competition from restaurants
- Market saturation
- Market homogenization
- Ageing customer base, more single-person households and more consumers with foreign background
- Private label products
- Convenience

CONSUMERS AS CHAMELEONS

Most consumers today shop in different ways on different occasions. Things went well for Sweden during the past year, and consumers spent more money on food. At the same

time, for most people price is still important. Some people are almost always bargain hunting, but they occasionally want to treat themselves to something luxurious. Others are more lavish in their spending habits, yet they still do their “big” shopping for staples at discount stores.

This save-or-spend behaviour is not absolute, however. A recent AC Nielsen Shopper Trends study shows that Swedish consumers give priority to availability and convenience over low prices in their choice of grocery stores. Sweden has a high percentage of women in the workforce – something which steers this kind of buying behaviour. Time is short for actively working parents with small children, so the ability to satisfy all their shopping needs at one place is also an important factor in their choice of store.

LOCALLY PRODUCED, ORGANIC, HEALTHY

Strong focus was directed on environmental and climate issues in 2007. As a result, interest in locally produced foods has grown sharply. More and more people have their eye out for products that are produced and/or handled in an ethical manner, and which are natural, simple, environmentally friendly and are perceived as being more genuine.

Demand for organic products is also rising and experienced a breakthrough with a sharp rise in sales in all of the major retail food chains during the year.

The health trend that has prevailed for several years has not cooled off; on the contrary,

it remains strong both in Sweden and abroad. Virtually all consumers want to make healthy food choices. To a great extent this trend concerns an increase in knowledge which is prompting people to change their lifestyles and eating habits. This development has been intensified by the attention given in recent years to growing health issues, such as obesity and diabetes.

A CHALLENGE FOR RETAILERS

These new, complex consumer behaviours are presenting an enormous challenge to food retailers. For example, to meet demand for organic products, product development is needed in order to be able to offer organic alternatives in ready-made meals. At the same time, sales are limited due to a shortage of organic raw materials, such as fruits, meat, eggs, bread and even milk.

Demand for locally produced food has also prompted retailers to seek cooperation with dependable local suppliers.

The retail food trade’s impact on the climate is also climbing on the agenda for both retailers and their suppliers. For example, the government has announced plans for climate labelling of food – a measure which has received major support from consumers in opinion surveys. Together with the trade organisation Svensk Handel, Axfood has initiated work on drawing up an industry-wide climate certification system.

* Sources: SCB, Retail Trade Index December and Consumer Price Index December.

INDUSTRY TRENDS

During the year, the retail food market continued to be characterized by fierce competition, price pressure and, in certain respects, market saturation. Despite this, the pace of new establishment remained high. For Axfood, which previously had a higher pace of establishment than its competitors, 2007 was a year of consolidation, with exception for Hemköp, which significantly increased its pace of establishment.

The growth rate differs between the various industry segments. The large category of

traditional grocery stores experienced better growth than what many had predicted. One aspect of this is a shift that is taking place in the industry, with a larger accent on fresh products and ready-made food.

One challenge for the industry in the future will be how to handle the situation in the world market. After years of deflation, food prices are now rising as a result of higher raw material prices. Behind this trend are factors such as growing global demand for certain products. An example of this is the rising demand for dairy products in China.

Competition from growing demand for bio-fuels has affected the price of grain. Climate change is also having an impact on grain harvests and, indirectly, on meat production.

In time, an imminent overhaul of agricultural policies in the EU could also have an impact on raw material prices.

SEGMENTATION IN SWEDEN

Previously the Swedish retail food market was relatively homogenous, with comparable offerings and comparable prices in stores. The entrance of discount and hard-discount chains has changed this picture, and today the market's players have more clearly profiled their positions and strategies in various segments. Although traditional grocery stores still account for nearly half of sales in the industry, growth is taking place in the hypermarket and discount segments.

	Netto Lidl	PrisXtra Willys City Gross Willys hemma	Ica Maxi Coop Forum	Hemköp Vi-stores Coop Konsum Coop Extra Ica Supermarket Ica Kvantum	Tempo Handlar'n Ica Nära 7-Eleven Direkten Service stations Coop Nära Other
	Hard Discount	Discount	Hypermarkets	Traditional grocers	Service stations/ mini-markets
Market share/trend ¹⁾	4% →	13% ↗	15% →	49% →	19% →
Price index ²⁾	- ⁴⁾	88–95	93–97	96–110	104–130
Level of service ³⁾	2–3	3–5	7–8	6–10	3–5
No. items	1,100–1,800	7,500–	12,000–	10,000–15,000	1,000–3,000
Location	Residential and external	Residential and external	External	City centres, residential	Traffic- or residential-oriented

Source/interpretation: Axfood. Some data are estimates in cases where statistics were not available for 2007.

¹⁾ Market share/trend: Based on a total market in 2007 of approx. SEK 233 bn, incl. VAT. Trend pertains to total development for the profiles in the segment.

²⁾ Price index: Based on results from Axfood's price surveys of Sweden's main store concepts.

³⁾ Level of service 1–10: This concept includes indirect service such as parking availability, customer information initiatives, business hours and direct customer service, including high staff-to-customer ratio, staffed counters, advice and food/product knowledge.

⁴⁾ Accurate price comparison not possible due to too little comparability in product range.

Axfood has the largest private label share in the Swedish retail food market. The goal is to increase this further by expanding the product offering – primarily with new, more profiled product that meet specialized needs.

New products for new needs

Private label products are a central component of Axfood’s business model. Our venture in this area began in 2000, and since then, sales of our private label products have grown from 4% to 20% of total. The goal is that they will account for 25% of sales by 2010.

Today Axfood’s private labels consist of the Willys and Hemköp house brands, plus the Group-wide Eldorado discount brand, Func (batteries, light bulbs, etc.) and Fixa (kitchen supplies). The Hemköp chain also sells a line of “keyhole”-labelled products under the “Hemköp Healthy” label.

The Willys and Hemköp brands are designed to maintain the same standard of quality as the market-leading product in their respective categories, at a price that is 10%–15% lower.

DEVELOPMENT IN STEPS

From the onset, private label merchandising has developed in steps, where the first stage can be described as generic and simply a matter of low price.

Step two brought the emergence of discount products with a brand profile that is coupled to the company. This includes Eldorado in Axfood’s case.

Step three consists of midrange products that measure up to the market leader in their respective categories. The customer benefit here is gained through quality products that are directly tied to the chain’s own trademark and with a lower price. These products are subject to Axfood’s customer tests and rigorous controls – including on-site by the suppliers – and are sold under the Willys and Hemköp names.

Internationally, today there is a further development toward greater differentiation, including profiled premium products and value-added products that are unique in some way and meet special needs, such as being organic, fair trade certified, hypoallergenic or healthy. Some products are also specifically targeted at families with children. Another trend consists of locally produced products under a joint brand.

AXFOOD’S PRIORITIES

In 2007, 250 new products were added to Axfood’s private label offering. Most of these are in the midrange segment under the Willys and Hemköp brands. Our ambition is to continue introducing new products in this segment.

At the same time, we are preparing to take the next step on the private label staircase. This involves, among other things, an organic product line and new ways of profiling healthy products. The first results of this work will be noticed in 2008. Axfood will also be communicating more about its private label products.

GREATER FOCUS ON NON-FOOD OFFERING

Another area in which Axfood will be stepping up its efforts is non-food products, that is, products that complement the food offering. However, the non-food product offering will mainly be related to home-related activities and food, such as cooking products, kitchen and cleaning supplies, and toys. Seasonal products are also included in this segment. Today non-food products account for 2.5% of sales, and the target is to increase this share to 6% in the years ahead. However, this offering will vary from store to store, depending on store space and market conditions.

The new non-foods product offering was launched at two Willys stores in 2007 and will be rolled out on a broad front in 2008.

PRIVATE LABEL STAIRCASE, DEVELOPMENT STAGES

Complementing with **profiled premium products** and **value-added products**.
Customer benefit = Unique products for creating a unique offering that is directly coupled to the chains’ own brands.

Mid-range products – quality that is comparable to the market leader in the respective categories, such as Willys and Hemköp.
Customer benefit = Quality products at a lower price that are directly coupled to the chain’s own brands.

Discount products – with a brand coupling, such as Eldorado.
Customer benefit = Low price coupled to a brand that is unique for the chain.

Discount products – generic.
Customer benefit = simply low price.



The store is the stage

Every day is a new performance. We listen actively to our customers in order to improve ourselves.

Hemköp offers its customers inspiring meal solutions both for their everyday needs and more festive occasions.

We promote passion for food in Sweden

By offering its customers a high degree of service, in which knowledge about food and health is central and being continuously refined, Hemköp aims to be an inspiration for conscious and healthy choices. We aspire to always be at the customer's side and develop the best food stores based on their preferences.

Hemköp's stores are centrally located in city centres and residential areas. The stores feature a wide product range, high degree of service and competitive prices. The Hemköp chain has a total of 165 stores, of which roughly half are wholly owned and the other run under franchise.

ACTIVITIES DURING THE YEAR

Hemköp is midway into a three-year plan designed to reverse a stagnating trend. Following a number of years of streamlining and cost-cutting, in 2007 Hemköp focused on growth through investments in new stores. A total of nine new stores were established in 2007.

The new stores are in residential locations, primarily in large cities. Stores were established in Örebro, Lund and Gothenburg (Särö and Långedrag). In December two stores were opened in central Stockholm, at Odenplan and Medborgarplatsen. During the summer a Vi store was acquired at Skanstull in Stockholm, which was re-opened in November under the Hemköp name. In addition, contracts were signed during the year for two new stores and the acquisition of a third, all of which are scheduled to open in 2008.

A new customer loyalty card featuring a new technical platform was launched during the year. The card offers a bonus of up to 2% on customers' purchases. The launch was a major success and generated more than 100,000 new card-carrying customers in 2007. The goal is to reach 200,000 customers in 2008.

The overhaul of the product offering that was begun during the year will bear full impact at all stores by 2008. The aim is to continue offering a wide selection focusing on fresh products and a clearer profile, with a larger share of value-added products. The price strategy was also revised.

Sales of private label products accounted for 14.0% of total (13.4%).

During the year Hemköp worked on strengthening its brand profile as the best store alternative for customers with a passion for food who want to make wise choices. A new promotional concept has been created, and during the autumn a shift was made in media choice. The stores are still the primary channel along with the new customer loyalty card, coupled with an increase in TV and Web advertising.

FUTURE CHALLENGES

Hemköp's overarching challenge is to increase sales and clarify the brand and what it stands for. Hemköp has long been challenged by the dominant discount trend in the market and by general saturation in the industry. However, the continued strong trend in health awareness and rising demand for locally produced, organic and ethical

products speak in favour of Hemköp's concept and for a recovery in the market segment – traditional grocery stores – that Hemköp works in.

PRIORITIES 2008

In 2008 Hemköp will be focusing on continued long-term growth, both through new establishment and through actions designed to boost sales at existing stores. The new product and price strategy is part of this work on achieving sales growth.

Brand profiling will continue during the year along with promotion of Hemköp's customer loyalty card.

Store environments are also in focus, with continuous improvements and the goal of achieving a more uniform standard in stores across the chain.



VISION

Hemköp promotes passion for food in Sweden.

BUSINESS CONCEPT

Hemköp develops Sweden's best food stores. We promote the well-being of our customers by helping them find healthy foods.

CUSTOMER STRUCTURE

Due to the location of Hemköp's stores, in cities and residential areas, our customers shop more frequently and for lower average amounts. Hemköp customers are looking for inspiring foods and competitive prices all at the same time. They are attracted to Hemköp's broad product selection, focus on fresh products, health and personal service.

THE FUTURE

The focus in the years ahead will be on sales growth, both in existing stores and through new establishment. Strengthening the brand, developing the product selection and improving the shopping experience are also priority areas.

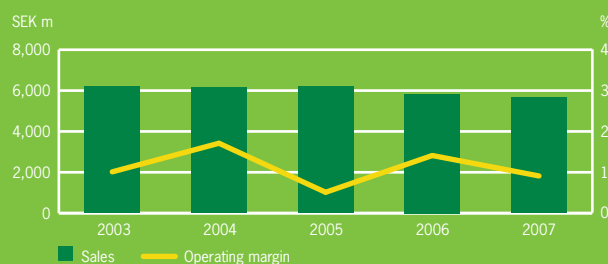
THE YEAR IN NUMBERS

Net sales fell by 2.7% to SEK 5,674 m. Operating profit was SEK 53 m (79), with an operating margin of 0.9% (1.4%). The earnings decline is mainly attributable to a drop in sales, payroll costs that were not adapted to a corresponding degree, and higher costs for store establishment and marketing activities.

KEY RATIOS

Amounts in SEK m unless otherwise indicated	2007	2006
Store sales incl. proprietor-run stores	9,295	9,141
Net sales	5,674	5,829
Like-for-like sales growth, (%)	-0.9	-0.2
Operating profit	53	79
Operating margin, (%)	0.9	1.4
Number of Group-owned stores	79	76
Average number of employees during the year	1,740	1,800

SALES AND OPERATING MARGIN



Willys is the food store for price-conscious shoppers. Its business concept is to offer “Sweden’s cheapest bag of groceries.” The Willys concept is also based on a wide, basic product selection – especially fresh products.

Willys lives discount

Willys is Sweden’s leading discount chain, with 105 Willys and 33 Willys hemma stores nationwide. Most Willys stores are located in shopping centres and other locations outside city centres, although some can also be found in central locations.

ACTIVITIES DURING THE YEAR

2007 entailed a slower rate of establishment than previously for Willys, which was a conscious decision. An all new Willys store was opened at the Sickla Köpkvarter shopping centre outside Stockholm, while another was opened in Birsta, north of Sundsvall, replacing an older Willys store nearby. A Hemköp store in Avesta and one in Ludvika were converted to Willys.

During the year an intensive, sweeping development project was carried out to bring about the next generation of Willys stores: a more modern store that better meets customers’ needs today and in the future, while keeping and developing Willys’ discount concept – “Sweden’s cheapest bag of groceries”.

In the new Willys stores, fresh products are clearly front and centre – among other things through a new store layout. The product offering has been broadened in selected areas, especially perishables, to meet new needs. A new price strategy has been devised to strengthen and further develop the concept of “Sweden’s cheapest bag of groceries”. The next generation of Willys stores will also be distinguished by more modern store communication and marketing. To enhance customers’ shopping experience, an ambitious training programme has been developed for

all store employees with the theme “The store is the stage”. Training began in November 2007 and will continue until some time in 2009.

Sales of private label products accounted for 23.1% of total for Willys and 26.5% for Willys hemma.

FUTURE CHALLENGES

Willys’ challenge is to strengthen its position in a fiercely competitive market. Creating the next generation of Willys is a large-scale undertaking designed to develop the concept for the future and is expected to make a strong contribution to growth.

PRIORITIES 2008

A number of all new stores featuring the new concept are planned for 2008. Introduction of the concept at existing stores will also be started. In an initial phase the concept will be tested at two pilot stores during the spring and thereafter evaluated at mid-year. Implementation of the concept at all stores will begin during the autumn – a process that is expected to be fully completed within four years.

A system based on Autoorder, which has been developed together with Dagab, was also tested in 2007 and will be introduced on a full scale in 2008. With Autoorder, stores’ product supply is fully automated. Instead of manual ordering from individual stores, Dagab will receive direct signals for the need to restock products at the respective stores. This results in efficient flows with specially adapted deliveries.

STABLE TREND AT WILLYS HEMMA

The merger of Willys and Willys hemma has generated synergies and entailed consolidation within Willys hemma.

The number of Willys hemma stores decreased from 43 to 33 by year-end. The stores now included in the Willys hemma chain have long-term sustainable profitability potential with a stable customer base. Most are situated in residential areas. The concept has been fine-tuned through a revised price and product range strategy. Systematic concept follow-up has significantly raised the level of quality and store operation.

As a result of the new structure and other initiatives that have been carried out, after several years Willys hemma is now running at a profit, and a stable platform has been created for future profitability.



BUSINESS CONCEPT

Willys seeks to lead and develop the discount retail food segment by offering "Sweden's cheapest bag of groceries" and giving customers an inspiring shopping experience.

CUSTOMER STRUCTURE

Willys is the food store for price-conscious shoppers. With a wide selection and rich offering of fresh products, Willys meets 95% of customers' grocery needs. Large families with children are Willys' priority customer category.

THE FUTURE

The coming years will involve a major effort to implement the concept for the new generation of Willys stores.

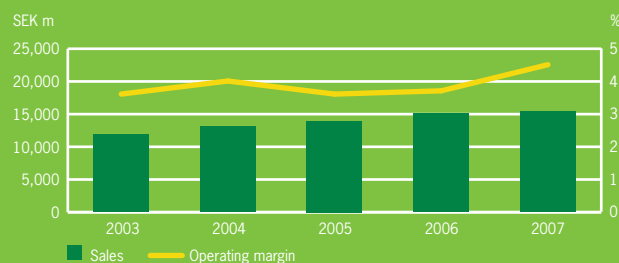
THE YEAR IN FIGURES

Sales amounted to SEK 15,382 m (15,115), an increase of 1.8%. Operating profit was SEK 666 m (558), with an operating margin of 4.3% (3.7%).

KEY RATIOS

Amounts in SEK m unless otherwise indicated	2007	2006
Net sales	15,382	15,115
Like-for-like sales growth (%)	1.7	1.2
Operating profit	666	558
Operating margin (%)	4.3	3.7
Number of Group-owned stores	138	148
Average number of employees during the year	2,886	2,952

SALES AND OPERATING MARGIN



Axfood Närlivs makes it easy for its customers to do good business while contributing to development of the convenience retailing segment through know-how, simplicity and long-term commitment. This is done through business development together with major chain customers and knowledge-sharing with small grocers.

Developing together with our customers

Axfood Närlivs is the market-leading distributor to the convenience retail segment in Sweden, with a market share of roughly 50% and more than 5,000 wholesale customers. The company has one of the largest sales forces in Sweden's convenience retail segment. This fills a central role in building relationships with customers and for developing new services and concepts that customers demand.

ACTIVITIES DURING THE YEAR

Axfood Närlivs is Axfood's open wholesaling business with responsibility for market cultivation of all non-owned stores in the grocery and convenience store segment, excluding Hemköp's franchise stores. During the year the organization was refined to comprise three business areas: Wholesaling, Retailing and Cash and Carry.

Continued efficiency improvement, an expanded product offering and branding work were in focus during the year.

As part of this efficiency improvement work, Axfood Närlivs' product and category organization was coordinated with Axfood's central product and purchasing function to better take advantage of the combined strength within the entire Group.

Similarly, the warehouse in Örebro was expanded to coordinate deliveries of fresh products and other goods to the cash and carry operations. This has reduced direct deliveries from suppliers to cash and carry outlets and thereby led to more efficient handling and positive environmental effects.

A new checkout system was installed at all cash and carry outlets. The system enables more efficient chain operation and has resulted in a reduction in the total number of systems used within Axfood.

To meet rising demand for fresh products, Axfood Närlivs is now preparing for a nationwide system for products that require a rapid flow from supplier to store. The system will encompass all types of fresh foods, including convenience food. This will give customers an ability to coordinate their purchases in various product segments from one and the same distributor. During the year, preparations were also made for an expanded range in which customers are given an opportunity to receive deliveries of non-food products from the same source.

Axfood Närlivs' delivery reliability was good during the year. In a large store survey, Axfood Närlivs and Dagab received top scores among the country's major wholesalers.

A new three-year contract was signed between Axfood Närlivs AB and Reitan Servicehandel AB, which runs the Pressbyrån, 7-Eleven and Easy 24 chains in Sweden. The deal, worth approximately SEK 1.5 bn during the contract period, covers deliveries of newsstand and food products to all of Reitan Servicehandel's stores in Sweden and to the 112 7-Eleven stores that will be established within Svenska Shell's service station network starting in 2008.

FUTURE CHALLENGES

Axfood Närlivs' primary challenge is to create continued growth with sustained profitability. This requires an ability to contribute to development and higher sales in the stores that are already customers, which is also important for the opportunities to attract new customers. A large amount of consumer buying today consists of complementary purchases that are made outside of customers' ordinary stores. Axfood Närlivs' ambi-

tion is to help its customers with a refined and adapted product selection that will enable convenience stores to meet new consumer trends, such as development of fresh-product innovations and broadening of the non-foods offering.

The growth strategy also includes strengthening Axfood's own Tempo and Handlar'n brands. Axfood Närlivs offers a number of market and concept development services to independent grocers working under these respective profiles.

PRIORITIES 2008

In 2008 Axfood Närlivs will focus on developing the Tempo and Handlar'n concepts from various perspectives. For Tempo, work has already begun on the chain's brand positioning, while strengthening competitiveness has been assigned top priority for Handlar'n.

Axfood's open wholesaling concept will be actively marketed as an attractive alternative for independent grocers and convenience stores. This work entails a broader range of products that will make Axfood Närlivs a more comprehensive supplier that meets its customers' needs for fresh products, ready-made foods and non-food products.

In the cash and carry segment, Axfood Närlivs' restaurant and foodservice product offering is being further developed. What cash and carry outlets and stores both share in common is a need to continue work on developing store concepts and improving store operations – all according to Axfood's overarching core value "The store is the stage".



BUSINESS CONCEPT

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

CUSTOMER STRUCTURE

Customers are in four segments: retailers, chain customers, other convenience retailers and cash and carry. Retailers consist of small grocery and convenience stores, such as those working under Axfood's own Tempo and Handlar'n profiles and independ-

ent mini-markets. Chain customers include service stations and convenience stores, while other convenience retailers consist of small, independent units such as newsstands, convenience stores and the partly owned Direkten profile. The cash and carry segment offers services primarily to restaurants and foodservice operators, as well as to certain convenience stores.

THE FUTURE

Axfood Närlivs is working increasingly toward the goal of being a service company by coupling services to product handling and packaging them in an attractive way for customers.

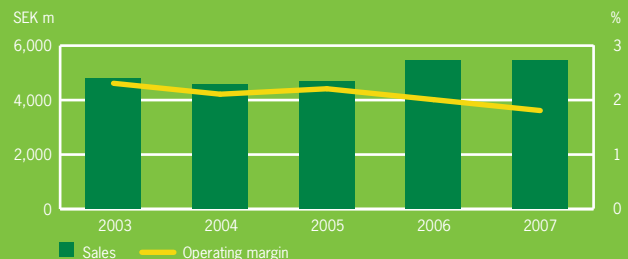
THE YEAR IN FIGURES

Sales amounted to SEK 5,465 m (5,465). Operating profit was SEK 101 m (108), with an operating margin of SEK 1.8% (2.0%).

KEY RATIOS

Amounts in SEK m unless otherwise indicated	2007	2006
Net sales	5,465	5,465
Distributed sales	4,389	4,365
Operating profit	101	108
Operating margin (%)	1.8	2.0
Number of stores (Tempo/Handlar'n)	375	378
Number of cash and carry outlets	20	20
Average number of employees during the year	567	573

SALES AND OPERATING MARGIN



Dagab is a store- and customer-oriented logistics partner to the Axfood Group's store chains. Dagab develops cost-efficient solutions and processes designed to raise the quality of service to the Group's stores, so that they can focus on sales.

Sweden's most efficient wholesale operation

Dagab supplies retail food and non-food products to Axfood's own Willys and Hemköp store concepts. Operations are conducted from two main distribution centres in Gothenburg and Stockholm, and from two complementary cold storage warehouses in Borlänge and Jönköping.

ACTIVITIES DURING THE YEAR

Work was begun in 2007 on implementing the structural plan that was adopted for logistics within the Axfood Group. The goal is to improve efficiency in all operations. Part of this work has involved the specialization of the warehouse operations in Borlänge, which in the future will be a full-range warehouse for fresh produce, meat and processed meats, and dairy products. Borlänge has also obtained an expanded role as a hub for transports to the Dalarna, Västmanland and Norrland regions. As part of this specialization, parts of the Jordbro cold storage warehouse are being moved to Borlänge, at the same time that Jordbro has taken over the Borlänge unit's handling of dried/tinned goods.

The changes in Borlänge will result in a reduction in personnel at that location, and in October 2007 35 persons were given notice.

A number of rebuilding projects were begun during the year in Jordbro. Construction of new high-rise warehouse, which will entail a greater level of automation and larger volume capacity, will be finished in 2008. In addition, a special warehouse has been built as part of Axfood's work on developing a range of non-food products.

The new platform for Autoorder, a system for automating product supply at the Group's stores, was successfully tested in a number of pilot projects during the year.

Instead of manual orders being placed by the stores, Axfood's wholesale units receive signals directly for the need to restock products in individual stores. This allows Dagab to streamline its supply flow with the help of specially adapted deliveries. Over time Autoorder will be installed in all Axfood stores.

Delivery reliability and scheduling are measured constantly, and the performance in these regards was very positive during the year – which Dagab's customers can also testify to. In a large store survey Dagab and Axfood Närlivs received the highest marks among the country's major wholesalers. Ninety-two and a half per cent of customers indicated that their product supply has worked well – a customer satisfaction rating that is considerably higher than the closest competitor.

FUTURE CHALLENGES

Dagab's overarching challenge is to contribute to increasingly stronger and effective integration in the Axfood Group. With small margins, demands on cost control and efficiency improvement are constantly at the fore and require continuous work on finding new solutions and new processes.

PRIORITIES 2008

Reorganization of the warehouse operations is being conducted in 2008, which will mainly affect the units in Borlänge and Jordbro.

Implementation of Autoorder will begin during the second quarter, starting with Willys, and installations will be completed at most stores during the year.

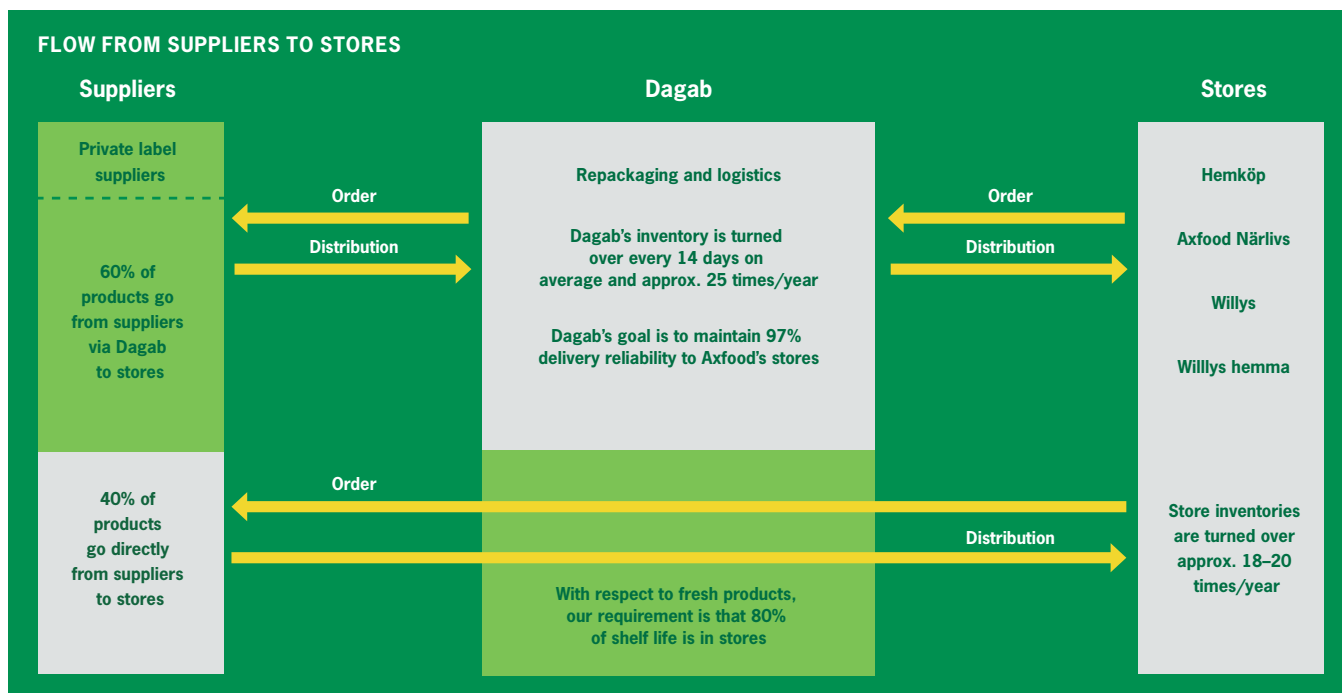
OPTIMAL OPERATION AND COST EFFICIENCY

To support Axfood's strategy of profitable growth, efficiency at every level is crucial and at the top of the agenda. From product range to purchasing, warehousing and distribution, continuous work is being channelled into extracting cost and quality benefits from every link in the supply chain.

Axfood's central logistics partner Dagab is the hub in the Group's product flow, where roughly 60% of products ordered from various suppliers are gathered for repackaging and inventorying. From Dagab's warehouses, products are thereafter distributed to the stores based on their respective orders.

Which products are purchased is determined by the store chains' product strategies and is handled by a central purchasing function that negotiates all of Axfood's supplier contracts. Economies of scale are achieved through this centralized purchasing function. The goal is to achieve a purchase price trend that is below the consumer price index.

Axfood's purchasing and logistics model is being continuously improved in an effort to achieve faster inventory turnover, more efficient product ordering and distribution, and more efficient transports.

**BUSINESS CONCEPT**

Dagab streamlines the flow of goods and information between suppliers and retailers. Dagab is being steadily integrated with Axfood's wholly owned retail chains in an effort to increase efficiency and delivery reliability.

CUSTOMER STRUCTURE

Dagab's customer structure consists of Axfood's various retail chains.

THE FUTURE

Dagab's goal is to be Sweden's most efficient wholesale operation and to contribute to the growth of Axfood's store chains through deeper integration, improved delivery reliability and greater efficiency.

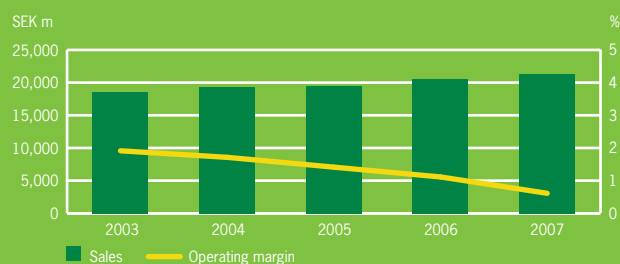
THE YEAR IN FIGURES

Sales rose to SEK 21,294 m (20,572) during the year. Operating profit was SEK 131 m (226), with an operating margin of 0.6% (1.1%).

KEY RATIOS

Amounts in SEK m unless otherwise indicated

	2007	2006
Net sales	21,294	20,572
Distributed sales	13,921	13,428
Operating profit	131	226
Operating margin, %	0.6	1.1
Average number of employees during the year	930	917

SALES AND OPERATING MARGIN



Together we are strong

We work together to benefit from each other's expertise.

PrisXtra – a new concept in the Group

In December Axfood signed an agreement to acquire the family-owned grocery store chain PrisXtra. The acquisition was completed in January 2008. The company has five stores and an online service in the Stockholm area, with combined annual sales of approximately SEK 700 m.

The acquisition brings to Axfood a third store concept aside from Willys and Hemköp and considerably strengthens the Group's position in the Stockholm area.

Established in 1991, PrisXtra's business concept is to sell quality products at low prices and to eliminate middlemen in the

distribution chain. This concept has been successful, and PrisXtra is a strong brand and successful grocery chain in the Stockholm market. PrisXtra's business concept is well in line with Axfood's goal to develop and run successful food concepts based on clear and attractive customer offerings.

Axfood will continue to run PrisXtra as a stand-alone concept in the Axfood Group. Magnus Lundin will stay on as the company's president. All employees have been offered continued employment.

Upon its acquisition by Axfood, PrisXtra Förvaltning AB had a financial year from

September–August, and preliminary sales for the financial year ended 31 August 2007 amounted to approximately SEK 700 m. Preliminary total assets were SEK 146 m, with an average of 243 employees.

In 2008, the primary focus will be on integrating PrisXtra with Axfood.



Trading volume in 2007 was 56.8 million shares (48.9), for a total value of SEK 14,509 m (10,625).

Higher trading in Axfood shares

AXFOOD SHARES

Axfood's shares have been listed since 1997 and have been traded since October 2006 on the Large Cap list of the OMX Nordic Exchange. The sector classification is Consumer Staples. All shares have equal voting power and equal entitlement to the Company's profit and equity. At year-end 2007 Axfood's share capital was SEK 262.3 m, divided among 52,467,678 shares.

SHARE PERFORMANCE 2007

Axfood's stock started out the year on a high note, reaching an all-time high of SEK 295.0 on 8 March. Since then the stock performed on a par with the Stockholm Stock Exchange, which had a negative trend and reached a yearly low quotation of SEK 205.5 on 8 November. The stock thereafter recovered during the rest of the year, with a closing price of SEK 260.5 on 28 December.

Trading volume in 2007 was 56.8 million shares (48.9), for a combined value of SEK 14,509 m (10,625). This corresponds to a turnover rate of 108% (90%), compared with

an average turnover of 134% for shares on the Nordic list. Average daily trading volume was 227,031 shares (194,656), for a value of SEK 58.1 m (42.3). An average of 581 transactions were made per trading day (312).

OWNERSHIP STRUCTURE

Axfood had 9,343 (9,972) shareholders at year-end 2007, at which time the ten largest owners held 66.3% of the shares (57.0%). Swedish individuals owned 55.2% of the shares (56.2%) at year-end 2007, while Swedish mutual funds and institutions owned 13.0% (16.3%). Foreign ownership in Axfood rose in 2007 and was 31.8% as per 31 December 2007 (27.5%).

SHARE REPURCHASES

Axfood's 2005 Annual General Meeting resolved to authorize the Board to repurchase up to 2,000,000 of the Company's own shares. A total of 476,400 shares were repurchased under this mandate. The 2006 Annual General Meeting also authorized the Board to decide on share repurchases, this time of up to 4,000,000 of the Company's

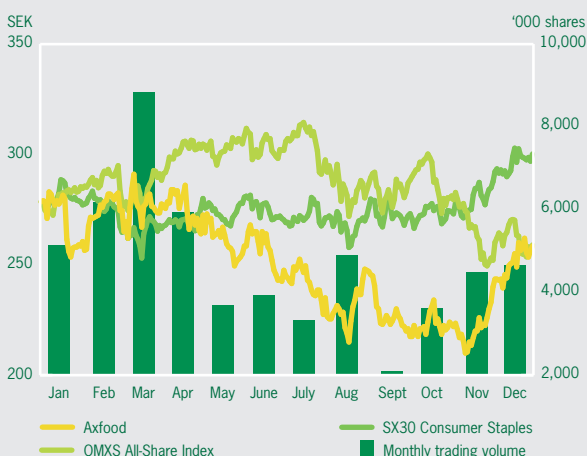
own shares. A total of 1,639,750 shares were repurchased under this mandate.

The 2007 Annual General Meeting resolved to cancel all 2,116,150 shares repurchased by the Company, which took place on 27 July 2007. In addition, the Annual General Meeting resolved to authorize the Board, during the period extending up until the next Annual General Meeting, to repurchase up to 3,000,000 of the Company's own shares. No repurchases were made under this mandate.

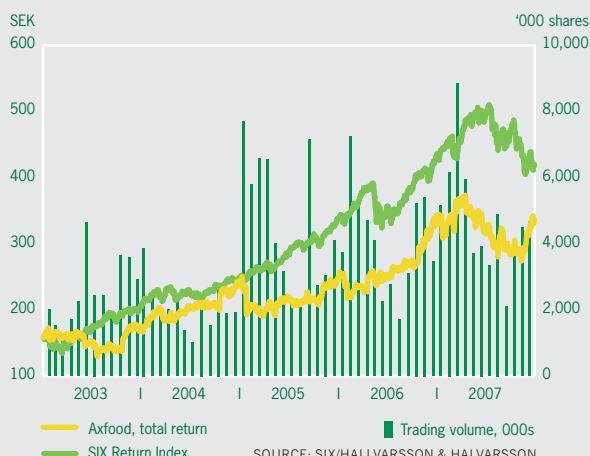
DIVIDEND

Axfood's dividend policy is to pay out at least 50% of profit after tax. For the 2007 financial year the Board proposes an ordinary dividend of SEK 12 per share (12), corresponding to a total of SEK 630 m based on 52,467,678 shares in issue. The proposed dividend corresponds to 81% of profit after tax for 2007. Since 2003 Axfood has paid out an average of 95% of profit after tax in yearly dividends. The payment date for the dividend is 13 March 2008.

PRICE TREND AND TRADING VOLUME 2007



AXFOOD SHARES, TOTAL RETURN 2003-2007



SHARE DATA

All-time high, 8 March 2007, SEK	295
Listing	OMX Nordic Exchange
Sector classification	Large cap, consumer staples
ISIN code	SE0000635401
Round lot	50 shares
Short name	AXFO

OWNERSHIP STRUCTURE, 31 DECEMBER 2007

Size class	No. shareholders	Share-holders, %	No. of shares	Share of capital and votes, %
1 – 500	7,830	83.80	1,162,628	2.40
501 – 1,000	673	7.20	567,606	1.10
1,001 – 2,000	298	3.20	478,435	0.90
2,001 – 5,000	222	2.40	761,272	1.50
5,001 – 10,000	99	1.10	748,375	1.40
10,001 – 20,000	64	0.70	939,302	1.80
20,001 – 50,000	60	0.60	1,910,236	3.60
50,001 – 100,000	36	0.40	2,612,086	4.90
100,001 –	61	0.60	43,287,738	82.40
Total	9,343	100.00	52,467,678	100.00

KEY DATA PER SHARE, SEK

	2007	2006	2005 ¹⁾	2004 ¹⁾	2003
Ordinary dividend	12.00 ²⁾	12.00	9.00	6.50	5.50
Extra dividend	–	8.00	6.00	4.50	–
Dividend as % of net profit ³⁾	80.6	123.1	118.1	73.7	43.0
Number of shares outstanding at year-end ⁴⁾	52,467,678	52,467,678	54,531,378	53,577,828	53,497,028
Average number of shares outstanding	52,467,678	53,162,625	54,531,378	53,567,009	53,248,074
Share price at year-end	260.5	283	222	225	166.5
Market capitalization at year-end, SEK m	13,668	15,447	12,101	12,055	8,907
Highest/lowest price paid	295/205.5	285.5/185	236.5/168	229/160.5	174.5/120
Dividend yield, % ⁵⁾	4.6	7.1	6.8	4.9	3.3
Earnings per share before dilution ⁶⁾	14.88	16.03	13.37	14.67	12.85
Earnings per share after dilution ⁶⁾	14.88	16.03	13.35	14.42	12.62
Net asset value per share	41.02	46.12	51.81	49.35	39.76
Net asset value per share after dilution	41.02	46.12	51.76	48.44	38.97
P/E multiple before dilution ^{6, 7)}	17.5	17.7	16.6	15.3	13.0
P/E multiple after dilution ^{6, 7)}	17.5	17.7	16.6	15.6	13.2
Turnover rate, %	108	90	102	47	57
Number of shareholders	9,343	9,972	9,714	9,519	9,890

¹⁾ The key ratios for 2004 and 2005 have been recalculated according to IFRS.

²⁾ Proposed by the Board of Directors.

³⁾ Dividend as a percentage of net profit.

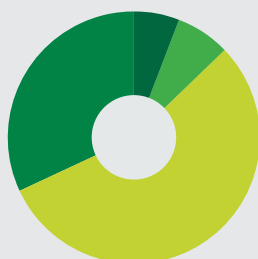
⁴⁾ Number of shares excluding the holding of 2,116,150 treasury shares.

FINANCIAL REPORTS 2007

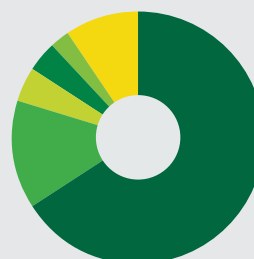
Report	Date
Year-end report	2 February 2007
Q1 interim report	18 April 2007
Q2 interim report	18 July 2007
Q3 interim report	17 October 2007

THE 10 LARGEST SHAREHOLDERS AT 31 DECEMBER 2007

Name	No. shares	Share of capital and votes, %
Axel Johnson AB	24,290,066	46.3
Barclays Global Investors	5,544,056	10.6
Swedbank Robur funds	1,163,074	2.2
SEB funds	914,045	1.7
SHB/SPP funds	576,062	1.1
State of New Jersey Pension Fund	500,000	1.0
Sax Göran (via family and companies)	460,016	0.9
Skandia funds	451,350	0.9
2nd National Swedish Pension Fund	449,376	0.8
Abu Dhabi Investment	435,320	0.8
Total	34,783,365	66.3
Others	17,684,313	33.7
Total	52,467,678	100.0

SHAREHOLDER CATEGORIES


- Swedish institutions 6.1%
- Swedish mutual funds 6.9%
- Individuals, incl. closely held companies 55.2%
- Foreign shareholders 31.8%

GEOGRAPHIC DISTRIBUTION OF SHAREHOLDERS


- Sweden 66.0%
- USA 13.8%
- UK 4.4%
- Norway 4.0%
- Luxembourg 2.6%
- Other 9.2%

Axfood aspires to be an environmentally conscious company that takes a holistic approach to environmental matters – from choice of products and producers, to purchasing, logistics and store operations in an effort to help customers make environmentally conscious choices.

A responsible company with a responsible mission

Our business is about providing high quality food at competitive prices. This puts high demands on Axfood as a responsible company. Axfood's most important stakeholders are our shareholders, customers, employees, suppliers and environmental interests. Axfood's goals and strategies aim to create value for our owners. Running a successful business requires that we have our customers' confidence, knowledgeable and committed employees, and suppliers that meet our standards for food safety, business ethics and human rights.

Axfood's work on sustainable development is based on the UN definition, which is "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

EMPLOYEES

Axfood's employee responsibility emanates from the core value "You are important". This means that every employee should feel that he or she is willing, can and is encouraged to generate results together with colleagues and customers. For the Company it is important to give employees the conditions to live up to this core value. This is done through substantial investments in internal training, competence development and leadership development. The Company also invests in sound work environments, health activities for employees and in equal opportunity and diversity.

AXFOOD'S CORE VALUES

During the past two years Axfood has drawn up five core values that are aimed at strengthening cohesion and integration within the Group while serving as a guide for managers and employees alike. These core values are strongly linked to the Group's overall goals and strategies.

The process of building a base of consensus throughout the organization will continue until some time in spring 2009. During the year, seminars and workshops were conducted for company management, regional managers and staff managers. These people, in turn, will communicate the core values to staffs and store managers in 2008.

OUR KEY STAKEHOLDERS



THE AXFOOD GROUP'S FIVE CORE VALUES

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



You are important
Committed employees are key to our success.

RECRUITMENT AND LEADERSHIP SUCCESSION

In 2007 the meaning of Axfood's core values was specifically outlined in a strategic plan for HR work, with concrete goals for 2010. The plan covers activities in such areas as recruitment, leadership training and competence development, as well as measures to strengthen perceptions of Axfood as an attractive employer. In an effort to enhance future growth and the supply of store managers, an extensive mapping has been conducted of store employees.

AXFOOD ACADEMY

Axfood Academy is the Group's centre for management and employee training. Development activities are organized in three blocks: *Leadership development*, *Basic training* and *Specialist training*.

Toward the goal of creating a continuously learning organization, the academy works with internal instructors who by virtue of their experience and active participation in operations are helping raise the level of aggregate level of competency within the Group. In the coming years the Axfood Academy will play a central role in conveying Axfood's core values throughout the organization.

During the year, an e-learning initiative was carried out. Interactive training courses have been designed for specific product categories, such as cheese & dairy products, as well as for new employee orientation at Hemköp and Willys.

This year the annual internal trainee programme for store managers was expanded to 15 places. Of the nine employees who matriculated in autumn 2007 from the 2006 programme, three are already store managers and another three are assistant store managers.

EQUAL OPPORTUNITY AND DIVERSITY

Axfood has a Group equal opportunity policy which prescribes that all companies in the Group are to draw up equal opportunity plans to support them in their local equal opportunity work.

Axfood's express objective is to increase the percentage of women in senior positions. Toward this goal, during the year a Group trainee programme was introduced with eight women participants with both college educations and store experience.

WORK ENVIRONMENT AND HEALTH

Axfood conducts systematic work environment and safety work to identify risks as early as possible and help create safe and sound workplaces. Axfood strives to have competent and energized employees who are happy in the workplace and feel good.

During the year, a work environment project designed to map ongoing, systematic work-environment initiatives in all parts of the Group was begun. Job attendance improved to 93.8% (93.4%) as a result of preventive measures and a standing effort to reduce sickness-related absences.

CUSTOMERS

The "store is the stage" in Axfood's business and the place where we meet our customers every day. Customers should encounter an inspiring and broad offering at competitive prices. We take measures to provide a product range that can meet our customers' demands on health and well-being. Customers should also feel confident in the products we sell, which is why we dedicate extensive attention to food safety – both with respect to our private label products and products from external suppliers.

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 cornerstone 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 and the new ISO 22000 standard. 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

EMPLOYEE STATISTICS

	2007	2006
Work attendance, store chains, %	93.8	93.4
Work attendance, Dagab, %	93.4	93.0
Employee turnover rate, %	9.0	7.5
Average service time, years	9.8	10.5
Number of full-time employees	4,251	4,266
Number of part-time employees	3,509	3,342
Average number of employees	6,463	6,569
Number of men	2,947	2,966
Number of women	3,516	3,603

QUALITY ASSURANCE OF PRIVATE LABEL PRODUCTS

	2007	2006
Product recalls from stores, private label products	29	32
Product recalls from stores, other	36	32
Shares of private label product suppliers approved according to GFSI, December 2007, %	84	78

year Axfood's quality assurance inspectors conduct their own inspections in which microbiological and chemical analyses are conducted 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 60 people, and to make it all the way to store shelves, it must receive comparable marks to the market-leading product. Every other year the panel then tests the same product again to make sure that it meets the same standard of quality.

The budget 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 budget products on the market.

INTERNAL CONTROL PROGRAMMES FOR STORES AND WAREHOUSES

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

Internal control programmes are an important tool in monitoring operations. Axfood conducts regular internal inspections in the following areas:

- Food safety
- Age-restricted products
- Systematic fire safety work

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 an internal control programme called "Safe food in your store", which is approved by the Swedish National Food Administration. The programme was implemented at Axfood's stores starting in January 2007.

Under this control programme, stores perform certain daily controls, delivery controls and temperature controls at the departmental level. Clear routines have been set for handling unpackaged foods to ensure food hygiene and that the cold chain has not been broken. All controls are documented on checklists, which are kept on hand in the respective departments.

Axfood AB today has a Group-wide agreement with a food safety vendor which visits each of the Group-owned stores four times a year. During these visits, microbiological tests are taken and an inspection is made of the stores' internal control work. At the concept follow-up work that is conducted twice a year at each store, focus is also put on food safety as a key control point.

The daily work in Axfood's Group-owned stores is conducted in accordance with this industry-wide programme.

Temperatures in warehouses and transport lorries for products requiring refriger-

ated storage have been lowered, even for products that normally only need to be stored at +8°C.

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

ALCOHOL, TOBACCO AND BETTING

Sweden has a minimum legal age for the sale of tobacco and alcohol. Starting on 1 January 2007, the same applies for all types of betting, 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 IDs if the customer appears to be under 25 or younger, and conducts internal controls in which we measure stores' performance in requesting customer IDs.

SYSTEMATIC FIRE SAFETY WORK

Axfood also conducts internal controls of fire safety work within the Group. A fire safety organization has been defined, and controls are performed at distribution centres, store and offices. Fire safety work focuses on safe evacuation in the event of fire.

PRODUCT RANGE

	Hemköp		Willys		Willys hemma	
	2007	2006	2007	2006	2007	2006
Number of "Keyhole"-labelled products	1,197	1,100	629	645	501	450
Sales as % of total	8	9	8	8	9	9
Number of organic products	504	260	275	97	164	49
Sales as % of total	1.55	0.93	0.53	0.42	0.84	0.68
Number of fair trade certified products	39	9	22	3	15	3
Sales as % of total	0.06	0.02	0.04	0.01	0.06	0.01
Number of hypoallergenic products	224	251	142	98	67	39



We dare

We dare chart our own course.

HEALTH FOOD PRODUCT OFFERING

Promoting health and well-being among our customers is a priority for Axfood. Axfood is working on development of healthy products, consisting of “Keyhole”-labelled products, organic and fair trade certified products, as well as a broad range of products for people with various food allergies and diabetes.

ETHICAL EXCLUSIONS

In its wholly owned stores, Axfood has decided to refrain from selling products that we feel are in conflict with our 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%).

CONSUMER CONTACT

Customers who want to lodge a complaint, share views or ask questions regarding any of Axfood's private label products are encouraged to contact the Company's consumer contact. Matters reported to the consumer contact are an important source of information on how well Axfood's private label products live up to customers' expectations and serve as documentation for ongoing improvement work.

SUPPLIERS

Axfood's supplier relations are to be characterized by good business practices and a

high standard of business ethics. At the same time, it is important for us to make sure that our suppliers comply with national laws and regulations and that international conventions are respected.

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 Axfood employees, since 2004 Axfood has had a policy that lays out Axfood's position on the offering and accepting of bribes, corruption, and general collaboration within the industry. This policy is updated every year, and affected employees are required to certify in writing that they have understood the policy.

In 2007, about 650 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. With respect to its private label products, since 2004 Axfood has been conducting audits of randomly selected suppliers outside the EU. Together with local auditors, Axfood visits production facilities

to find out how well the suppliers live up to the laws in their own countries with respect to workers' rights and working conditions, as well as to the above-mentioned conventions. The visits are based on SA 8000, the internationally recognized standard for social audits.

In the event of any serious deviations, Axfood returns a year later to make sure that the remarks have been rectified. This work has led to improvements – mainly regarding work environments – at many companies visited. Not until there is a documented neglect to make changes will Axfood choose to terminate its cooperation with a supplier, which happened in one case during the year. In 2007 Axfood conducted two return visits and five new audits. For further information on this work, visit www.axfood.se.

THE ENVIRONMENT

Axfood views environmental work as an integrated part of the Company's operations. All employees have a responsibility in their daily work to take environmental aspects into consideration.

AXFOOD'S ENVIRONMENTAL POLICY

In late 2007 a new environmental policy was adopted, which will set the tone of the Group's environmental work in the future.

The overall goal is that Axfood shall be an environmentally conscious company that

CO₂ EMISSIONS *

	2007	2006
Total CO ₂ , tonnes	10,598	11,088
CO ₂ kg/tonne products	26.84	27.32
CO ₂ kg/SEK m in sales	617.82	671.64
Number of own vehicles	152	153

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

ELECTRICITY USE *

	2007	2006
Retail units	244,522	250,096
Wholesale operations	43,859	46,379
Total	288,381	296,475
Number of stores	217	224
Electricity use KWh/sq.m.		
Stores	622	632
Warehouses	201	221

* Electricity consumption by wholly owned stores and wholesale operations, MWh.

helps its customers make educated environmental choices and which takes an active role in supporting “best methods” in the retail food industry.

The baseline for Axfood’s policy is the EU’s fundamental principles for how environmental work is to be conducted. These include 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.

Axfood believes that environmental work and sound economy go hand in hand. By driving environmental issues, we create the right offering for our customers, which in turn leads to better business.

In day-to-day business, environmental aspects are integrated with product purchasing and selection, logistics, transports and product flows, store operations and waste management.

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

ENVIRONMENTAL MANAGEMENT

Axfood works according to the ISO 14001 standard with respect to policies, management, guidance and monitoring of its environmental work.

Environmental work is headed by Axfood’s head of environmental affairs. 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 has own responsibility for its internal operative environmental work.

The head of environmental affairs prepares an annual environmental plan that describes goals, strategies, actions and follow-up of the Group’s environmental work, which is decided on by Axfood’s executive management.

With respect to prioritization of environmental work, Axfood’s executive management serves as the principal vis-à-vis the head of environmental affairs.

Axfood prepares a yearly plan for internal and external communication on the Company’s environmental work.

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 flow through the subsidiary Dagab and through a central purchasing and product function. This entails that all delivery vehicles have well planned routes and are always filled as much as possible.

Axfood transports products under own management via the subsidiaries Dagab and Axfood Närlivs as well as through sub-contracted freight companies. To minimize environmental impact, Dagab and Axfood Närlivs work continuously with a range of measures, including:

- Maximizing load capacities, i.e., making sure that lorries 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.

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.

At present approximately 55% of Axfood’s vehicles are fitted with alcohol ignition locks. The goal is that most of the Group’s vehicles will be fitted with alcohol ignition locks by year-end 2008.

TRAVEL AND COMPANY CARS

Axfood strives to reduce the environmental impact of internal travel. Accordingly, employees are required to always consider videoconferencing or travel by rail as alternatives to cars and air travel.

When choosing a company car, Axfood’s employees are encouraged to select an environmental car according to the current definitions. Axfood’s goal is that 100% of its company cars will be environmental cars and that rail will be used for 10% of business trips.

PRODUCT PURCHASING AND SELECTION

The choice of products in Axfood’s offering bears an environmental impact in production, transport and consumption. Consequently, Axfood strives to purchase products that have the least environmental impact.

Axfood is working actively to introduce an industry-wide system of climate labelling of packages in an effort to help Swedish consumers eat more climate-friendly foods. In addition, Axfood’s goal is to make it easier for consumers to buy organically manufactured products.

Axfood seeks to comply with EU labelling of organically grown produce.

WASTE SORTING

All of Axfood’s offices, stores and warehouses have waste sorting routines in place. The number of fractions varies, depending on the local conditions in the respective municipalities, but is never fewer than three: corrugated board & boxes, soft plastic, and combustible waste (including wood). Since 2002 all of Axfood’s private label products have been labelled with sorting information. Moreover, Axfood stores are equipped to take care of returnable cans and bottles.

ENERGY CONSUMPTION

During the year, work continued on reducing energy consumption at Axfood’s stores and warehouses. A review of a number of stores has shown that energy consumption can be reduced by modernizing equipment as well as through greater awareness and attention. Experiences from work carried out to date serve as a baseline when we build new stores or refurbish existing ones.

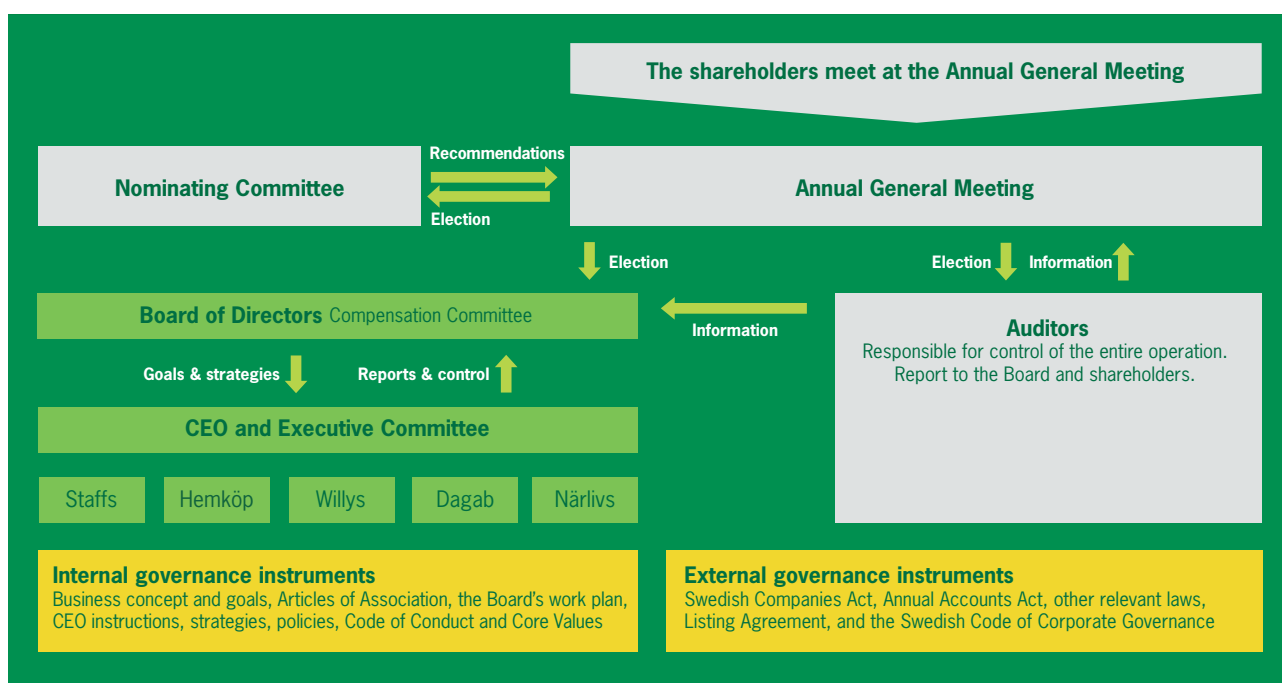


We are aware

We follow up in order to make continuous improvement.

Axfood's corporate governance work aims to create conditions for the exercise of an active and responsible ownership role, ensure the owners' opportunities to assert their interests vis-à-vis the Company's management body, clarify the division of roles and responsibilities between management and control bodies, and to ensure the best possible openness vis-à-vis the owners and capital market.

Corporate governance at Axfood



Responsibility for governance, management and control at Axfood is divided among the shareholders at the Annual General Meeting, the Board of Directors and the CEO pursuant to Swedish corporate law, the Swedish Code of Corporate Governance and the Company's Articles of Association.

EXTERNAL GOVERNANCE SYSTEMS

The external governance systems that make up the framework for corporate governance at Axfood include the Swedish Companies Act, the Swedish Annual Accounts Act and other relevant laws, the Listing Agreement with the Stockholm Stock Exchange, and the Swedish Code of Corporate Governance.

INTERNAL GOVERNANCE SYSTEMS

The Articles of Association adopted by the Annual General Meeting are the most important internal governance instrument, followed by the Board's work plan and the Board's instructions for the CEO. In addition to these governance instruments, the Board

has adopted numerous policies and manuals which contain binding rules as well as recommendations that indicate guidelines and instructions for all of the Group's operations and employees. An IT policy, Code of Conduct, ethical guidelines, employee guide and internal dishonesty policy are also included in an electronic financial manual, Axekon, which is available for all Axfood employees.

ANNUAL GENERAL MEETING

Axfood's supreme governing body is the Annual General Meeting (AGM), where every shareholder has the right to participate, personally or by proxy. Every shareholder has the right to have an item of business taken up

for consideration by the AGM. Decisions by the AGM are made by a simple majority of the votes represented at the meeting. However, to protect small shareholders, certain decisions require a qualified majority.

NOMINATING COMMITTEE

The principle for appointment of the Nominating Committee is that shareholders who own shares corresponding to at least 40% of all votes, in consultation with the three subsequently largest shareholders, shall appoint a nominating committee consisting of five persons. The Nominating Committee is tasked with making recommendation to the Annual General Meeting on the number

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

The members of the Nominating Committee shall be announced not later than in connection with the third-quarter interim report. The Nominating Committee's recommendations shall be announced in connection with the AGM notice.

In the course of its assignment, the Nominating Committee shall fulfil the duties which, according to the Swedish Code of Corporate Governance, are incumbent upon a nominating committee, and at the request of the Nominating Committee, the Company shall provide personnel, such as a secretarial function for the Nominating Committee, to facilitate the committee's work. Where needed, the Company shall also bear reasonable costs for external consultants who the Nominating Committee judges to be necessary for it to be able to perform its assignment.

BOARD OF DIRECTORS

COMPOSITION OF THE BOARD OF DIRECTORS

The Articles of Association prescribe that the Axfood's board of directors shall consist of three to ten AGM-elected directors with a maximum of two deputies. Anders Strålmán, CEO of Axfood, participates at board meetings by presenting reports. Karin Hygrell-Jonsson, Axfood's Chief Financial Officer, serves as the Board's secretary. Other Axfood executives participate at meetings when necessary by presenting reports.

THE BOARD'S WORK PLAN

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

CHAIRMAN OF THE BOARD

The Chairman directs the Board's work to ensure that it is in compliance with the Swedish Companies Act and other relevant laws. The Chairman monitors operations in dialogue with the CEO and is responsible for ensuring that the other directors receive the information that is necessary for high quality discussions and decisions. The Chairman represents the Company in ownership matters.

DUTIES AND RESPONSIBILITIES OF THE BOARD

The Board's work is governed by its work plan. This work is conducted according to a set procedure designed to ensure the Board's need of information and a suitable division of responsibilities between the Board and the CEO. The Board has chosen to appoint a compensation committee from among its members to deal with compensation matters more in-depth. The Board as a whole serves as an audit committee.

The Board's work plan includes a special set of CEO instructions. The Board oversees the CEO's work and is responsible for ensuring that the Company's organization, man-

agement and guidelines for management of the Company's assets are suitably structured. In addition, the Board is responsible for development and follow-up of the Company's strategies through plans and targets, decisions on acquisitions and divestments of businesses, major investments, appointments and compensation of management, and continuous follow-up of operations during the year.

Axfood's guidelines for board work are applied by all of the Group's subsidiaries.

THE BOARD'S CONTROL OF FINANCIAL REPORTING

The Board oversees the quality of the financial reporting by providing instructions to the CEO. The CEO is responsible for working together with the chief financial officer to examine and ensure the quality of all external financial reporting, including year-end earnings reports, interim reports, annual reports, press releases with financial content, and presentation material in connection with meetings with the media, owners and financial institutions.

The Board has no audit committee; instead, the Board as a whole is responsible for ensuring that the correct, high quality financial reporting is prepared and communicated. The Board receives monthly financial reports, and at every board meeting, a review is conducted of the Company's and Group's financial situation. In addition, the Board reviews interim reports and the Annual Report.

At least once a year the Company's auditors report on the extent to which the Company has ensured the effectiveness of its bookkeeping, administration and financial control. Following submission of a formal report, the CEO and CFO leave the board meeting so that the other directors can have

a dialogue with the auditors without the presence of Company executives.

BOARD COMMITTEES

AUDIT COMMITTEE

The Board has no audit committee; instead, the entire board takes responsibility for ensuring that the Group has satisfactory routines for internal control and correct financial reporting that maintains a high standard. At least once a year the Board meets with the Company's auditors without the presence of the CEO or other Company representatives.

COMPENSATION COMMITTEE

The Compensation Committee discusses, decides on and makes recommendations on the salaries of the CEO and other members of the Executive Committee as well as on other terms of employment and incentive programmes, based on the principles decided on by the Annual General Meeting. The Compensation Committee sets targets for variable compensation as well as pension benefits and other benefits and terms of employment for Company management.

The Committee reports to the Board. The Committee shall consist of a minimum of three and a maximum of five persons, and the Chairman of the Board serves as committee chair.

CEO AND EXECUTIVE MANAGEMENT

CEO INSTRUCTIONS

Each year the Board adopts a set of CEO instructions. These cover, among other things, the CEO's responsibility for the day-to-day activities and matters that always require a board decision or notification to the Board (such as quarterly reports, major

investments and certain appointments), and the CEO's responsibility for financial reporting to the Board.

DUTIES AND RESPONSIBILITIES OF THE CEO AND EXECUTIVE COMMITTEE

The Board has delegated the day-to-day responsibility for the Company's management to the CEO and the Executive Committee. Axfood's Executive Committee consists of ten persons, but will be increased to eleven when the new Head of Corporate Communications takes office in March 2008. Of these, four are presidents of operating companies within the Group; the others are heads of staffs. The Executive Committee meets once a month for ongoing matters and discussions, and holds a more in-depth strategy meeting once a year.

The Executive Committee has a store-establishment and financing committee tied to it which meets once a month for regulatory and decision matters concerning store investments, store divestments, new leases and renewals of existing leases.

An annual business plan is drafted by the companies and Executive Committee during the last four months of the year and is presented to the Board at the end of the year. The business planning process engages employees on several levels within the Group. The business plan for the current year is revised prior to the start of each quarter, with new forecasts, and is thus a dynamic planning document.

SUBSIDIARIES

Companies within the Axfood Group are governed through internal boards. The chairman of all operating companies is Axfood's

CEO, Anders Strålmán. Other board members are various constellations of the executive management. The companies have board meetings at least four times a year.

AUDIT AUDITORS

The Company's auditors are elected by the Annual General Meeting for a term of four years. At the 2004 AGM Per Bergman and Ola Forsberg, from KPMG Bohlins AB, were elected as auditors for the period extending until the 2008 AGM. Per Bergman and Ola Forsberg are chief auditors.

Per Bergman has been an Authorized Public Accountant since 1980 and auditor of Axfood AB since the 2000 AGM. He also has auditing assignments with Akzo Nobel, Cashguard, General Electric, KF (Kooperativa Förbundet), KPA, NCC and Svensk Exportkredit, among others.

Ola Forsberg has been an Authorized Public Accountant since 1983 and auditor of Axfood AB since the 2004 AGM. He also has auditing assignments with Outokumpu, Setra Group and Skistar, among others.

AUDIT WORK

The auditors perform continuous reviews of the Company's management. Twice a year the auditors conduct follow-up meetings and, in connection with these, submit written reports to the Board and CEO. The Group's nine-month interim report is reviewed by the Company's auditors.

Axfood applies the Swedish Code of Corporate Governance. This corporate governance report has not been reviewed by the Company's auditors.

Corporate Governance Report 2007

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DEPARTURES FROM THE CODE

The Swedish Code of Corporate Governance stipulates that companies that apply the Code but have decided to depart from it in any respect must explain why. Axfood departs from the Code in two respects, with the following explanations:

- Axfood's board does not have an audit committee – the entire board is responsible for ensuring that the Company's audit effectively ensures that the Group has satisfactory routines for internal control as well as correct, high quality financial reporting. At least once a year the Company's auditors report on the extent to which the Company has

ensured the effectiveness of its book-keeping, administration and financial control. Following presentation of this formal report, the CEO and CFO leave the board meeting so that the other board members can have a dialogue with the auditors without the presence of company executives.

- The Swedish Code of Corporate Governance stipulates that public announcement of the nominating committee's members must be made not later than six months prior to the Annual General Meeting (AGM). The 2007 AGM resolved that owners who hold shares corresponding to at least 40% of the total number of votes – after consulting with the three largest shareholders thereafter – shall appoint a nominating committee of five persons. The composition of the Nominating Committee shall be announced in connection with the third quarter interim report. Since Axfood's AGM is held relatively early in the year, this means that announcement of the Nominating Committee takes place approximately five months before the AGM. This is considered by the AGM to be sufficient time to fulfil the duties of the Nominating Committee.

Aside from these departures, Axfood applies the Code. The Board is responsible for ensuring compliance with the Code by the Board

as well as by the executive management of the Company in general. The Board performs a yearly evaluation to ensure compliance with the Code.

SHAREHOLDERS

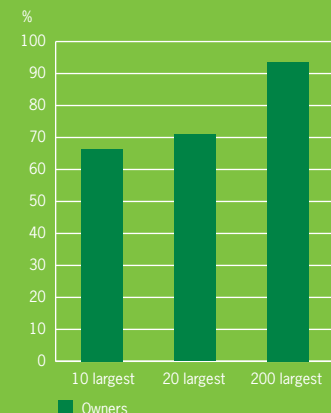
Axfood's shares have been listed on the Stockholm Stock Exchange since 1997. The number of shares outstanding amounts to 52,467,678, and the number of shareholders at year-end was 9,343. All shares carry equal voting rights and equal right to the Company's profit and equity.

The largest single owner since the Company's stock market introduction has been Axel Johnson AB, with 46.3% of the total number of shares. At year-end, individuals and closely held companies owned 55.2% of the shares, while foreign shareholders owned 31.8%.

NOMINATING PROCEDURE COMPOSITION OF THE NOMINATING COMMITTEE

Ahead of the 2008 AGM, Axfood AB's principal owners in October 2007 appointed a

OWNER CONCENTRATION 31 DECEMBER 2007



FURTHER INFORMATION AT WWW.AXFOOD.SE

Further information on the following areas can be found by visiting Axfood's website:

- Articles of Association
- Code of Conduct
- Information on previous year's AGM's, dating back to 2001 (AGM notices, minutes, resolutions, CEO's addresses)
- Nominating Committee information
- Previous year's corporate governance reports, dating back to 2005

CORPORATE GOVERNANCE

nominating committee tasked with making recommendations on the number of directors and the composition of the Board of Directors. Axfood's chairman is a co-opted member of the Nominating Committee.

WORK OF THE NOMINATING COMMITTEE

Göran Ennerfelt, Chairman of the Board, presented an evaluation of the Board's work during the year to the Nominating Committee. The Nominating Committee discussed this evaluation and the Board's size and composition based on the requirements of the Swedish Code of Corporate Governance. The Nominating Committee's recommendation for company directors, directors' fees and auditors are presented in the notice of the Annual General Meeting.

Prior to the 2008 AGM, the Nominating Committee held two meetings.

No fee has been paid for members' work on the Nominating Committee.

All shareholders have the right to submit proposals for board members to the Nominating Committee. Proposals are to be sent to the Nominating Committee chair. Ahead of the 2008 AGM, no proposals had been submitted.

2007 ANNUAL GENERAL MEETING

ATTENDANCE

The Annual General Meeting (AGM) of the shareholders of Axfood AB was held on Thursday, 8 March 2007, in Stockholm. Approximately 210 shareholders and repre-

sentatives were present at the meeting, representing approximately 57% of the votes. Göran Ennerfelt was elected as Chairman of the Board. All AGM-elected directors were present, except for Maria Curman. Several representatives of Axfood's major shareholders were in attendance, including Axel Johnson AB, SEB, Handelsbanken, Swedbank Robur, SAX AB, Nordea and the Second National Swedish Pension Fund.

RESOLUTIONS

In addition to deciding on ordinary items of business, the AGM made the following resolutions:

- To reduce the Company's share capital by SEK 10,580,750 (the reduction amount) through cancellation of 2,116,150 shares that had been repurchased by the Company. The purpose of the reduction was that the amount in which the share capital was reduced shall be transferred to a reserve to be used in accordance with decisions made by a general meeting of shareholders.
- To authorize the Board, on one or more occasions during the time up until the next annual general meeting, to decide on repurchases of the Company's shares, entailing the right for the Board to decide on purchases on the Nordic Exchange. The authorization pertained to purchases of up to 3,000,000 shares at a price per share that is within the

registered price interval on the Nordic Exchange at the time of purchase.

For complete information about resolutions made by the AGM, see Axfood's website, where the complete minutes are available.

BOARD OF DIRECTORS

In 2007 Axfood's board had seven AGM-elected members without deputies, and three employee representatives with one deputy. The CEO is not an ordinary member of the Board, but participates at board meetings by making presentations.

MEMBERS OF THE BOARD OF DIRECTORS

All of the members of the Board of Directors and the Chairman of the Board were re-elected at the 2007 AGM. Göran Ennerfelt was elected as Chairman, and Antonia Ax:son Johnson, Marcus Storch, Peggy Bruzelius, Annika Åhnberg, Maria Curman and Gunnar Söderling were elected as directors. Sven-Erik Brandt, Inger Sjöstrand and Ulla-May Iwahr Rydén were also members of the Board as employee representatives for the Union of Commercial Employees and the Salaried Employees Union HTF. At the Board's statutory meeting on 8 March 2007, Marcus Storch was elected as Vice Chairman of the Board.

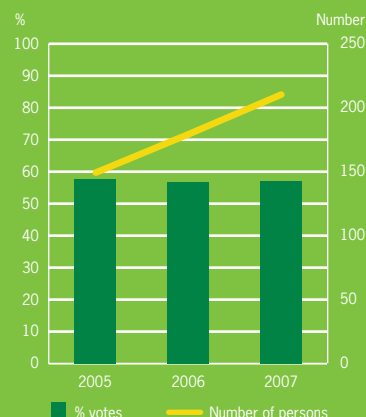
With the exception of Mats Jansson, who resigned from the Board in November 2006, the Board consisted of the same persons as in the preceding year.

COMPENSATION OF NOMINATING COMMITTEE

Name	Representing	Ownership %, 30/9/2007
Hans Dalborg (committee chair)	–	–
Antonia Ax:son Johnson	Axel Johnson AB	46.3
Åsa Nisell	Swedbank Robur funds	2.0
Anders Oscarsson	SEB funds	1.7
Jonas Hillhammar	Axfood Shareholder Association	0.3*
Göran Ennerfelt	–	0.0
Total		50.3

* Share of ownership based on proxies that the shareholder association held at the 2007 AGM.

AGM ATTENDANCE 2005–2007



For information on the Nominating Committee ahead of the 2007 AGM, please see the 2006 Corporate Governance Report, which is available on Axfood's website.

DIRECTORS' INDEPENDENCE

According to the Swedish Code of Corporate Governance, a majority of the AGM-elected directors shall be independent with respect to the Company and its management. At least two of these shall also be independent with respect to the Company's major shareholders. No member of Axfood's board is non-independent with respect to the Company, while three members are also independent with respect to the Company's major shareholders.

EVALUATION OF THE BOARD'S WORK

Chairman of the Board Göran Ennerfelt is responsible for conducting an evaluation of the Board's work. This evaluation was conducted in such a way that the Chairman interviewed all of the board members in individual meetings and thereafter reported to the Board on the results of these interviews. The interviews focused on matters concerning how the board members feel the board work has worked and their views on future matters, such as the structure of board meetings and which issues should be taken up for discussion at future meetings.

An oral report of the result of the evaluation was made by the Chairman to the Nominating Committee in December 2007. The evaluation served as an important tool for the Nominating Committee in its work ahead of the 2008 AGM.

THE WORK OF THE BOARD OF DIRECTORS

Axfood's board holds a statutory meeting immediately following the Annual General

Meeting. Thereafter the Board is to have at least four meetings per calendar year. In 2007 the Board had seven meetings. Each of the regular board meetings follows a set agenda that is included in the Board's work plan and includes such points as the CEO's report, financial reports, investments and strategic matters. Apart from continuing follow-up of results and competitor and market analyses, important matters discussed during the year included:

- Internal control
- The acquisition of PrisXtra
- Investments and follow-up of investments
- The appointment of a new CFO, new head of Corporate Communications and new head of Business Development
- The 2008 Business Plan
- Concept development for Willys
- Incentive programmes in the retail trade
- Share repurchases and capital structure
- A new business system

THE WORK OF THE COMPENSATION COMMITTEE

The members of the Compensation Committee in 2007 were Göran Ennerfelt (committee chair), Antonia Ax:son Johnson, Marcus Storch and Anders Strålman (CEO, co-opted member). Anders Strålman did not participate in discussions concerning his own terms of employment. During the year, the committee dealt with the appointment of a new CEO, a new head of Corporate Communications and a new head of Business

Development. The committee also discussed the principles for variable compensation and other benefits and terms of employment for persons who report directly to the CEO.

The Compensation Committee met three times in 2007.

COMPENSATION**PRINCIPLES FOR COMPENSATION AND OTHER TERMS OF EMPLOYMENT FOR THE MEMBERS OF THE EXECUTIVE MANAGEMENT**

The 2007 AGM adopted the principles for compensation for the members of the Company's management. Company management includes the CEO and other ten member of Axfood's executive management.

Compared with the principles that were adopted by the 2006 AGM, changes were only made with respect to variable compensation. The principles are mainly that the Company shall strive to offer compensation that is in line with the going rate in the market and that such compensation shall be set by a special compensation committee within the Board. The criteria shall be based on the importance of the work duties, demands on expertise, experience and performance, and that the compensation shall consist of the following components:

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

COMPOSITION OF THE BOARD OF DIRECTORS

Name	Function	Non-independence	Shareholding	Elected	Attendance at board meetings	Attendance at Compensation Committee meetings
Göran Ennerfelt	Chairman of the Board	Yes*	10,000	2000	7/7	3/3
Marcus Storch	Vice Chairman of the Board	Yes*	12,000	2000	7/7	3/3
Antonia Ax:son Johnson	Director	Yes*	24,280,066	2000	6/7	3/3
Peggy Bruzelius	Director	Yes*	1,500	2000	6/7	–
María Curman	Director	No	1,000	2003	5/7	–
Gunnar Söderling	Director	No	300	2003	7/7	–
Annika Åhnberg	Director	No	200	2000	7/7	–
Sven-Erik Brandt	Employee representative		0	2006**	7/7	–
Ulla-May Iwahr Rydén	Employee representative		0	2006**	7/7	–
Inger Sjöstrand	Employee representative		0	2004**	5/7	–

* Director is considered as non-independent with respect to Axfood's major owners.

** Employee representatives, appointed by union.

The fixed base salary shall be secure and attractive compared with the market. It shall constitute compensation for an committed work contribution at a high professional level which creates value-added for Axfood's customers, owners and employees.

Variable compensation shall be based on the achievement of Axfood's earnings and sales growth targets as well as personal objectives. Axfood's compensation committee sets the targets. The variable compensation is maximized at 70% of base salary for the CEO and 40%–60% for other members of the executive management. The maximum compensation for other members of the executive management has thereby been raised; in 2006 the limit was 40%–55%.

Pension benefits are set by the Compensation Committee. The basic pension benefit consists of the so-called ITP plan. Added to this is a defined-contribution pension corresponding to 25% of salary amounts ranging between 20–50 times the Base Amount, which is secured through insurance.

The complete principles adopted by the AGM are described in the minutes of the AGM, which are available on Axfood's website.

STOCK-RELATED INCENTIVE PROGRAMMES

There are no outstanding stock-related incentive programmes for members of Company management.

SALARY AND COMPENSATION OF THE CEO AND OTHER SENIOR EXECUTIVES

Expensed compensation paid to members of the executive management is shown in the table on page 39.

THE BOARD'S REPORT ON INTERNAL CONTROL

According to the Swedish Companies Act, the Board is responsible for ensuring that the Company's organization is designed in such way that the bookkeeping, financial management and the Company's financial conditions in general are controlled in a satisfactory manner. The Swedish Code of Corporate Governance clarifies this and prescribes that the Board is responsible for internal control.

Axfood has elected to describe how its internal control is organized in the way proposed by the Confederation of Swedish Enterprise and FAR/SRS in their guide for the Swedish Code of Corporate Governance. Axfood's board has opted to integrate the Board's report on internal control in the corporate governance report and only to describe how it is organized without issuing any statement on how well it has worked and without submitting it to the auditors for their review. Neither the documented organization of internal control nor the content in the respective areas is to be viewed as being static, but are continuously adapted to Axfood's operations and business environment.

Axfood's internal control structure is based on the COSO model, whose framework has been applied to Axfood's operations and conditions. According to the COSO model, a review and assessment are made in the areas of control environment, risk assessment, control activities, information and communication, and follow-up. Based on this review, certain development areas are identified and assigned priority in the ongoing internal control activities. In 2007, particular focus was dedicated to assessment of new risks and a review of control activities.

CONTROL ENVIRONMENT

The control environment forms the base of internal control of the financial reporting. An important part of the control environment is that decision-making channels, authorizations and responsibility are clearly defined and communicated between the various levels of the organization and that governing documents such as internal policies, handbooks, guidelines and manuals are on hand. Axfood's board has established clear work processes and rules of procedure for its work and the work of its committees. An important part of the Board's work involves drawing up and approving various fundamental policies, guidelines and frameworks. These include the Board's work plan, the CEO instructions, decision-making procedures, the investment policy, the finance and credit policy, the information policy and the environmental policy. In addition to these, Axfood applies other policies, such as the Group's IT policy, Code of Conduct, ethical guidelines, HR policy and internal dishonesty policy. The aim of these policies is to create a platform for good internal control.

DIRECTORS' FEES 2007

SEK	Directors' fees		Committee fees		Total	
	2007	2006	2007	2006	2007	2006
Göran Ennerfelt (Chairman)	450,000	200,000	–	–	450,000	200,000
Mats Jansson (Chairman)	–	250,000	–	–	–	250,000
Göran Ennerfelt	–	125,000	–	–	–	125,000
Marcus Storch	300,000	300,000	–	–	300,000	300,000
Antonia Ax:son Johnson	225,000	225,000	–	–	225,000	225,000
Peggy Bruzelius	225,000	225,000	–	–	225,000	225,000
Maria Curman	225,000	225,000	–	–	225,000	225,000
Gunnar Söderling	225,000	225,000	–	–	225,000	225,000
Annika Åhnberg	225,000	225,000	–	–	225,000	225,000
Sven-Erik Brandt	–	–	–	–	–	–
Ulla-May Iwahr Rydén	–	–	–	–	–	–
Inger Sjöstrand	–	–	–	–	–	–
Total	1,875,000	2,000,000			1,875,000	2,000,000

AUDITORS' FEES (KPMG)

SEK m	Group			Parent Company		
	2007	2006	2005	2007	2006	2005
Auditing fees	5	4	4	1	1	1
Consulting fees	1	1	1	1	0	0
Total	6	5	5	2	1	1

Data for 2005 pertains to continuing operations, i.e., excluding Spar Finland.

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

A steering committee under the direction of the CFO is the Group's forum for evaluating the extent to which all relevant areas are covered by internal control and are suitably designed.

As part of the work on strengthening internal control, Axfood has chosen to compile control documents in an electronic financial manual (Axekon), which is accessible to all employees within the Group. The financial manual provides an overall view of existing policies, rules and routines.

RISK ASSESSMENT

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

In the course of this review, Axfood has identified a number of income statement and balance sheet items, as well as administrative flows and processes, where there is an elevated risk for errors. The Company is working continuously on strengthening controls surrounding these risks, and in 2007 this was done in a number of areas.

Risks are addressed, assessed and reported by Axfood centrally in cooperation with the Group companies. In addition, risks are addressed in special forums, such as due

diligence in connection with store establishment and acquisitions.

CONTROL ACTIVITIES

The Group's control structure is designed to manage the risks that the Board considers to be of material importance for internal control of financial reporting. At Axfood these control structures consist of an organization with clear roles that enable the effective delegation of responsibility from an internal control perspective as well as specific control activities that are designed to discover or prevent risks for reporting errors in a timely fashion. Examples of control activities include clear decision-making processes and procedures for important decisions, performance analyses and other control activities within the processes involving revenues & receivables, purchasing & payments, non-current assets, inventories, salaries, VAT/taxes, finance, bookkeeping, consolidation & reporting, and updating of lists and registers. Examples of control activities in these processes are random inspections, reconciliations and reviews of undertakings.

INFORMATION AND COMMUNICATION

Axfood's critical, governing documentation in the form of policies, guidelines and manuals, to the extent it pertains to financial reporting, is communicated primarily via the Group's intranet and the Group's financial manual. The financial manual is published on the Group's intranet and is updated on a continuous basis based on changes in external requirements and changes in Axfood's operations which require clarification and instructions. Communication is also done in connection with monthly controller meetings attended by all subsidiary financial managers. The Head of Financial Control works continuously together with the financial managers of all subsidiaries on matters

related to risk analyses and control activities. Joint reviews are also conducted of the continuous updates that are made of the financial manual.

For communication with internal and external parties, Axfood adheres to an information policy that stipulates guidelines for how this communication should take place. The purpose of the policy is to provide assurances that all disclosure obligations are met in a correct and complete manner. All communication by the Group, internal and external, is based on the watchwords open, fast and honest. Internal communication aims to ensure that every employee understands Axfood's values and business. To achieve the objective of having informed employees, active work is conducted internally in which information is communicated on a regular basis via the Group's intranet.

FOLLOW-UP

Axfood's finance functions are integrated through a joint finance and accounting system and joint accounting instructions. In addition, the Group's controller works in close cooperation with subsidiary controllers with respect to book-closing work and reporting. Further, the Group has a central security function that works through the companies. Axfood has no internal audit function, since the functions described above fulfil this role.

However, Axfood does have a defined process for evaluating and monitoring internal control. The method of follow-up is decided on by the Board, which also conducts a yearly evaluation of the need of a separate internal audit function. Axfood's CFO has ultimate responsibility for ensuring that follow-up of Axfood's internal control is conducted in accordance with the method decided on by the Board.

SALARY AND COMPENSATION OF CEO AND OTHER SENIOR EXECUTIVES

KSEK	Year	Base salary	Variable compensation	Other benefits	Other compensation	Total
CEO	2007	4,393	926	361	7	5,687
	2006	4,242	1,882	334	–	6,458
Executive Committee, others	2007	15,916	4,303	904	4	21,127
	2006	11,226	5,676	554	2	17,458
Total	2007	20,309	5,229	1,265	11	26,814
	2006	15,468	7,558	888	2	23,916

Pension costs for executive management are shown in note 8 on page 71.

BOARD OF DIRECTORS



1. Göran Ennerfelt



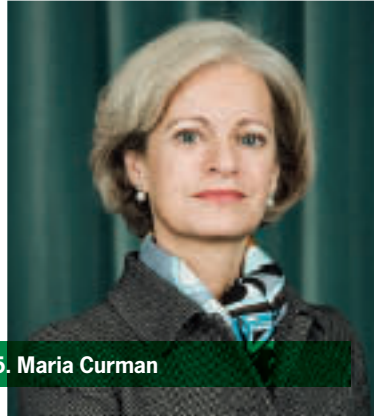
2. Marcus Storch



3. Antonia Ax:son Johnson



4. Peggy Bruzelius



5. Maria Curman



6. Gunnar Söderling



7. Annika Åhnberg



8. Sven-Erik Brandt



9. Ulla-May Iwahr Rydén



10. Inger Sjöstrand

1. Göran Ennerfelt, b. 1940**CHAIRMAN**

Director since 2000 and Chairman since 2000 with an interruption during the period March–October 2006

OTHER ASSIGNMENTS:

President and CEO of Axel Johnson Gruppen AB

CHAIRMAN OF: AxFast AB and the Stockholm Institute of East European Economics

VICE CHAIRMAN OF: Axel Johnson AB

DIRECTOR OF: Svenska Handelsbanken, Axel Johnson Inc., Axel Johnson International AB, Novax AB, Servera R&S AB, Svensk Bevakningstjänst AB, Åhléns AB and the International Chamber of Commerce

NUMBER OF SHARES: 10,000

EDUCATION: Academic studies in USA (Williams College, Mass.), BA, Stockholm University, M.Sc. Econ., Stockholm School of Economics

PROFESSIONAL EXPERIENCE: President and CEO of Axel Johnson AB

COMMITTEE MEMBERSHIP: Compensation Committee and co-opted member of the Nominating Committee

Non-independent according to the Stockholm Stock Exchange Listing Agreement

2. Marcus Storch, b. 1942**VICE CHAIRMAN**

Director since 2000

OTHER ASSIGNMENTS:

CHAIRMAN OF: the Nobel Foundation

VICE CHAIRMAN OF: Axel Johnson AB and Mekonomen AB

DIRECTOR OF: NCC AB, AB Hannells Industrier, Nordstjernan AB, the Royal Swedish Academy of Science, the Royal Swedish Academy of Engineering Sciences, and Stockholmsbörsens bolagskommitté

NUMBER OF SHARES: 12,000

EDUCATION: M.Sc. Eng., Royal Swedish Institute of Technology, Honorary Doctor of Medicine

PROFESSIONAL EXPERIENCE: President and CEO of AGA

COMMITTEE MEMBERSHIP: Compensation Committee

Non-independent according to the Stockholm Stock Exchange Listing Agreement

3. Antonia Ax:son Johnson, b. 1943

Director since 2000

OTHER ASSIGNMENTS:

CHAIRMAN OF: Axel Johnson AB, Axel Johnson Inc., the Axel and Margaret Ax:son Johnson Foundation, and the Dressage Committee of the Swedish Equestrian Federation

VICE CHAIRMAN OF: Nordstjernan AB

DIRECTOR OF: Åhléns AB, Servera R&S AB, Axel Johnson International AB, AxFast AB, NCC AB, Mekonomen AB, the Axel and Margaret Ax:son Johnson Foundation for Public Service and the World Childhood Foundation

NUMBER OF SHARES: 24,280,066 via companies

EDUCATION: BA, Stockholm University and academic studies in the USA (Radcliffe College, Cambridge, Mass.)

PROFESSIONAL EXPERIENCE: Active in the family-owned company Axel Johnson Gruppen since the 1970s

COMMITTEE MEMBERSHIP: Compensation Committee and Nominating Committee
Non-independent according to the Stockholm Stock Exchange Listing Agreement

4. Peggy Bruzelius, b. 1949

Director since 2000

OTHER ASSIGNMENTS:

CHAIRMAN OF: Lancelot Holding AB and the Swedish National Agency for Higher Education

VICE CHAIRMAN OF: AB Electrolux

DIRECTOR OF: Axel Johnson AB, Akzo Nobel N.V., Husqvarna AB, Scania AB, Syngenta AB, the Stockholm School of Economics Association, and the Swedish Industry and Commerce Stock Exchange Committee

NUMBER OF SHARES: 1,500

EDUCATION: MBA, Stockholm School of Economics, Honorary Doctor of Economics

PROFESSIONAL EXPERIENCE: President and CEO of ABB Financial Services
Non-independent according to the Stockholm Stock Exchange Listing Agreement

5. Maria Curman, b. 1950

Director since 2003

OTHER ASSIGNMENTS:

CEO of Bonnier Books

CHAIRMAN OF: Bonnierförlagen AB, Cappelen Damm AS (Norway), OY Tammi (Finland), Bonnier Media Deutschland, Autumn Publishing Group UK and AdLibris AB

DIRECTOR OF: Teracom AB

NUMBER OF SHARES: 1,000

EDUCATION: M.Sc. Econ., Stockholm School of Economics

PROFESSIONAL EXPERIENCE: CEO of Bonnierförlagen AB, CEO of Bonnier Books, President of Sveriges Television
Independent according to the Stockholm Stock Exchange Listing Agreement

6. Gunnar Söderling, b. 1943

Director since 2003

OTHER ASSIGNMENTS:

DIRECTOR OF: Lund School of Economics reference group for agricultural studies

NUMBER OF SHARES: 300

EDUCATION: B.Sc., Lund University
PROFESSIONAL EXPERIENCE: Executive Vice President of Svenska Nestlé AB
Independent according to the Stockholm Stock Exchange Listing Agreement

7. Annika Åhnberg, b. 1949

Director since 2000

OTHER ASSIGNMENTS:

CHAIRMAN OF: the general department of the Royal Swedish Academy of Agriculture and Forestry

DIRECTOR OF: the Review Board for Radio and TV, HANDU AB, the Royal Swedish Academy of Agriculture and Forestry, and the Royal Swedish Academy of Engineering Sciences

NUMBER OF SHARES: 200

EDUCATION: Graduate of Social Studies, Department of Social Work, Stockholm University

PROFESSIONAL EXPERIENCE: Consultant in own firm, Tankeföda AB
Independent according to the Stockholm Stock Exchange Listing Agreement

8. Sven-Erik Brandt, b. 1947

Employee representative

Director since 2006

OTHER ASSIGNMENTS:

Employee representative on Dagab's board

NUMBER OF SHARES: 0

EDUCATION/PROFESSIONAL EXPERIENCE: Swedish Trade Union Confederation course on company board work. Dagab employee since 1976. Former director of Axfood.
Non-independent according to the Stockholm Stock Exchange Listing Agreement

9. Ulla-May Iwahr Rydén, b. 1951

Employee representative

Director since 2006

OTHER ASSIGNMENTS:

Employee representative on Axfood Närlivs' board

NUMBER OF SHARES: 0

EDUCATION/PROFESSIONAL EXPERIENCE: Interior decorator. PTK's course on company board work as employee representative. Interior designer at H&M, Employee of Kiab since 1989 (acquired by Dagab in 1998)
Non-independent according to the Stockholm Stock Exchange Listing Agreement

10. Inger Sjöstrand, b. 1953

Employee representative

Director since 2003

OTHER ASSIGNMENTS: Chairman of Handels Dalarna and ABF Södra Östra Dalarna
Employee representative on Hemköp's board

NUMBER OF SHARES: 0

PROFESSIONAL EXPERIENCE: Hemköp employee since 1977
Non-independent according to the Stockholm Stock Exchange Listing Agreement

EXECUTIVE COMMITTEE



1. Anders Strålman



2. Karin Hygrell-Jonsson



3. Urban Dahl



4. Benny Hast



5. Louise Ring



6. Mats Sjö Dahl



7. Håkan Åkerström



8. Per Uebel



9. Anders Quist



10. Jan Lindmark

1. Anders Strålman, b. 1953
 President and CEO, Axfood AB
 Employed since 1993
NUMBER OF SHARES: 16,500
 held privately and via companies
OTHER ASSIGNMENTS: Director of Bergendahls EI & Installation AB
EDUCATION: M.Sc. Econ., Gothenburg University
PROFESSIONAL EXPERIENCE: President of Willys, CFO and CEO of Billhälls, CEO and head of operations for Bergendahls EI & Installation AB
 Member of Axfood's Executive Committee since 2000

2. Karin Hygrell-Jonsson, b. 1955
 Chief Financial Officer
 Employed since 1991
NUMBER OF SHARES: 200
EDUCATION: M.Sc. Econ., Stockholm School of Economics
PROFESSIONAL EXPERIENCE: Head of Financial Control for Axfood; financial manager, Axfood; financial manager, Axel Johnson AB; financial manager, Dagab; Manager Cash & Currency, SAS; Bank clerk, PKbanken
 Member of Axfood's Executive Committee since 2007

3. Urban Dahl, b. 1953
 President of Willys AB
 Employed since 1985 (interruption 1989–90)
NUMBER OF SHARES: 0
EDUCATION: technical upper secondary school
PROFESSIONAL EXPERIENCE: Purchasing Director, Axfood AB; President of Axfood Närlivs; Marketing Manager, Dagab Väst AB; President of Dagab Syd
 Member of Axfood's Executive Committee since 2000

4. Benny Hast, b. 1955
 President of Axfood Närlivs AB
 Employed since 1995*
NUMBER OF SHARES: 900
EDUCATION: M.Sc. Econ., Gothenburg University
PROFESSIONAL EXPERIENCE: CFO of Axfood Närlivs, CFO of Dagab
 Member of Axfood's Executive Committee since 2004

5. Louise Ring, b. 1955
 Head of Human Resources
 Employed since 2003
NUMBER OF SHARES: 0
EDUCATION: University studies in behavioural sciences, Umeå University; HR executive IFL
PROFESSIONAL EXPERIENCE: CFO and HR manager, ICA Handlarnas AB; store manager, head of training, organizational and operating matters, H&M (Sweden and international)
 Member of Axfood's Executive Committee since 2005

6. Mats Sjö Dahl, b. 1961
 Purchasing Director
 Employed since 1994*
NUMBER OF SHARES: 2,507
EDUCATION: Degree in Market Economics, IHM
PROFESSIONAL EXPERIENCE: Business area head/Assistant Purchasing Director, Axfood AB; Chief Negotiator, Axfood AB; Purchasing Director, Willys AB
 Member of Axfood's Executive Committee since 2005

7. Håkan Åkerström, b. 1968
 President of Dagab AB
 Employed since 2006
NUMBER OF SHARES: 0
EDUCATION: B.Sc. Eng., Institute of Technology at Linköping University
PROFESSIONAL EXPERIENCE: President of Storel AB; Director of Logistics and IT, AB Lindex; project leader and consultant for A.T. Kearney, Inexa AB and Andersen Consulting, among others
 Member of Axfood's Executive Committee since 2006

8. Per Uebel, b. 1966
 President of Hemköpskedjan AB
 Employed since 2006
OTHER ASSIGNMENTS: Director of Poolia AB
NUMBER OF SHARES: 0
EDUCATION: B.Sc. Econ., Stockholm University
PROFESSIONAL EXPERIENCE: President of Ica Sverige AB; Director of Store Operations, ICA Handlarnas AB; Country Manager, Lindex Sweden/President Lindex Germany; Regional Manager, Coordinator of Establishment and Head of Merchandising, H&M Germany, Austria, Belgium and the Netherlands
 Member of Axfood's Executive Committee since 2006

9. Anders Quist, b. 1953
 Head of Business Development
 Employed since 1995*
NUMBER OF SHARES: 1,500
EDUCATION: Secondary school degree, grocer training, various training in retailing
PROFESSIONAL EXPERIENCE: Vice President, Willys; Vice President, Bilhälls; sales manager, Dagab väst, grocer, operations manager, store manager
 Member of Axfood's Executive Committee since 2007

10. Jan Lindmark, b. 1959
 Head of IT
 Employed since 2001
NUMBER OF SHARES: 0
EDUCATION: B.Sc. Econ., Stockholm University
PROFESSIONAL EXPERIENCE: Consultant at Enator; IT manager, Posten Brev; IT director, Fritidsgruppen
 Member of Axfood's Executive Committee since 2007

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

All shareholdings as per 31 December 2007.



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Administration report

The Board of Directors and the President of Axfood AB (publ), with domicile in Stockholm, Sweden, herewith submit their annual report and consolidated accounts for the 2007 financial year.

OPERATIONS

Axfood conducts food retail and wholesale trading operations in Sweden. Retail operations are conducted via the Willys and Hemköp chains, with 217 wholly owned stores. Effective 28 January 2008, the retail operations also include PrisXtra, with five stores and an online service (see "Post-balance sheet events" below). During the year a number of stores were established, acquired, sold or closed. The number of stores decreased by a net total of seven, of which four were converted to Hemköp franchises. In addition to its wholly owned store operations, Axfood collaborates with a large number of proprietor-run stores that are tied to Axfood through agreements, including stores within the Hemköp and Willys chains, but also stores operating under the Handlar'n and Tempo names. In all, Axfood collaborates with over 500 proprietor-run stores. Wholesaling is conducted by Dagab, for whom 99% of distributed sales are made to Axfood-owned or collaborating stores, and Axfood Närlivs, whose customers consist primarily of mini-markets, service stations and other convenience stores. Axfood Närlivs also has 20 cash and carry outlets in its subsidiary Axfood Snabbgross.

AXFOOD SHARES AND OWNERSHIP

The total number of shares outstanding is 52,467,678. Only one class of stock is in issue. The share capital amounts to SEK 262 m, and the share quota value is SEK 5. Each share carries entitlement to one vote at the Annual General Meeting and extraordinary general meetings, and there are no

limitations regarding how many votes each shareholder may vote for at general meetings of shareholders. Axfood's Articles of Association make no stipulation that limits the right to transfer shares. Axfood has not entered into any agreements that could be affected by any acquisition offers.

Axfood is listed on the Stockholm Stock Exchange, Nordic Large Cap segment. The principal owner is Axel Johnson AB, with a direct ownership of 46.2% of the shares (votes and capital), and indirect ownership of approximately 0.1%. At year-end Barclays Global Investors owned 10.6% of the shares in Axfood. No other shareholder owns – directly or indirectly – more than 10% of the shares in Axfood (votes and capital). Axfood's employees do not own shares in which the voting rights for such shares cannot be exercised directly (for example, through a pension foundation).

The Board of Directors and any deputy directors are appointed by the Annual General Meeting for terms extending until the next Annual General Meeting. Axfood's Articles of Association make no stipulation on the appointment and dismissal of directors.

IMPORTANT EVENTS

In April 2007 Axfood started a joint purchasing organization for fruits and vegetables, which coordinates the Group's total purchases of fresh produce. Axfood has a long-term cooperation agreement with SABA for purchases of fruits and vegetables.

Karin Hygrel-Jonsson took office as Chief Financial Officer of Axfood on 1 May 2007, and Anders Quist, previously vice president at Willys, took office as Head of Business Development on 1 September. Camilla Weiner was appointed as Head of Corporate Communications for Axfood. She will take office on 1 March 2008.

On 1 September 2007, a Vi store at Skanstull in Stockholm was acquired and converted to Hemköp. The store has annual sales of approximately SEK 120 m.

POST-BALANCE SHEET EVENTS

On 28 January 2008 Axfood acquired all of the shares in PrisXtra Förvaltning AB (PrisXtra). Operations of PrisXtra comprise five stores in the Stockholm area plus an online service. PrisXtra has annual sales of approximately SEK 700 m. Axfood will continue to run PrisXtra as a stand-alone concept within the Group.

On 21 January 2008, an agreement was signed to acquire a Vi store in Solna. Under the condition that the Swedish Competition Authority does not take any action regarding the acquisition, Axfood will take over the business on 1 April 2008.

NET SALES

Consolidated net sales of the Axfood Group rose 1.3% to SEK 29,189 m (28,808). Sales in Group-owned stores and collaborating Hemköp stores amounted to SEK 24,677 m (24,256), an increase of 1.7% compared with the preceding year. Sales for Axfood's wholly owned stores rose 0.5% during the year, with a 1.1% rise in like-for-like sales.

EARNINGS

Operating profit was SEK 1,121 m (1,204). Operating profit for the preceding year included SEK 89 m from the settlement with the Vi retailers association. The operating margin was 3.8% (3.9%), excluding compensation from the Vi retailers association. After net financial items of SEK -35 m (-21), profit for the year was SEK 1,086 m (1,183). After taxes of SEK -305 m (-331), profit for the year was SEK 781 m (852).

CONDENSED INCOME STATEMENT

	2007	2006
Net sales, SEK m	29,189	28,808
Operating profit, SEK m	1,121	1,204
Operating margin, % ¹⁾	3.8	3.9
Profit after financial items, SEK m	1,086	1,183
Net profit for the year, SEK m	781	852
Earnings per share, SEK	14.88	16.03
Earnings per share after dilution, SEK	14.88	16.03

¹⁾ Operating margin for the full year 2006 excluding compensation of SEK 89 m from the settlement with the Vi retailers association.

FUTURE OUTLOOK

Axfood expects to achieve an operating profit in 2008 that is level with 2007.

CAPITAL EXPENDITURES

Capital expenditures for the year totalled SEK 576 m (587). Of these, SEK 65 m (–) pertained to acquisitions of stores in Sweden, SEK 249 m (321) to investments in non-current assets in the retailing operations, SEK 105 m (99) to investments in non-current assets in the wholesaling operations, and SEK 143 m (160) to investments in non-current assets in IT.

FINANCIAL POSITION

Cash and cash equivalents held by the Group amounted to SEK 471 m (369) at 31 December 2007. Cash flow from operating activities amounted to SEK 1,166 m (1,160). After net investments of SEK -512 m (-321), new borrowing and payment of the dividend, together totalling SEK -552 m (-1,194), cash flow for the year was SEK 102 m (-355).

Interest-bearing assets, including cash and cash equivalents, increased by SEK 91 m to SEK 497 m (406), and interest-bearing liabilities and provisions increased by SEK 500 m to SEK 967 m (467).

Interest-bearing liabilities include SEK 349 m (350) in provisions for pensions. Net

debt increased by SEK 409 m to SEK 470 m (61).

The equity ratio was 32.6% (39.8%), and the debt-equity ratio, net, was 0.22 (0.03).

PARENT COMPANY

Other operating income for the Parent Company amounted to SEK 160 m (253) during the year. After selling and administrative expenses of SEK 192 m (211) and net financial items of SEK -18 m (2), the result after financial items was SEK -50 m (44). Capital expenditures totalled SEK 8 m (1). Cash and cash equivalents held by the Parent Company totalled SEK 0 m (1).

Interest-bearing external receivables amounted to SEK 26 m (38) at the end of the year. Interest-bearing net debt increased by SEK 347 m and was SEK 1,091 m (744) at the year-end.

SHARE REPURCHASES AND CANCELLATIONS

Axfood's 2007 Annual General Meeting (AGM) resolved to reduce the share capital by SEK 10.6 m through cancellation of all repurchased shares. This cancellation was executed on 27 July 2007, when a total of 2,116,150 treasury shares were cancelled. In addition, the AGM resolved to authorize the Board to repurchase up to 3,000,000 of the Company's own shares, on one or more occasions during the time up to the 2008 AGM. The aim of repurchases carried out has been to adapt the capital structure to Axfood's current operations. No shares were repurchased in 2007. As per 31 December 2007 Axfood did not hold any treasury shares.

RISKS, UNCERTAINTY FACTORS AND RISK CONTROL

Axfood is in an entirely different competitive situation today than when the Company was established in 2000. All players in the retail

food market are under strong price pressure, driven by a saturated market, among other things. Price increases carried out by suppliers in 2007 as a result of higher raw material prices and transport costs are expected to continue in 2008. At the same time, price pressure from competitors and continued market establishment are likely to continue. For a further discussion on risks and uncertainties, see the Financial risks and policies section on page 57.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Axfood uses forward exchange contracts to hedge its transaction exposure in foreign currencies. As per 31 December 2007, outstanding contracts amounted to SEK 169 m (124). Slightly more than 80% of hedges are in EUR, and the rest are spread among USD, DKK, NOK and GBP. A more in-depth discussion of financial risks and policies can be found on page 57.

EMPLOYEES

In 2007 Axfood had an average of 6,463 full-time employees broken down into 46% men and 54% women. The number of employees a year ago was 6,569. Approximately 75% of the employees work in stores and approximately 20% in the wholesale operations.

Axfood has a Group-wide equal opportunity policy. According to this policy, all companies within the Group are to draw up equal opportunity plans as support in the local equal opportunity work. Axfood's equal opportunity policy lays down a number of examples that companies should take into consideration in their equal opportunity work, such as mixed workplaces with both women and men, equal pay for the same work regardless of gender, equal training and competence development opportunities for both men and women, and a requirement

that the companies' work environments and work conditions are adapted to allow both women and men to work at all workplaces.

Axfood conducts systematic work environment activities as a natural part of the Group's operations. This work is conducted as a collaborative effort between employers, employees and the employee unions. Work environments at Axfood shall meet all existing legal requirements. In addition to this, Axfood strives to offer its employees a sound, stimulating and safe work environment that is conducive to personal development.

To ensure uniform handling in human resources issues, Axfood has an electronic employee manual that serves as an information source for all employees, and a toolbox to help managers and leaders in their handling of personnel matters.

To increase safety in the transport of goods and for drivers, Axfood's delivery vehicles are being fitted with alcohol ignition locks. Approximately 55% of Axfood's delivery vehicles have been fitted with such locks to date.

Axfood has collectively bargained agreements with the Salaried Employees Union (HTF) and the Retail Workers Union.

COMPOSITION AND WORK OF THE BOARD OF DIRECTORS

Axfood's board consists of seven AGM-elected directors plus three employee representatives with one deputy. According to Axfood's Articles of Association, the Board shall consist of a minimum of three and a maximum of ten directors. The members of the Board are presented on pages 40–41. According to its work plan, the Board shall have at least five meetings a year.

In 2007 the Board met seven times, of which one was the statutory meeting. At each meeting in connection with a quarterly report, the CEO presents an economic and financial report on operations. In addition,

he furnishes the Board with monthly reports on significant events and summary financial information. Each year the Board reviews the auditors' report, which describes – among other things – to what extent the Company's organization is structured so as to ensure satisfactory control of bookkeeping, cash management and the Company's financial position.

The Board has no audit committee. However, at least once a year the Board meets with the Company's auditors without the presence of the CEO or any other representative from the Company. The Board of Directors has a compensation committee, which handles, makes decisions on and submits recommendations on matters concerning salaries and other terms of employment for Axfood's CEO and other members of the executive management. The Compensation Committee reports to the Board. This committee shall consist of a minimum of three and a maximum of five persons, with the Chairman of the Board serving as committee chair. The current members of the Compensation Committee are Göran Ennerfelt, Antonia Ax:son Johnson and Marcus Storch. Axfood's CEO, Anders Strålmán, is a co-opted member of the committee.

Axfood's main owners have appointed a nominating committee for the period up until the next Annual General Meeting. The Nominating Committee is tasked with making recommendations to the Annual General Meeting on 5 March 2008 on the number of directors serving on the Company's board, on directors' fees, and on the composition of the Board of Directors. Ahead of the 2008 AGM, the Nominating Committee also made recommendations on the election of auditors. The members of the Nominating Committee are Hans Dalborg (committee chair), Antonia Ax:son Johnson (representing Axel Johnson AB), Åsa Nisell (representing Swedbank Robur

mutual funds), Anders Oscarsson (representing SEB mutual funds) and Jonas Hillhammar (representing Axfood's Shareholder Association). Axfood's chairman, Göran Ennerfelt, is a co-opted member of the Nominating Committee.

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

The principles for compensation and other terms of employment for Company management entail essentially that the Company shall strive to offer its senior executives compensation that is in line with the going rate in the market and that such compensation shall be set by a special compensation committee within the Board. The criteria shall be based on the importance of the work duties, demands on expertise, experience and performance, and that the compensation shall consist of the following components: fixed base salary, short-term variable compensation, long-term variable compensation, pension benefits, and other benefits and severance terms.

Company management consists of the CEO and ten other members of Axfood's Executive Committee.

FIXED BASE SALARY

Company management shall have a secure base salary that is attractive compared with the market, consisting of a fixed, cash monthly salary. The base salary shall constitute compensation for an committed work contribution at a high professional level which creates value-added for Axfood's customers, owners and employees.

VARIABLE COMPENSATION

In addition to base salary, Company management shall be offered short-term and long-term variable compensation, both of which are based on the achievement of

- 1) Axfood's earnings target
- 2) Axfood's sales growth target, and
- 3) the employee's personal objectives.

The short-term variable compensation is payable in the form of a yearly, variable form of salary. The target outcomes are set by the Compensation Committee at the start of the year. The long-term variable compensation shall support the long-term nature of Company management's decision-making and be based on goal achievement. The variable compensation (short- and long-term compensation together) has the following maximum levels: 70% of base salary paid to the CEO during the year and 40%–60% of base salary paid out during the year to other members of Company management. The right to variable compensation expires in the event an employee gives notice prior to payment. Half of the variable compensation is paid in the year following the year in which it was earned, and the other half is paid the second year following the year in which it was earned. The variable compensation is paid after the AGM has approved the consolidated income statement and balance sheet. Previously approved variable compensation that has not yet fallen due for payment amounted to SEK 1.9 m as per 31 December 2007.

PENSION BENEFITS

The Compensation Committee sets the pension benefits for Company management. Axfood applies a retirement age of 60 or 65 for members of Company management. The basic pension benefit consists of the so-called ITP plan. Added to this is a defined contribution pension corresponding to 25% of salary amounts ranging between 20 and 50 times the Base Amount, which is secured through insurance. Older pension agreements are adapted as far as possible to the plan described above.

OTHER BENEFITS

A maximum term of notice of 12 months applies for Axfood's Company management. In addition, severance pay corresponding to a maximum of 18 months' salary can be payable. Any earned income received from a new employer during the notice period or during the time that severance pay is being received is deducted from said amounts. The notice period for members of Company management, by their own initiative, is six months. The members of Axfood's Company management each have a company car, private healthcare insurance and liability insurance. If the Company serves notice, the CEO is entitled to a 12-month term of notice plus severance pay corresponding to 12 months' salary. The notice period for the CEO, by his own initiative, is six months.

THE BOARD'S PROPOSAL TO THE 2008 ANNUAL GENERAL MEETING FOR NEW GUIDELINES FOR COMPENSATION OF THE CEO AND OTHER SENIOR EXECUTIVES

The Board has proposed to the 2008 Annual General Meeting that the variable compensation for other senior executives be maximized to 55% of their base salary paid out during the year. In other respects, the Board has proposed unchanged principles for compensation and other terms of employment for Company management.

R&D ACTIVITIES

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

ENVIRONMENTAL IMPACT

No operations requiring a permit in accordance with the environmental code are conducted by Axfood AB or the Axfood Group. However, operations are conducted that require notice in accordance with the

environmental code. This notice requirement pertains to a cold storage system in the wholesale operation in which ammonia is used. This cold storage system that is subject to the notice requirement handles products corresponding to approximately 6% of the Group's net sales. Approximately 80% of the ammonia used as a cooling agent has been replaced by a system using calcium chloride and carbonic acid.

In late 2007 a new environmental policy was adopted, which will set the tone of the Group's environmental work in the future. The overall goal is that Axfood will be an environmentally conscious company that helps its customers make educated environmental choices and which takes an active role in supporting "best methods" in the retail food industry.

The baseline for Axfood's policy is the EU's fundamental principles for how environmental work is to be conducted. These include 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.

In Axfood's day-to-day business, environmental aspects are integrated with product purchasing and selection, logistics, transports and product flows, store operations and waste management.

BUSINESS ETHICS AND PRODUCT LIABILITY

For Axfood it is important to be a responsible company that owners, customers and employees can trust. Toward this end, Axfood has adopted a number of policies that govern such areas as business ethics, a code of conduct, ethical guidelines and food safety.

With respect to the Company's earnings and financial position in general, reference is made to the following income statements and balance sheets and accompanying comments.

Income statement

Amounts in SEK m	Note	Group		Parent Company	
		2007	2006	2007	2006
Net sales	2, 5	29,189	28,808	–	–
Cost of goods sold	6	-25,119	-24,760	–	–
Gross profit		4,070	4,048	–	–
Selling expenses		-1,928	-1,890	-2	-2
Administrative expenses		-1,234	-1,217	-190	-198
Share of profit in associated companies	22	0	1	–	–
Other operating income	7	218	299	160	253
Other operating expense		-5	-37	–	-11
Operating profit/loss		1,121	1,204	-32	42
Interest income and similar profit/loss items	13	9	7	6	10
Interest expense and similar profit/loss items	13	-44	-28	-24	-8
Profit/loss after financial items		1,086	1,183	-50	44
Appropriations	14	–	–	3	0
Profit/loss before tax		1,086	1,183	-47	44
Current tax	15	-293	-328	13	-8
Deferred tax	15	-12	-3	0	-3
Net profit/loss for the year		781	852	-34	33
Earnings per share, SEK	16	14.88	16.03	–	–
Earnings per share after dilution, SEK		14.88	16.03	–	–
Operating profit/loss includes depreciation/amortization of	10	477	474	8	8

Comments on the income statement and balance sheet

INCOME STATEMENT

Of consolidated net sales, slightly less than 80% (80%) consist of store sales and slightly more than 20% (20%) consist of external wholesale turnover and store compensation. Consolidated net sales amounted to SEK 29,189 m (28,808), an increase of 1.3% compared with 2006. For Axfood's wholly owned retail operations, sales increased by 0.5%, with a 1.1% rise in like-for-like sales. Sales for Willys rose 1.8%, to SEK 15,382 m (15,115), with a 1.7% rise in like-for-like sales. Hemköp's sales decreased by 2.7%, to SEK 5,674 m (5,829), with a 0.9% decrease in like-for-like sales. The Group's gross margin decreased from 14.1% to 13.9%.

Operating profit was SEK 1,121 m (1,204). Other operating income a year ago included SEK 89 m in compensation from the settlement with the Vi retailers association. Operating profit includes depreciation of SEK 477 m (474). The operating margin was 3.8% (3.9%). The operating margin a year ago excluded compensation from the Vi retailers association.

Net financial items decreased during the year from SEK -21 m to SEK -35 m due to an increase in liabilities to credit institutions during the year, mainly as a result of a continued high dividend and higher capital expenditures in 2007 compared with 2006. The tax charge was SEK 305 m (331), corresponding to a tax rate of 28.1% (28.0%). Profit for the year after tax was SEK 781 m (852).

BALANCE SHEET

The Group's non-current assets increased during the year by SEK 58 m, from SEK 2,922 m to SEK 2,980 m. Non-current assets consist primarily of goodwill, totalling SEK 1,182 m (1,131), and machinery and equipment, totalling SEK 1,379 m (1,412). Of total goodwill, SEK 859 m (824) consists of consolidated acquisition goodwill. Total capital expenditures by the Group amounted to SEK 576 m (587). Of these, SEK 65 m (-) pertained to investments in operations and SEK 104 m (102) to investments in IT development.

Of current assets, inventories make up the single largest item, totalling SEK 1,597 m (1,473). Inventories consist of finished retail goods – slightly more than 50% (60%) – and wholesale goods – slightly less than 50% (40%). Inventories along with trade accounts receivable make up approximately 60% (60%) of current assets.

Shareholders' equity amounted to SEK 2,152 m (2,420), a net decrease of SEK 268 m. During the year, SEK 1,049 m (811) was distributed to the Company's shareholders.

Provisions for pensions and similar obligations pertain primarily to the FPG/PRI system. Interest-bearing liabilities excluding interest-bearing pension provisions increased from SEK 117 m to SEK 618 m. Interest-bearing net debt increased from SEK 61 m as per 31 December 2006 to SEK 470 m as per 31 December 2007.

EARNINGS

	2007	2006	2005	2004	2003
Earnings per share after dilution, SEK	14.88	16.03	13.35	14.42	12.62

Figures for 2004–2007 pertain to continuing operations and are reported according to IFRS. Figures for 2003 pertain to total operations.

CHANGE IN INTEREST-BEARING NET DEBT FOR THE GROUP

	31/12/2006	Cash flow	Change in borrowings	Other changes	31/12/2007
Cash and cash equivalents	369	102			471
Non-current interest-bearing receivables	24		-13	2	13
Current interest-bearing receivables	13				13
Non-current interest-bearing liabilities	-35		-200	-3	-238
Current interest-bearing liabilities	-82		-296	-2	-380
Interest-bearing pensions	-350			1	-349
Interest-bearing net debt	-61	102	-509	-2	-470

Balance sheet

Amounts in SEK m	Note	Group		Parent Company	
		31/12/2007	31/12/2006	31/12/2007	31/12/2006
ASSETS					
Non-current assets					
Intangible assets 17					
Goodwill		1,182	1,131	–	–
Other intangible assets		319	236	–	–
		1,501	1,367	–	–
Property, plant and equipment 18, 20					
Land and buildings		3	3	–	–
Equipment, tools and fixtures		1,379	1,412	25	28
Construction in progress		25	51	–	–
		1,407	1,466	25	28
Financial assets 23, 29					
Participations in Group companies	21	–	–	2,958	3,015
Participations in associated companies	22	2	3	–	–
Other long-term securities holdings	23, 29	19	19	3	3
Other long-term receivables	24	22	33	13	24
		43	55	2,974	3,042
Deferred tax assets	15	29	34	9	9
		2,980	2,922	3,008	3,079
Total non-current assets					
Current assets					
Inventories					
Finished products and goods for resale		1,597	1,473	–	–
		1,597	1,473	–	–
Current receivables 29					
Accounts receivable – trade	25	685	514	0	–
Receivables from Group companies		–	–	1,779	1,781
Current tax assets		59	82	–	–
Other current receivables	24	107	85	18	18
Prepaid expenses and accrued income	26	709	630	9	10
		1,560	1,311	1,806	1,809
Cash and cash equivalents 29					
Cash and bank balances		471	369	0	1
		471	369	0	1
		3,628	3,153	1,806	1,810
Total current assets					
TOTAL ASSETS					
		6,608	6,075	4,814	4,889

Amounts in SEK m	Note	Group		Parent Company	
		31/12/2007	31/12/2006	31/12/2007	31/12/2006
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	27, 33				
				Restricted shareholders' equity	
Share capital		262	273	262	273
Other capital contribution		496	496	–	–
				262	273
				Unrestricted shareholders' equity	
Hedging reserve		-2	-2	–	–
Share premium reserve		–	–	4	4
Profit brought forward		615	801	2,669	2,914
Profit/loss for the year		781	852	-34	33
				2,639	2,951
Total shareholders' equity		2,152	2,420	2,901	3,224
Untaxed reserves	14	–	–	6	9
Non-current liabilities	20, 29, 30				
Provision for pensions and other similar obligations	28	349	350	26	25
Liabilities to credit institutions		200	–	200	–
Other interest-bearing liabilities		38	35	–	–
Deferred tax liability	15	168	157	–	–
Other non-current liabilities		–	–	6	6
		755	542	232	31
Current liabilities	29, 30				
Liabilities to credit institutions		354	58	354	58
Other interest-bearing liabilities		26	24	–	–
Accounts payable – trade		1,850	1,753	9	5
Liabilities to Group companies		–	–	1,263	1,417
Liabilities to associated companies		0	0	–	–
Current tax liability		17	78	17	75
Other current liabilities		80	76	1	2
Accrued expenses and deferred income	19, 31	1,374	1,124	31	68
		3,701	3,113	1,675	1,625
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		6,608	6,075	4,814	4,889
CONTINGENT ASSETS, PLEDGED ASSETS AND CONTINGENT LIABILITIES	32				
Pledged assets		2	2	–	–
Contingent liabilities		23	29	367	364

Cash flow statement

Amounts in SEK m	Note	Group		Parent Company	
		2007	2006	2007	2006
Operating activities					
Profit/loss after financial items		1,086	1,183	-50	44
Depreciation/amortization charged against profit		459	458	8	8
Adjustments for non-cash items		-14	52	-1	6
Paid tax		-330	-684	-341	-621
Cash flow from operating activities before changes in working capital		1,201	1,009	-384	-563
Cash flow from changes in working capital					
Change in inventories		-107	133	-	-
Change in current receivables		-273	-8	-34	181
Change in current liabilities		345	26	-162	-444
Cash flow from operating activities		1,166	1,160	-580	-826
Investing activities					
Acquisitions of intangible assets		-104	-102	-	-
Acquisitions of property, plant and equipment		-384	-464	-6	-1
Acquisitions of operations	3	-65	-	-	-18
Earnings from associated companies		1	-	-	-
Sales of operations	4	10	236	57	313
Sales of property, plant and equipment		17	7	0	6
Change in other financial assets		13	2	13	-
Cash flow from investing activities		-512	-321	64	300
Financing activities					
Share repurchases		-	-430	-	-430
Newly raised loans		497	47	496	58
Dividend paid out		-1,049	-811	-1,049	-811
Group contributions received/rendered		-	-	1,068	1,352
Cash flow from financing activities		-552	-1,194	515	169
CASH FLOW FOR THE YEAR		102	-355	-1	-357
Cash and cash equivalents at start of year		369	724	1	358
Cash and cash equivalents at year-end		471	369	0	1

Comments on cash flow and shareholders' equity

GROUP CASH FLOW FROM OPERATING ACTIVITIES

The Group's cash flow from operating activities before changes in operating capital increased by SEK 192 m, to SEK 1,201 m (1,009), and consists mainly of the net amount of purchases and sales of retail food products. Excluding SEK -330 m (-684) in paid tax, cash flow from operating activities before changes in working capital decreased by SEK 162 m. The higher tax payment in 2006 is mainly attributable to the dissolution of all of the Group's tax allocation funds in 2005. The tax effect of this dissolution was SEK 284 m. Reversed depreciation has been adjusted for the remaining portion of leased assets, totalling SEK 18 m (16). Adjustment for non-cash items amounted to SEK -14 m (52) and pertained mainly to capital gains, impairment charges and disposals. Interest received during the year amounted to SEK 9 m (7), and interest paid amounted to SEK 29 m (12). The increase in interest paid, totalling SEK 17 m, was due to higher borrowing from credit institutions in 2007.

CAPITAL EXPENDITURES AND DIVESTMENTS

The Group's total capital expenditures amounted to SEK 576 m (587) and pertained primarily to investments of SEK 413 m (485) in machinery and equipment. Investments in operations amounted to SEK 65 m (-). Investments in IT development amounted to SEK 104 m (102). Of total capital expenditures, SEK 553 m (566)

affected the Group's cash flow. In cash flow, capital expenditures have been adjusted in the amount of SEK -23 m (-21) for finance leases.

FINANCING ACTIVITIES

The Group's change in interest-bearing liabilities affected cash flow in the amount of SEK 497 m (47). During the year SEK 497 m (47) in new loans were raised. Ongoing financing was handled during the year with cash flow from operating activities. The increase in net borrowings in 2007 compared with 2006 is attributable to higher net investments and a continued high dividend payout. The dividend amounted to SEK 1,049 m (811), corresponding to SEK 20.00 (15.00) per share. Share repurchases affected cash flow in the amount of SEK - m (-430).

COMMENTS ON SHAREHOLDERS' EQUITY AND CAPITAL MANAGEMENT

The Group's shareholders' equity, which is defined as total reported shareholders' equity, amounted to SEK 2,152 m (2,420) at year-end. The return on shareholders' equity was 34.2% (32.5%).

The Annual General Meeting on 8 March 2007 gave the Board a mandate to repurchase up to 3,000,000 shares of the Company's own stock during the period up until the next Annual General Meeting. In 2007 and during the period 1 January–5 February 2008, no shares were repurchased. In 2006 a total of 2,116,150 shares were repurchased for a combined value of SEK

430 m. The 2007 Annual General Meeting also resolved to reduce Axfood's share capital by SEK 10,580,750 through cancellation of the 2,116,150 shares that the Company repurchased in 2006. The reduction in share capital took place on 27 July 2007. The purpose of the reduction was that the amount in which the share capital was reduced would be transferred to a reserve to be used in accordance with a resolution by the Annual General Meeting.

According to Axfood's finance policy, the basis of the Axfood Group's financial strategy is to create sound financial conditions for the Group's operations and development. Of major importance is that the Group's equity ratio target of a minimum level of 25% is maintained so that the Group's refinancing risk does not jeopardize the Group's current or planned operations. At year-end 2007 the equity ratio was 32.6% (39.8%).

Axfood's dividend policy calls for a minimum dividend payout of 50% of profit after tax. During the last five years, the ordinary dividend has averaged 57.7% of profit after tax. In addition to the ordinary dividend, the Group has paid extra dividends on three occasions, for the 2004, 2005 and 2006 financial years. The Board of Directors has proposed an ordinary dividend of SEK 12 (12) for 2007. Based 52,467,678 shares, the dividend will amount to SEK 630 m.

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

CAPITAL EXPENDITURES/DEPRECIATION

	2007	2006	2005	2004	2003
Capital expenditures/depreciation	1.21	1.24	2.12	1.13	1.45

Figures for 2004–2007 pertain to continuing operations and are reported according to IFRS. Figures for 2003 pertain to total operations.

Shareholders' equity

Group								
Amounts in SEK m	Share capital	Other capital contributions	Accumulated translation differences	Hedging reserve	Profit brought forward	Majority owner's share	Minority owner's share	Total shareholders' equity
Opening shareholders' equity 2006	273	492	20	-2	2,042	2,825	119	2,944
Fair value of forward exchange contracts	-	-	-	0	-	0	-	0
Exchange rate difference	-	-	-20	-	-	-20	-	-20
Minority in sold operation	-	-	-	-	-	-	-119	-119
Total changes in net worth reported directly against shareholders' equity ¹⁾	-	-	-20	0	-	-20	-119	-139
Profit for the year	-	-	-	-	852	852	-	852
Total changes in net worth ¹⁾	-	-	-20	0	852	832	-119	713
Shareholder dividend	-	-	-	-	-811	-811	-	-811
Redemption of convertible debentures	0	4	-	-	-	4	-	4
Share repurchases	-	-	-	-	-430	-430	-	-430
Closing shareholders' equity 2006	273	496	-	-2	1,653	2,420	-	2,420
Fair value of forward exchange contracts	-	-	-	0	-	0	-	0
Total changes in net worth reported directly against shareholders' equity ¹⁾	-	-	-	0	-	0	-	0
Profit for the year	-	-	-	-	781	781	-	781
Total changes in net worth ¹⁾	-	-	-	0	781	781	-	781
Shareholder dividend	-	-	-	-	-1,049	-1,049	-	-1,049
Cancellation of treasury shares	-11	-	-	-	11	-	-	-
Closing shareholders' equity 2007	262	496	-	-2	1,396	2,152	-	2,152

Parent Company						
Amounts in SEK m	Restricted shareholders' equity		Unrestricted shareholders' equity		Total shareholders' equity	
	Share capital	Statutory reserve	Share premium reserve	Profit brought forward	Total	
Opening shareholders' equity 2006	273	1,699	-	1,687	3,659	
Shareholder dividend	-	-	-	-811	-811	
Redemption of convertible debentures	0	-	4	-	4	
Share repurchases	-	-	-	-430	-430	
Group contribution	-	-	-	1,068	1,068	
Tax effect of Group contribution	-	-	-	-299	-299	
Reduction of statutory reserve	-	-1,699	-	1,699	-	
Profit for the year	-	-	-	33	33	
Closing shareholders' equity 2006	273	-	4	2,947	3,224	
Shareholder dividend	-	-	-	-1,049	-1,049	
Cancellation of treasury shares	-11	-	-	11	-	
Group contribution	-	-	-	1,056	1,056	
Tax effect of Group contribution	-	-	-	-296	-296	
Loss for the year	-	-	-	-34	-34	
Closing shareholders' equity 2007	262	-	4	2,635	2,901	

¹⁾ Excluding transactions with the Company's owners. The share capital as per 31 December 2007 amounted to SEK 262,338,390, distributed among 52,467,678 shares. The Board of Directors proposes an ordinary dividend of SEK 12 per share, corresponding to a total dividend of SEK 629,612,136.

Financial risks and policies

FINANCE POLICY

The Axfood Group has a group-wide finance policy that governs the delegation of responsibility on financial matters between the Board, the CEO/CFO, the central finance department and other Group companies. The Group's external financial management is centralized in the central finance department of the Parent Company, Axfood AB.

The Group's finance department reports monthly to the CFO with a follow-up of the financial policy, including financing/liquidity risk, interest rate risk, currency exposure and credit risks. The same report is also presented to the Board four times a year.

FINANCIAL RISKS

The Axfood Group is exposed to financial risks, which are described under the respective type of risk below. Cash flow risk coincides with the various types of risk.

FINANCING/LIQUIDITY RISK

Responsibility for the Group's negotiations in central financing matters is the responsibility of the finance department. Subsidiaries are required to finance their operations via the central Group account system. Confirmed credit lines must have a minimum average remaining contract term of 12 months. As per 31 December 2007 the average remaining contract term was 730 days (498).

To limit the risk of the Axfood Group not being able to finance the Group's operations at any given time, a refinancing risk reserve has been established, which is broken down into a liquidity reserve, a financing reserve, and an operating reserve. The refinancing risk reserve must always amount to at least SEK 500 m. As per 31 December 2007, the refinancing risk reserve amounted to SEK 513 m (716). The finance department is responsible for monitoring and overseeing the refinancing risk reserve.

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

INTEREST RATE RISK

The goal of the Axfood Group's financial management is to limit the short-term effect on the Group's earnings and cash flow caused by fluctuations in the financial markets.

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

Interest rate risk in the Group's debt portfolio shall be limited. The norm is to have terms of fixed interest that entail a risk-neutral position. This is achieved by maintaining short terms of fixed interest, which is defined as a remaining average term of fixed interest of 12 months. This interest risk norm applies only when the Group has long-term borrowing. However, for commercial and administrative reasons, the finance department is given the opportunity to act within the framework of a limited deviation mandate. In terms of amount, this deviation mandate is set at SEK 4 m for a one percent-

age point parallel shift in the yield curve. As per 31 December 2007 the average term of fixed interest was 455 days (30), and the deviation from the fixed interest norm was SEK 0.5 m (-). This was within the established deviation mandate and is the amount which, on the balance sheet date, would affect earnings and shareholders' equity in the event of a 1% change in the interest rate.

The interest renegotiation dates coincide for the most part with the maturity dates of the loans. The maturity dates and effective rates of interest for the loans are shown in Note 30.

COUNTERPARTY POLICY

The Axfood Group shall only cooperate with counterparties that are judged to be able to fulfil their commitments to the Axfood Group. The banks and financial institutions that the Group cooperates with shall have a high credit rating in order to be able to support the Group over the long term. Limits per counterparty are established on a yearly basis.

CREDIT RISKS

Financial assets are reported on the balance sheet after deducting provisions for possible loan losses. Added to these provisions are provisions for possible losses on guarantee commitments made by Axfood. These pertain mainly to guarantees for bank financing for Hemköp franchisees. Axfood charges a going-rate commission for issuing these guarantees. Outstanding guarantee commitments amount to SEK 12 m (18) and are reported under contingent liabilities, see Note 32. There is no concentration of credit risks, neither through exposure to individual borrowers nor groups of borrowers whose financial situation is such that it can be expected to be affected in a similar manner by changes in the operating environment.

OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

No offsetting of financial assets and financial liabilities has taken place.

CURRENCY RISKS

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

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

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

Approved hedge instruments are spot contracts, forward exchange contracts and currency swap contracts. In 2007 hedges were taken out only through spot contracts and forward exchange contracts.

As per 31 December 2007, all outstanding forward exchange contracts, totalling SEK 169 m, were restated to fair value. A compilation of outstanding forward exchange contracts is provided in Note 33.

SENSITIVITY ANALYSIS OF THE GROUP'S TRANSACTION EXPOSURE REGARDING TOTAL CURRENCY EXPOSURES FOR 2007, BROKEN DOWN BY CURRENCY

Currency	2007	10% change in exchange rate vis-à-vis SEK
EUR	927	92.7
USD	101	10.1
DKK	54	5.4
NOK	22	2.2
GBP	2	0.2
CAD	1	0.1
Total	1,107	110.7

The sensitivity analysis above shows a hypothetical impact on earnings and shareholders' equity. Currency hedges are always taken out not later than at the time orders are placed, and the hedge rate is always coupled to the respective orders. Based on this value, the price in stores is then determined for the respective products.

**BUSINESS RISKS
COMPETITION**

Competition in the retail food industry continues to be fierce. The pace of new establishment among the major competitors is high, and consumer prices continue to be under strong pressure. The previous risk for higher prices from suppliers due to higher raw material and transport costs became a fact during the final quarter of 2007. World market prices, primarily of dairy and grain products, have risen, as have prices of eggs and meat. These price rises will lead to higher purchasing prices for Axfood.

Axfood will continue to grow; however, growth is not an end in itself and must take place while maintaining profitability.

A central issue in all new store establishment activities conducted by Axfood is that each store establishment is preceded by very thorough market analyses with respect to matters related to the competitive situation and demographics. Every investment calculation stretches several years into the future. Continuous analysis work can also lead to geographic shifts in Axfood's store establishment priorities.

ESTABLISHMENT, LEASES

Compared with many European countries and also the other Nordic countries, Sweden has a relatively liberal policy regarding store establishment and business hours. One problem, however, is that the authorities who grant permits do not always take into account the competitive situation in local markets. One latent threat is of a decision by the authorities to put a stop to the establishment of large stores, which has happened in several of the other Nordic countries.

Axfood does not own any store properties; the stores are all operated in leased premises. For newly established stores, the leases are commonly for 10 years, while for established stores the leases are for an average of three years. As per 31 December 2007, the Group's lease obligations amounted to approximately SEK 3.5 bn.

OPERATIONAL RISKS

Axfood's safety analysis work has identified a total loss, such as resulting from a fire at one of the central warehouses in Jordbro or Backa, as one of the most significant operational risks that the company must manage. Awareness is great within the company that centralization increases the company's vulnerability and that the centralized IT structure is also a risk factor for the Group. Therefore, considerable emphasis is put on preventive work, and the organization for this is well-developed, as is the company's planning for operating continuity in the event of unforeseen events.

Regular risk analyses are performed with the help of Axfood Blue, Axfood's own risk analysis tool. In the Group's stores and cash and carry outlets, these risk analyses are one part of regular concept follow-up work that is performed within the Group, while oversight of the distribution centres is performed by Axfood's central safety function.

The Group's systematic fire safety work puts great emphasis on a highly effective fire safety organization and regular internal controls. In this respect, the priority of fire safety work conducted at the Group's stores lies on how to best handle an evacuation, where the primary focus is on employee and customer safety.

In 2007 the Group's crisis management and communication plan was completed. This plan ensures that Axfood has documented preparedness in the event of a crisis.

INSURANCE

Axfood has Group-wide insurance solutions. Insurance protection covers, among other things, property, product liability, business interruption, transports, and directors' and CEO liability. These joint solutions have contributed to loss prevention work, which has enabled the Group to successively lower its insurance costs from year to year. Another contributing reason for this is that all costs for insurance deductibles are charged to the operation in which a claim has been incurred. Taken together, these measures have contributed to higher awareness and improved claims experience.

MONEY HANDLING RISKS

Axfood has Group-wide agreements for security services, security systems and money handling. The justification for this is to ensure a uniform level of security throughout the Group. Strict rules are in place for cash handling at stores. Currently there are no entirely closed money handling systems available on the market, however, Axfood is closely monitoring developments in this area.

SHRINKAGE

Continuous work is being carried out in stores on shrinkage. This includes defining how much shrinkage consists of the scrapping of outdated products, own consumption and actual theft. Work on reducing shrinkage is based on the conviction that it is important to work with all aspects of shrinkage, such as by reviewing ordering routines, delivery inspections and unpacking of goods. In this way, better knowledge and routines are created for handling shrinkage while at the same time providing a basis for greater vigilance for products that are particularly prone to theft.

ENVIRONMENTAL RISKS

No operations requiring a permit in accordance with the environmental code are conducted by the Parent Company or the Axfood Group. However, operations are conducted that require notice in accordance with the environmental code. This notice requirement pertains to a cold storage system in the wholesale operation in which ammonia is used. This cold storage system that is subject to the notice requirement handles products corresponding to approximately 6% of the Group's net sales.

Axfood works on a continuous basis with environmental matters from a long-term perspective. In late 2007 a new environmental policy was adopted, which will set the tone of the Group's environmental work in the future. The overall goal is that Axfood will be an environmentally conscious company that helps its customers make educated environmental choices and which takes an active role in supporting "best methods" in the retail food industry.

Notes

1. ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as approved by the EU Commission for application within the EU. In addition, Swedish Financial Accounting Standards Council (SFASC) recommendation RR 30:06, Complementary Reporting Rules for Groups, is used.

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

The Annual Report and consolidated financial statements were approved for publication by the Board of Directors on 5 February 2008. The consolidated income statement and balance sheet, and the Parent Company income statement and balance sheet, are subject to adoption by the Annual General Meeting on 5 March 2008.

CHANGED ACCOUNTING PRINCIPLES 2007

Starting on 1 January 2007 the Group applies IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements. In addition to changes in said recommendations are four IFRIC interpretations: IFRIC 7, 8, 9 and 10.

IFRS 7 entails no change in the reporting and valuation of financial instruments. However, certain disclosure requirements arise compared with previous requirements under IAS 32. Among other things, the current disclosure requirements have been improved with respect to exposures and the handling of risks associated with financial

instruments. In view of IFRS 7, the disclosure requirements under IAS 1 have been amended. Among other things, descriptions must be provided of the capital base, external capital requirements and of the extent to which these have been met or not. The changes in IFRS 7, the Amendment to IAS 1 and IFRIC 7, 8, 9 and 10 have no effect on the Axfood Group's income statement, balance sheet, cash flow statement or shareholders' equity.

CHANGED ACCOUNTING PRINCIPLES 2008

Starting on 1 January 2008, three IFRIC interpretations have been added: IFRIC 11, 12 and 14. These interpretations have no effect on the Axfood Group's income statement, balance sheet, cash flow statement or shareholders' equity. Axfood does not prospectively apply these interpretations that are to be applied as from 2008.

CONDITIONS FOR PREPARATION OF THE PARENT COMPANY'S AND GROUP'S FINANCIAL STATEMENTS

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

In order to prepare the financial statements in accordance with generally accepted accounting principles, the Board and Company management make estimations and assumptions that affect the Company's result and position as well as other disclosures in general. These estimations and assumptions are based on historical experience and are reviewed on a regular basis. Estimations made by Company management in the

application of IFRS which have a material impact on the financial statements, and estimations made that can entail material adjustments in subsequent years' financial statements, are described in more detail in Note 34.

The accounting principles presented below are applied consistently in the Company's published financial statements.

PRINCIPLES OF CONSOLIDATION GENERAL

The consolidated financial statements cover, in addition to the Parent Company, all companies in which the Parent Company directly or indirectly has a controlling influence. A controlling influence entails a direct or indirect right to formulate the company's financial and operative strategies in the aim of obtaining financial benefit.

In the preparation of the consolidated financial statements, the purchase method has been used, with the exception of the 2000 merger of Hemköp and Axfood Sverige (formerly D&D Dagligvaror), which is accounted for using the pooling of interests method, whereby no surplus values are reported. According to the purchase method, shareholders' equity in an acquired subsidiary is based on a fair valuation of identifiable assets and liabilities taken over at the time of acquisition. In the event the cost of the shares in the subsidiary exceeds the fair value of acquired assets and liabilities as per the above, the difference is carried as goodwill in the balance sheet. Goodwill is not amortized, but is tested annually for impairment, see Note 17.

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

Intra-group assets and liabilities, income and expenses, and unrealized gains and losses between companies in the Group, are eliminated.

ASSOCIATED COMPANIES

Companies in which Group companies have a significant but not controlling influence are classified as associated companies and are reported in accordance with the equity method. The holding amounts to 20%–50% of the number of votes. The equity method entails that the Group's share of the associated company's shareholders' equity, including Group goodwill and remaining Group surplus and deficit values, is reported as shares and participations in associated companies. The increase or decrease of the associated company's book value that arises through application of the equity method increases/decreases the Group's profit brought forward. Dividends received from associated companies decrease the reported value of shares and participations in associated companies. When the Group's share of reported losses in the associated company exceeds the reported value of the participations in the Group, the value of the participations is reduced to zero. Deduction for losses is also made from long-term financial dealings without collateral, which in an economical sense constitutes the owning company's net investment in the associated company.

The Group's share of the associated company's net profit/loss including depreciation, impairment charges and dissolution of any surplus and deficit values reported in connection with the acquisition is reported in the consolidated income statement. Unrealized gains that arise between wholly owned companies and associated companies in the Group are eliminated to the extent that they correspond to the Group's ownership stake in the associated company.

SEGMENT REPORTING

For accounting purposes, a segment is an identifiable part of the Group that either provides products and services (business segments), or products or services in a certain economic environment (geographic areas), which are exposed to risks and opportunities that differ from other segments. In accordance with IAS 14, segment information is provided only for the Group.

The Axfood Group's business segments are the primary format of reporting.

THE FOLLOWING BUSINESS SEGMENTS ARE REPORTED:

Willys. Sale of retail food products/groceries at discount prices.

Hemköp. Sale of retail food products/groceries with a broad product offering and high level of service.

Dagab. Wholesaling business with slightly more than 80% of sales going to Axfood-owned stores.

Närlivs. Wholesaling and cash and carry business; sales primarily to retailers, chain store operators and other convenience stores.

PRINCIPLES FOR INTERNAL PRICING

For internal sales of goods between companies in the Axfood Group, prices are set on commercial terms. This means that internal customers are not treated in another manner than external customers. In certain cases the supplier's general profit margin is lower for internal sales. The main explanation for this is that the general risk level in these cases is lower.

The price models used for pricing towards external and internal customers are not different.

Decisions about which prices shall apply, internally as well as externally, are made by Axfood's executive management.

INCOME

Sales are reported net after VAT and discounts. Income from sales of products is reported in the income statement when material risks and benefits have been transferred to the buyer. Bonuses earned by customers on sales to customers with bonus cards are expensed in pace with their earning and at the same time reduce net sales. Consolidated net sales pertain primarily to store sales. A total of 0.2% of net sales consist of franchise fees from collaborating chain stores. Intra-Group sales are eliminated in the consolidated financial statements.

FRANCHISE FEES

Axfood has agreements with a number of independent grocers on cooperation under the Hemköp, Tempo and Handlar'n brands.

The grocers pay an annual sales-based fee to Axfood for participation in marketing programmes, purchasing coordination and support in such areas as technical support, administration and store operations. Franchise revenues (store fees) are recognized in the income statement as they are earned. During each financial year, preliminary franchise fees are invoiced on a continuing basis, and a definitive reconciliation is made during the following financial year.

RENTAL INCOME

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

GOVERNMENT SUPPORT

Government support is reported when the company meets the conditions associated with grants and when it can be ascertained with certainty that the grants will be received. Paid-in grants are reported in the balance sheet as deferred income and are recognized during the period in which the costs that the grants are intended to cover are reported. In the income statement, government support is reported as a decrease of corresponding costs. Axfood receives government grants mainly in the form of labour market policy measures.

INSURANCE INDEMNIFICATION

Upon the theft or damage to any of the Group's assets, insurance indemnification may be received, normally less a set deductible level. In cases of loss or damage to property, plant or equipment, claims for compensation from another party caused by such and the subsequent purchase or restoration of a replacement asset are reported separately. The same applies for other costs that are not capitalized in the balance sheet. Insurance indemnification is reported as other operating income, while deductibles are reported as other administration expense in the income statement. Insurance indemnification that has been decided but not paid out as per the balance sheet date is reported as a pending receivable.

FINANCIAL INCOME AND EXPENSES

Financial income consists of interest income from financial investments, dividend income and gains on sales of available-for-sale financial assets. Dividend income is reported when the right to receive the dividend has been determined. Gains from sales of financial instruments are reported when the risks and benefits associated with ownership of the instrument in question are transferred to the buyer and the Group no longer has control over the instrument.

Financial expenses consist of interest expenses on loans, pension liabilities and trade accounts payable. Other financial expenses include bank fees.

Foreign exchange gains and losses are reported net.

CLASSIFICATION OF CURRENT AND NON-CURRENT ITEMS

In the Axfood Group's accounting, assets and liabilities are broken down into current and non-current. Non-current receivables and liabilities consist in all essential respects of amounts that are expected to fall due for payment after one year from the balance sheet date. Current receivables and liabilities fall due for payment within one year from the balance sheet date.

RECEIVABLES AND LIABILITIES IN FOREIGN CURRENCY

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

FINANCIAL INSTRUMENTS

Financial instruments carried on the balance sheet include – on the assets side – interest-bearing receivables, other receivables, trade accounts receivable, and cash and cash equivalents. Trade accounts payable and loan liabilities are reported on the liabilities side. Currency derivatives are reported either as an asset or liability, depending on whether the fair value is positive or negative.

REPORTING OF FINANCIAL ASSETS AND LIABILITIES

A financial asset or liability is carried on the balance sheet when the Company becomes party to the instrument's contractual terms and conditions. Trade accounts receivable are recorded in the balance sheet when an invoice has been sent. A liability is recorded when the counterparty has delivered a product or service and a contractual obligation to pay exists, even if an invoice has not been received. Trade accounts payable are recorded when an invoice has been received.

A financial asset is derecognized from the balance sheet when the rights to the agreement are realized, mature, or the Company loses control over it. The same applies for a part of a financial asset. A financial liability is derecognized from the balance sheet when the obligation in the agreement is fulfilled or becomes extinguished in some other way. The same applies for a part of a financial liability. Spot purchases and spot sales of derivative instruments are reported on the transaction date.

Financial instruments are initially stated at cost, corresponding to the instrument's fair value plus transaction costs, except for derivative instruments, for which transaction costs are expensed immediately.

CLASSIFICATION OF FINANCIAL INSTRUMENTS

All financial assets and liabilities are classified in the following categories:

- Financial assets and liabilities carried at fair value through profit or loss consist of two sub-categories;
 - i) Financial assets and financial liabilities which on the initial reporting occasion have been determined to belong to this category. Axfood has no financial instruments classified in this category.
 - ii) Financial assets and financial liabilities held for sale. Axfood has no financial instruments classified in this category.
- Held-to-maturity investments. Axfood has no financial instruments classified in this category.
- Loan receivables and trade accounts receivable. Axfood's interest-bearing receivables, other receivables, trade accounts receivable, and cash and cash equivalents are included in this category.

- Available-for-sale financial assets. This category consists of financial assets that are not classified in any other category, such as shares and participations in both listed and unlisted companies. Axfood's ownership of tenant-owner rights is included in this category.
- Financial liabilities carried at amortized cost. Axfood's trade accounts payable and borrowings are included in this category.

LOAN RECEIVABLES AND TRADE ACCOUNTS RECEIVABLE

Loan receivables and trade accounts receivable are financial assets that are not derivatives, which have set payments or payments which can be set and are not listed on an active market. Such assets are carried at amortized cost. On each reporting occasion, Axfood evaluates if there are objective indications that a loan receivable is in need of impairment. Loan receivables are assessed individually. Impairment of loan receivables is reported among other operating expenses.

Trade accounts receivable are reported in the amount at which they are expected to be received, less a deduction for bad debts, which are assessed individually. A provision for decreases in the value of trade accounts receivable is made when there is objective proof that the Group will not receive all amounts that are due according to the original terms of the receivable. If, in connection with the quarterly review of undertakings, it is ascertained that a customer, due to insolvency, has not been able to pay a debt or is judged on good grounds to not be able to meet its liabilities within three months, a provision shall be made for the entire confirmed or possible loss. A provision for doubtful debts is made based on an individual assessment of each customer based on the customer's ability to pay, anticipated future risk and the value of collateral received. The anticipated duration of the trade account receivable is short, which is why the value is reported at nominal amount without discounting. When a trade account receivable cannot be recovered, it is written off against a depreciation account for trade accounts receivable. Write-downs of trade accounts receivable are reported as a selling expense. Recoveries of amounts that have

been previously written off reduce selling expenses in the income statement.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents held by the Parent Company and Group include the Group's balances in Group accounts and other bank accounts, including currency accounts and pending payments. Cash and cash equivalents are carried at amortized cost.

This means that the Group's holdings of cash and cash equivalents are exposed only to a negligible risk for value fluctuations.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

The category "available-for-sale financial assets" includes financial assets that cannot be classified in any other category. Holdings of tenant-owner rights are reported here. Assets in this category are reported on a continuing basis at fair value with changes in value reported in shareholders' equity, however, not such changes in value that are due to impairment, interest on receivable instruments, dividend income and exchange rate differences on monetary items reported in the income statement. Upon the sale of the asset, the accumulated profit/loss is reported as previously in shareholders' equity in the income statement. On each reporting occasion Axfood evaluates whether there is objective proof that a financial asset is in need of impairment. Assets are assessed individually. Objective proof consists of observable conditions that have occurred and which have a negative impact on the opportunity to recover the cost, as well as of material or prolonged decreases in the fair value of a financial investment that is classified as an available-for-sale financial asset. A need to recognize permanent impairment arises when the decrease in value exceeds 20% and when a decrease in value lasts at least nine months. Impairment of the asset is reported among other operating expenses.

FINANCIAL LIABILITIES CARRIED AT AMORTIZED COST

Trade accounts payable and loan liabilities are classified in the category "other financial liabilities". Trade accounts payable have a short anticipated duration and are valued without discounting in their nominal amount. Loan liabilities are classified as

other financial liabilities, which entails that they are stated at amortized cost in accordance with the effective interest method.

DERIVATIVES AND HEDGE ACCOUNTING

Derivative instruments consist of forward exchange contracts that are used to cover risks for fluctuations in exchange rates and are reported in accordance with the rules for cash flow hedging.

Axfood's transaction exposure in foreign currency arises in connection with the import of goods paid for in foreign currency. All of these exposures are hedged to 100% through spot and forward exchange contracts. Axfood applies hedge accounting of contracted purchases until the time of payment. For all orders, hedges are taken out directly after the order is placed with the supplier. This is documented by entering the exchange rate for each order in Axfood's import system, and for each hedge, there is underlying documentation. This documentation ensures that the Group has effectively hedged the item and that it has the option to measure and conduct follow-ups.

Forward exchange contracts are stated in the balance sheet at fair value. Since all forward exchange contracts are used for hedging purposes, changes in the fair value of forward exchange contracts are reported in a hedging reserve directly against shareholders' equity until the hedged flow is reported in the consolidated income statement, whereby the hedge instrument's accumulated change in value is transferred to the income statement, where it meets and matches the profit/loss effects from the hedged transaction. The change in value is reported as a cost of goods sold.

Hedged liabilities in foreign currency are reported at the year-end exchange rate, and the hedge instrument is stated separately at fair value in the balance sheet.

INTANGIBLE ASSETS GOODWILL

In connection with acquisitions of operations, goodwill is reported in the balance sheet in cases where the cost exceeds the fair value of the acquired identifiable assets and liabilities taken over. With respect to goodwill attributable to acquisitions that took place before 1 January 2004, the Group has not applied

IFRS retrospectively, which means that the reported value of goodwill as per 1 January 2004 will continue to constitute the Group's cost after testing for impairment, see Note 17.

Goodwill is valued at cost less any accumulated impairment charges. Goodwill is broken down into cash-generating units and is not amortized, but is instead tested annually for impairment, see the heading "Impairment".

If the net fair value of the acquired operation's identifiable assets, liabilities and contingent liabilities exceeds their cost, the surplus (negative goodwill) is reported immediately in the income statement.

OTHER INTANGIBLE ASSETS

Direct and indirect external and internal costs for software development for internal use are reported as an asset in the balance sheet, under the condition that future efficiency improvement gains are probable and will exceed incurred costs. Costs for pre-studies, training and continuing maintenance are expensed as incurred. Development costs reported in the balance sheet are carried at cost less accumulated depreciation and any impairment charges.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets is based on the estimated useful life of the assets. Amortization is done on a straight-line basis over the estimated useful life of the assets. Eligible intangible assets are amortized from the date they are put in use. The following percentages have been applied:

IT projects	20
Leaseholds	Remaining lease period
Other intangible assets	20–33

Goodwill is not amortized, but is tested for impairment annually, or more frequently, if factors indicate that the asset in question has decreased in value.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried as an asset on the balance sheet if it is probable that the Company will experience future economic benefit and the cost of the asset can be calculated in a reliable manner. Prop-

erty, plant and equipment are reported at cost after deducting scheduled depreciation and any impairment charges. Cost includes the purchase price plus direct costs associated with bringing the asset to place and in condition to be used in the operations. Gains or losses that arise upon the sale or disposal of property, plant and equipment consist of the difference between the sales price and the reported value less direct costs associated with the sale. This profit/loss item is reported among Other operating income/expenses.

LEASED ASSETS

Leases are classified as finance or operating leases. Finance leases are carried as a non-current asset in the consolidated balance sheet. The corresponding obligation to pay future leasing fees is reported as a current or non-current liability. The leased assets are depreciated on a straight-line basis, while the leasing payments are reported as interest and amortization of the liability. In the case of operational leasing, the leasing payments are expensed over the term of the lease based on use.

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Scheduled depreciation of property, plant and equipment is based on the estimated useful life of the assets. Depreciation is done on a straight-line basis over the estimated useful life of the assets. The following percentages have been applied:

Machinery and equipment	10–33
Buildings	2.5–5
Land improvements	5
Improvement expenses for another party's property	Remaining lease period

Axfood applies component depreciation for some store machinery. Component depreciation entails that, where necessary, large machinery is broken down into sub-components with different useful lives and thus different depreciation schedules. In the event of disposals and exchanges, any residual value is taken to profit and replaced by the new sub-component's cost.

The depreciation methods used and the useful life of assets are reassessed at the end of each year.

IMPAIRMENT

The carrying amount of the Group's assets, excluding inventories, assets held for sale and deferred tax assets, is tested on every balance sheet date to determine any need to recognize impairment. The carrying amount is also tested when an indication of a decrease in value has been identified. IAS 36 Impairment of Assets is used to determine any need to recognize impairment. The need to recognize impairment of financial assets is tested using IAS 39 Financial Instruments: Recognition and Measurement (see the section "Financial instruments"). An impairment loss is to be recognized for an asset if its carrying amount exceeds its recoverable amount, where the recoverable amount is defined as the higher of the asset's net sales value and its value in use. In calculating value in use, future cash flows that the asset is expected to generate are discounted using an interest rate that corresponds to Axfood's weighted cost of capital. A separate asset is attributed to the smallest cash-generating unit in which independent cash flows can be determined. Impairment losses are recognized in the income statement. Impairment of assets pertaining to a cash-generating unit is applied primarily to goodwill. Thereafter, a proportional write-down is made of other assets included in the unit.

The carrying amount of inventories, assets held for sale and deferred tax assets is tested in accordance with the respective standards.

For further information on cash-generating units and the carrying value of goodwill and other intangible assets, see Note 17.

INVENTORIES

Inventories are carried at the lower of cost or net sales value. Cost consists of the purchase price less supplier discounts attributable to articles in stock. In addition to the purchase price, the cost also includes other costs for bringing the products to their current location and condition. Cost is calculated through application of the first-in first-out (FIFO) principle. The net sales value consists of the anticipated sales price in the continuing operations less selling costs. Inventory includes only marketable products.

PROVISIONS

Provisions are reported in the balance sheet when Axfood has a legal or constructive obligation as a result of a past event and when it is probable that an outflow of resources will be required to settle the obligation and that it is possible to make a reliable estimation of the amount. The provision is reported in an amount that corresponds to the best estimate of the payment required to settle the obligation. When the outflow of resources is expected to take place a long time in the future, the anticipated future cash flow is discounted, and the provision is reported at present value. The discount rate corresponds to the market rate of interest before tax and the risks associated with the liability. Provisions are reported in the balance sheet under current and non-current liabilities.

TAXES

Taxes are reported in the income statement except for when the underlying transaction is reported directly against shareholders' equity, whereby the associated tax effect is reported in shareholders' equity. Current tax is tax that is to be paid or received in the current year. This also includes adjustments of current tax pertaining to earlier periods. Deferred tax is calculated in accordance with the balance sheet method and is based on the temporary difference between the reported and taxable value of assets and liabilities. These amounts are calculated based on how the temporary differences are expected to be smoothed and using the tax rates and tax rules that have been decided on or notified as per the balance sheet date.

Temporary differences are not taken into account in consolidated goodwill, nor in differences attributable to participations in subsidiaries or associated companies that are not expected to be taxed in the foreseeable future. In legal entities, untaxed reserves are reported inclusive of deferred tax liability. In the consolidated financial statements, however, untaxed reserves are broken down into deferred tax liability and shareholders' equity.

Deferred tax assets in deductible temporary differences and tax-loss carryforwards are reported only to the extent it is probable that they will entail lower tax payments in the future.

EMPLOYEE BENEFITS**SHORT-TERM COMPENSATION**

Short-term compensation paid to employees is calculated without discounting and is reported as an expense when the related services were performed. A provision for estimated bonus payments is reported when the Group has a legal or constructive obligation to make such payments due to the fact that the services in question have been received from the employees and the provision amount can be estimated in a reliable manner.

POST-EMPLOYMENT COMPENSATION

Axfood has both defined contribution and defined benefit pension plans. The service cost of defined contribution plans is charged against profit in pace with employees' performance of their services. Obligations are calculated without discounting, since payment for all of these plans falls due within 12 months.

The service cost for defined benefit pension plans is calculated using the Projected Unit Credit (PUC) method, which in short sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation on the balance sheet date. The obligation is discounted to present value on the balance sheet date, from which the fair value of any plan assets is deducted. Further, the calculations are affected by actuarial assumptions, such as remaining lifetime, future rates of employee retirement and future salary levels. Actuarial gains and losses arise either when an assumption changes or when the actual outcome deviates from underlying assumptions. The net value of actuarial gains and losses affects earnings to the extent these fall outside a corridor of 10%. The limit of the corridor consists of 10% of the larger of the present value of the defined benefit obligation and the fair value of the plan assets. The net amount of the actuarial gains and losses that exceeds the corridor limit is apportioned over the employees' average remaining service period, beginning with the year after the current financial year. Calculations of defined benefit pension plans are performed by an independent external actuary.

When there is a difference between how the service cost is established for legal enti-

ties and groups, a provision or receivable is reported with respect to the special employer's payroll tax based on this difference. The provision or receivable is not discounted.

ALECTA

Retirement pension and family pension obligations for employees in Sweden are vested partly through insurance with Alecta. According to pronouncement URA 42 issued by the SFASC Emerging Issues Task Force, this is classified as a multi-employer defined benefit plan. For the 2007 financial year the Company did not have access to such information that makes it possible to report this plan as a defined benefit plan. The ITP pension plan that is secured through insurance with Alecta is therefore reported as a defined contribution plan. See also Note 28.

COMPENSATION UPON TERMINATION

A provision is reported in connection with termination of employees only if the Company is demonstrably obligated to end an employee's employment before the normal time or when compensation is paid as an offer to encourage voluntary departure. In cases where the Company gives notice to employees, a detailed plan is drawn up which includes, as a minimum, information on the workplace, positions and approximate number of employees as well as compensation for each employee category or position and the time of the plan's implementation. When compensation is paid as part of an offer to encourage voluntary departures, an expense and provision are booked if it is probable that the offer will be accepted and the number of employees who will accept the offer can be reliably estimated.

**CONTINGENT LIABILITIES/
FINANCIAL GUARANTEES**

A contingent liability is reported when there is a possible obligation that stems from an event that has occurred and whose occurrence is confirmed only by one or more uncertain future events or when there is an obligation that is not reported as a liability or provision because it is not likely that an outflow of resources will be required.

The Group's financial guarantees consist mainly of guarantee commitments primarily to proprietor-run franchise stores. Financial

guarantees are reported initially at fair value, i.e., normally the amount that the issuer has received as compensation for the issued guarantee. In the subsequent valuation, the liability is dissolved and recognized as income in the income statement as earned, inasmuch as it is not likely that the issuer is forced to release its payment responsibility under the guarantee. In such case, this amount is reported as a provision. Axfood charges stores fees on a regular basis for guarantees that have been issued, which is why the guarantees have not been expensed until an outflow of resources is likely. The fees charged are in line with the going rate in the market.

SHARE REPURCHASES

Payment for share repurchases, including any transaction costs, is reported as a decrease of profit brought forward. Payment from the sale of treasury shares is reported as an increase in profit brought forward.

**PARENT COMPANY
ACCOUNTING PRINCIPLES**

The Parent Company complies with the Swedish Annual Accounts Act and SFASC recommendation RR 32:06 Reporting for Legal Entities. Application of RR 32 entails that the Parent Company, in the annual report for the legal entity, shall comply with all EU-approved IFRSs and pronouncements as far as possible within the framework of the Annual Accounts Act, the Pension Obligations Vesting Act ("Tryggandelagen"), and taking into account the connection between reporting and taxation. The recommendation indicates which exceptions from and amendments to IFRS are to be made. The differences between the Parent Company's and Group's accounting principles are described below.

CHANGED ACCOUNTING PRINCIPLES

Starting on 1 January 2007, the Parent Company applies IFRS 7 Financial Instruments: Disclosures. IFRS 7 entails no change in the accounting and valuation of financial instruments. However, certain disclosure requirements arise compared with the previous requirements under IAS 32. In addition to said recommendations are four IFRIC interpretations: IFRIC 7, 8, 9 and 10. Starting

on 1 January 2007, the rules of the Swedish Annual Accounts Act, Ch. 5 § 20 and 22 on compensation of senior executives are also applied. The new requirement entails that disclosures must be made of the combined amount of salaries, other remuneration and bonuses during the financial year and thereby pertain to compensation for all persons in the Company's management. By persons in Company management is meant persons who, in addition to the board members, are included in the Parent Company's Executive Committee. These persons are presented on page 42. The disclosure requirements also pertain to pensions and similar benefits. The new rules have no effect on the Parent Company's income statement and balance sheet, cash flow statement and shareholders' equity.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Participations in subsidiaries are reported in the Parent Company in accordance with the purchase method. Income is reported only with respect to dividends received under the condition that they stem from profits earned after the time of acquisition. Dividends that exceed these earned profits are considered as a repayment of the investment and reduce the reported value of the participation.

EMPLOYEE BENEFITS/DEFINED BENEFIT PENSION PLANS

For calculations of defined benefit pension plans, the Parent Company adheres to the guidelines of the Pension Obligations Vesting Act and the Financial Supervisory Authority, since this is a prerequisite for having the right to deduct taxes. The most significant differences compared with the rules in IAS 19 concern how the discount rate is determined – that calculation of the defined benefit obligation is done based on current salary levels without assumptions on future salary increases, and that all actuarial gains and losses are reported through profit and loss as they are incurred.

FINANCIAL GUARANTEES

The Parent Company applies the relief rule in RR 32:06 point 70, which entails that legal entities are not required to apply the rule in IAS 39 pertaining to the reporting of guarantee agreements for the benefit of subsidiaries and associated companies. In these cases, the rules of IAS 37, sections 14 and 36, are applied, which entail that financial guarantee agreements are to be reported as a provision in the balance sheet when Axfood has a legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. In addition, it must be possible to make a reliable estimate of the amount of the obligation.

LEASED ASSETS

In the Parent Company, all leases are reported in accordance with the rules for operating leases.

TAXES

In the Parent Company, untaxed reserves are reported inclusive of deferred tax liabilities. In the consolidated financial statements, however, untaxed reserves are broken down into deferred tax liability and shareholders' equity.

GROUP CONTRIBUTIONS AND SHAREHOLDER CONTRIBUTIONS

The Parent Company reports group contributions and shareholder contributions in accordance with pronouncement URA 7 issued by the SFASC Emerging Issues Task Force. Shareholder contributions are taken directly to shareholders' equity by the receiver and capitalized in the shares and participations by the giver, to the extent that there is no need to recognize impairment. Group contributions are reported based on their economic significance. This means that group contributions rendered for the purpose of minimizing the Group's total tax are reported directly against retained profits after deducting their current tax effect.

MERGERS

During the year, two mergers were carried out within the Group. Of these, none were made with Axfood AB. Mergers are reported in accordance with Swedish Accounting Standards Board general recommendation BFNAR 1999:1 Mergers of Wholly Owned Stock Companies. The so-called consolidated value method has been applied, which means that the assets and liabilities of the merged subsidiaries have been reported in the respective companies' parent company at the values these had in the consolidated accounts.

CHANGED ACCOUNTING PRINCIPLES 2008

Starting on 1 January 2008, three IFRIC interpretations have been added: IFRIC 11, 12 and 14. The interpretations have no effect on the Parent Company's income statement, balance sheet, cash flow statement or shareholders' equity. No prospective application is made of the interpretations that are to be applied as from 2008.

2. SEGMENT REPORTING

Per business segment	Hemköp		Willys		Axfood Närlivs		Dagab		Other units		Eliminations		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Result														
External net sales	5,674	5,829	15,382	15,115	5,460	5,465	2,525	2,232	148	167			29,189	28,808
Internal net sales					5		18,769	18,340	1,082	780	-19,856	-19,120	0	0
Net sales	5,674	5,829	15,382	15,115	5,465	5,465	21,294	20,572	1,230	947	-19,856	-19,120	29,189	28,808
Share of profit in associated companies	0	1											0	1
Operating profit per business segment	53	79	666	558	101	108	131	226	155	137			1,106	1,108
Undistributed profit													15	96
Operating profit													1,121	1,204
Undistributed net financial items													-35	-21
Tax cost for the year													-305	-331
Net profit for the year													781	852
Other data														
Assets	1,260	1,121	2,163	2,126	762	679	3,209	3,091	6,729	6,571	-7,558	-7,569	6,565	6,019
Shares in associated companies	2	3											2	3
Undistributed assets													41	53
Total assets													6,608	6,075
Liabilities	788	719	1,631	1,549	646	565	2,065	1,936	2,764	2,769	-4,573	-4,507	3,321	3,031
Undistributed liabilities													1,135	624
Total liabilities													4,456	3,655
Capital expenditures*	135	91	113	230	42	34	63	65	158	167			511	587
Depreciation/amortization	129	136	187	205	26	24	50	45	85	64			477	474
Significant costs not corresponding to outgoing payments	0	0	0	0	0	0	0	0	0	0			0	0

* Intangible assets and property, plant and equipment.

3. ACQUIRED OPERATIONS

In September 2007, R.P. Supermarket 10 AB was acquired. The acquisition pertained to a stand-alone store operation, which is being converted to Hemköp. The store is located at Skanstull in Stockholm.

The combined purchase price for acquisitions in 2007 was SEK 65 m. The purchase price was SEK 63 m for acquired companies, and SEK 2 m for operating assets and liabilities. The acquisitions were paid for in cash. Acquired assets and liabilities are stated in Axfood's balance sheet at fair value.

In the months that followed after the company acquisition, the acquired operation contributed SEK -3 m to the Group's profit after tax. The store has annual sales of approximately SEK 120 m. If the acquisition had been made as per 1 January 2007, the Group's income would have been approximately SEK 90 m higher, i.e., a total of SEK 29,279. The profit/loss effect from 1 January 2007 until the date of acquisition is difficult to estimate, as the store was initially burdened with one-time costs.

The following assets and liabilities pertaining to companies were acquired in 2007:

	Reported value before acquisition	Fair value adjustments	Fair value reported in Group
Goodwill	1	–	1
Intangible assets	3	13	16
Property, plant and equipment	19	-11	8
Current assets	2	–	2
Deferred tax liability	–	-4	-4
Other current receivables	-9	–	-9
Total identified net assets	16	-2	14
Goodwill			49
Purchase price			63
Cash and cash equivalents in acquired companies			–
Impact of acquisitions of companies on cash and cash equivalents since the start of the year			63

The following assets and liabilities from operations were acquired in 2007:

	Reported value before acquisition	Fair value adjustments	Fair value reported in Group
Property, plant and equipment	0	1	1
Total identified net assets	0	1	1
Goodwill			1
Purchase price			2
Cash and cash equivalents in acquired operations			–
Impact of acquisition of operating assets and liabilities on cash and cash equivalents since the start of the year			2
Impact of acquisition of operations on cash and cash equivalents since the start of the year			65

No intangible assets other than goodwill and leaseholds have been identified. The fair value adjustment of intangible assets, totalling SEK 13 m, pertains to a leasehold. Additional adjustments of reported values to fair value in accordance with IFRS have not been required. The goodwill that Axfood paid for the businesses is entirely attributable to the synergies that will be available in connection with the acquisition. Acquired goodwill amounted to SEK 51 m in 2007. Axfood's ownership share after the acquisition amounts to 100%.

For information on the change in consolidated goodwill in general, see Note 17.

Acquisitions in preceding year

No operations were acquired by the Group during the preceding year.

Parent Company

During the preceding year, the value of participations in Group companies increased by SEK 18 m as a result of intra-Group restructuring.

4. DISCONTINUED OPERATIONS

Sold operations

Seven store operations were sold during the year. In the preceding year, nine store operations/bakeries were sold. As in the preceding year, the year's divestments consisted solely of operating assets and liabilities. These sales are not – neither singly nor together – of such size that they need to be reported separately as discontinued operations in the income statement and balance sheet.

Impact on cash flow of divested/sold operations

Cash flow from sales of operations during the year and preceding year is shown in the following table.

Amounts in SEK m	Group	
	2007	2006
Consolidated values in the balance sheet of sold companies	–	428
Less/plus:		
minority owner's share of equity	–	-120
accumulated foreign exchange differences	–	-20
unpaid transaction costs	–	25
Purchase price, including transaction costs	–	313
Cash and cash equivalents in sold companies	–	-85
Net cash flow from sales of companies	–	228
Cash flow from sales of operating assets and liabilities	10	8
Total cash flow from sales of operations	10	236

Amounts in SEK m	Parent Company	
	2007	2006
Purchase price	57	338
Less:		
transaction costs	–	-25
Total cash flow from sales of operations	57	313

Cash flow from sales of companies in 2006 is entirely attributable to the sale of Spar Finland. All purchase prices for sales of operations during the year have been settled. The Parent Company's sale in 2007 pertains to intra-Group restructuring.

5. BREAKDOWN OF INCOME

Group	2007	2006
Net sales		
Sales of products	28,987	28,590
Other	202	218
Total	29,189	28,808

6. BREAKDOWN OF EXPENSES

Group	2007	2006
Cost of goods for resale	22,437	22,540
Payroll costs	3,164	3,018
Depreciation/amortization	477	474
Other	2,208	1,872
Total	28,286	27,904

7. INFORMATION ON INTRA-GROUP INCOME AND EXPENSES

The Parent Company's income from subsidiaries amounted to SEK 148 m (153). The Parent Company's expenses from subsidiaries amounted to SEK 32 m (35). The Parent Company's sales to subsidiaries consisted mainly of compensation to cover shared costs for rents, central administration and shared systems. The Parent Company's compensation from subsidiaries consists mainly of compensation for system support.

8. INFORMATION ON EMPLOYEES; COMPENSATION OF DIRECTORS, THE CEO AND OTHER SENIOR EXECUTIVES

Average number of employees¹⁾

	2007		2006	
		Of whom, men		Of whom, men
Parent Company				
Sweden	85	19	87	21
Subsidiaries				
Sweden	6,378	2,928	6,482	2,945
TOTAL, GROUP	6,463	2,947	6,569	2,966

¹⁾ In calculating the average number of employees in 2007, the normal number of hours worked per year has been changed from 1,800 to 1,920 hours. The comparison figures for 2006 have been changed.

Note 8 continued on next page

NOTES

Note 8 continued from preceding page Wages, salaries and other remuneration, and social security charges

	2007			2006		
	Wages, salaries and other remuneration	Social security charges	Of which, pension costs	Wages, salaries and other remuneration	Social security charges	Of which, pension costs
Parent Company						
Sweden	46	26	11	51	30	14
Subsidiaries						
Sweden	2,114	862	169	2,047	792	99
TOTAL, GROUP	2,160	888	180	2,098	822	113

The Group has no outstanding pension obligations to Company management beyond the expensed pension provision, see also Note 28.

Gender breakdown, Group, number

	Boards of Directors		Other senior executives	
	2007	2006	2007	2006
Men	23	28	54	57
Women	9	5	11	7
Total	32	33	65	64

Gender breakdown, Parent Company, number

	Board of Directors		Other senior executives	
	2007	2006	2007	2006
Men	3	3	8	7
Women	4	4	2	2
Total	7	7	10	9

Sickness-related absence as % of total working time

Parent Company	Men		Women		Total	
	2007	2006	2007	2006	2007	2006
< 29 years	2.29	2.06	1.03	2.14	1.24	2.12
30–49 years	0.20	0.68	2.52	5.26	2.14	4.42
> 50 years	2.10	0.71	5.74	7.32	4.59	5.01

	2007	2006
Total, sickness-related absence as % of total working time	2.96	4.30

The share of sickness-related absence lasting for an uninterrupted period of 60 days or more is 45% (65%).

Wages, salaries and other remuneration, broken down by senior executives and other employees

	2007		2006	
	Boards, presidents and other senior executives	Other employees	Boards, presidents and other senior executives	Other employees
Parent Company				
Sweden ¹⁾	27	35	25	36
Subsidiaries				
Sweden ¹⁾	49	2,049	51	1,986
TOTAL, GROUP	76	2,084	76	2,022

¹⁾ Of the Parent Company's salaries and other remuneration to senior executives, SEK 16 m (10) pertains to compensation from other Group companies.

Salaries and other benefits to Company directors, KSEK

	2007		2006	
	Directors' fee	Other benefits	Directors' fee	Other benefits
Chairman of the Board ¹⁾	450	–	450	–
Other board members:				
Göran Ennerfelt ¹⁾	–	–	125	–
Marcus Storch	300	–	300	–
Antonia Ax:son Johnson	225	–	225	–
Peggy Bruzelius	225	–	225	–
Maria Curman	225	–	225	–
Gunnar Söderling	225	–	225	–
Annika Åhnberg	225	–	225	–
Sven-Erik Brandt ²⁾	–	–	–	–
Ulla-May Iwahr Rydén ²⁾	–	–	–	–
Inger Sjöstrand ²⁾	–	–	–	–
Total	1,875	–	2,000	–

¹⁾ Göran Ennerfelt was Chairman of the Board in 2007. Chairman in 2006: Mats Jansson KSEK 250 and Göran Ennerfelt KSEK 200. Compensation to Göran Ennerfelt of KSEK 125 in 2006 pertains to his fee as a director.

²⁾ Employee representatives.

Salaries and other benefits to senior executives, excluding directors, KSEK

	2007					
	Base salary	Variable compensation	Other benefits	Pension cost	Other compensation	Total
CEO ¹⁾	4,393	926	361	2,024	7	7,711
Executive Vice President ²⁾	1,277	–	42	492	–	1,811
Other senior executives, parent company ^{3, 4)}	14,639	4,303	862	5,348	4	25,156
Total	20,309	5,229	1,265	7,864	11	34,678
Other senior executives, subsidiaries ⁴⁾	42,897	5,671	1,851	12,040	13	62,472
Total	42,897	5,671	1,851	12,040	13	62,472
TOTAL, GROUP	63,206	10,900	3,116	19,904	24	97,150

	2006					
	Base salary	Variable compensation	Other benefits	Pension cost	Other compensation	Total
CEO ¹⁾	4,242	1,882	334	1,915	–	8,373
Executive Vice President ²⁾	2,596	2,395	97	1,346	–	6,434
Other senior executives, parent company ^{3, 4)}	8,630	3,281	457	3,770	2	16,140
Total	15,468	7,558	888	7,031	2	30,947
Other senior executives, subsidiaries ⁴⁾	43,571	7,315	1,776	13,736	4	66,402
Total	43,571	7,315	1,776	13,736	4	66,402
TOTAL, GROUP	59,039	14,873	2,664	20,767	6	97,349

¹⁾ Anders Strålmán is CEO of the Parent Company in 2006 and 2007.

²⁾ Lars Nilsson was Executive Vice President of the Parent Company in 2006 and from January–April 2007. As from May 2007 the Parent Company has no Executive Vice President.

³⁾ The Axfood Group's executive management in 2007 (excluding the CEO) consisted of Karin Hygrel-Jonsson, Mats Sjö Dahl, Anders Quist, Louise Ring, Jan Lindmark, Urban Dahl, Benny Hast, Håkan Åkerström and Per Uebel.

⁴⁾ Of the Parent Company's base salary, variable compensation and other remuneration, KSEK 15,932 (10,074) pertains to compensation that the senior executives received from other Group companies. Of the Parent Company's other benefits, KSEK 618 (393) pertains to compensation from other Group companies, and of the Parent Company's pension costs, KSEK 3,928 (3,053) pertains to compensation from other Group companies.

⁵⁾ The Axfood Group's executive management in 2006 (excluding the CEO and Executive Vice President) consisted of Urban Dahl, Benny Hast, Louise Ring, Mats Sjö Dahl, Håkan Åkerström, Per Uebel and Cecilia Giertha.

Comments, Note 8

Starting in 2007, the disclosure requirements regarding salaries and remuneration have been changed to pertain to expensed compensation. In the preceding year, disclosures were made of paid out compensation. The comparison figures for 2006 have been changed to pertain to expensed compensation.

Board of Directors

A fee is payable to the Chairman of the Board and the directors in accordance with a decision made by the Annual General Meeting. No separate fee is paid for committee work. The employee representatives do not receive any directors' fees. According to a decision by the 2007 Annual General Meeting, the annual fee payable to directors was set at KSEK 1,875 (2,100), of which KSEK 450 (450) is payable to the Chairman. Seventy-five per cent of the fee was paid out in 2007, and the remainder will be paid out after year-end. Expensed compensation to the Company directors is shown in a table on the preceding page.

CEO

Axfood's CEO, Anders Strålmán, received salary and other benefits in 2007 totalling SEK 5.3 m (6.1), including SEK 0.9 m (1.9) in variable compensation. The CEO's variable compensation is based on the performance and development of the business. The variable compensation can amount to a maximum of 70% of his yearly salary. Fifty per cent of the set variable compensation is paid out after the Annual General Meeting in the year following the year in which it was earned. The remaining 50% will be paid out after the 2009 Annual General Meeting, provided he is still employed.

In addition, the CEO has a taxable housing and travel benefit, a car benefit and private healthcare insurance. The CEO is entitled to retirement pension from 65 years of age, and a right to provisions corresponding to 35% of his cash yearly salary. The provision as per 31 December 2007 amounted to SEK 2.5 m (1.3). In the event Axfood serves notice, the CEO is entitled to a 12-month term of notice plus severance pay corresponding to 12 months' salary, on account. In the event the CEO gives notice, the notice period is six months.

Other senior executives

Salary and other benefits paid to senior executives of the Parent Company amounted to SEK 18.9 m (11.9), including SEK 4.3 m (3.3) in variable compensation. By other senior executives is meant the nine persons who together with the CEO form Axfood's executive management. See pages 42–43 for the composition of the executive management. Variable compensation is mostly based on the performance and development of the business, and partly on personal targets. Variable compensation can amount to a maximum of 55% of the executives' yearly salary. Other senior executives have customary terms of employment and are entitled to salary during the notice period plus severance pay corresponding to 18 months' salary, on account. The notice period amounts to between six and 12 months if the Company serves notice, and six months if the employee gives notice.

The retirement age has been set at 62 years at the earliest. The ITP plan serves as the primary cost framework, with the addition of a defined contribution pension amounting to 25% of salary amounts between 20–50 times the Price Base Amount. The Board's compensation committee makes decisions on salary and other terms of employment for the CEO and senior executives, within the principles decided on by the Annual General Meeting.

9. AUDITORS' FEES

	Group		Parent Company	
	2007	2006	2007	2006
KPMG				
Auditing fees	5	4	1	1
Fees for other consulting	1	1	1	0
Total	6	5	2	1

10. DEPRECIATION AND AMORTIZATION

Group	Other intangible assets		Land and buildings		Equipment, tools and fixtures		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Cost of goods sold	14	5	–	–	341	330	355	335
Selling expenses	0	–	0	0	38	67	38	67
Administrative expenses	24	20	0	0	60	52	84	72
Total depreciation/amortization	38	25	0	0	439	449	477	474

The Parent Company's depreciation of SEK 8 m (8) pertains to equipment, tools and fixtures under administrative expenses.

11. OPERATING LEASES

	Group		Parent Company	
	2007	2006	2007	2006
Minimum lease payments during the financial year	913	889	27	22
Variable charges	27	47	–	–
Total lease payments during the financial year ¹⁾	940	936	27	22
Leasing income pertaining to sublet premises	103	139	21	19
Contracted future minimum lease payments				
Within one year	974	895	24	21
Between one and five years	2,049	2,060	78	90
Longer than five years	560	627	–	–
Total future lease payments	3,583	3,582	102	111

¹⁾ Of which, rents for premises SEK 926 m (916) for the Group and SEK 24 m (20) for the Parent Company.

Axfood rents warehouse and store premises. Renting is done from outside parties, while subletting is mainly done to Group companies and to franchisees. The terms of rental agreements are in line with the going rate in the market with respect to price as well as duration. The variable charge consists of an arrangement whereby certain rental agreements have minimum rents plus a sales-based portion.

12. RELATED PARTY TRANSACTIONS

The Axfood Group's transactions with related parties, aside from those covered by the consolidated accounting, consist of transactions with associated companies and with subsidiaries of the Axel Johnson Group. During the year purchases from associated companies amounted to SEK 2 m (3). Sales to associated companies totalled SEK 52 m (96) and consisted primarily of sales of goods. All prices are set at going rates in the market.

Axfood AB is 46.3%-owned by Axel Johnson AB. Axfood AB and Axel Johnson AB have signed joint purchasing agreements in the areas of travel, transport and lodging in connection with business travel. No transactions between the companies with respect to these agreements took place during the year.

Servera R&S AB, a subsidiary of Axel Johnson AB, delivers foodservice supplies to Axfood companies. Purchases in 2007 from Servera amounted to SEK 99 m (137). Axfood's sales to Servera in 2007 amounted to SEK 40 m (40). As per 31 December 2007, the Axfood Group's current liabilities to Servera amounted to SEK 2 m (9), and current receivables totalled SEK 3 m (2).

Axfast AB, a company in the Axel Johnson Group, leases property to companies in the Axfood Group. During the year Axfood's profit was charged with SEK 63 m (78) in rents to Axfast AB. All rents have been set according to going rates in the market. As per 31 December 2007, the Axfood Group's current liabilities to Axfast AB amounted to SEK 6 m (14).

Associated companies owned no shares in Axfood AB as per 31 December 2007. In the preceding year, their total holding amounted to 300 shares, corresponding to SEK 1,500 in share capital.

13. NET FINANCIAL ITEMS

	Group		Parent Company	
	2007	2006	2007	2006
Interest income from bank deposits	3	3	1	2
Interest income from non-impaired loan receivables and trade accounts receivable ¹⁾	6	4	5	8
Interest income from impaired loan receivables and trade accounts receivable	0	0	–	–
Exchange rate movements	0	0	0	0
Other financial income	0	0	–	–
Total financial income	9	7	6	10
Interest expenses on financial liabilities carried at amortized cost				
Borrowings (bank loans and bank lines of credit) ²⁾	-22	-6	-22	-6
Trade accounts receivable and other current liabilities	-5	-5	0	0
Pension liability	-15	-16	0	-1
Other financial expenses	-2	-1	-2	-1
Total financial expenses	-44	-28	-24	-8
Net financial items	-35	-21	-18	2

¹⁾ Interest income in the Parent Company from Group companies amounted to SEK 4 m (6).

²⁾ Interest expense in the Parent Company to Group companies amounted to SEK – m (–).

14. APPROPRIATIONS AND UNTAXED RESERVES

	Parent Company	
	2007	2006
Appropriations		
Change in accumulated excess depreciation	3	0
Total	3	0
Untaxed reserves		
Accumulated excess depreciation	6	9
Total	6	9

15. TAXES

	Group		Parent Company	
	2007	2006	2007	2006
Current tax				
Current tax on profit for the year	-293	-332	13	-12
Adjustment of current tax from previous years	0	4	0	4
	-293	-328	13	-8
Deferred tax				
Deferred tax pertaining to temporary differences	-11	1	0	1
Adjustment of deferred tax pertaining to previous years	-1	-4	0	-4
	-12	-3	0	-3
Total reported tax charge	-305	-331	13	-11

Group – reconciliation of applicable tax rate and effective tax rate

	2007		2006	
	Amount	%	Amount	%
Reported profit before tax	1,086		1,183	
Tax according to applicable tax rate for Parent Company	-304	-28.0	-331	-28.0
Tax effect of:				
Other non-deductible expenses	-3	-0.2	-3	-0.3
Other tax-exempt revenues	3	0.2	3	0.3
Adjustments of current tax pertaining to previous years	0	0.0	0	0.0
Adjustments of deferred tax pertaining to previous years	-1	-0.1	0	0.0
Reported tax charge/ effective tax rate	-305	-28.1	-331	-28.0
Current and deferred tax items reported directly against shareholders' equity	-		-	

Parent Company – reconciliation of current tax rate and effective tax rate

	2007		2006	
	Amount	%	Amount	%
Reported profit before tax	-47		44	
Tax according to applicable tax rate for Parent Company	13	28.0	-12	-28.0
Tax effect of:				
Other non-deductible expenses	-1	-0.5	-1	-2.0
Other tax-exempt revenues	1	1.6	2	5.4
Adjustment of deferred tax pertaining to previous years	0	-0.7	-	-
Reported tax charge/ effective tax rate	13	28.4	-11	-24.6
Current and deferred tax items reported directly against shareholders' equity	-296		-299	

Reported deferred tax assets and tax liabilities

	Group		Parent Company	
	2007	2006	2007	2006
Intangible assets	-34	-21	-	-
Equipment, tools and fixtures	7	7	-	-
Other receivables	11	15	-	-
Tax-loss carryforward	-	1	-	-
Untaxed reserves	-123	-127	-	-
Provisions	-1	1	9	9
Other liabilities	1	1	-	-
Total deferred tax asset (+)/deferred tax liability (-), net	-139	-123	9	9
Deferred tax asset	29	34	9	9
Deferred tax liability	-168	-157	-	-

The Group has no unreported deferred tax assets or tax liabilities pertaining to temporary differences.

Change in deferred tax in temporary differences and tax-loss carryforwards during the year, Group

	Amount at start of year	Reported in income statement	Plus: from acquired operations	Amount at end of year
Intangible assets	-21	-9	-4	-34
Equipment, tools and fixtures	7	0	0	7
Other receivables	15	-4	-	11
Tax-loss carryforward	1	-1	-	-
Untaxed reserves	-127	4	-	-123
Provisions	1	-2	-	-1
Other liabilities	1	-	-	1
Total	-123	-12	-4	-139

16. EARNINGS PER SHARE

The convertible debenture that was issued in January 2001 was concluded in 2006. Of the 52,550 outstanding convertibles as per 31 December 2005, 52,450 were converted to shares and 100 were redeemed in 2006.

Since Axfood does not have, or has not during the year had any outstanding convertible and stock option programmes, there is no dilutive result in calculations of earnings per share.

The number of shares outstanding amounted to 52,467,678 (52,467,678), and the average number of shares outstanding was 52,467,678 (53,162,625).

17. INTANGIBLE ASSETS

Group	Goodwill		Intangible assets in progress		Other intangible assets ¹⁾	
	31/12/07	31/12/06	31/12/07	31/12/06	31/12/07	31/12/06
Opening cost	1,131	1,131	177	85	168	158
Investments	51	–	104	102	13	–
(of which, internally developed)	–	–	(28)	(32)	–	–
Increases through acquisitions	–	–	–	–	4	–
Reclassifications	–	–	-76	-10	76	10
(of which, internally developed)	–	–	(-13)	(-3)	(13)	(3)
Closing accumulated cost	1,182	1,131	205	177	261	168
Opening amortization	–	–	–	–	-109	-84
Amortization for the year	–	–	–	–	-38	-25
Closing accumulated amortization	–	–	–	–	-147	-109
Opening impairment	–	–	–	–	–	–
Closing accumulated impairment	–	–	–	–	–	–
Closing planned residual value	1,182	1,131	205	177	114	59

¹⁾ Of other intangible assets, SEK 15 m (–) pertains to leaseholds.

Goodwill

The Group's reported goodwill as per 31 December 2007 is broken down per segment as follows:

Hemköp	253
Willys	372
Axfood Närlivs	40
Dagab	517
Total	1,182

Intangible assets in progress and other intangible assets

The Group's intangible assets in progress and other intangible assets consist exclusively of capitalized costs for IT development. Capitalized IT costs are amortized on a straight-line basis according to the estimated useful life of the assets, which amounts to five years. The remaining amortization period for reported intangible assets is five years. The useful life of all intangible assets except for goodwill is limited.

Amortization of other intangible assets is broken down in the income statement in accordance with Note 10.

Impairment testing of intangible assets

Estimations of the value of the Group's goodwill items and other intangible assets have been made based on the cash-generating units' benefit in use. Benefit in use is based on the cash flows that are expected to be generated during an average remaining useful life of the unit's tangible assets. The remaining useful life varies between three and seven years.

For the first year, the future cash flows that have been used in calculation of the respective units' benefit in use are based on the business plan for 2008 for the respective units. Thereafter, the cash flows are based on assumed annual growth of 3%. The forecast cash flows have been discounted to present value using a discount rate of 7.2% after tax, which corresponds to a discount rate before tax of 16%–30%, depending on the length of the period in use. The discount rate corresponds to Axfood's estimated average cost of capital, i.e., the weighted sum of the required rate of return on equity and the cost of externally borrowed capital. The required rate of return on equity is based on an assumption of risk-free interest of 4.5%, a going-rate risk premium of 5.5%, and a beta coefficient of 0.51. The beta coefficient shows the relationship between the price of Axfood's shares and changes in a benchmark index. With a discounting factor of 7.2%, the benefit in use exceeds the reported value for all tested units. Thus there is no need to recognize impairment as per 31 December 2007.

Future cash flows for all units are based on the same assumptions. Important assumptions, i.e., assumptions that have a large effect on cash flows in the event of changes, include assumptions on future price and volume developments. In the 2008 business plan that forms the basis for cash flow calculations, Company management has made an assumption on volume development of +3%, which is based on estimates performed by Company management and external parties on the price and volume trend in Sweden for retail food products in Axfood's product offering. This estimate is based on previous years' experience and on the anticipated competitive situation in the industry. In the opinion of Company management, reasonable possible changes in the variables (assumptions) used in these calculations would not have such large effects that they would individually reduce the recoverable value to a value that is lower than the reported value.

18. PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings ^{1) 2)}		Equipment, tools and fixtures		Construction in progress	
	31/12/07	31/12/06	31/12/07	31/12/06	31/12/07	31/12/06
Opening cost	6	13	3,808	3,612	51	48
Investments	-	-	367	433	46	52
Sales and disposals	-	-7	-120	-286	-	-
Reclassifications	-	-	72	49	-72	-49
Closing accumulated cost	6	6	4,127	3,808	25	51
Opening depreciation	-3	-4	-2,392	-2,178	-	-
Sales and disposals	-	1	87	235	-	-
Depreciation for the year	0	0	-439	-449	-	-
Closing accumulated depreciation	-3	-3	-2,744	-2,392	-	-
Opening impairment	-	-	-4	-4	-	-
Closing accumulated impairment	-	-	-4	-4	-	-
CLOSING PLANNED RESIDUAL VALUE	3	3	1,379	1,412	25	51

¹⁾ The tax assessment value of buildings was SEK 2 m (2) and of land SEK 0 m (0).

²⁾ The cost of land was SEK 1 m (1).

Parent Company	Land and buildings		Equipment, tools and fixtures	
	31/12/07	31/12/06	31/12/07	31/12/06
Opening cost	-	7	42	42
Investments	-	-	6	1
Sales and disposals	-	-7	-2	-1
Closing accumulated cost	-	-	46	42
Opening depreciation	-	-1	-14	-7
Sales and disposals	-	1	1	1
Depreciation for the year	-	0	-8	-8
Closing accumulated depreciation	-	-	-21	-14
CLOSING PLANNED RESIDUAL VALUE	-	-	25	28

19. GOVERNMENT SUPPORT

Government support in the form of labour market policy grants amounted to SEK 1 m (1) in the consolidated balance sheet (reported under prepaid income) and SEK 31 m (31) in the consolidated income statement, which have reduced payroll costs.

No other unfulfilled conditions or contingent liabilities exist.

20. FINANCE LEASES

Group	Equipment, tools and fixtures	
	31/12/07	31/12/06
Opening cost	107	102
Investments	39	36
Sales and disposals	-30	-31
Closing accumulated cost	116	107
Opening depreciation	-48	-49
Sales and disposals	14	17
Depreciation for the year	-18	-16
Closing accumulated depreciation	-52	-48
CLOSING PLANNED RESIDUAL VALUE	64	59

Finance lease liabilities falling due for payment:	Minimum lease payments	Minimum lease payments
	2007	2006
Within one year	26	24
Between 1 and 5 years	38	35
After 5 years	-	-
Total current and non-current liability	64	59

In the Group, no properties with finance leases have been sublet. In addition, there were no variable fees in profit for the period.

21. PARTICIPATIONS IN GROUP COMPANIES

Parent Company	Reg. no.	Registered office	Number of shares	Share of capital, %	Book value
Hemköpskedjan AB	556113-8826	Solna	100,000	100	226
Axfood Sverige AB	556004-7903	Solna	3,434,656	100	1,548
Willys AB	556163-2232	Gothenburg	1,000	100	250
Axfood IT AB	556035-6163	Solna	1,000	100	2
Axfood Närlivs AB	556488-5654	Örebro	1,000	100	27
Dagab AB	556070-3166	Solna	28,000,000	100	905
Total, Group companies					2,958

22. PARTICIPATIONS IN ASSOCIATED COMPANIES

Group	2007	2006
Accumulated cost		
Opening cost	0	0
Divestments	0	0
Closing cost	0	0
Adjustments of shareholders' equity pertaining to investments in associated companies		
Opening carrying amount	3	3
Share in profit before tax	0	1
Dividend received	-1	0
Divestments and other changes	0	-1
Closing carrying amount	2	3
Total	2	3

Group	Reg. no.	Registered office	Number of shares	Share of capital/votes, %	Book value	Share of capital
Kvarnkullens Livs i Mellerud AB	556188-2985	Mellerud	250	25	0	0
Nya Vårgårda Matmarknad AB	556085-9653	Vårgårda	250	25	0	2
United Nordic Inc AB	556043-4606	Solna	250	25	0	0
Total					0	2

23. FINANCIAL ASSETS

	Participations in Group companies, Parent Company	Participations in associated companies, Group	Other long-term securities holdings, Parent Company	Other long-term securities holdings, Group	Other non-current receivables, Group
Opening cost	3,033	3	19	65	24
Disposals/amortization	-75	0	-	-47	-13
Accrued income	-	-	-	2	2
Share in associated company profits	-	0	-	-	-
Dividends received	-	-1	-	-	-
Reclassifications	-	-	-	2	-
Closing accumulated cost	2,958	2	19	22	13
Opening impairment	-18	-	-	-32	-
Disposals/amortization	18	-	-	32	-
Closing accumulated impairment	-	-	-	-	-
CLOSING RESIDUAL VALUE	2,958	2	19	22	13

24. NON-CURRENT AND CURRENT RECEIVABLES

	Group		Parent Company	
	31/12/07	31/12/06	31/12/07	31/12/06
Non-current noninterest-bearing receivables	9	9	-	-
Non-current interest-bearing receivables	13	24	13	24
Total other non-current receivables	22	33	13	24
Other noninterest-bearing receivables	94	72	5	4
Other interest-bearing receivables	13	13	13	14
Total other current receivables	107	85	18	18

25. ACCOUNTS RECEIVABLE – TRADE

Group			
Accounts receivable – trade	31/12/07	31/12/06	
Trade accounts receivable, gross	704	530	
Provision for doubtful debts	-19	-16	
Trade accounts receivable, net	685	514	
Provision account for loan losses – reconciliation			
	31/12/07	31/12/06	
Provision at start of year	-16	-22	
Provision for possible losses	-5	4	
Confirmed losses	2	2	
Provision at year-end	-19	-16	
Age analysis of trade accounts receivable			
	31/12/07	31/12/06	
Trade accounts receivable not due	426	351	
Trade accounts receivable past due 0–30 days	237	151	
Trade accounts receivable past due >30–90 days	17	10	
Trade accounts receivable past due >90–180 days	7	4	
Trade accounts receivable past due >180–360 days	7	4	
Trade accounts receivable past due >360 days	10	10	
Total	704	530	

26. PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent Company	
	31/12/07	31/12/06	31/12/07	31/12/06
Prepaid rents	254	234	6	5
Prepayment of leases	1	1	0	0
Accrued bonuses and similar	383	332	–	–
Accrued interest income	–	0	–	–
Delivered, uninvoiced	30	12	–	–
Other prepaid expenses	34	40	3	5
Other accrued income	7	11	–	–
Total	709	630	9	10

27. SHARE REPURCHASES

At the 2005 Annual General Meeting the Board of Directors resolved to authorize the Board to repurchase up to 2,000,000 of the Company's own shares. A total of 476,400 shares were repurchased under this mandate. Also at the 2006 Annual General Meeting, the Board was granted authorization to repurchase shares, this time up to 4,000,000 shares. A total of 1,639,750 shares were then repurchased under this mandate.

The 2007 Annual General Meeting resolved to cancel 2,116,150 shares that the Company had repurchased (treasury shares), which took place on 27 July 2007. Further, the Annual General Meeting resolved to authorize the Board, during the period extending until the next Annual General Meeting, to repurchase up to 3,000,000 of the Company's own shares. No repurchases have been made under this mandate.

28. PROVISION FOR PENSIONS AND SIMILAR OBLIGATIONS

Group			
Defined benefit pension plans	2007	2006	
Present value of funded obligations	10	11	
Present value of unfunded obligations	399	385	
Total present value of obligations	409	396	
Fair value of plan assets	-9	-9	
Present value of net obligations	400	387	
Unreported actuarial losses	-51	-37	
Net liability on balance sheet	349	350	
Amounts reported on balance sheet			
• provisions	349	350	
• assets	–	–	
Net liability on balance sheet	349	350	

Of Axfood's net liability for defined benefit pension plans in Sweden, SEK 320 m (320) consist of obligations within the FPG/PRI system. Of these obligations, SEK 242 m (247) are locked, which for Axfood's part entails that all new earnings take place in the Alecta system. Obligations in the FPG/PRI system are unfunded pension plans, which is why these are reported in their entirety as Provision for pensions.

In addition to unfunded pension plans, Axfood has an individually funded pension plan, which is managed by the Axel Johnson pension foundation. Axfood is entitled to benefits from the foundation in maximum amounts corresponding to the pension obligation, which entails that the pension plan will not at any time give rise to a net asset on Axfood's balance sheet. The obligation is reported net and amounted to SEK 0 m (0) on 31 December. The actual return on plan assets was SEK 0 m (0), which corresponded to the anticipated return. No fees were paid in to the foundation during the year. During the year, SEK 1 m (1) was received in compensation from the foundation.

Changes of the present value of defined benefit obligations	2007	2006
Obligations for defined benefit plans as per 1 January	396	397
Benefits paid	-20	-21
Current service cost	5	6
Interest cost	15	16
Actuarial gains and losses	13	-2
Early retirement agreements	–	0
Obligations for defined benefit plans as per 31 December	409	396

Note 28 continued on next page

Note 28 continued from preceding page

Costs reported in the income statement	2007	2006
<i>Defined benefit pension plans</i>		
Benefits earned during the year	3	7
Interest cost	15	16
Actual return on plan assets	0	0
Net actuarial gains/losses reported for the year	0	0
Total	18	23

<i>Defined contribution pension plans</i>		
Costs during the period ¹⁾	171	107
Total pension cost	189	130

¹⁾ Pension insurance contributions made during the year to Alecta for pension insurance under the ITP plan amounted to SEK 32 m (33). Alecta's surplus can be apportioned among the policyholders and/or the insureds. At year-end 2006, Alecta's surplus in the form of its collective funding ratio was 143.1%. The collective funding ratio consists of the market value of Alecta's assets measured as a percentage of the insurance obligations calculated using Alecta's actuarial computation assumptions, which is not compatible with IAS 19. At the date of this Annual Report's publication, Alecta had not published its collective funding ratio for 2007.

Pension costs are broken down per function in the income statement as follows:

	2007	2006
Cost of goods sold	97	61
Selling expenses	42	22
Administrative expenses	35	31
Interest cost	15	16
Total	189	130

<i>Change in net liability during the year</i>		
Net liability at start of year	350	347
Compensation from pension foundation	1	1
Net expense in income statement	18	23
Pension disbursements	-20	-21
Net liability at end of year	349	350

The following actuarial assumptions have been made in calculating the present value of defined benefit obligations:

	31/12/07	31/12/06	31/12/05
Discount rate	4.5%	4.0%	4.0%
Future annual salary increases	3.0%	3.0%	3.0%
Future annual pension increases	2.0%	2.0%	2.0%
Employee turnover rate	3.6%	3.8%	4.0%

Historical information	2007	2006	2005	2004
Present value of defined benefit obligations	409	396	397	385
Fair value of plan assets	-9	-9	-11	-12
Deficit in plan	400	387	386	373
Experience-based adjustment of defined benefit obligations	-7	-2		

The Group estimates that approximately SEK 20 m will be paid out from defined benefit plans in 2008.

Parent Company

The Parent Company's reported pension liability amounted to SEK 26 m (25) and pertains to obligations to the current and former CEO. All pension obligations to the current and former CEO are reported on the balance sheet. The Parent Company does not have any special, detachable assets linked to its pension obligations, which is why the entire present value is reported on the balance sheet. The change in the present value is shown below.

Reported capital value of pension obligations	2007	2006
Reported capital value on 1 January	25	23
Cost excluding interest cost	1	1
Interest costs	0	1
Reported capital value of pension obligations on 31 December	26	25

Of the Parent Company's reported pension liability, SEK 26 M (25) has credit insurance cover via FPG.

Pension costs	2007	2006
<i>Own undertakings</i>		
Liability revaluation of undertaking	1	1
Interest costs	0	1
Total	1	2
<i>Undertakings through insurance</i>		
Insurance premiums ²⁾	7	11
Special employer's payroll tax on pension costs	2	3
Cost for credit insurance premiums	0	0
Total	9	14
Pension costs for the year	10	16

²⁾ Of which, to Alecta pertaining to pension insurance according to the ITP plan, totaling SEK 3 m (3).

Assumptions for defined benefit obligations

The terms of the pension agreements entered into by the Parent Company entail that the value of the obligations is adjusted upward each year by an average of 3%.

No disbursements from defined benefit pension plans are expected to take place in 2008 for the Parent Company.

29. FINANCIAL ASSETS AND LIABILITIES

Fair values and carrying amounts are shown in the following table.

Group 2007	Derivatives used in hedge accounting	Trade accounts receivable and loan receivables	Financial assets available for sale	Other financial liabilities	Total carrying amount	Fair value	Non-financial assets and liabilities	Total balance sheet
Other long-term securities holdings			19		19	19		19
Other long-term receivables		20			20	19	2	22
Accounts receivable – trade		685			685	685		685
Other current receivables	1	13			14	14	93	107
Cash and bank balances		471			471	471		471
Total financial assets	1	1,189	19	–	1,209	1,208	95	1,304
Non-current liabilities to credit institutions				200	200	198		200
Other non-current interest-bearing liabilities				38	38	38		38
Current liabilities to credit institutions				354	354	354		354
Other current interest-bearing liabilities				26	26	26		26
Accounts payable – trade				1,850	1,850	1,850		1,850
Total financial liabilities	–	–	–	2,468	2,468	2,466	–	2,468

Group 2006	Derivatives used in hedge accounting	Trade accounts receivable and loan receivables	Financial assets available for sale	Other financial liabilities	Total carrying amount	Fair value	Non-financial assets and liabilities	Total balance sheet
Other long-term securities holdings			19		19	19		19
Other long-term receivables		32			32	32	1	33
Accounts receivable – trade		514			514	514		514
Other current receivables		15			15	14	70	85
Cash and bank balances		369			369	369		369
Total financial assets	–	930	19	–	949	948	71	1,020
Other non-current interest-bearing liabilities				35	35	35		35
Current liabilities to credit institutions				58	58	58		58
Other current interest-bearing liabilities				24	24	24		24
Accounts payable – trade				1,753	1,753	1,753		1,753
Other current liabilities	0				0	0	76	76
Total financial liabilities	0	–	–	1,870	1,870	1,870	76	1,946

Note 29 continued on next page

NOTES

Note 29 continued from preceding page

Parent Company 2007	Derivatives used in hedge accounting	Trade accounts receivable and loan receivables	Financial assets available for sale	Other financial liabilities	Total carrying amount	Fair value	Non-financial assets and liabilities	Total balance sheet
Other long-term securities holdings			3		3	3		3
Other long-term receivables		13			13	12		13
Accounts receivable – trade		0			0	0		0
Other current receivables		13			13	13	5	18
Cash and bank balances		0			0	0		0
Total financial assets	–	26	3	–	29	28	5	34
Non-current liabilities to credit institutions				200	200	198		200
Current liabilities to credit institutions				354	354	354		354
Accounts payable – trade				9	9	9		9
Total financial liabilities	–	–	–	563	563	561	–	563

Parent Company 2006	Derivatives used in hedge accounting	Trade accounts receivable and loan receivables	Financial assets available for sale	Other financial liabilities	Total carrying amount	Fair value	Non-financial assets and liabilities	Total balance sheet
Other long-term securities holdings			3		3	3		3
Other long-term receivables		24			24	24		24
Other current receivables		13			13	13	5	18
Cash and bank balances		1			1	1		1
Total financial assets	–	38	3	–	41	41	5	46
Current liabilities to credit institutions				58	58	58		58
Accounts payable – trade				5	5	5		5
Total financial liabilities	–	–	–	63	63	63	–	63

Fair value of financial instruments

The carrying amount of interest-bearing assets and liabilities on the balance sheet can deviate from their fair value due to changes in market interest rates, among other things. To establish the fair value of financial assets and liabilities, the market value has been used for assets and liabilities as far as possible. Axfood's holdings of tenant-owner rights are stated at market value. Interest-bearing financial assets and liabilities that are not derivative instruments are calculated based on future cash flows of capital amounts and interest, discounted to the current market interest rate while taking into account the risk-free interest rate and risk premium for Axfood on the balance sheet date (the effective interest method). For current financial assets and liabilities with variable interest rates, the fair value is considered to be the same as the carrying amount.

Interest rates used to determine fair value

Axfood used the market interest rate in effect on 31 December 2007 (31 December 2006) plus a relevant interest rate spread to discount financial instruments. The interest rates used are provided below.

	2007	2006
Interest-bearing liabilities	5.17%	3.61%
Interest-bearing receivables	5.13%	3.61%

30. NON-CURRENT AND CURRENT INTEREST-BEARING LIABILITIES

	Group		Parent Company	
	31/12/07	31/12/06	31/12/07	31/12/06
Committed credit lines				
Long-term committed credit lines	700	200	700	200
Bank overdraft facilities	350	550	350	550
Total committed credit lines	1,050	750	1,050	750
Drawn, long-term credit lines	-240	-	-240	-
Drawn, bank overdraft facilities	-314	-58	-314	-58
Cash and bank balances	471	369	0	1
Total committed credit lines/ refinancing risk reserve ¹⁾	967	1,061	496	693

¹⁾ The Group's refinancing risk reserve, totalling SEK 513 m (716), includes the Parent Company's refinancing risk reserve, totalling SEK 496 m (693), and subsidiaries' balances of SEK 17 m (23) in the currency account.

	Group		Parent Company	
	31/12/07	31/12/06	31/12/07	31/12/06
Non-current interest-bearing liabilities ²⁾				
Loans from credit institutions	200	-	200	-
Finance leases	38	35	-	-
Total other interest-bearing non-current liabilities	238	35	200	-
Provisions for pensions and similar obligations	349	350	26	25
Total non-current interest-bearing liabilities	587	385	226	25
Current interest-bearing liabilities				
Liabilities to credit institutions	354	58	354	58
Finance leases	26	24	-	-
Total other current interest-bearing liabilities	26	24	-	-
Total current interest-bearing liabilities	380	82	354	58

²⁾ Of non-current interest-bearing liabilities, SEK - m (-) have a term exceeding five years.

Group	31/12/07	Effective	31/12/06	Effective
		interest rate		interest rate
Interest exposure, liabilities				
Maturity less than 1 year	380	4.86%	82	3.80%
Maturity later than 1 year but less than 5 years	238	4.59%	35	4.02%
Total interest-bearing liabilities	618	4.75%	117	3.87%

Parent Company	31/12/07	Effective	31/12/06	Effective
		interest rate		interest rate
Interest exposure, liabilities				
Maturity less than 1 year	354	4.82%	58	3.72%
Maturity later than 1 year but less than 5 years	200	4.44%	-	-
Total interest-bearing liabilities	554	4.68%	58	3.72%

31. ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent Company	
	31/12/07	31/12/06	31/12/07	31/12/06
Payroll-related items	656	624	16	26
Restructuring measures	13	22	-	-
Accrued bonuses and similar	73	60	-	-
Accrued auditing costs	2	2	0	0
Accrued real estate costs	36	21	-	-
Accrued interest	0	-	0	-
Received, uninvoiced	378	181	-	-
Other accrued expenses	172	165	15	42
Other deferred income	44	49	-	-
Total	1,374	1,124	31	68

32. CONTINGENT ASSETS, PLEDGED ASSETS AND CONTINGENT LIABILITIES

	Group		Parent Company	
	31/12/07	31/12/06	31/12/07	31/12/06
Pledged assets				
Other pledged assets	2	2	-	-
Total	2	2	-	-

	Group		Parent Company	
	31/12/07	31/12/06	31/12/07	31/12/06
Contingent liabilities				
Guarantees for subsidiaries	-	-	366	362
Guarantees for others	12	18	1	2
FPG/PRI	7	7	-	-
Other contingent liabilities	4	4	-	-
Total	23	29	367	364

	Group		Parent Company	
	31/12/07	31/12/06	31/12/07	31/12/06
Pledged assets broken down by own provisions and liabilities				
Other pledged assets	2	2	-	-
Total pledged assets for own provisions and liabilities	2	2	-	-

Guarantees for others consist for the most part of guarantee commitments pertaining to bank financing and product deliveries for franchisees. In cases where there is a risk of loss, a provision has been made among possible loan losses. Other contingent liabilities consist primarily of counterbonds for bank guarantees that have been made for the Axfood Group to the National Tax Board and to Swedish Customs.

33. EXCHANGE RATE DIFFERENCES AND CURRENCY EXPOSURE

	Group	
	31/12/07	31/12/06
Exchange rate differences reported in the income statement		
Exchange rate differences included in operating profit	0	0
Exchange rate differences included in financial items	0	0
Total	0	0
Exchange rate differences reported directly against shareholders' equity		
Exchange rate differences at start of year	-	20
Change for the year	-	-20
Exchange rate differences at year-end	-	-

Exchange rate differences for 2006 are entirely attributable to the sale of Spar Finland.

Currency exposure	Estimated future net flow	Of which, contracted net flow	Amount hedged through forward exchange contracts	Estimated average forward rate	Out-standing currency risk
EUR	138	138	138	9.40	-
USD	22	22	22	6.41	-
DKK	7	7	7	1.26	-
NOK	2	2	2	1.18	-
Total outstanding currency risk	169	169	169		-

Maturity analysis for outstanding forward exchange contracts

Of outstanding forward exchange contracts on the balance sheet date, totaling SEK 169 m (124), contracts with a value of SEK 169 m (124) have a duration of up to 3 months and contracts with a value of SEK - m (0) have a maturity between 3 and 6 months.

Reported fair value of outstanding currency hedges	2007	2006
EUR	-2	0
USD	0	0
Other	0	0
Total	-2	0

The reported values are also presented in the summary of changes shareholders' equity. The amounts removed from shareholders' equity and reported in the income statement amount to SEK 0 m (0) and have affected cost of goods sold. The ineffective portion of cash flow hedges that has been reported in the income statement amounts to SEK - m (-).

Transaction exposure

The Group's transaction exposure during the respective full years is broken down into the following currencies:

Currency	2007	%	2006	%
EUR	927	83.7	876	82.6
USD	101	9.1	104	9.8
DKK	54	4.9	51	4.8
NOK	22	2.0	27	2.6
GBP	2	0.2	1	0.1
CAD	1	0.1	1	0.1
Total	1,107	100.0	1,060	100.0

34. CRITICAL ASSESSMENTS AND ESTIMATIONS**Impairment testing, goodwill**

In calculating cash-generating units' recoverable value in connection with the Company's estimation of any need to recognize goodwill impairment, assumptions on future conditions and estimations of parameters have been made. An account of these can be found in Note 17. As understood in the description in Note 17, changes in 2008 of the underlying conditions for these assumptions and estimations could have a material effect on the value of goodwill. However, Company management is of the opinion that reasonable changes in these variables (assumptions) in the calculations would not have such a large effect that they individually would reduce the recoverable value to a value that is lower than the carrying amount.

Assumptions for calculations of pension provisions

The actuarial computation of pension obligations and pension costs are based on actuarial assumptions, which are specified in Note 28. A change in any of these assumptions could have a material effect on calculated pension obligations and pension costs.

The discount rate is based on the long-term government bond rate with a term that corresponds to the Group's average remaining duration of its obligations, which in Axfood's case amounts to 20 years.

None of the assumptions described in Note 28 deviate from what can be regarded as standard practice in the Swedish market.

Registered number 556542-0824

Proposed disposition of the Company's profit

The Board of Directors and President propose that the following retained profits, totalling KSEK 2,639,089, be distributed as follows:

Shareholder dividend	
SEK 12.00 per share (52,467,678 x 12.00), totalling	629,612
To be carried forward	2,009,477
KSEK	2,639,089

Of the retained profits at the Company's disposal, totalling KSEK 2,639,089, KSEK 3,376 pertains to the share premium reserve.

In reference to the above and to other information that has been brought to the Board's attention, the Board is of the opinion that a comprehensive assessment of the Company's and Group's financial position entails that the dividend is justified in view of the demands

that the nature, scope and risks in the business place upon the size of the Company's and Group's equity and the funding needs, liquidity and position in general of the Company's and the Group's operations.

The consolidated financial statements and Annual Report have been prepared in accordance with the international financial reporting standards referred to in European Parliament and Council of Europe Regulation (EC) No. 1606/2002 of 19 July 2002, on application of International Financial Reporting Standards and generally accepted accounting principles, and gives a fair overview of the Parent Company's and Group's financial position and results of operations.

The administration report for the Group and Parent Company gives a fair overview of the Group's and Parent Company's operations, financial position and results of operations, and describes significant risks and uncertainties that the Parent Company and companies included in the Group face.

The Annual Report and consolidated financial statements were, as stated above, approved for publication by the Board of Directors on 5 February 2008. The Consolidated Income Statement and Balance Sheet, and the Parent Company Income Statement and Balance Sheet will be subject to approval by the Annual General Meeting on 5 March 2008.

Stockholm, Sweden, 5 February 2008

Göran Ennerfelt
Chairman

Marcus Storch
Vice Chairman

Antonia Ax:son Johnson

Peggy Bruzelius

Maria Curman

Gunnar Söderling

Annika Åhnberg

Sven-Erik Brandt*

Ulla-May Iwahr Rydén*

Inger Sjöstrand*

Anders Strålmán
President and CEO

Our audit report was submitted on 5 February 2008

Per Bergman
Authorized Public Accountant

Ola Forsberg
Authorized Public Accountant

*Employee representative

Audit Report – translation

To the annual meeting of the shareholders of Axfood AB (publ)
Corporate identity number 556542-0824

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the president of Axfood AB (publ) for the year 2007. The annual accounts and the consolidated accounts are presented in the printed version of this document on pages 46–83. The board of directors and the president are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the president and significant estimates made by the board of directors and the president when preparing the annual accounts and the con-

solidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the president. We also examined whether any board member or the president has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the president be discharged from liability for the financial year.

Stockholm, Sweden, 5 February 2008

Per Bergman
*Authorized Public
Accountant*

Ola Forsberg
*Authorized Public
Accountant*

Definitions

Average number of employees during the year: Total number of hours worked divided by the number of hours worked per year (1,920 hours).

Capital employed: Total assets less noninterest-bearing liabilities and noninterest-bearing provisions. Average capital employed is calculated as capital employed at the start of the year plus capital employed at the end of the year, divided by two.

Cash flow per share: Cash flow for the year divided by a weighted average number of shares outstanding. For cash flow per share after the dilutive effect see "Earnings per share after dilution" below.

Debt-equity ratio: Interest-bearing liabilities divided by shareholders' equity including minority interests.

Dividend yield: Dividend per share divided by the year-end share price.

Earnings per share: Majority owner's share of net profit for the year divided by a weighted average number of shares outstanding.

Earnings per share after dilution: Majority owner's share of net profit for the year after tax, adjusted for interest expenses after taxes pertaining to outstanding convertibles, divided by a weighted average number of common shares adjusted for the dilutive effect of convertibles. The dilutive effect of convertibles consists of the number of shares that would be issued upon full conversion.

EBIT: Operating profit.

Equity ratio: Shareholders' equity including minority interests, as a percentage of total assets.

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

Like-for-like sales: Like-for-like sales refer to store sales reported on the basis of an entire comparison period, i.e., both years.

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

Net asset value per share: The majority owner's share of shareholders' equity divided by the number of shares outstanding. For net asset value per share after the dilutive effect, see "Earnings per share after dilution" above.

Net debt: Cash and cash equivalents plus interest-bearing receivables less interest-bearing liabilities and provisions.

Net debt-equity ratio: Interest-bearing liabilities and provisions less cash and cash equivalents and interest-bearing receivables, divided by shareholders' equity including minority interests.

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

P/E multiple after dilution: Share price in relation to earnings per share after dilution.

P/E multiple before dilution: Share price in relation to earnings per share.

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

Return on shareholders' equity: The majority owner's share of net profit for the year as per the income statement as a percentage of the majority owner's share of average shareholders' equity. Average shareholders' equity is calculated as shareholders' equity at the start of the year plus shareholders' equity at the end of the year, divided by two.

SEVERAL-YEAR OVERVIEW

Amounts in SEK m	2007*)	2006*)	2005*)	2004*)	2003
Income statement					
Net sales*)	29,189	28,808	28,086	28,658	33,616
Capital gains/structural costs*)	–	89	-2	-15	132
Operating profit*)	1,121	1,204	1,040	1,126	1,034
Profit after financial items*)	1,086	1,183	1,026	1,096	971
Minority share	–	–	-5	4	-12
Tax*)	-305	-331	-297	-310	-275
Profit for the year from continuing operations*)	781	852	729	786	684
Profit/loss for the year from discontinued operations	–	–	-47	17	–
Net profit for the year	781	852	682	803	684
Balance sheet					
Intangible assets	1,501	1,367	1,290	1,119	1,076
Property, plant and equipment	1,407	1,466	1,487	1,823	1,821
Financial assets	43	55	32	153	253
Other non-current assets	29	34	38	34	–
Inventories	1,597	1,473	1,598	1,634	1,599
Other current assets	1,560	1,311	1,296	1,480	1,680
Cash and cash equivalents	471	369	639	977	548
Assets held for sale	–	–	1,189	–	–
Assets	6,608	6,075	7,569	7,220	6,977
Shareholders' equity	2,152	2,420	2,825	2,644	2,127
Minority interests	–	–	119	119	122
Provisions	–	–	–	–	743
Interest-bearing liabilities	967	467	414	676	599
Non-interest-bearing liabilities	3,489	3,188	3,449	3,781	3,386
Liabilities tied to assets held for sale	–	–	762	–	–
Shareholders' equity and liabilities	6,608	6,075	7,569	7,220	6,977
Cash flow					
Cash flow from operating activities	1,166	1,160	1,170	1,462	1,026
Cash flow from investing activities	-512	-321	-850	-422	-315
Cash flow from financing activities	-552	-1,194	-579	-610	-606
Cash flow for the year from continuing operations	102	-355	-259	430	105
Of which, cash flow for the year from discontinued operation	–	–	-41	-16	–

Amounts in SEK m	2007*)	2006*)	2005*)	2004*)	2003
Key ratios					
Operating margin, excluding capital gains and structural costs, % *)	3.8	3.9	3.7	3.9	2.7
Margin after financial items, % *)	3.7	4.1	3.7	3.8	2.9
Equity ratio, %	32.6	39.8	38.9	38.3	32.2
Net debt-equity ratio, multiple	0.2	0.0	-0.0	-0.1	0.2
Debt-equity ratio, multiple	0.45	0.19	0.22	0.24	0.43
Capital employed	3,119	2,887	3,603	3,439	3,221
Return on capital employed, %	37.6	37.3	28.7	34.1	31.2
Return on shareholders' equity, %	34.2	32.5	25.1	32.6	35.8
Interest coverage, multiple	25.7	43.2	31.6	24.3	13.3
Capital expenditures, SEK m	576	587	1,036	537	660
Earnings per share, SEK *)	14.88	16.03	13.37	14.67	12.85
Earnings per share from discontinued operation, SEK *)	–	–	-0.78	0.25	–
Earnings per share after dilution, SEK *)	14.88	16.03	13.35	14.42	12.62
Earnings per share after dilution for discontinued operation, SEK *)	–	–	-0.77	0.24	–
Net asset value per share, SEK	41.02	46.12	51.81	49.35	39.76
Net asset value per share after dilution, SEK	41.02	46.12	51.76	48.44	38.97
Cash flow per share, SEK	1.94	-6.68	-4.75	8.03	1.97
Cash flow per share after dilution, SEK	1.94	-6.68	-4.74	7.88	1.93
Number of shares outstanding ¹⁾	52,467,678	52,467,678	54,531,378	53,577,828	53,497,028
Weighted average number of shares ¹⁾	52,467,678	53,162,625	54,531,378	53,567,009	53,248,074
Number of shares outstanding after dilution ¹⁾	52,467,678	52,467,678	54,583,928	54,583,928	54,585,054
Weighted average number of shares after dilution ¹⁾	52,467,678	53,162,625	54,583,928	54,573,109	54,336,100
Holdings of treasury shares	–	2,116,150	–	–	–
Average weighted holdings of treasury shares	–	1,415,979	–	–	–
Average number of employees during the year ²⁾	6,463	6,569	7,066	6,941	7,773
Ordinary dividend	12.00 ³⁾	12.00	9.00	6.50	5.50
Extra dividend	–	8.00	6.00	4.50	–

*) Figures for 2005 to 2007 are reported according to IFRS. Figures for 2004 have been recalculated according to IFRS. Spar Finland is reported as a discontinued operation on a separate line in the income statement for 2005. Marked figures and key ratios pertain to continuing operations in 2004 and 2005. Other figures and key ratios pertain to the total operations (including Spar Finland), since according to IFRS 5, the balance sheet for the comparison year, 2004, is not to be recalculated.

¹⁾ The number of shares outstanding excluding holdings of treasury shares.

²⁾ In calculating the average number of employees in 2007, the normal number of hours worked per year has been changed from 1,800 to 1,920 hours. The comparison figures for 2006 have been changed. For 2005 and 2004, the hours worked per year was calculated at 1,800. For 2003, 1,600 hours was used.

³⁾ Proposed by the Board of Directors.

Annual General Meeting and financial information

ANNUAL GENERAL MEETING

The Annual General Meeting of the shareholders of Axfood AB (publ.) will be held at 5 p.m. on Wednesday, 5 March 2008, at the Grand Hotel in Stockholm. Registration will open at 4 p.m.

NOTIFICATION

Shareholders who wish to attend the Annual General Meeting must notify the Company of their intention not later than 4 p.m. on Thursday, 28 February 2008, at the following address: *Axfood AGM, Box 47021, SE-100 74 Stockholm*. Notification can also be made *by phone, +46-8-775 03 23*, between 9 a.m. and 4 p.m., *by fax at +46-8-775 81 65*, or *via Axfood's website: www.axfood.se*. Notification should include the shareholder's name, address, social security number/company registration number, phone number, the number of shares held and the number of assistants

attending (maximum of two). If participating by proxy, a proxy form should be sent to the Company, in original (along with any authorization documents, such as company certificates of registration) and be in Axfood's possession before the Annual General Meeting.

PARTICIPATION

To be entitled to participate at the Meeting, shareholders must be recorded in the register of shareholders maintained by VPC AB not later than Thursday, 28 February 2008, and notify the Company of their intention to participate in the Meeting not later than 4 p.m. on Thursday, 28 February 2008. Shareholders whose shares are registered in the name of a nominee must temporarily re-register their shares in their own names with VPC AB to be entitled to vote at the Meeting. Shareholders must notify their nominees well in advance of Thursday, 28 February 2008.

PROPOSED DIVIDEND

The Board of Directors proposes an ordinary dividend for 2007 of SEK 12.00 per share (12.00). The record date is 10 March 2008, and dividends are expected to be paid via VPC on Thursday, 13 March 2008. The last day for trading in the Company's stock including the right to the dividend is 5 March 2008.

NOTICE OF ANNUAL GENERAL MEETING

Notice of the Annual General Meeting is made by letter to the shareholders as well as through advertisements in Svenska Dagbladet and the Official Swedish Gazette. The agenda of the Meeting and items of business to be conducted are included in this notice.

FINANCIAL CALENDAR 2008

Interim report January–March, 16 April
Interim report January–June, 16 July
Interim report January–September,
14 October

Sales reports are released separately for the months January, February, April, May, July, August, October and November. For release dates, visit www.axfood.se. Copies of this annual report will be sent to shareholders upon request.



ANNE RHENMAN EKLUND

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CA Chevreux Nordic	Daniel Ovin
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Handelsbanken Capital Markets	Andreas Lundberg
JP Morgan	Andrew P Gwynn
Kaupthing Bank	Erik Sandstedt
SEB Enskilda	Stefan Nelson
Standard & Poor/Nordea	Stellan Hellström
Swedbank Markets	Stefan Stjernholm
E. Öhman J:or Fondkommission	Rolf Karp

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