NorgesGruppen’s Annual and Sustainability Report 2017
Our vision is to provide you with a better everyday life. We work hard every day to make sure that the customers choose our stores every time. We shall therefore have the most attractive selection of products, at the lowest possible price. We must make sure that our customers save time and money, have a good food experience, and find it easier to make green and healthy choices. This combination has enabled NorgesGruppen to exceed the market’s growth in 2017.

Important events in 2017

New customers in 2017
Figures from the Nielsen analysis agency show that NorgesGruppen increased its revenue by 3.1 per cent in 2017, which is three times more than the market growth of 1.1 per cent. Our organic growth was 1.5 per cent, while comparable stores in the market experienced negative growth. In 2017 there was virtually zero growth in food prices.

Increased number of Trumf customers and higher bonus
In 2017, Trumf dividend passed a historically high level of 1 BlnNOK in earnings for the customers of KIWI, MENY, Spar, Jeker, Shell and Esso. This is close to a doubling in two years. The number of advantages has also been expanded during the past year, to e.g. include insurance offers.

New wholesale customer
During, entered into an agreement with ASKO to gain access to a wider selection of goods and effective distribution.

Reducing food waste
NorgesGruppen launched the Cut Food Waste 2020 project in the hospitality industry, supplementary labeling of selected products, and a SIFO study to map potential initiatives to reduce wastage of fruit and vegetables in stores.

New central warehouse
A new automated central warehouse for refrigerated products, covering 65 per cent of ASKO's total refrigerated storage volume, will improve availability and extend shelf life for fresh produce in the stores.

New course for Dagrofa
The Danish grocery chain Dagrofa, in which NorgesGruppen has an ownership interest of 49.9 per cent, has decided to make structural changes in order to ensure future profitability.

Positive development for sugar reduction
In 2017, there was positive development in sugar reduction in NorgesGruppen’s stores, with a total decrease of 4.3 per cent.

Simpler and faster retailing
In 2017, MENY developed its ecommerce solution on a national basis. Some SPAR and Jeker stores also launched ecommerce offers during the year.

Expansion of Axfod collaboration
In collaboration with Axfod, NorgesGruppen entered into an agreement to acquire EuroCash Food AB. The aim is to increase knowledge of international consumer trends and shopping habits.

Important events in 2017

Reducing food waste
NorgesGruppen launched the Cut Food Waste 2020 project in the hospitality industry, supplementary labeling of selected products, and a SIFO study to map potential initiatives to reduce wastage of fruit and vegetables in stores.

New central warehouse
A new automated central warehouse for refrigerated products, covering 65 per cent of ASKO’s total refrigerated storage volume, will improve availability and extend shelf life for fresh produce in the stores.

New wholesale customer
Bunnpris entered into an agreement with ASKO to gain access to a wider selection of goods and effective distribution.

New course for Dagrofa
The Danish grocery chain Dagrofa, in which NorgesGruppen has an ownership interest of 49.9 per cent, has decided to make structural changes in order to ensure future profitability.

Positive development for sugar reduction
In 2017, there was positive development in sugar reduction in NorgesGruppen’s stores, with a total decrease of 4.3 per cent.

Simpler and faster retailing
In 2017, MENY developed its ecommerce solution on a national basis. Some SPAR and Jeker stores also launched ecommerce offers during the year.

Important events in 2017

Reducing food waste
NorgesGruppen launched the Cut Food Waste 2020 project in the hospitality industry, supplementary labeling of selected products, and a SIFO study to map potential initiatives to reduce wastage of fruit and vegetables in stores.

New central warehouse
A new automated central warehouse for refrigerated products, covering 65 per cent of ASKO’s total refrigerated storage volume, will improve availability and extend shelf life for fresh produce in the stores.

New wholesale customer
Bunnpris entered into an agreement with ASKO to gain access to a wider selection of goods and effective distribution.

New course for Dagrofa
The Danish grocery chain Dagrofa, in which NorgesGruppen has an ownership interest of 49.9 per cent, has decided to make structural changes in order to ensure future profitability.

Positive development for sugar reduction
In 2017, there was positive development in sugar reduction in NorgesGruppen’s stores, with a total decrease of 4.3 per cent.

Simpler and faster retailing
In 2017, MENY developed its ecommerce solution on a national basis. Some SPAR and Jeker stores also launched ecommerce offers during the year.
An effective value chain counts

Good cooperation in the food value chain is important. We need to ensure customers products of good quality, low prices, the best possible selection of goods, and availability in stores. This requires optimum resource utilisation, in terms of energy emissions, minimising food waste in the value chain, or product development for the benefit of customers and society. Cooperation across the value chain in product development and effective delivery of goods are therefore important.

Would you like to learn more? Go to www.norgesgruppen.no

Our value creation counts

For NorgesGruppen, economic and sustainable profitability are two sides of the same coin. We must create economic, environmental and social value for society and for our organization, at the same time. We hope and believe that our efforts make a difference, throughout the value chain, from fjord and farm to fork. The aim is for our value creation to leave a positive footprint today – and in the years to come.

Would you like to learn more? Go to www.norgesgruppen.no

Our strength counts

- 1,835 grocery stores in 89 per cent of Norway’s municipalities
- 914 points of sale as retail convenience goods stores
- 1,021 independent retailers
- 40,000 employees representing 70 different nationalities
- 1,200 business partners

Would you like to learn more? Go to www.norgesgruppen.no

Long-term Norwegian ownership counts

NorgesGruppen’s history goes back more than 150 years, for both the retail and wholesale sectors. Over five generations, the owners have further developed the company into the NorgesGruppen we know today. A long-term approach to managing assets and investments benefits society through day-to-day value creation and each generation’s ambition for further development.

Would you like to learn more? Go to www.norgesgruppen.no
Key Figures for NorgesGruppen

Winning new customers in the face of tough market competition

For 2017 in general, we can see that more customers are choosing our stores, and that the shopping basket is a little bigger and healthier. This is major vote of confidence in our 40,000 employees and retailers who are devoted to offering the best stores, every single day.

### Key Figures for NorgesGruppen

<table>
<thead>
<tr>
<th>Finance</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue MNOK</td>
<td>85,632</td>
<td>80,162</td>
<td>76,224</td>
</tr>
<tr>
<td>EBITDA MNOK</td>
<td>5,238</td>
<td>4,846</td>
<td>4,729</td>
</tr>
<tr>
<td>Operating margin (EBITDA) %</td>
<td>6.1</td>
<td>6.0</td>
<td>6.2</td>
</tr>
<tr>
<td>Operating profit (EBIT) MNOK</td>
<td>3,052</td>
<td>2,966</td>
<td>3,170</td>
</tr>
<tr>
<td>Operating margin (EBIT) %</td>
<td>3.6</td>
<td>4.1</td>
<td>4.2</td>
</tr>
<tr>
<td>Profit before tax MNOK</td>
<td>2,778</td>
<td>3,164</td>
<td>3,001</td>
</tr>
<tr>
<td>Profit margin %</td>
<td>3.2</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>Net cash flow, investment activities MNOK</td>
<td>2,507</td>
<td>2,699</td>
<td>3,212</td>
</tr>
</tbody>
</table>

(Definitions in footnotes, p. 44)

<table>
<thead>
<tr>
<th>Business</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trumf members, bonus saved MNOK</td>
<td>1,005</td>
<td>568</td>
<td>487</td>
</tr>
<tr>
<td>New Trumf members Number</td>
<td>222,296</td>
<td>200,363</td>
<td>127,757</td>
</tr>
<tr>
<td>Growth in number of transactions per week %</td>
<td>2.1</td>
<td>3.3</td>
<td>3.6</td>
</tr>
<tr>
<td>Transactions per day Number</td>
<td>1,203,575</td>
<td>1,187,588</td>
<td>1,158,059</td>
</tr>
<tr>
<td>Market growth (Nielsen) %</td>
<td>1.1</td>
<td>3.1</td>
<td>2.6</td>
</tr>
<tr>
<td>Growth in NorgesGruppen (Nielsen) %</td>
<td>3.1</td>
<td>5.8</td>
<td>6.3</td>
</tr>
<tr>
<td>Organic growth, NorgesGruppen (Nielsen) %</td>
<td>1.5</td>
<td>3.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Growth in food prices (SSB food and non-alcoholic beverages) %</td>
<td>0.0</td>
<td>2.6</td>
<td>2.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of renewable fuels %</td>
</tr>
<tr>
<td>Reduction of food waste %</td>
</tr>
<tr>
<td>Reduction of sugar % 4.3%</td>
</tr>
<tr>
<td>Apprentices Number</td>
</tr>
</tbody>
</table>

2.1%  6.8%  376

Number of transactions per week  Operating revenue 2017  Apprentices
“We have taken new steps to make tomorrow’s retailing less expensive and better, give inspiration for good culinary experiences, and contribute to healthy, green choices.”

Runar Hålevik
Group CEO, NorgesGruppen

Our chains are succeeding in meeting customers’ demands to save time and money, giving inspiration for good culinary experiences, and making it easy to make healthy, green choices.

NorgesGruppen’s chains increased their revenue in 2017, achieving three times the market growth rate. Customer inflows to our stores are increasing by 12,000 customers per day, despite our competitors’ high establishment rate. Our expanded top line enhances our competitiveness. This means that we can operate more effectively, keep food prices low, and offer the most attractive range of products in the market. Our ambition is to be the customer’s first choice, stay competitive through our value chain, and work to achieve sustainable, climate-neutral activities. Our stores experience intense flows of fresh goods, and the implementation of a new transport management system. We invested in new, ecofriendly stores and further developed the food-on-the-go offering in our retail convenience goods activities. Deli de Luca, MIX and Jafa developed very favourably in 2017.

Sustainability is good business

NorgesGruppen wishes to run profitable and climate-neutral activities. Deli de Luca, MIX and Jafa developed very favourably in 2017.

Sustainability is good business

NorgesGruppen wishes to run profitable and climate-neutral activities. Examples are the major realignment of flows of fresh goods, and the implementation of a new transport management system. We invested in new, ecofriendly stores and further developed the food-on-the-go offering in our retail convenience goods activities. Deli de Luca, MIX and Jafa developed very favourably in 2017.

Sustainability is good business

NorgesGruppen wishes to run profitable stores on a sustainable basis. In 2017, we invested in such areas as health research, and developed new energy solutions. We have set concrete, ambitious goals, and report annually on our progress in achieving them. In this report, you can read more about our five action areas.

Dedication and energy

In every area of the NorgesGruppen family, I meet proud colleagues with abundant energy and a strong ability to execute. We turn every stone to operate more effectively, and we take many different steps to create better customer experiences. We cultivate good business acumen and proactive managers, but also concentrate our efforts in the areas where this is important. This contributes to ensuring that everyone’s effort makes a difference, and that we continue to build on our proud winner culture.

Runar Hålevik
Group CEO, NorgesGruppen

For society

We invest in the green transformation, in public health, in a good working life for everyone, and value creation in the districts.

For consumers

We are working to help consumers make greener and healthier choices and are continuing to make new shopping experiences better and less expensive. We contribute to a diverse selection of products throughout the country.

For suppliers

Annually, we purchase raw materials and products for close to 90 BnNOK, and we collaborate with 1,200 suppliers to make product ranges greener, healthier and better. Our investments open doors for more suppliers.

For employees

For many young people, a job with us is their first workplace experience. In 2017, we welcomed 3,905 new employees and continued our efforts to create an arena for integration and learning.

For owners

Over time, NorgesGruppen’s shareholders must benefit from the company’s value creation through competitive returns on their shares. The Board of Directors seeks to ensure a clear and predictable dividend policy. Several retailers are shareholders in the company.

For retailers

Retailers throughout Norway must have competitive prices and a wide range of products when they are part of NorgesGruppen.

Would you like to learn more?

Go to www.norgesgruppen.no
Driving forces in the market

The groceries market is subject to intense competition. We are challenged by changes in customer requirements, such as digitisation, urbanisation and more well-informed consumers – people on the go who want the freedom to choose, inspiration and easier everyday lives.

- **DIGITISATION**
  Digitisation is affecting every sector in every country. Online retailing is expanding and automation has the potential to increase productivity and help us to work even smarter – throughout the value chain, from raw materials to consumers. Large international operators such as Amazon and Google already offer many items on one and the same platform. In the coming years, sector convergence and new business models will challenge the retail industry.

- **URBANISATION**
  In 2017, only two out of ten people lived in the districts of Norway (SSB). Competition in the grocery market is, and will continue to be, greatest in the major urban centres, particularly Oslo, which has the most online retailing providers. Customers have many stores to choose between, and few of them are loyal if the store falls short of their expectations of price, quality and service.

- **DIVERSIFICATION**
  Price is the number one competition factor, but offering straightforward retail opportunities, inspiration and quality will be vital to staying competitive in the grocery market in the coming years – and for physical stores to remain attractive to consumers. Differentiation must take place by developing product categories and services in order to give consumers freedom of choice, inspiration and simpler solutions.

- **ENVIRONMENT**
  Consumers are making greener choices. They expect information on where food is produced, what it contains, and the impact of its production on people, animals and the environment. Requirements of transparency and traceability in the value chains are increasing, and many consumers require products that have labels for their origin, environmental benefits, fair trade or organic production.

Tough competition

The Norwegian grocery market is subject to tough competition and low growth. Figures from the analysis agency Nielsen show that NorgesGruppen increased its revenue by 3.1 per cent in 2017, which is three times more than the market growth of 1.1 per cent. Our organic growth rate was 1.5 per cent, while comparable stores in the rest of the market saw negative growth. In 2017 there was virtually zero growth in food prices. The stores were relatively stable during 2017, and the grocery market saw net growth by 28 stores in 2017. The total food market has a value of 280 BlnNOK (Andhøy and Virke), while grocery stores account for approximately 170 BlnNOK. Our stores experience intense competition from food-on-the-go, eating out, specialised retailers, border retailers and online retailing. The proportion that have purchased groceries online more than doubled last year. Six out of ten Norwegians purchased groceries in Sweden last year (Food 2018). The Norwegian grocery market has followed the European market, which saw a downturn in 2015.

Initiatives to achieve the UN Sustainable Development Goals

The UN Sustainable Development Goals are a common global work plan towards 2030, for authorities, civil society, and business and industry. Through increased focus on sustainability, NorgesGruppen is also contributing to the world community’s achievement of these goals.

NorgesGruppen has defined five action areas for its own sustainability. Each of them corresponds to one or several of the UN Sustainable Development Goals, and below we explain how we contribute to achieving them. In the chapter “Sustainable and climate-neutral” in particular, we describe our work in these areas, with examples of measures taken, and how far we have come in achieving our own goals. Furthermore, the other chapters also include good examples of sustainable business activities. We work to contribute to a sustainable global footprint – both today and in 2030.

- **A HEALTHIER NORWAY**
  NorgesGruppen must make it easier to eat healthier, and strengthen public health, among other things by selling more fruit and vegetables, wholegrain products and fish, and reducing salt, sugar and saturated fat in our range, and by offering healthier products. We must offer safer food, and help to make it easier to live healthily, with consumption that is sustainable in the long run. See page 20.

- **A SUSTAINABLE VALUE CHAIN**
  By working with a sustainable value chain we are contributing to protecting labour rights, reducing impacts on the climate, environment and resources, and safeguarding the welfare of land-based and marine animals. We will contribute to more sustainable agriculture, and overall make production and consumption more sustainable. See page 30.

- **A THRIVING NORWAY**
  NorgesGruppen has stores and warehouses all over Norway, and therefore a great impact on workplaces and settlement, especially in rural Norway (“Distrikt-Norge”). Promoting sustainable agriculture, and supporting and developing small and medium-sized local food suppliers, are examples of how we contribute to sustaining economic growth across the country. See page 28.

- **AN ECOFRIENDLY NORWAY**
  NorgesGruppen aims to be a climate-neutral company, and to spearhead the development of ecofriendly products, renewable energy and climate-friendly transport. Climate measures throughout the value chain, with measures to reduce and utilise waste, are important to achieving more sustainable use of resources and consumption. See page 22.

- **A DIVERSE NORWAY**
  NorgesGruppen must safeguard the rights, health and safety of our employees, and the manpower included in our value chain. Among other things, this means equal pay for equal work, sound integration and a good learning environment. We are now doubling the number of apprentices and occupational training positions up to 2020. See page 24.
Greater freedom of choice

Norwegians shop often and on average use three or four different stores per month, according to Nielsen. Our own surveys show that customers consider prices to be the most important factor when they choose where to shop, followed by location. They consider it more important that stores have fruit and vegetables of high quality than that the rest of the product selection being attractive.

We are constantly developing in order to retain our customers’ confidence in us. Performance in 2017 shows that the chains are worthy of this trust, and that more customers are coming to our stores.

- Customers of NorgesGruppen’s stores chains are mainly people shopping for groceries or food-on-the-go. Customers of our ASKO wholesaler are grocery stores, newsagents, restaurants, hotels, nursery schools and other operators of hospitality and catering activities. Grocery store customers are becoming increasingly demanding, and on average they shop in three or four different grocery stores in the course of a month. If they are not satisfied with the shopping experience in one store, in terms of price, quality or service, the customer will choose to use another store instead. To win the battle for customers, our chain concepts must therefore be successful in terms of many different parameters.

Reliable prices

Grocery customers consider low prices to be the most important factor when choosing a store (Nielsen: NG Kjedetracker 2017). In 2017, KIWI gave the promise that “We never give up on prices” and won most price surveys in 2017. In the autumn, they cut prices for laundry and hygiene products by 10–40 per cent, followed up with price cuts for a number of dinner favourites.

A simpler everyday life

Quick and easy shopping are important to customers’ choice of store (NG Kjedetracker 2017). The online retailing solution for MENY, SPAR and Joker is a supplementary service that is helping to make customers’ lives better, by ensuring flexibility and inspiration. MENY stores all over Norway now offer online retailing.

In stores with high customer turnover we now offer self-service check-outs, contributing to a quicker and easier shopping experience. We are also working on establishing the future payment infrastructure, which will give our customers access to cashless payment, or payment by mobile phones.

In 2017, MENY, SPAR and KIWI increased their focus on quick and easy dinner solutions. Read more on page 16.

Broad selection of products

Fresh food of high quality and a good selection of products are stated by consumers to be important to their choice of store (Ipsos: NG Kjedetracker 2017). All of our chains have invested in expanding their fruit and vegetable departments close to the store’s entrance. In 2017, our customers purchased 10,000 tonnes more fruit and vegetables than the year before.

The MENY supermarket chain has access to 30,000 items in the course of the year, comprising fresh food, dinner solutions, fast-food, organic food, vegetarian and local food. MENY is the market leader for locally produced food and collaborates with 450 local food producers. MENY has hundreds of local suppliers, including chefs, butchers and fishmongers.

SPAR also offers a wide selection of fresh produce, bread and baked goods, and fruit and vegetables, together with products from local suppliers. The largest stores in the SPAR chain in Norway are called EUROSPAR.

Stores all over the country

Location is a vital aspect of consumers’ choice of store (Ipsos: NG Kjedetracker 2017). Norway is an elongated country with large distances and scattered settlement. The district stores are important to maintaining viable local communities outside urban areas. NorgesGruppen has stores throughout Norway. SPAR, Nærbutikken and Joker serve as social meeting places offering good, old-fashioned service, a range of products adapted to the local market and seasons, and often supplementary services for residents and holiday visitors.

Healthier and greener choices

In recent years, we have asked our customers what they consider is most important for a grocery store to prioritize. Customers state that it is very important to reduce food waste. NorgesGruppen’s chains reduced their food waste by 19 per cent in 2017. We give customers better guidance through supplementary labelling, and the new refrigerated warehouse will reduce the average storage time, so that fresh food has a longer lifetime out in the stores.

Every year, NorgesGruppen’s chains launch around 1,000 new products on stores’ shelves. Many of the new products reflect how consumers are becoming more aware of health and sustainability issues. In 2017, novelties were healthier snacks and lunch combinations, natural ingredients, new dinner menu variations, more gluten-free and organic products, and an increased selection for vegetarians. In the winter of 2018, the store chains will have more products that are alternative protein sources, with a reduced salt and sugar content.
Customers saved over a billion kroner

Customers have never before saved so much through Trumf. This advantage programme is better and has been expanded to virtually every sector.

→ In 2017, the number of households with Trumf membership passed two million. Customers of KIWI, MENY, SPAR, Joker, Shell and Esso achieved total Trumf benefits exceeding 1 BNOK. This is close to a doubling of the benefits in 2015.

The Trumf programme helps us to meet customers’ expectations of price, simplicity, quality and a good shopping experience. The strong growth in membership and returns is among other things due to how the store chains have further developed benefits for customers. In 2017, the launch of KIWI PLUSS, with 15 per cent bonus on fruit and vegetables, made a particular contribution to more customers becoming members. Trumf was also expanded with insurance offers and the opportunity to earn bonus under ViaTrumf or with Trumf Visa.

KIWI keeps prices down every day with the customer promise that “We never give up on prices”.

Popular LilleGo’

→ The LilleGo’ series from KIWI was launched in 2017 and covers a range of baby products that are good for the child and practical for everyday use. Both nappies and babycare products are dermatologically tested and fulfill the requirements of NAAF and Nordic Ecolabelling. The products are developed in collaboration with UNIL.

The launch of LilleGo’ is one of the most extensive and successful marketing projects that KIWI has undertaken. In the course of a few months, sales of own-brand nappies increased from 25 to over 47 per cent for KIWI, which also increased its market share of nappies by 6 percentage points.

25,000 babycare bags with LilleGo’ products were given to new parents free of charge in 2017.

Quicker and easier shopping

NorgesGruppen’s chains are developing online retailing in step with demand. We can see that online customers are keen to take advantage of special offers, shop more healthily, and plan more.

→ MENY began marketing online retailing in the autumn of 2017. Online retailing is an important supplementary service, making customers’ everyday lives easier.

We pick products from existing stores, and use vacant capacity in courier companies for distribution. Online retailing is a positive supplement to the physical stores in economic terms, and also because it requires stores to always have the same broad range on their shelves as they offer online.

Online retailing constitutes just one per cent of total revenue in the sector, but MENY and SPAR achieved good growth in turnover after the launch in 2017. Stores that were involved in this initiative from an early stage receive more than 10 per cent of their revenue online, including MENY Lade in Trondheim and EUROSPAR Blomsterdalen outside Bergen.

Who are the online customers?

• Their age ranges from 17 to 95, but younger people are in the majority
• They value a wide selection and quality
• They buy more fruit and vegetables
• Online shopping baskets are on average six times larger than in the stores
• Many people do food shopping for their elderly parents
• Four out of five customers opt for home delivery

MENY

→ MENY’s online store offers online retailing through 27 stores in the largest Norwegian towns and cities. Customers have a selection of 10,000 products, with a full overview of special offers, and access to inspiring dinner recipes. In 2017, MENY’s online retailing achieved revenue of 70 MNOK.

SPAR and Joker

→ SPAR and Joker offer online retailing in selected areas and are continuously expanding the range. The items are picked and delivered from local stores. Customers placing orders before lunch can have their shopping delivered at home, or collect it in their local store in time for dinner on the same day.
Investing for the local environment

Stores are one of the most important institutions to ensure many small urban centres with schools, nursery schools and centres for the elderly, throughout Norway.

Joker is winning customers, despite strong competition from e.g. discount chains and border retailing. In NorgesGruppen we have 500 Joker retailers creating meeting places in their local environment. The stores are often the most important institution for villages to continue to exist, with schools, nursery schools or centres for the elderly. During the last three years, Joker retailers in NorgesGruppen have together invested half a billion kroner in upgrading their stores.

Meeting place in Vikebygd

The store in Vikebygd is one of many Joker stores that have been refurbished in 2017. This facelift also concerns the meeting place which the locals call “Drøsestua”. It attracts pensioners and anyone else interested in starting the day with a chat and a cup of coffee “on the house”. Other people pop in during the day, and elderly ladies often meet on Fridays after they have done their shopping. This store is much more than just a store, thanks to a retailer keen to bring life and a community spirit to the village.

Popular vegetarian

Also good for the environment.

NorgesGruppen has deliberate focus on new vegetarian products – and they have become very popular. Beetroot burgers and mushroom burgers are best-sellers, and sales of protein substitutes such as beans, lentils and peas are increasing. Vegetarian product sales are still low overall, but turnover growth of 115 per cent in 2017 confirms that more and more customers are – fully or partly – replacing meat with vegetarian products.

Healthy meals for the little ones

Avoid packed lunches! Children eating a varied diet? Ready to taste new food?

Via the "Mat for minsten" concept we deliver healthy and nutritious meals to 1,700 children in 21 nursery schools, every week. This subscription scheme was launched in 2017, with good feedback from employees, parents and the children themselves. In 2018, we are expanding the scheme as part of "Sunnere Barn" (Healthier Children) an initiative under the project focused on putting knowledge into action, to inspire consumers to make healthier choices.

Healthy success

Easter has often been connected with a price war between the store chains when it comes to traditional sweets and snacks, but in 2017 KIWI decided to offer a healthy alternative to Easter sweets. "Sunt Smågodt i farta" - portion beakers filled with cubed fruit and vegetables – were displayed close to check outs and soon became a great success. In the first weeks after the launch, KIWI sold 2.5 million filled portion beakers. This shows how many customers are ready to make healthier choices when an easy opportunity arises.

Healthy meals for the little ones

Avoid packed lunches! Children eating a varied diet? Ready to taste new food?

Via the "Mat for minsten" concept we deliver healthy and nutritious meals to 1,700 children in 21 nursery schools, every week. This subscription scheme was launched in 2017, with good feedback from employees, parents and the children themselves. In 2018, we are expanding the scheme as part of "Sunnere Barn" (Healthier Children) an initiative under the project focused on putting knowledge into action, to inspire consumers to make healthier choices.

Healthy success

Easter has often been con­nected with a price war between the store chains when it comes to traditional sweets and snacks, but in 2017 KIWI decided to offer a healthy alternative to Easter sweets. "Sunt Smågodt i farta" - portion beakers filled with cubed fruit and vegetables – were displayed close to check outs and soon became a great success. In the first weeks after the launch, KIWI sold 2.5 million filled portion beakers. This shows how many customers are ready to make healthier choices when an easy opportunity arises.

Healthy meals for the little ones

Avoid packed lunches! Children eating a varied diet? Ready to taste new food?

Via the "Mat for minsten" concept we deliver healthy and nutritious meals to 1,700 children in 21 nursery schools, every week. This subscription scheme was launched in 2017, with good feedback from employees, parents and the children themselves. In 2018, we are expanding the scheme as part of "Sunnere Barn" (Healthier Children) an initiative under the project focused on putting knowledge into action, to inspire consumers to make healthier choices.

Healthy success

Easter has often been con­nected with a price war between the store chains when it comes to traditional sweets and snacks, but in 2017 KIWI decided to offer a healthy alternative to Easter sweets. "Sunt Smågodt i farta" - portion beakers filled with cubed fruit and vegetables – were displayed close to check outs and soon became a great success. In the first weeks after the launch, KIWI sold 2.5 million filled portion beakers. This shows how many customers are ready to make healthier choices when an easy opportunity arises.

Healthy meals for the little ones

Avoid packed lunches! Children eating a varied diet? Ready to taste new food?

Via the "Mat for minsten" concept we deliver healthy and nutritious meals to 1,700 children in 21 nursery schools, every week. This subscription scheme was launched in 2017, with good feedback from employees, parents and the children themselves. In 2018, we are expanding the scheme as part of "Sunnere Barn" (Healthier Children) an initiative under the project focused on putting knowledge into action, to inspire consumers to make healthier choices.
Better customer experience

Seven out of ten of us eat dinner together on an everyday basis, but many of us would like greater variation in our dinner menus. MENY, SPAR and KIWI have taken action to address this.

---

Did you know that, on average, Norwegians switch between just ten different dinners? Seven out of ten Norwegian households gather to eat dinner together on a daily basis, but many of them would like greater variation in their dinner menus, and would also like to share a meal more often. This is shown by a survey of Norwegian dinner habits commissioned by MENY. Lack of time, old habits, lack of planning and the need for security are the background to the demand for quick, healthy and tasty ready-prepared dinners. This has been a trend in Europe and the USA for some time, and which is now affecting Norwegian stores.

New dinner solutions in MENY

MENY has refurbished all of its stores, made space for a dinner zone and launched a selection of new dinner solutions developed by the MENY guild. This includes dinner options that can be prepared in less than 20 minutes, fresh fish made simple in the “Fisk på 1-2-3” concept, tasty dinners called Heat & Eat which just need reheating, and take-away dishes from MENY’s kitchen. Some customers prefer ready-prepared dinners, and some wish to finish the preparation themselves, but everyone can find a dinner solution to suit them.

Dinner favourites from SPAR

SPAR has developed the Dinner Favourites series of tasty, popular convenience dinners that can be enjoyed by the whole family. Good and healthy ingredients are used in recipes that can inspire customers in their own kitchens. Preparation takes no longer than it takes to prepare a tasty dinner on a busy weekday.

Dinner for one at KIWI

Dinner for one is a series of inexpensive dinner products in individual packaging to help KIWI customers to avoid buying, storing and throwing away too much food.

---

Meals-on-the-go

The demand for meals and beverages for people on-the-go is increasing. Deli de Luca, MIX and Jafs are concepts offering ready meal solutions.

Customers appreciate the Deli de Luca chain, located along the Norwegian road network. In just one year, coffee sales have increased by 30 per cent, and meals-on-the-go by 20 per cent. The overall growth was 6.5 per cent in 2017, and we can see that this offer appeals especially to many women and families with young children, who can choose smoothies and Greek yoghurt, fresh salads, wraps and light dinners of high quality. The most popular is still Fresh Made, the unit which toasts and spreads foccacia, baguettes and sandwiches, every day.

Deli de Luca opened its store no. 100 in 2017. 67 of the stores are located at Esso service stations along the Norwegian road network. Here, ready-meal solutions and coffee are among the categories showing the strongest growth, and customers expect simplicity, freshness and quality.

MIX is in the establishment phase of a new concept to transform MIX from newsagents to diners. During 2017, Jafs launched and converted all stores under a new profile, with its popular burger concept.
Sustainable and climate-neutral

NorgesGruppen wishes to run profitable stores on a sustainable basis. We target our efforts at areas in which we can achieve most, both for society and for our own activities.

NorgesGruppen is a major player in Norwegian society. We wish to clear a path and make a positive difference within important areas of society where change is needed. We have set concrete, ambitious targets and report openly and honestly on how far we have come in achieving them.

Measures with the greatest impact

On the following pages, we describe the five action areas for our sustainability work up to 2020 (see figure). The areas reflect major challenges and also offer new business opportunities. We are therefore also reinforcing our own profitability through innovation and development, which is important to us. Without profitability, achieving the goals would be less interesting; yet if we do not take account of sustainability challenges such as climate impact or health effects, our long-term profitability will be lower.

We wish our long-term approach to be taken seriously, and our results within health, environment, diversity and districts are the best evidence of this. In 2017, we invested in such areas as health research, and developed new energy solutions. This is an economic challenge today, but a good investment in the long term.

Stakeholders’ voices are heard

When we defined the action areas in 2016, they came as a result of a wider process in which we mapped central challenges in society, and considered how we could contribute to resolving them. Our prioritisation was based on dialogue with our stakeholders and cooperation with central players. The action areas are anchored in a strong wish from the Board of Directors, owners and management that NorgesGruppen’s value creation must contribute to sustainable development for society and the company.

The sustainability initiatives are also linked to the UN Sustainable Development Goals. The overview on page 9 shows how we can contribute to achieving the sustainability goals through our own action areas. Every year since 2015, we have conducted a customer survey to find out which topics they consider it important to prioritise in our sustainability work. The results from the winter of 2018 are summarised below.

Customers are most concerned about

<table>
<thead>
<tr>
<th>2016</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 3</td>
<td>1. 2</td>
<td>1. 1</td>
</tr>
<tr>
<td>2. 2</td>
<td>2. 3</td>
<td>3. 2</td>
</tr>
<tr>
<td>3. 3</td>
<td>3. 2</td>
<td>4. 4</td>
</tr>
<tr>
<td>4. 4</td>
<td>4. 3</td>
<td>5. 6</td>
</tr>
<tr>
<td>5. 5</td>
<td>6. 6</td>
<td>7. 7</td>
</tr>
<tr>
<td>6. 6</td>
<td>5. 5</td>
<td>7. 7</td>
</tr>
<tr>
<td>7. 7</td>
<td>6. 6</td>
<td>8. 8</td>
</tr>
<tr>
<td>8. 8</td>
<td>7. 7</td>
<td>9. 9</td>
</tr>
<tr>
<td>9. 9</td>
<td>8. 8</td>
<td>10. 10</td>
</tr>
<tr>
<td>10. 10</td>
<td>9. 9</td>
<td>11. 11</td>
</tr>
</tbody>
</table>

Customers’ responses generally confirm the importance of the goals we have set and give us a clearer picture of the areas that should be prioritised.

Read more at www.norgesgruppen.no

Reduced food waste

19%

All of the companies in NorgesGruppen have set the shared goal of halving their food waste before 2025. We are well on the way!

Reduced food waste from 2015 to 2017 in NorgesGruppen

We have five action areas in our sustainability work. The four in the centre are the spearheads, while the fifth – a sustainable value chain – constitutes the foundation for everything we do.
Summary for 2017

More fruit, less sugar

Results

NorgesGruppen both can and will contribute to improved public health. The market is demanding healthier products, and a focus on health and well-being is opening up new development opportunities for us. This is a win-win situation that we need to manage well.

Our ambition will be achieved when NorgesGruppen’s store chains deliver on the high targets we have set to increase healthy foods and reduce less healthy foods in our offering. Since we sell a considerable proportion of the food consumed in Norway, we can contribute to a healthier diet and a higher standard of public health.

We want consumers to view our store chains as the best at facilitating a healthier diet and lifestyle. In 2017, we worked systematically on these measures and are on the way to achieving our overall target of a larger and healthier shopping trolley. This means more fruit and vegetables, more wholemeal bread, more keyhole products, a little less salt and a lot less sugar.

The sugar reduction by over 4 per cent is driven by sound product and store initiatives.

The road ahead

We will continue this work in all areas, offering simpler, fish-based meal solutions to make this easier for customers to choose.

The research report to which we contributed in the autumn of 2017 shows that a store’s layout has a great influence on the products chosen by consumers, and this will have an impact on our work going forward (see the case below).

Expensive seafood – less fish for dinner

Salmon is Norwegians’ first choice when it comes to fish for dinner. Salmon prices were high throughout 2017 and this affected overall sales of seafood.

At NorgesGruppen we saw a decline in seafood sales of 2.9 per cent in volume terms, far below the target of 3 per cent growth. We are working on product development to reverse this trend. Meal solutions for young people on the move are becoming increasingly popular. New packaging to emphasise quality and simplify preparation has been launched, and we are scaling up the focus on more fish for everyone in 2018. MENY has launched “Fish pl 1-2-3”, which will contribute to increasing fish consumption.

What influences customers’ choices?

The four most effective means to influence healthier choices are location, labelling, price and portioning.

This is the conclusion in a major research report from 2017 which considered how stores can influence consumers to make healthier choices. Samira Lekhal, Head of the Morbid Obesity Centre in the Southern and Eastern Norway Regional Health Authority, and Dr Knut Ivar Karsevold of GreeNudge, are behind the report. NorgesGruppen partly financed the report and has a three-year collaboration agreement with the researchers.

“We hope the grocery sector designs its stores can play a vital role in persuading Norwegian consumers to make healthier choices every day, and over time this can achieve considerable public health benefits. I’m really pleased that NorgesGruppen wishes to continue this collaboration, so that we can test methods and effects,” says Samira Lekhal.

A HEALTHIER NORWAY

Many of us eat more healthily, but a large proportion do not follow the dietary recommendations. NorgesGruppen will contribute to improve public health.

<table>
<thead>
<tr>
<th>AREA</th>
<th>TARGET 2020</th>
<th>2017</th>
<th>STATUS 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRUIT AND VEGETABLES</td>
<td>+ 22%</td>
<td>+ 2.6%</td>
<td>Strong volume growth within fruit and vegetables overall. We are lagging behind on this ambitious target, but with considerably better growth than in the market overall. Both fresh and frozen vegetables are developing particularly well.</td>
</tr>
<tr>
<td>FISH/SEAFOOD</td>
<td>+ 16%</td>
<td>- 2.9%</td>
<td>A decrease in sales of seafood, but not as big a decrease as for the market in total (down by 8%). The greatest decline is for fresh fish, stable for frozen fish, and a slight increase for processed fish. High salmon prices are the main reason for the decrease.</td>
</tr>
<tr>
<td>WHOLEMEAL BREAD</td>
<td>&gt; 52%</td>
<td>51.2%</td>
<td>The category continues the positive development. Relaunch of the “Naturig sort” bread series in September 2017 together with DNT (The Norwegian Trekking Association) was received well.</td>
</tr>
<tr>
<td>KEYHOLE PRODUCTS</td>
<td>&gt; 20%</td>
<td>19.1%</td>
<td>Good progress, and we are close to the target for 2020. 59 of the nine products in 2017 were keyhole products. In total, we have 1,419 keyhole products in the range.</td>
</tr>
<tr>
<td>SALT</td>
<td>- 20%</td>
<td>- 0.3%</td>
<td>Good progress on reducing salt from many product categories. We are nonetheless behind on this target for 2020. This is due to such factors as the increased sales of cured meats and ready meals. Consumption of salt itself is declining.</td>
</tr>
<tr>
<td>SUGAR</td>
<td>- 10%</td>
<td>- 4.3%</td>
<td>Very sound performance during 2017, reductions for all chains and relevant categories, and good headway towards the target in 2020. Recipe changes are contributing to major reductions, e.g. with sugar-reduced or sugar-free beverages.</td>
</tr>
<tr>
<td>SATURATED FAT</td>
<td>- 5%</td>
<td>+ 0.3%</td>
<td>Challenging to achieve the 2020 target, mainly due to growth for meat and ready meals. The development is driven by consumer preferences and price development, which is moving from fish and seafood towards meat and ready meals. The work on reducing fat in First Price and other products is continuing in 2018.</td>
</tr>
</tbody>
</table>
AN ECOFRIENDLY NORWAY

NorgesGruppen will contribute to cutting greenhouse gas emissions and reducing the environmental impact of its activities.

<table>
<thead>
<tr>
<th>AREA</th>
<th>TARGET 2020</th>
<th>2017</th>
<th>STATUS 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>FUEL</td>
<td>100 per cent renewable fuel in distribution</td>
<td>100%</td>
<td>60%</td>
</tr>
<tr>
<td>HFC</td>
<td>75 per cent reduction of emissions of HFC gases</td>
<td>75%</td>
<td>53%</td>
</tr>
<tr>
<td>REDUCED FOOD WASTE</td>
<td>25 per cent reduction of food waste in own operations</td>
<td>25%</td>
<td>19%</td>
</tr>
<tr>
<td>FOOD WASTE FOR BIOGAS OR ANIMAL FEED</td>
<td>100 per cent of food waste for biogas</td>
<td>100%</td>
<td>84%</td>
</tr>
<tr>
<td>RECYCLING</td>
<td>85 per cent sorting of waste at source</td>
<td>85%</td>
<td>81%</td>
</tr>
<tr>
<td>IMPROVED ENERGY EFFICIENCY</td>
<td>18 per cent improved energy efficiency</td>
<td>18%</td>
<td>12%</td>
</tr>
<tr>
<td>RENEWABLE ENERGY</td>
<td>11 per cent own produced or released renewable energy</td>
<td>11%</td>
<td>0.6%</td>
</tr>
<tr>
<td>PACKAGING AND PRODUCT DESIGN</td>
<td>Increase collection, recycling and recovery of materials</td>
<td>15% Increased filling rate</td>
<td>Not measured in 2017</td>
</tr>
</tbody>
</table>

Results
NorgesGruppen must be a leader within environmentally-friendly transport, reduction of food waste and eco-friendly products. We also focus on renewable energy production. 2017 was a good year for NorgesGruppen’s environmental targets. The most significant improvement was in the use of renewable fuels, of which the ratio increased to 60 per cent in 2017. This is due to the installation of tank facilities with 100 per cent biofuel at all of our warehouses, and that a number of hired haulage contractors have phased in the same type of fuel.

The proportion of food waste used to generate biogas also increased significantly from 2016 to 2017; 84 per cent of all food waste that was sorted ended up as the raw material for biogas production in 2017. The biggest change from previous years is that food waste from stores in Hordaland was used for biogas production.

We have reduced food waste by 19 per cent since 2015. The most important factor is that the stores have introduced discounted prices for food approaching its expiry date, and in particular the focus on optimum goods flows.

The road ahead
NorgesGruppen will continue to work to achieve our environmental targets, with renewable energy, reduced food waste and handling of food waste as prioritised areas in 2018. Parallel to this, we will also work with new areas such as reducing consumption of plastic and establishing Handelens Miljøfond (the retail sector’s environmental fund). This fund will fulfil the EU’s Plastic Bags Directive and will be a more environmentally-friendly alternative to the state tax on plastic bags.

Packaging must protect products’ quality, ensure that food is safe to eat, and reduce food waste, but is also a source of local and global pollution. We will continue to work to increase the filling rate and phase in more environmentally-friendly packaging.

ASKO will continue to roll out solar panels on remaining warehouse roofs and also assess other measures to cover the remaining energy requirement when electrical and hydrogen-fuelled distribution vehicles become a reality.

Greener transport and reduced food waste

Summary for 2017

ASKO is a pioneer in the development of environmentally-friendly solutions, including solar panel roofs on its warehouses and the first electrical truck.

During 2017, NorgesGruppen completed the longstanding EKING project (Cutting Energy in NorgesGruppen).

In overall terms, 680 stores have reduced their energy consumption by 31 million kWh since 2011. This corresponds to the annual consumption of 1,200 detached homes. The aim of EKING was for KIWI, SPAR, Joker and MENY to achieve their energy efficiency improvement targets. The stores have installed covers and doors on refrigerators/freezers, switched to LED lighting, replaced HFC plant with CO2 plant, and worked to improve heat recovery. Eneva provided support of 24 MNOK for the project.

Energy savings

ASKO using wind and hydrogen

As from 2017, food waste in Hordaland has also been used for biogas. Food waste is used for biogas where there are production facilities. As from 2017, food waste in Hordaland has also been used for biogas.

The ASKO companies have established their own bioshell tank facility. This fuel is used in the distribution of goods out to customers and is offered to haulage contractors hired to deliver goods from suppliers.

The emissions are reduced by phasing out HFCs and replacing facilities with a high probability of leaks. It is still realistic to achieve the 2020 target.

Discounting of food close to its expiry date has been introduced in a large proportion of our stores. This has made the biggest contribution to reducing food waste.

This fuel is used in the distribution of goods out to customers and is offered to haulage contractors hired to deliver goods from suppliers. This facility receives energy from solar panels on the roof and in full operation will produce more than 300 kg of hydrogen per 24 hours. The hydrogen will be used to fuel lorries, vehicles and trucks in our own activities. Late in 2017, the first wind turbines for ASKO were set at the warehouse in Rogaland. In time, the wind turbine facility will produce two thirds of ASKO’s energy requirement.
A DIVERSE NORWAY

As one of Norway’s largest employers, we wish to offer work experience and a working community to people outside the labour market.

<table>
<thead>
<tr>
<th>APPRENTICES (ongoing apprenticeship contracts annually)</th>
<th>TARGET 2020</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail: 279; Wholesale: 80; Administration: 1</td>
<td>376</td>
<td>89</td>
</tr>
</tbody>
</table>

The increase is very positive, and it will be possible for retail and wholesale to achieve the target for 2020. The targets set for industry and administration are ambitious compared to what will be possible up to 2020.

Well-motivated managers contribute to ensuring that training proceeds as planned up to the apprenticeship examinations. Several business areas hold apprentice meetings and there is well-functioning cooperation with the local training agencies.

Vocational training positions (previously defined as internships) at our workplaces throughout the country are a popular opportunity. The number of people taking vocational training at one of our workplaces during 2017 is distributed as follows:

| Retail: 731; Wholesale: 86; Administration: 0 | 835 |

Our managers arrange a good vocational training programme for a specific period in many cases; this leads to an offer of permanent employment if a vacant position arises. There is well-functioning collaboration with NAV (the Norwegian Labour and Welfare Administration) and other partners.

Summary for 2017

Valuable vocational training for more people

Results

In 2017, NorgesGruppen strengthened the work of hiring and recruiting apprentices and people in need of vocational training. These efforts have increased the number of apprentices in our activities. Many of them continue in permanent employment after completing their apprenticeship, which also covers the activities’ need for professional skills. The focus on apprentices and vocational training positions is backed by dedicated managers who help to ensure that the apprenticeship or vocational training period provides skills and work experience of value to the individual.

NorgesGruppen has many employees with a long length of service who serve as good examples of internal career paths, such as progressing from store employee via assistant store manager to store manager; or in some cases to operations manager and regional manager, or a key role in the store chain’s administration. The experience and understanding of operational conditions achieved in the course of a long career are important for every store chain, and for NorgesGruppen in overall terms. Besides the internal job market in NorgesGruppen, there is also a need for new recruitment. We experience a strong interest in vacant positions, and for both ordinary staff positions and positions requiring higher educational qualifications. In Universum’s annual ranking of Norway’s most attractive employers, students ranked NorgesGruppen as the leader in our sector in 2017. For the second consecutive year, we won the award as best “retailers” in the sector.

In 2017, new elections were held of employee representatives to the Board of Directors of NorgesGruppen ASA. There are four constituencies which together represent all of the companies in the Group. Cooperation within the Board of Directors is important for both the company and for employees.

The road ahead

The store chains will continue their targeted efforts to achieve good apprenticeships and vocational training positions, in line with requirements and ambitions. NorgesGruppen is committed to developing its employees and continuing to focus on developing their skills and understanding of the entire value chain. The companies work actively with managerial, employee and team development through employee surveys and involvement.

KIWI and UNICEF ensuring education and clean water

KIWI has been a UNICEF signature partner since 2010, and together we have built 20 schools and one preschool in Madagascar.

KIWI and UNICEF are working together to secure clean water for the same areas. KIWI employees all over Norway have committed themselves to this collaboration and have raised over NOK 510,000 under the #KIWIforUNICEF campaign. Employees throughout the country were also out with collection boxes during the autumn’s TV campaign.

KIWI and UNICEF are working together to secure clean water for the same areas. KIWI employees all over Norway have committed themselves to this collaboration and have raised over NOK 510,000 under the #KIWIforUNICEF campaign. Employees throughout the country were also out with collection boxes during the autumn’s TV campaign.

KIWI has been a UNICEF signature partner since 2010, and together we have built 20 schools and one preschool in Madagascar.

KIWI and UNICEF are working together to secure clean water for the same areas. KIWI employees all over Norway have committed themselves to this collaboration and have raised over NOK 510,000 under the #KIWIforUNICEF campaign. Employees throughout the country were also out with collection boxes during the autumn’s TV campaign.

KIWI and UNICEF are working together to secure clean water for the same areas. KIWI employees all over Norway have committed themselves to this collaboration and have raised over NOK 510,000 under the #KIWIforUNICEF campaign. Employees throughout the country were also out with collection boxes during the autumn’s TV campaign.
For the overall company, there is a marginal difference in the distribution between men (49.9%) and women (50.1%). The proportion of women increased by 1.6% points in 2017.

Long-term absence due to illness increased in 2016 and rose further in 2017, while short-term absence is at a stable level. Total absence due to illness for NorgesGruppen in 2017 was 6.4 per cent of total working time. The companies in NorgesGruppen are working systematically to reduce absence due to illness. This is followed up through the companies’ operations reporting, whereby internal analyses are performed, with related assessment of measures to reverse the trend.

NorgesGruppen’s overall staff turnover was 25.3 per cent in 2017, which is a marginal decrease from the previous year. The grocery and retail convenience goods chains, in which we have most employees, and in particular many young people who combine education with part-time work for a certain period, usually have a high staff turnover rate and fluctuations from year to year. The store chains consider the stores to be attractive workplaces, with many applicants for vacant positions. These are applicants who require employment for a certain period, and also some who view this as a future career path.

NorgesGruppen’s overall staff turnover was 70% by nationalities. NorgesGruppen stands for diversity, with more than 70 nationalities represented among its employees. There are most nationalities represented in our wholesale and industrial enterprises, and in large grocery stores. An important element of our employer responsibility and diversity programme is to ensure integration through a good introduction and training. Norwegian language skills are an important factor to achieve successful integration at individual workplaces, where the employee’s own commitment and interaction with colleagues are vital for successful integration.

Absence due to illness for this age group, especially for our grocery and retail convenience goods stores. For many young people, a job with us is their first workplace experience. This gives them valuable experience and a basis for further development, depending on whether the young people move on after a few years, stay with their first employer, or move on internally within NorgesGruppen’s own employment market.

The store chains consider the stores to be attractive workplaces, with many applicants for vacant positions. These are applicants who require employment for a certain period, and also some who view this as a future career path.

The evaluation of the trial project was predominantly positive. After three months of labelling a limited number of products and no extra marketing, one half of customers were familiar with the recommendation to see, smell and taste the products, and in our own channels.

NorgesGruppen first with supplementary labelling

Supplementary labelling of food products, and the recommendation to see, smell, taste, were received well and quickly became well-known among customers. Now the industry has agreed on a universal label.

In February 2017, NorgesGruppen launched the supplementary label “normally usable until” for selected brands. The aim was to make customers aware that most food products can be consumed after the “best before” date, and thereby help to prevent food waste in the home. After testing several labels, we ran a trial project with Kvarg products labelled with “normally usable until”. We are reinforcing this message with the recommendation to see, smell and taste the products, and in our own channels.

In February 2018, the entire industry agreed on a universal label in reducing food waste. We will continue this work in 2018, with more products and additional customer information, and by following up on our initiative to adopt universal labels as supplementary labelling in the food industry. In February 2018, the entire industry agreed on a universal label to be used on all relevant products in the future “often good after”. Other activities 27.9%
A THRIVING NORWAY

NorwegGruppen is agriculture’s largest trading partner and an important employer in the districts through store operation in almost 89 per cent of the country’s municipalities. This is local value creation.

<table>
<thead>
<tr>
<th>AREA</th>
<th>TARGET 2020</th>
<th>STATUS 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOCAL FOOD</td>
<td>Local food products’ ratio of turnover growth must be 2-5 percentage points higher than the overall growth in NorwegGruppen.</td>
<td>NorwegGruppen achieved total growth of 3.5 per cent from 2016 to 2017. The turnover growth for local food products was 7.4 per cent.</td>
</tr>
<tr>
<td>DISTRICTS</td>
<td>NorwegGruppen must be the best for locally produced food among the grocery chains in Norway.</td>
<td>MENY was ranked as best for local food in Nielsen’s report on Norwegian grocery chains. SPAR was in second place, up one notch from 2016.</td>
</tr>
<tr>
<td>NORWEGIAN AGRICULTURAL PRODUCE</td>
<td>NorwegGruppen wishes to increase production and sales of Norwegian agricultural produce, especially fruit and vegetables and product groups for which there is a shortfall of Norwegian produce today.</td>
<td>Our turnover of Norwegian fruit, vegetables, berries and potatoes increased by 7.6 per cent in volume terms from 2016 to 2017. Vegetables increased by 8.8 per cent.</td>
</tr>
</tbody>
</table>

Green growth with Grofondet

NorwegGruppen has stores in 81 per cent of the smallest municipalities in Norway (fewer than 2,000 inhabitants). It is important for us that every store has the market’s best municipalities in Norway (fewer than 2,000 inhabitants).

Results

Turnover of locally produced food continues to increase, but not at the same rate as before. This is probably related to the generally lower market growth. It may also be difficult in the long term to maintain the high growth from previous years. NorwegGruppen nonetheless considers growth of 7.4 per cent to be sound development in turnover of locally produced food. In 2017, as in previous years, MENY was ranked as the best chain for locally produced food in the report on “Norwegian grocery chains”. SPAR rose to a second place after working systematically to improve its offering of locally produced food.

The very good growth season for Norwegian fruit and vegetables in 2016 had a positive impact on sales in 2017, since much of the production is stored and sold in the subsequent year. The trend from 2016 of an increased proportion of Norwegian produce for the most important vegetables, such as carrots, tomatoes and onions, continued in 2017. For many years, our stores have had the highest proportion of Norwegian potatoes. This sound development is the result of a deliberate effort and collaboration in the value chain, as well as favourable growth conditions. After a couple of challenging seasons, there was also a good season for strawberries and raspberries. In overall terms, we sold 7.6 per cent more Norwegian fruit and vegetables, potatoes and berries.

The road ahead 2017 was the first full year of using Gartnermerket exclusively for Norwegian fruit and vegetables. Marketing significantly increased familiarity with this brand, and in 2018 we will focus even more on spreading knowledge of these products and their local anchoring.

Cevita apple juice from Telemark

The seasonal product Cevita Norwegian apple juice is made from the best aromatic apples from Telemark’s 700 000 fruit trees.

Himmelspannet cheese from Hemsedal

Himmelspannet Yolker in Hemsedal produces cheeses of exquisite quality, based on cows’ and goats’ milk supplied by local farmers.

Stores in the districts

NorwegGruppen has stores in 81 per cent of the smallest municipalities in Norway (fewer than 2,000 inhabitants). It is important for us that every store has the market’s best municipalities, irrespective of location. This makes equalisation of freight expenses important for the smallest district stores.

Green growth with Grofondet

In its first year of operation, Grofondet (the Growth Fund) pledged to support 14 different projects, which overall will receive more than 12 MNOK during the next few years.

Green growth with Grofondet

In its first year of operation, Grofondet (the Growth Fund) pledged to support 14 different projects, which overall will receive more than 12 MNOK during the next few years.

Cevita apple juice from Telemark

The seasonal product Cevita Norwegian apple juice is made from the best aromatic apples from Telemark’s 700,000 fruit trees.

Himmelspannet cheese from Hemsedal

Himmelspannet Yolker in Hemsedal produces cheeses of exquisite quality, based on cows’ and goats’ milk supplied by local farmers.

Summary for 2017

Norwegian products prosper
A SUSTAINABLE VALUE CHAIN

Our customers must be able to trust that the products they buy are of the right quality, and are produced in conditions which protect people, animals and the environment.

<table>
<thead>
<tr>
<th>AREAS</th>
<th>TARGET 2020</th>
<th>2017</th>
<th>STATUS 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRODUCT SAFETY MEASURES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Execution of a red alert (possible health risk) within two hours and a yellow alert (quality fault) within 24 hours.</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>SUPPLIER FOLLOW-UP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ensure that our suppliers have adequate systems to protect food safety and quality, employee rights, the environment and animal welfare in their value chains.</td>
<td>100%</td>
<td>96% of key suppliers assessed and measures implemented.</td>
<td>100%</td>
</tr>
<tr>
<td>FORESTS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prevent deforestation, with particular focus on soya, palm oil, beef and paper</td>
<td>100%</td>
<td>New targets</td>
<td>New targets</td>
</tr>
<tr>
<td>FISH AND SEAFOOD</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ensure good taxation practice and responsible fishing and farming methods.</td>
<td>100%</td>
<td>New targets</td>
<td>A large proportion of sustainable fish and seafood today. This area will be developed further.</td>
</tr>
<tr>
<td>SUSTAINABLE CONSUMER CHOICE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased sales of ethically and environmentally-certified products.</td>
<td>+15%</td>
<td>Svanen (Nordic Ecolabeling) + 2.7%</td>
<td>Squacen Nordic Ecolabeling</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>FairTrade + 1.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Organic + 8.4%</td>
</tr>
</tbody>
</table>

Results

In 2017, we completed 160 emergency alert cases. We launched a new emergency alert system to ensure better procedures for more effective and precise removal of products with quality faults and possible health hazards. We wish to find good solutions to avoiding wasting food that is withdrawn due to defects that do not affect quality, for example by donating it to charitable organisations. When products are withdrawn, we encourage suppliers to assess the need carefully against the environmental impact which this entails.

Our customers expect NorgesGruppen to take responsibility for the products that we sell. During 2017 we set new targets for forestry and sustainable seafood, and we have initiated work to create more sustainable product and packaging design. Towards 2020, we must therefore increase our efforts to prevent overfishing and pollution with plastic waste. NorgesGruppen is responsible for ensuring good animal welfare for the meat we buy in Norway, and which we import. An example from 2017 is Lerstang chicken, a slow-growing chicken that lives a good life, and also tastes good. Chicken sheds with natural daylight give a normal diurnal rhythm and a healthy life cycle, with key hales, roosting perches and bedding boxes.

Financial opportunities and climate change are causing people to travel far to find work, which is creating a risk of what we call modern slavery. We are therefore continuing to map our value chains, and undertake inspections and audits in order to safeguard employees’ rights. In 2017, we tested a digital tool to create better dialogue between employees and management at factories in Thailand and China, which produce for our own brands. This tool is called Qlyzz and has been developed to reach out to migrant workers and protect their rights. This means that both management and employees can receive training concerning employees’ rights in their own language, in relaxed conditions. We also follow up on the commitment to employees' rights through membership of the Initiative for Ethical Trading and involve ourselves in the Consumer Goods Forum’s initiative for human rights and the environment.

The road ahead

Towards 2020, we will increase our focus on such important areas as resource management, climate emissions and pollution. The rights and circumstances of migrant workers are another important area for us, on which we also have focus.

Good progress throughout the value chain

Summary for 2017

Less air – more product

In 2017, we set up a project to increase filling ratios by 15 per cent.

- If we succeed in reducing our packaging to contain less air, we can transport more products on our vehicles and use less plastic and other packaging materials. For example, we are replacing cans with square tetrapak packaging for our own brands. Another example is Santa Maria, which suppliers herbs and spices for the institutional catering market. They have begun to use square cardboard packaging, which not only increases the filling ratio, but also ensures more environmentally-friendly packaging material.


e
e

Food safety alerts

Number of cases

<table>
<thead>
<tr>
<th>Year</th>
<th>Red withdrawal/recall</th>
<th>Yellow withdrawal</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2016</td>
<td>100</td>
<td>1</td>
</tr>
<tr>
<td>2017</td>
<td>150</td>
<td>2</td>
</tr>
<tr>
<td>2018</td>
<td>200</td>
<td>3</td>
</tr>
</tbody>
</table>

Product alert system 2017

In June, we introduced a better system to handle our product alert system. The number of emergency alert cases has stabilised in recent years. Most cases are due to quality faults that do not present any risk, or deviations in consistency, flavour or appearance.

Anti-corruption

NorgesGruppen’s anti-corruption programme is based on four areas, with the aim of discovering and handling any forms of corruption. Each business area is responsible for following this up by setting clear requirements across the Group, as well as ethical guidelines, training and skills development through e-learning courses for new employees, initiatives and communication such as dilemma training and risk assessments in each unit, and follow-up and inspection through a warning scheme. Each company either has its own warning scheme, or is connected to the Group’s warning service. During 2017, among others DNV GL held anti-corruption courses for UNIL, Meny, NG Data, Kjøpmannshuset and NorgesGruppen’s regional executive directors and Group management.

Financial opportunities

Towards 2020, we will increase our focus on such important areas as resource management, climate emissions and pollution. The rights and circumstances of migrant workers are another important area for us, on which we also have focus.

NorgesGruppen’s Annual and Sustainability Report 2017
Competitiveness throughout the value chain

We meet consumers’ needs – also through the most effective value chain possible.

Grocery stores are characterised by low margins and high volume. Competitiveness therefore concerns operating effectively throughout the value chain, since the stores must have the right products in the right quantity, at the right time.

Over time, high productivity and effective operation have contributed to favourable development for Norgesgruppen. This has also contributed to keeping price growth for food products at the level of the consumer price index during the last 15 years, despite higher wage growth in the same period.

Effective distribution with ASKO
Norgesgruppen’s effective distribution network is a condition for ensuring consumers products of good quality at the lowest possible price. Large elements of our distribution take place through the wholesale company ASKO, which has the key task of delivering the products ordered at the agreed time. This achieves stores with the right product flow and least possible incidence of sold-out products. ASKO works closely with customers and suppliers in order to streamline the value chain. This includes developing solutions to make customers’ lives easier, or to support suppliers in their production planning.

ASKO has improved operational productivity by more than 30 per cent during the last ten years. In practice, this means 30 per cent greater volume with the same cost level. Increased wholesale activity has brought greater integration of retail trading with wholesale activities, streamlining the cooperation between companies. ASKO delivers a wide range of products on one and the same transport vehicle. Customers only need to consider one order point, one delivery and one invoice, instead of ordering products from several suppliers and receiving just as many invoices. ASKO’s distribution system handles the entire product flow, from producer to end-customer.

ASKO began using new technology at an early stage, and continued this work in 2017. One important step was to transfer the significant flows of bread and baked goods to NGFLYT, which is ASKO’s tool for automatic product orders and operations support. This step improves the flow between the supplier, Bakehuset, the stores and consumers. We also commenced an extension of NGFLYT to make it an effective tool to prevent waste. ASKO also opened a new, fully-automated refrigerated warehouse at Vestby, which in time will contribute to significantly streamlining the value chain for refrigerated products. See the next page for more information about NGFLYT and initiatives in 2017.

Customised for the hospitality sector
Norgesgruppen and ASKO have around 14,000 customers in the hospitality market, and attach great importance to giving these customers a simple and appropriate purchasing process. In 2017 we therefore developed a new online solution customised for the hospitality market, where besides buying products, customers can find inspiration and obtain new knowledge. The online solution will open in full in 2018. We also established Eureca Engros in order to strengthen the offering for smaller restaurant and catering operators; see the next page.

Alliances to increase expertise
Norgesgruppen and UNI have access to international procurement collaboration through United Nordic (UN) and the European Marketing Distribution (EMD) alliance. This procurement collaboration gives the clout to secure competitive terms and to enable us to make requirements of our suppliers. Examples of these requirements are: quality certification, nutritional content, ecofriendly products and effective packaging to improve handling in the value chain and reduce space requirements during transport. The alliances give us a broader strategic platform of suppliers and better opportunities to fulfil quality requirements.

1,200 business partners
The grocery sector is the workplace of many people, contributing to a dynamic Norway. Our stores and 1,020 retailers are focused on giving our more than one million customers per day the best possible shopping experience. Without the industry’s brands, this would not be possible. Norgesgruppen has 1,200 business partners, as well as Norwegian agriculture, which are all passionate about their brands. A good example of this positive cooperation is that, within record time, the chicken producer Price, Norgesgruppen and MENY successfully launched the marinated-free Kyllinggården series in MENY, and this success continued in 2017. Another example is the Norskferk collaboration with Norus. Together we have established Norway’s best value chain for fresh products, from farmer and producer to the store.

Sales-ready stores
Sales-ready stores mean that our customers must encounter full shelves of products of good quality, at any time.

Number of products available through ASKO

Sales-ready stores

1,200 business partners

Alliances to increase expertise


**New flow for bread and baked goods**

Creating optimum goods flows is the key requirement to reduce food waste and ensure the right product exposure on stores’ shelves. In 2017 we therefore re-organised the large flows of bread and baked goods.

- The re-organisation entailed migrating bread and baked goods to the NGFLYT tool. All stores in Kiwi, Spar and Meny that have these products delivered from Bakehuset became part of this solution in 2017. This means that 961 stores have transferred procurement of bread and baked goods to NGFLYT.

  - This is good for increased sales and preventing waste. Bread and baked goods in NGFLYT will reduce excess production, deliver the right volumes to the stores, and reduce returned items. In practice, this means that consumers will have a wider selection in the stores throughout the evening, the store and Bakehuset will sell more, and less bread will be thrown out or used for other than human consumption.

  - Manual fax orders have been phased out, and the day-to-day lives of Bakehuset and its customers have been made easier. The aim is for the re-organisation to increase sales by 1 per cent and also to reduce waste by 1 per cent during 2018.

---

**Faster goods flows**

ASKO’s new fully-automated refrigerated warehouse will handle around 25 per cent of Norway’s consumption of refrigerated products.

- The new refrigerated warehouse in Vestby - called the ASKO Central Refrigerated Warehouse - was phased in gradually as from January 2017. The central warehouse has equipment equivalent to 400 trailers with shelves, robots, cranes, belts and a total of 8,000 motors to ensure effective automated handling of fresh produce. This will increase productivity and ensure faster goods flows in the value chain, better durability for customers, and opportunities to offer a wider range. This will also release refrigeration capacity in the regional warehouses. The warehouse has a central warehouse function for the whole of Norway, and has taken over all handling of refrigerated goods for ASKO Norway, ASKO East, ASKO Drammen and ASKO Vestfold.

---

**ASKO commenced logistics training**

Employees developing important skills

- In 2017, 40 ASKO employees commenced a four-year programme to gain a bachelor in logistics through the ASKO college. The programme has been developed by ASKO in collaboration with Kristiana University College, with the aim of strengthening employees’ competences in an area that is and will continue to be very important for ASKO. The 40 employees were selected on the basis of personal motivated statements. Even though the study programme is arranged to be taken while in full-time employment, every student has to be willing to sacrifice some of their leisure time in order to complete the programme.

---

**Customers experience greater flexibility**

Better solution for restaurants and catering.

- Within restaurants and catering there is an increasing number of small, busy individualists with a new for more frequent, more flexible and faster deliveries, follow-up and assistance. In terms of needs and habits, they resemble consumers. In 2017, ASKO established Eureca Engros to strengthen the offering to these customers. The new company offers a range, service and prices matched to the customer, setting high requirements of flexibility and individual solutions. Eureca has established its own online store, with deliveries to Greater Oslo and its suburbs.

---

**This is NGFLYT**

NGFLYT is NorgesGruppen’s tool for automatic orders and operations support. It helps the stores to place the right orders, and reduce food waste. Simply explained, the stores have exactly what is in demand on their shelves, and no more or less. This is vital to profitability and increases customer satisfaction. Data from NGFLYT can also improve suppliers’ production planning. The large number of product groups flowing through ASKO eliminates the stores’ costs of administration and product filling. One order, one receipt of goods and one invoice is all that is needed. Shelf filling can take place more quickly, thanks to deliveries that are adapted to defined zones in the stores. NorgesGruppen has also taken over responsibility from suppliers for all filling of shelves in the stores, in order to reduce the time spent on this.

In 2018, NGFLYT was expanded with a warning function when a product is approaching its expiry date, so that retailers can reduce the price, or take it off the shelves.
Academy for the hospitality sector

ASKO has established the KIT academy – a complete training arena for the hospitality sector. In 2017, 40 courses were held for 600 customers.

Simulation to reduce waste

Sufficient products on the shelves, with the least possible waste.

“This makes the employees more aware”
Arnlyt Aarflot, operations manager in Joker Nord where all employees have undergone this training

PROVIDE A BETTER EVERYDAY LIFE

NorgesGruppen’s key values are responsible, customer-oriented and ready to cooperate. We will always act on a fair and credible basis and via our actions we will create confidence and security. We will also facilitate independent retailers and sound business acumen.

In 2017, the academy held 40 courses for a total of 600 customers. The courses have contributed to spreading knowledge of finance, additional sales and prevention of food waste. The food safety courses give participants the best opportunities to get smileys from the Norwegian Food Safety Authority. Customer satisfaction courses focus on creating good experiences for guests. In addition, customers can get inspiration for new recipes and increase their knowledge of wine and beer. The balance between having enough products on the shelves and avoiding waste is important for all stores. SPAR og Joker have therefore developed digital simulation tools Bidrik and SPARSim, in order to train employees in this particular skill. Employees like this training method, and there is a strong interest in these themes.

In the autumn of 2017, SPAR and Joker began to halve the prices of day-fresh bread one hour before closing time.

Meny offers yesterday's bread at a strongly reduced price up to 11am, and since 2016 has sold more than half a million loaves in this way. Discounting of bread and other products that are approaching their expiry date can be a very effective way of reducing food waste.
KIWI

KIWI is the leader in price terms and came out top in most price surveys in 2017. They work to give customers the very best offers, and in the autumn they cut prices for laundry and hygiene products by 10–40 per cent, followed by cutting prices for a number of products for Norwegians’ favourite dinners. KIWI continued to focus on environmental stores, including two more of these stores in Sande and in Trondheim in 2017. Planning of Norway’s greenest store in Hokksund in 2019 is well underway.

MENY

In 2017, MENY developed its online retailing offer on a national scale. The MENY stores have gained a dinner zone and launched a selection of new dinner solutions developed by the MENY guild. MENY is the supermarket chain with a broad, attractive selection of goods, and access to 30,000 items throughout the year. MENY maintains the position as the grocery chain in Norway with the most satisfied customers (Norsk Kundebarometer 2017).

JOKER

Together with Nærbutikken, Joker has a strong position in the districts of Norway. In 2017, several Joker retailers in NorgesGruppen invested in store upgrades and further developed their stores as the local meeting place. Joker celebrated its 20th anniversary in 2017. Nærbutikken Øygardsgrend was named as the local store of the year in Østlandet Sar by the Merkur programme in 2017.

JAFS

Jafs offers ready-meal solutions to customers, and achieved good performance in 2017. During 2017, Jafs launched and converted all stores under a new profile. All mineral water activities now include a sugar-free alternative. Jafs became palm oil-free in 2017 in terms of deep-frying oil. This chain has 58 profiled Jafs stores and around 100 associated stores.

Deli de Luca

Deli de Luca opened its store number 100 in 2017, with 67 of the stores located at Esso service stations along the Norwegian road network. Here, ready-meal solutions and coffee are among the categories showing the strongest growth, and customers expect simplicity, freshness and quality. Deli de Luca offers customers products for take-away/home consumption, the opportunity to enjoy meals at the service stations, and fixed-on-the-go. This also gives customers plenty of choice, and also for healthier food and beverages.

MIX

MIX opened five new points of sale in 2017 and is in the establishment phase of a new concept to transform MIX from newsagents to diners. In 2017, they launched the new MIX Cheeseburger together with Norway’s Coolest Milkshake “The Perfect Match”, in the contest to win an ever-younger customer group.

JSPAR

SPAR is the local supermarket, with attractive offers and fresh food counters. They had a good 2017, with high customer growth and even more items sold per customer, after successful campaigns. Throughout the previous year SPAR invested in upgrading the store concept. In 2017, the best ever customer survey results confirmed that customers appreciate SPAR. SPAR was also nominated for Fairtrade’s honorary award, and EUROSPAR Tomskjært was a finalist in the “Årets matgledebutikk” competition.

ASKO

ASKO delivers groceries to NorgesGruppen’s chains and to other external customers. The establishment of the automated refrigerated warehouse in Vestby in 2017 will contribute to increased productivity, faster flows in the value chain, better shelf lives for customers, and the opportunity to offer a wider range. This will also release refrigeration capacity at regional warehouses. In the last ten years, ASKO achieved an over 30 per cent productivity improvement in its operations.
UNIL

Unil AS is responsible for products under NorgesGruppen’s own brands, and has a portfolio of more than 2,500 products. Own brands contribute to differentiation and increased competition for the chains, giving customers greater freedom of choice and inspiring products. In 2017, UNIL worked to reduce salt, sugar and saturated fat in all of its products. In addition, there was focus on reducing air in product packaging.

BAKEHUSET

The quality and price of bread and baked goods are seen as an important factor for the customer’s choice of store. Bakehuset has therefore focused on developing a wider range of healthier, wholemeal products, launching small loaves and a range of small items, and using the NGUVT system to ensure that the stores get fresh bread in the right quantities, at the right time. In 2017, the “Naturlig Sunt” (Naturally Healthy) series was re-launched, in cooperation with the Norwegian Trekking Association (DNT).

JOH KAFFE

Joh. Johannson Kaffe with subsidiaries delivers to grocery stores, hotels, restaurants, catering companies and its own coffee bars. Strong Norwegian brands such as Evergood and Ali are still performing well in the grocery sector in a market subject to strong international competition. Joh. Johannson Kaffe has taken a decision to build new production premises at Vestby, for completion in 2019/2020.

MATBØRSEN

Matbørsen produces ready-to-eat products for NorgesGruppen’s stores, as well as ready-meal solutions for customers via chain-specific concepts such as “MENY Middag” and own brands such as “Fersk og Ferdig”. In 2017, Matbørsen invested in automated production lines to streamline production. These investments will contribute to achieving future growth through increased production capacity, with inspiring and innovative products for consumers.

“DNT bread” is a great success in the stores

NorgesGruppen and the Norwegian Trekking Association (DNT) are collaborating on promoting healthy food, an active outdoor life and nature protection as central elements of Norwegian public health.

BAKEHUSET

For many years, NorgesGruppen has collaborated with the Church City Mission (Kirkenes Bymisjon) on providing meals to those most in need. At Tøyen in Oslo, the Church City Mission opens its doors to people in need of a good, free hot meal. This programme is called “Urban Lunches”. The volunteers working here include NorgesGruppen employees.

Together with Bakehuset, KIWI, MENY, SPAR, Joker and ASKO, NorgesGruppen contributed products for the Urban Lunches, a programme which started in 2015. During 2017, NorgesGruppen contributed 30,000 meals for Urban lunches’ guests and NorgesGruppen’s employees were part of the voluntary programme which organises the serving of lunches every weekend, all year round.

“This is a good type of cooperation to which we can contribute our products, and also learn more about volunteer work. We want to start with ourselves and contribute more volunteers to Urban Lunches,” says Group CEO Runar Hollevik.

In 2017, we ran two important campaigns together with DNT, which we believe are for the benefit of both society and business. In September 2017, in cooperation with DNT, Bakehuset launched a new bread series, the Naturally Healthy (Naturlig Sunt) bread. All of this bread is wholemeal or extra crusty bread, and sold well during the autumn and winter.

We also set the shared the goal of getting 100,000 more Norwegians into the outdoors. Through activities such as the “Getting out day” and distribution of trip catalogues in Kiwi’s stores, we contributed to mobilising and visualising the enjoyment of outdoor excursions.

Urban lunches for those most in need

In 2017, we ran two important campaigns together with DNT, which we believe are for the benefit of both society and business.

In September 2017, in cooperation with DNT, Bakehuset launched a new bread series, the Naturally Healthy (Naturlig Sunt) bread. All of this bread is wholemeal or extra crusty bread, and sold well during the autumn and winter.

We also set the shared the goal of getting 100,000 more Norwegians into the outdoors. Through activities such as the “Getting out day” and distribution of trip catalogues in Kiwi’s stores, we contributed to mobilising and visualising the enjoyment of outdoor excursions.

In 2017, we ran two important campaigns together with DNT, which we believe are for the benefit of both society and business.

In September 2017, in cooperation with DNT, Bakehuset launched a new bread series, the Naturally Healthy (Naturlig Sunt) bread. All of this bread is wholemeal or extra crusty bread, and sold well during the autumn and winter.

We also set the shared the goal of getting 100,000 more Norwegians into the outdoors. Through activities such as the “Getting out day” and distribution of trip catalogues in Kiwi’s stores, we contributed to mobilising and visualising the enjoyment of outdoor excursions.
Financial development

The financial development of NorgesGruppen, comprising our directly-owned activities, was very positive in 2017, and the Group maintains its solvency.

Revenue growth

Operating revenue amounted to 85,632 MNOK in 2017, compared to 80,162 MNOK in 2016. NorgesGruppen increased its income by 6.6 per cent last year. This increased competitiveness enables us to keep food prices down and offer a wide selection of products. In 2017 there was virtually zero growth in food prices (Source: SSB).

NorgesGruppen is winning new customers, with growth considerably above the market rate. In 2017, NorgesGruppen grew by 3.1 per cent in a market that only shows 1.1 per cent growth (source: Nielsen).

Despite a strong rate of establishment among competitors and stronger competition from food-on-the-go, eating out, border retailing, specialised retailing and online retailing, the customer intake is increasing by 7,000 per day for comparable stores. Our organic growth was 1.5 per cent, while comparable stores in the market experienced negative growth. This means that more consumers are choosing our chain store concepts. The positive development in operations is reflected in our operational activities.

The development in stores comparable with MENY shows that the chain has gained customers. MENY maintains the position as the grocery store chain in Norway with the most satisfied customers (Norsk Kundebeskriftelse 2017). The supermarket chain is attractive, due to its wide selection of products, with access to fresh produce, as well as the implementation of a new transport management system.

For NorgesGruppen, margins have been stable over time, thanks to various rationalisation measures and strong store chain concepts that perform well in the market competition.

Investing in more effective, digital and sustainable business operation

Net cash flows from investment activities totalled -2,669 MNOK in 2016. Net cash flows from operational activities were 5,182 MNOK in 2017, compared to 4,600 MNOK in 2016. Our activities require large investments over time, in order to further develop attractive chain concepts and stores. We invest close to 3 BNOK annually in more streamlined operations, increased competences, better stores, online retailing and climate-neutral operation.

In 2017, we opened a new, automated central warehouse for refrigerated products, which will prolong the shelf life of fresh products in the stores. ASKO also invested in extensive restructuring of goods flows for fresh produce, as well as the implementation of a new transport management system.

The investment in part-ownership of Eurocash is one of the new strategic initiatives to increase our knowledge of markets and consumer trends beyond our national borders.

We invested in new, environmental- ly-friendly stores in 2017, including new KIWI stores. There were also substantial changes in the industry are weakened particularly under even more pressure, which also helps to explain the low market growth. Margins in the industry are weakened particularly by the strong price competition.
Key financial figures for the Group

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating revenues MNOK</td>
<td>85,632</td>
<td>80,162</td>
<td>76,224</td>
<td>71,397</td>
<td>67,396</td>
</tr>
<tr>
<td>EBITDA1)</td>
<td>5,218</td>
<td>4,946</td>
<td>4,729</td>
<td>4,357</td>
<td>3,899</td>
</tr>
<tr>
<td>Operating profit (EBIT) MNOK</td>
<td>3,052</td>
<td>3,266</td>
<td>3,170</td>
<td>2,945</td>
<td>2,636</td>
</tr>
<tr>
<td>Profit before tax MNOK</td>
<td>2,778</td>
<td>3,164</td>
<td>3,001</td>
<td>2,616</td>
<td>2,405</td>
</tr>
<tr>
<td>Net result MNOK</td>
<td>2,090</td>
<td>2,465</td>
<td>2,367</td>
<td>1,930</td>
<td>1,793</td>
</tr>
</tbody>
</table>

| Shares | | | | | |
| Earnings per share2) NOK | 52.33 | 62.30 | 59.58 | 48.89 | 45.46 |
| Dividend per share NOK | 15.00 | 16.00 | 15.00 | 13.00 | 12.00 |

| Capital | | | | | |
| Total assets MNOK | 37,878 | 38,382 | 35,104 | 33,515 | 30,914 |
| Equity MNOK | 18,135 | 16,728 | 14,820 | 13,007 | 11,455 |
| Equity ratio % | 48.1 | 46.0 | 42.2 | 38.8 | 37.1 |
| Net interest-bearing debt MNOK | 4,177 | 5,578 | 7,100 | 7,309 | 7,188 |

| Profitability | | | | | |
| Operating margin (EBITDA/3) | 6.1 % | 6.0 % | 6.2 % | 6.1 % | 5.8 % |
| Operating margin (EBIT)4) | 3.6 | 4.1 | 4.2 | 4.1 | 3.9 |
| Profit margin5) | 3.2 | 3.9 | 3.9 | 3.7 | 3.6 |
| Return on capital employed6) | 13.1 % | 14.5 % | 14.6 % | 14.6 % | 14.5 % |

1) Operating profit before amortisation and write-downs and revenues from investments in associated companies
2) Net profit to majority interest/average number of shares
3) EBITDA/Operating revenue
4) Operating profit/operating revenue
5) Profit before tax + interest expense/operating revenues
6) Profit before tax/average equity + interest-bearing debt

Investments in Deli-de Luca at selected Esso service stations. The proportion of consumers purchasing groceries online more than doubled last year. Physical stores must keep up the work of offering consumers inspiration, uniqueness and quality in the years to come. Differentiation through category development is therefore vital to ensuring the chains’ increased competitiveness in the grocery sectors in coming years.

The operator that is to win the contest for customers needs to deliver on many parameters: price predictability, a quick and easy shopping experience, quality and offers of healthier and more ecofriendly products. More and more consumers expect more information about products’ content, how food is produced, and the impact of production on people, animals and the environment. Six out of ten consumers would like to eat more healthily.

The development in grocery stores’ sales matches the weaker growth in the European market. The European grocery market declined abruptly from Q3 2015, since when it has maintained a stable, low level. Norwegian grocery stores experienced this downturn around one year later, in Q3 2016. NorgesGruppen expects sustained low growth in the grocery market during the coming years.

Out of a food market of 280 BnNOK, NorgesGruppen has a market share of 27.2 % (Andhøy, Virke 2017). Figures from Nielsen indicate that online retailing of groceries now amounts to 2 BnNOK, which represents growth of 30 per cent last year. Border retailing, online retailing, hospitality, newsagents and petrol stations, and specialised retailers account for an ever-increasing share of the food market. Six out of ten Norwegians purchased groceries in Sweden last year (Food 2018). Channels other than traditional food stores account for food sales of 100 BnNOK. This helps to explain the low market growth in the traditional grocery market.

Financial analysis

NorgesGruppen's Annual and Sustainability Report 2017
NorgesGruppen
Group Statement of Comprehensive Income

<table>
<thead>
<tr>
<th>Note</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET PROFIT FOR THE YEAR</td>
<td>2,089,737</td>
<td>2,484,887</td>
</tr>
</tbody>
</table>

Comprehensive income

Items that will not be reclassified to income statement

- Actuarial gains and losses on pension schemes: 11 (28,991) (25,669)
- Other comprehensive income: 24 6,566 (856)
- Tax: 17 5,259 6,227

Items that may subsequently be reclassified to income statement

- Gains/(losses) on cash flow hedges: 12 31,855 118,965
- Currency translation differences: 11 4,611 (36,913)
- Actuarial gains and losses on pension schemes: 15 443 (16,336)
- Tax on comprehensive income: 17 (7,327) (28,551)

Total comprehensive income/(loss) for the year: 34,266 16,918

Total net profit for the year: 2,124,004 2,481,805

Minority interest share of the profit: 42,867 19,739

Majority interest share of the profit: 2,081,137 2,462,066

NorgesGruppen
Group Balance Sheet per 31. December

<table>
<thead>
<tr>
<th>Note</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fixed assets

- Intangible assets: 7 4,831,864 4,895,355
- Deferred tax assets: 17 340,651 324,685
- Property, plant and equipment: 6 15,404,511 15,157,066
- Investment property: 6 692,702 621,181
- Investment in associated companies: 10 3,042,306 2,860,833
- Other financial assets: 23 776,464 1,096,729
- Other long-term receivables: 16 97,708 93,444

Total fixed assets: 25,191,258 25,039,293

Current assets

- Inventories: 6,348,937 6,099,483
- Accounts receivables and other receivables: 23 5,124,947 4,529,546
- Other financial assets: 16 23,407 6,621
- Cash and cash equivalents: 16 1,080,616 707,409

Total current assets: 12,486,902 11,343,558

TOTAL ASSETS: 37,678,107 36,382,352
### EQUITY AND LIABILITIES

<table>
<thead>
<tr>
<th>Note</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Called-up share capital</td>
<td>18</td>
<td>1 826 582</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>18</td>
<td>16 049 217</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>260 079</td>
<td>252 082</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td></td>
<td><strong>18 134 648</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Note</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>17</td>
<td>905 373</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>11</td>
<td>521 221</td>
</tr>
<tr>
<td>Pension liabilities</td>
<td>13</td>
<td>4 680 942</td>
</tr>
<tr>
<td>Deferred taxes</td>
<td>16</td>
<td>89 168</td>
</tr>
<tr>
<td>Total long-term liabilities</td>
<td></td>
<td><strong>6 176 704</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Note</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Account payables</td>
<td>14</td>
<td>5 542 861</td>
</tr>
<tr>
<td>Tax payable</td>
<td>17</td>
<td>683 498</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>16</td>
<td>30 013</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td></td>
<td><strong>12 366 758</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Note</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td><strong>19 543 460</strong></td>
</tr>
</tbody>
</table>

| Total equity and liabilities | | **37 678 107** | **36 382 352** |

---

### NorgesGruppen's Annual and Sustainability Report 2017

**Group Balance Sheet per 31. December**

**Group statement of changes in equity**

<table>
<thead>
<tr>
<th>(All amounts in TNOK)</th>
<th>Paid-up capital</th>
<th>Retained earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note</td>
<td>Share capital</td>
<td>Share premium</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity</th>
<th>31.12.15</th>
<th>1 434 239</th>
<th>9 449 604</th>
<th>16 899</th>
<th>(35 722)</th>
<th>11 220 608</th>
<th>(68 412)</th>
<th>16 899 254</th>
<th>25 319</th>
<th>2 464 887</th>
</tr>
</thead>
</table>

| Profit for the year | - | - | - | 2 439 568 | - | - | 2 439 568 | 25 319 | 2 464 887 |
| Other comprehensive income for the year | 24 | - | - | (31 003) | (36 913) | 90 413 | 22 498 | (5 580) | 16 918 |
| Total profit for the year | - | - | - | 2 408 565 | (36 913) | 90 413 | 2 462 068 | 19 739 | 2 487 805 |

| Changes in shares | 18 | - | - | 395 | 26 854 | - | 27 249 | - | 27 249 |
| Changes in capital | - | - | - | - | - | - | - | 4 200 | 4 200 |
| Dividends | 18 | - | - | (587 200) | - | - | (587 200) | (17 337) | (604 537) |
| Transactions with owners | - | - | - | (560 346) | - | - | (559 950) | (13 137) | (573 087) |

| Equity | 31.12.16 | 1 434 239 | 14 669 471 | 72 701 | (8 138) | 16 476 405 | 252 062 | 16 728 487 |
|--------|---------|-------------|---------|--------|------------|-------------|---------|----------|--------|----------|

| Profit for the year | - | - | - | 2 048 650 | - | - | 2 048 650 | 41 087 | 2 089 737 |
| Other comprehensive income for the year | 24 | - | - | (3 502) | 11 461 | 24 528 | 32 487 | 1 780 | 34 266 |
| Total profit for the year | - | - | - | 2 045 147 | 11 461 | 24 528 | 2 081 137 | 42 867 | 2 124 004 |

| Changes in shares | 18 | - | - | (749) | (55 311) | - | (56 060) | - | (56 060) |
| Transactions with minorities | - | - | - | - | - | - | - | (13 702) | (13 702) |
| Dividends | 18 | - | - | (626 914) | - | - | (626 914) | (21 168) | (648 082) |
| Transactions with owners | - | - | - | (749) | (682 229) | - | (682 974) | (34 870) | (717 843) |

| Equity | 31.12.17 | 1 434 239 | 16 032 393 | 84 182 | (8 887) | 17 874 568 | 260 579 | 18 134 648 |
|--------|---------|-------------|---------|--------|------------|-------------|---------|----------|--------|----------|

---

Knut Hareide Johanssen  
Chairman of the board  
Sverre Lorenzen  
Hilde Våtne  
Gutt Stenvold  
Ørjan Svanevik  
Giselle Marchand  
Jan Magne Borgen  
Lise Hanne Midtgaard  
Mats Gunnar Knudsen  
Hanne Beate Halsvaton  
Runar Hollevik  
CEO
NorgesGruppen
Group cash flow statement

(All amounts in TNOK)

<table>
<thead>
<tr>
<th>Note</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CASH FLOW FROM OPERATING ACTIVITIES:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Profit on ordinary activities before tax</td>
<td>2 777 927</td>
</tr>
<tr>
<td></td>
<td>Taxes paid in the period</td>
<td>17 (683 859)</td>
</tr>
<tr>
<td></td>
<td>Depreciation</td>
<td>6, 7 1 928 485</td>
</tr>
<tr>
<td></td>
<td>Impairment</td>
<td>6, 7 187 987</td>
</tr>
<tr>
<td></td>
<td>Changes in financial instruments</td>
<td>5 662</td>
</tr>
<tr>
<td></td>
<td>Adjustment for non-cash element of pension charge</td>
<td>11 11 141</td>
</tr>
<tr>
<td></td>
<td>Gains/losses arising from sales of property, plant and equipment and financial assets</td>
<td>(71 630)</td>
</tr>
<tr>
<td></td>
<td>Income from investments in associated companies</td>
<td>10 69 451</td>
</tr>
<tr>
<td></td>
<td>Received dividends from associated companies</td>
<td>10 266 351</td>
</tr>
<tr>
<td></td>
<td>Changes in inventories</td>
<td>(149 448)</td>
</tr>
<tr>
<td></td>
<td>Changes in accounts receivables</td>
<td>23 (319 134)</td>
</tr>
<tr>
<td></td>
<td>Changes in account payables</td>
<td>531 883</td>
</tr>
<tr>
<td></td>
<td>Changes in other accruals</td>
<td>607 108</td>
</tr>
<tr>
<td></td>
<td>Net cash generated from operations</td>
<td>5 181 954</td>
</tr>
<tr>
<td></td>
<td>CASH FLOW FROM INVESTMENT ACTIVITIES:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Proceeds from sale of property, plant and equipment and investment property</td>
<td>753 091</td>
</tr>
<tr>
<td></td>
<td>Purchase of property, plant and equipment and investment property</td>
<td>6 (2 891 598)</td>
</tr>
<tr>
<td></td>
<td>Purchase of intangible assets</td>
<td>7 (34 056)</td>
</tr>
<tr>
<td></td>
<td>Proceeds from sale of intangible assets</td>
<td>86 718</td>
</tr>
<tr>
<td></td>
<td>Purchase of financial assets</td>
<td>(608 278)</td>
</tr>
<tr>
<td></td>
<td>Changes in loans to associated companies</td>
<td>23 119 388</td>
</tr>
<tr>
<td></td>
<td>Changes in other long-term liabilities</td>
<td>23 67 688</td>
</tr>
<tr>
<td></td>
<td>Net cash used in investing activities</td>
<td>(2 567 065)</td>
</tr>
<tr>
<td></td>
<td>CASH FLOWS FROM FINANCING ACTIVITIES:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Proceeds from issue of long-term debt</td>
<td>13 4 996 288</td>
</tr>
<tr>
<td></td>
<td>Repayment of long-term debt</td>
<td>13 (6 332 234)</td>
</tr>
<tr>
<td></td>
<td>Change in short-term debt</td>
<td>14 (252 594)</td>
</tr>
<tr>
<td></td>
<td>Repurchase of shares</td>
<td>18 (96 060)</td>
</tr>
<tr>
<td></td>
<td>Dividends paid</td>
<td>18 (648 082)</td>
</tr>
<tr>
<td></td>
<td>Net cash used in financing activities</td>
<td>(2 292 682)</td>
</tr>
<tr>
<td></td>
<td>Net change in cash and cash equivalents</td>
<td>382 207</td>
</tr>
<tr>
<td></td>
<td>Cash and cash equivalents at beginning of the year</td>
<td>707 409</td>
</tr>
<tr>
<td></td>
<td>Cash and cash equivalents at the end of the year</td>
<td>1 089 616</td>
</tr>
</tbody>
</table>
NorgesGruppen has 1,835 grocery stores across Norway. These stores offer food and beverage products from the full range of major international suppliers, as well as local Norwegian suppliers. We have just below 28,000 employees in activities owned by NorgesGruppen and almost 40,000 employees in total when retailer-owned stores are included. Read more at norgesgruppen.no.

Would you like to learn more about how we manage sustainability? See norgesgruppen.no