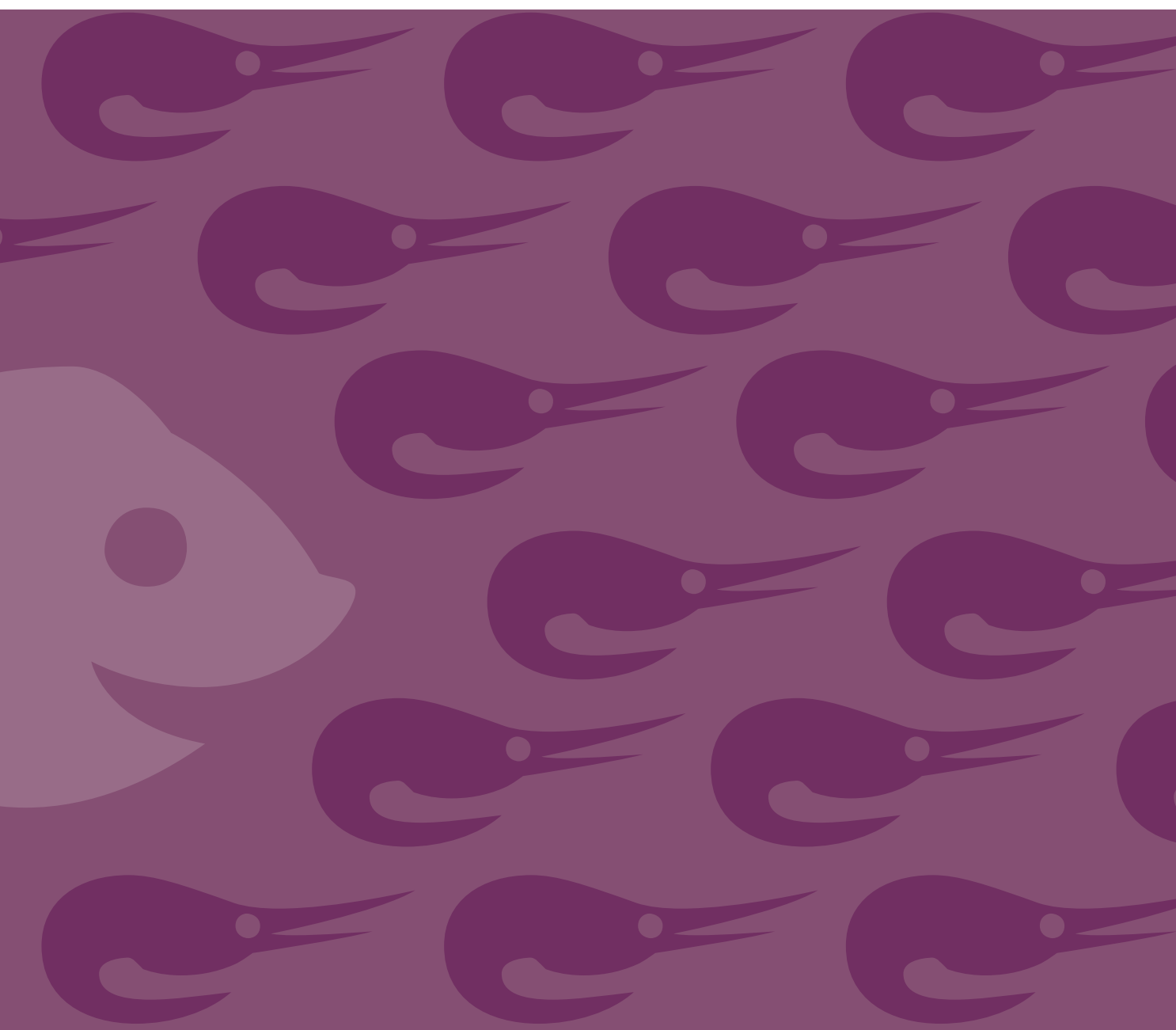




Systembolaget

Annual Report 2006



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Selling responsibly

Serving Systembolaget's customers is all about selling responsibly. Customers are not tempted to enter the stores through the use of campaigns and offers, but those who do choose to shop at Systembolaget's stores shall be offered the best possible service and a broad range of products and shall encounter knowledgeable members of staff.

38

Sustainable development

We have increased the number of organic products in our fixed product range since last year and every store now stocks at least seven organic products, all of which are marked with a green sign on the edge of the shelf.

43

Public opinion

The main reasons cited by those keen to retain the monopoly are that it enables alcohol to be sold in a controlled manner – for reasons of public health and to protect young people – and that they are happy with the product range.

28

Mandate, objectives and strategy

Systembolaget exists to limit the harmful effects of alcohol consumption. The objective is to improve and develop alcohol policy-related responsibility at the same time as we offer our customers the highest possible standard of service.

Our mandate

Systembolaget's mandate is to limit the medical and social damage caused by alcohol and thereby improve public health. For Systembolaget, this means:

- restricting availability through
 - the number of stores
 - opening hours
 - retail rules
- not attempting to maximise our profit
- not promoting additional sales
- being brand-neutral
- providing a high standard of customer service
- being financially efficient

Our vision

Systembolaget shall establish a healthy drinking culture, whereby we can enjoy Systembolaget's drinks without harming either ourselves or other people.

Our business concept

Systembolaget shall sell alcoholic beverages responsibly and shall exceed our customers' expectations by constantly developing our product range, expertise and service.

Find out more on page 28.

Systembolaget in brief

Why does Systembolaget exist?

The retail monopoly exists for one reason and one reason only: alcohol-related problems are reduced if alcohol is sold in the absence of a profit motive. Our mandate obliges us to help limit the medical and social damage caused by alcohol and thereby improve public health. Total alcohol consumption levels shall also be kept low by limiting availability by steering the retail outlet network and opening hours. Systembolaget also differs from other companies in that we are brand-neutral and do not engage in active marketing in an attempt to boost sales. Systembolaget also provides information on the risks associated with alcohol consumption.

Our responsibility

Systembolaget's mandate is based on consideration for public health. Our goal is to establish a healthy drinking culture, whereby everyone can enjoy Systembolaget's drinks without harming either themselves or other people. Systembolaget shall use its expertise to inform customers both about the effects of the various drinks on people's health and about their taste characteristics. Systembolaget shall inspire people to take an interest in what they drink and to adopt a healthy attitude towards alcohol.

Our staff

Systembolaget's continued existence depends on skilled and committed members of staff. Systembolaget's 4,000 or so employees receive ongoing training in the form of courses, tastings and field trips, making them expert advisors in the field of food and drink. Systembolaget's Employee Satisfaction Index (ESI) shows that levels of employee satisfaction in their work are constantly increasing.

Our history

It all started in 1850 with the formation in Dalarna of a company that was granted exclusive rights to operate outlets for the sale and serving of alcoholic drinks. This was the world's first ever alcohol monopoly, and it worked so well that the model spread nationwide. In 1955, the various local monopolies were merged to form a single one – Systembolaget.

1850

The serving of alcoholic drinks is systemised. Tired of the constant drinking and all the problems it caused, a group of mine-owners in Falun write to King Oscar I asking for permission to assume the right to operate public houses in Falun. Schnapps would be sold "without taking into account profit or advantage" – the profits would accrue to the town and be used for public good causes. The first "Systembolaget" had been formed.

1919

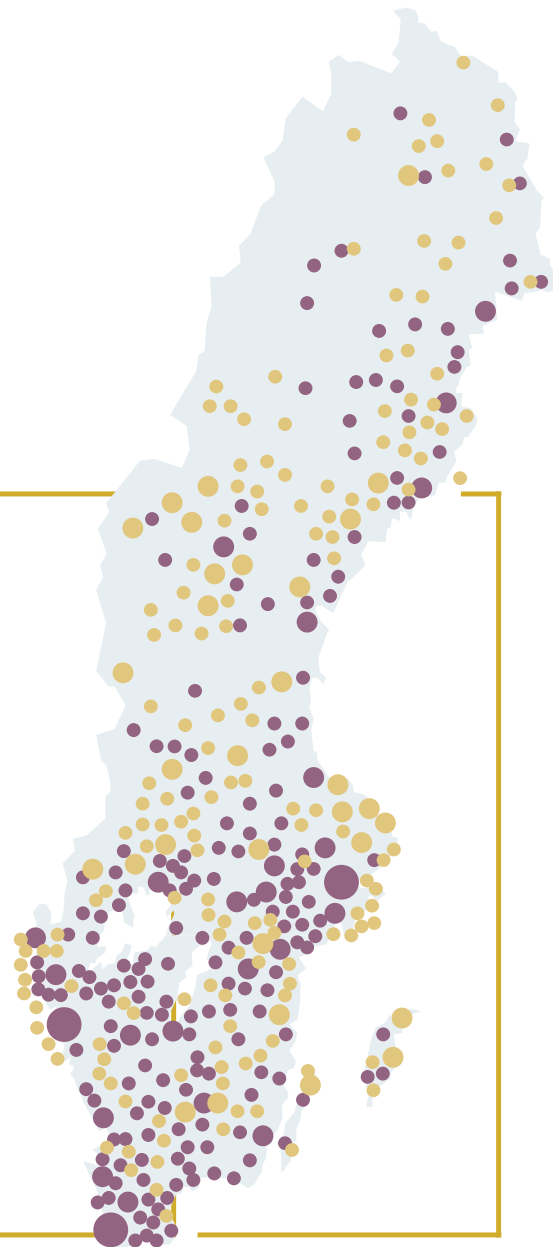
Compulsory rationing was introduced throughout Sweden after five years of trials in Stockholm. The ration book involved individual checks, registration and rationing. Only those who conducted themselves in a proper manner would receive a ration book. "Suitability" was often determined by the individual's wealth and position in society, with young unmarried men or married women seldom able to obtain a ration book. Unemployment meant the confiscation of an individual's ration book.

Our product range

Systembolaget's product range is one of the biggest in the world, with almost 3,000 items made up of beer, wine and spirits from 40 or so different countries. Our suppliers also stock a further 4,000 other items available to order from any store. Approximately 1,000 new products are launched every year.

Our stores and agents

Systembolaget had 410 stores and 552 agents at the end of 2006. 250 of the stores had self-service facilities and 160 provided over-the-counter service. The self-service stores now account for 81 per cent of Systembolaget's turnover and 81 per cent of the total number of customer visits. Customers can order products from Systembolaget's entire product range from our agents, and in many cases, the products can be delivered the following day. The agents account for 1.1 per cent of Systembolaget's turnover.



1955

The ration book was abolished and the 41 local Systembolaget companies were merged to form a single, national one – Nya Systemaktiebolaget.

1969

The age at which people can buy alcohol is lowered from 21 to 20 in conjunction with a lowering in the age of majority.

1995

Sweden joins the EU. The decision that resulted from negotiations with the European Commission, which had begun in 1993, came into force and meant that Systembolaget lost its monopoly on alcohol wholesale, but was allowed to retain the retail monopoly. Vin & Sprit lost all four of its monopolies in the alcohol sphere – exports, imports, manufacturing and distribution.

1997

The European Court rules that Systembolaget's retail monopoly is compatible with EU law (the Franzén ruling).

2004

The Swedish exemption with regard to personal import quotas is abolished and the EU's indicative values for private consumption come fully into force.

Increased support for Systembolaget

A unique event occurred in 2006: Systembolaget's sales increased at the same time as total alcohol consumption decreased. And hence a long-standing trend of rising consumption was broken.

2006 was a successful year for Systembolaget and support for the retail monopoly grew stronger than ever. The public opinion index was over 60 during the latter half of 2006, which is the highest level noted since measurements began in 2002. If we look back over the last five years, the following facts become clear:

- Customer satisfaction is up
- Employee satisfaction is up
- Age verification has improved
- Operational efficiency has improved
- Prices have been cut
- Support for Systembolaget and the retail monopoly is stronger than ever.

A unique event in 2006

We posted a profit after tax in 2006 of SEK 419 million, SEK 259 million of which was related to the retail trade operations. This exceeds the owners' directive by a considerable margin and was due to a unique event that occurred during the year. Despite living with personal import quotas on a par with those in the rest of the EU, personal imports during travel decreased and more people chose to shop in Systembolaget's stores. This led to an increase of 5 per cent in our sales in 2006. What was unique about this, however, was that sales increased at the same time as total alcohol consumption decreased. And hence a long-standing trend of rising consumption was broken. The increase in sales, coupled with capital gains and the increased efficiency we have been working to achieve for a number of years now, both centrally and in the stores, produced a far higher than expected result. In response, we lowered our prices in August, which was fully in accordance with our owners' directive, in order to ensure that our customers would benefit from the results of all our efforts.

Increased public support

We have seen numerous examples of the increase in public support for Systembolaget and the retail monopoly. In our public opinion index, which we measure every month, support increased dramatically during the autumn of 2006. Our Customer Satisfaction Index, where we ask our customers about the likelihood of them voting in favour of the monopoly, also reported an increase

in support for the monopoly in 2006. At the same time, customer satisfaction has generally increased – with the biggest increases coming in the areas of social responsibility, value for money and the way in which Systembolaget is viewed – all important factors in terms of support for the monopoly. This shows that we are beginning to be valued in a new way – as an asset based on responsible sales and good service.

Fantastic employees

We know that satisfied employees generate satisfied customers, that satisfied customers generate satisfied citizens, and that satisfied citizens generate proud and even more satisfied employees. This is a positive cycle that shows the importance of having good employees. Systembolaget does not have good employees – it has fantastic employees. Employees who, on a daily basis, maintain the balance between responsibility and service and who are rated the best by their customers. It's one thing to support our mandate in words. Our employees support it by their actions – every day.

An efficient monopoly

A monopoly can, in many respects, be just as efficient as a company operating in a competitive market. Systembolaget should be comparable with other forms of retail trade, but we must also clearly differentiate ourselves in various respects. The fact that we accept a responsibility that extends beyond the commercial one is something that both our customers and society at large value. But it is also an undertaking that costs. The trick is to know what it costs in order to eliminate the risk of reducing efficiency in other respects.

Long-term development work takes time, and much of Systembolaget's time has been taken up in the last few years by our extensive efforts to combat corruption in the company. So it is particularly pleasing to report that our strategic key performance indicators show that we have made considerable progress. But we're not finished yet and a lot remains to be done. But I can promise you that exciting times lie ahead for Systembolaget!

Anitra Steen
President

“It's one thing to support our mandate in words. Our employees support it by their actions – every day.”

“Support for Systembolaget
is stronger than ever.”



Selling responsibly

– a retail company with an important role

Systembolaget is not like other retail chains because the objectives by which it is run are a long way from profit maximisation. Systembolaget shall help ensure that the problems alcohol consumption causes are as small and few as possible.

“Systembolaget does not sell to anyone under the age of 20, to anyone who is obviously intoxicated, or to anyone whom we suspect may sell the alcohol on illegally.

Interacting with customers in Systembolaget is all about selling responsibly. Systembolaget does not tempt customers to enter the stores through the use of campaigns and offers and does not try to tempt its customers to buy more than they initially intended. Customers who do choose to shop at Systembolaget's stores, however, shall be offered the best possible service and a broad range of products and shall encounter knowledgeable members of staff. But Systembolaget's selling rules are the most important facet of the entire interaction: Systembolaget does not sell to anyone under the age of 20, to anyone who is obviously intoxicated, or to anyone whom we suspect may sell the alcohol illegally. Systembolaget is not driven by the “not for private profit” motive; rather it is there to ensure that the problems alcohol consumption causes are as small and few as possible.

An all-round experience in store

Selling responsibly makes special demands on the operations. Systembolaget's store concept shall ensure a good interaction with the customer at every stage in every store. Shared methodologies and routines throughout the chain, combined with a uniform approach to the product range offering and the stores' design all collectively create the all-round experience that Systembolaget wishes to convey in the stores. The new store concept is based on self-service. This gives the customers the freedom to shop at their own pace and eliminates the need to wait while other customers are served. Systembolaget's own surveys show that “the Systemet queue” concept has now been eliminated. 44 stores were refurbished for self-service in 2006, and by 31st December 2010, all of our stores will have been refurbished in line with the new concept.

Important selling rules

The store's selling rules are an extremely important element of Systembolaget's social responsibility. The quality of our operations is high, but we still invest substantial resources in them on an ongoing basis, with extensive dialogues and training carried out internally. Approximately 5,000 control purchases by 20-25 year olds were carried out in 2006 by an external survey company to examine whether our staff are asking for proof of age from young customers. Our sights will be set even higher in 2007 at 6,000 control purchases, divided between the stores by their respective customer numbers. In many communities, we are also working with the police to improve proof of age checks and combat illegal sales of alcohol.

External campaigns addressing proof of age checks and combating illegal selling were carried out in 2006, prior, for example, to public holidays such as Walpurgis Night (30th April), Halloween and Christmas Eve, and in the run up to the end of the school year. And in June, every young customer who presented proof of age on their own initiative received a present.

Personal customer interaction rated highly

Systembolaget's store personnel receive top marks from their customers in the satisfaction surveys. The staff are knowledgeable in the food and drink sphere and serve their customers to a high standard. The stores' operations must be brand-neutral with no interest in promoting individual products or producers. This ensures that the advice the staff provide is given entirely on the basis of the customer's own requirements. Over 100 million customer visits to Systembolaget's stores took place in 2006, which is the highest number ever.

Popular Customer Service department

Many customers choose to phone or e-mail Systembolaget's Customer Service department with questions on food and drink, and on everything that has to do with Systembolaget's operations. In 2006, the department handled 80,000 phone calls, 16,000 e-mails and a smaller number of letters and other communications. In 2005, the Customer Service department was awarded a prize for telephone-based Best Customer Service department, whilst in 2006, it was awarded the corresponding prize in the e-mail category.

Popular product information

Systembolaget is working actively to convey knowledge of our products and what types of food they go with. Every article has a detailed description of taste, origin and spheres of use. Taste pie-charts and food symbols provide a rapid and simple overview of the product, both in the Catalogue and on the edge of the shelf. Good exposure and signing shall make the products easy to find. Beer and spirits shall be displayed by type and wines by their country of origin within fixed price intervals.

In-store campaigns

"A healthy drinking culture" and "alcohol and health" were communicated through in-store campaigns during the year. The stores had four major campaign periods with twelve smaller seasonal activities, focusing on, amongst other things, taste, spices and herbs, and food and drink combinations. Alcohol and health were communicated with the emphasis on selling rules, the alcohol profile and young people, with links to the Government-appointed Alcohol Committee's "Teenage pearls". Four editions of Systembolaget's customer magazine, *Bolaget*, were published in 2006, each containing articles on both food and drink and on the downsides of alcohol.

In-store tastings

Systembolaget organises evening drink tastings in 32 locations with 28 different themes. Customer satisfaction levels are high and the majority of those who took part – three out of every four participants – had not previously attended an organised tasting. The tastings are led by the store staff and is a part of our efforts to make the drinks-related expertise within the company accessible to customers outside of the framework of our efforts to establish a healthy drinking culture. Just under 600 tastings were organised in 2006, attracting a total of approximately 8,000 participants and yielded a total turnover of SEK 2.4 million.

Drinks auctions increasingly popular

Drinks auctions of valuable collectors' items are held twice a year in cooperation with the Stockholms Auktionsverk firm of auctioneers. The auctions attracted considerable interest on the part of sellers and buyers alike and yielded a turnover of SEK 9.2 million in 2006.

Food and drink literature

Approximately 9,000 people have taken advantage of the opportunity to subscribe to Systembolaget's printed material. Books containing Systembolaget's expertise with regard to its products, and to food and drink combinations, are published and sold in the stores. The most recent publication was a book about drinks and accompanying snacks, published in December 2006.

Extensive website

Systembolaget's website (www.systembolaget.se) has over 700,000 visitors every month, and in December, the number of visitors exceeded one million. Many customers visit the website to prepare their purchases by looking for help with food and drink combinations and asking product range questions, and to check the products in stock and opening hours at their particular local

“In 2005, the Customer Service department was awarded a prize for telephone-based Best Customer Service department, whilst in 2006, it was awarded the corresponding prize in the e-mail category.”

“More and more people want to see the monopoly retained and the Customer Satisfaction Index increased by one point to 74.”

store. Improvements have been made to the site in 2006 with regard to selling rules, maps of wine-producing areas, and drinks with accompanying snacks.

Alcohol-free displayed

The alcohol-free product range is popular with those customers who have tried it. It is displayed to ensure that the customer can find it easily in stores. Many people put a great deal of effort into combining food and drink, but often forget about those who choose not to drink alcohol, which is where the alcohol-free range has a part to play. 735,000 litres of alcohol-free drinks were sold in 2006 – a figure up 2.2 per cent on 2005.

Lillänge – 2005 Store of the Year

The title, Store of the Year, is awarded every year and is an important part of Systembolaget's improvement work. In February 2006, the 2005 Store of the Year was announced as Lillänge in Östersund, with the following motivation. “A fundamentally very well-run store that displays considerable involvement and energy on the part of its staff, and which has successfully made the most of the potential offered by self-service for generating good customer interaction.” In September, the entire workforce at the store went on a field trip to France while the company management ran the store.

Central customer focus

The central organisation at Systembolaget's head office has been actively working on the company's customer

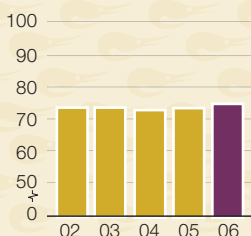
focus during the year in the form of improvement work and dialogue meetings. The Head Office Index (HOI) is measured every year in order to assess the level of satisfaction with the central support provided for the stores. The HOI value has, since 2005, established itself on a par with the high values reported by both the ESI and CSI.

Increasingly satisfied customers

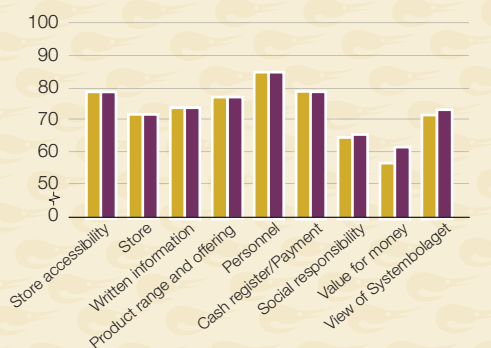
Levels of customer satisfaction are increasing. Every year, an external survey company, the CFI Group, carries out a major customer survey in which over 60,000 customers are given the opportunity to rate their store. More and more want to see the monopoly retained and the Customer Satisfaction Index increased by one point to 74 in 2006. The areas where the biggest increases in satisfaction were seen were social responsibility, value for money, and the way in which Systembolaget was perceived. Customers are also displaying increasing support for the monopoly. Every single store receives a detailed results breakdown. This acts as a basis for assessing improvement work.

Systembolaget fares well in comparison with other retail chains. As part of the annual Customer Satisfaction Index, customers are asked to compare their local Systembolaget store with the food store in which they usually shop. Systembolaget came out five points better than the highest-rated food chain. The Systembolaget stores are rated highly when it comes to product range, store and personnel, but are rated less highly when it comes to value for money.

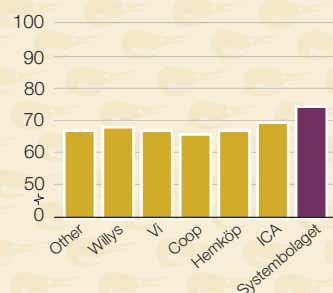
CSI 2002-2006



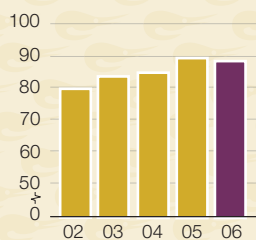
CSI Quality areas



CSI, Comparison with grocery stores

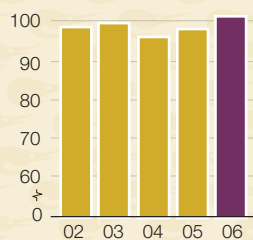


Age verification

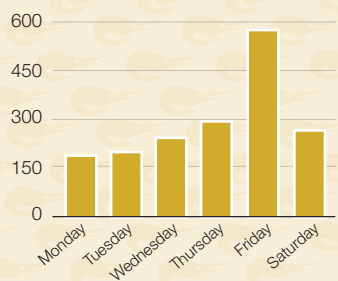


Total no. customer visits, 2002–2006

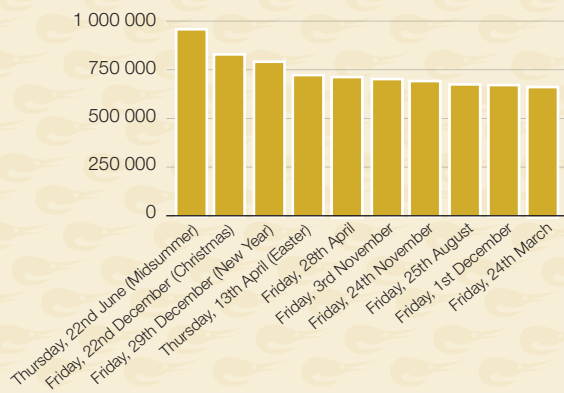
(million customers)



Customer visits, by weekday, 2006

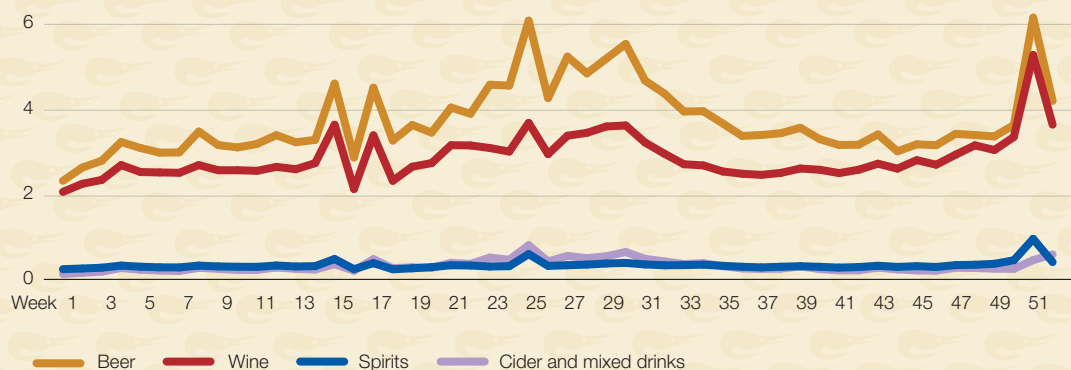


Days with most visitors, 2006



Weekly sales, 2006 – million litres

When do Systembolaget's customers buy, and what do they buy during the year?



A day in the store

Over 100 million customers visited Systembolaget's 410 stores in 2006. The store in Källered, just outside Gothenburg, is one of 250 self-service stores, has 20 employees, and was declared 2003 Store of the Year.

07:45 Morning meeting with tasting

Friday mornings is wine tasting time for the staff. This is an in-service training programme designed to keep knowledge alive and current. Four new wines are being tasted today.

08:30 Cooperation meeting

The staff get some in-depth information on the operations. The Store Manager presents the monthly report, the budget and quality follow-up reports, and raises various issues that need to be discussed. What's working well, what could be improved? After the meeting, the staff all sit down together for the Friday breakfast.

09:30 Time to "front"

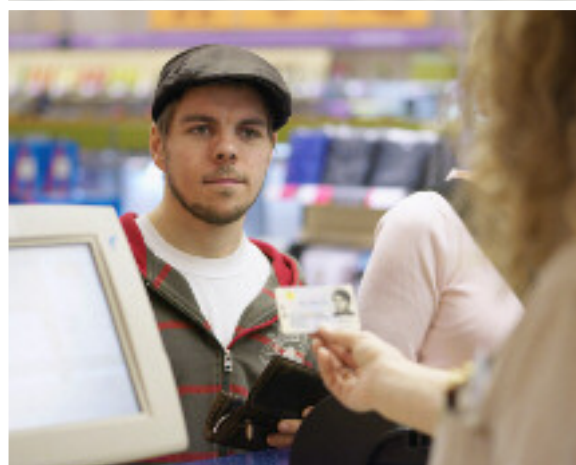
"Fronting" means moving all the bottles on the shelves to the front so that they look well-stocked and attractive when the customers come in at 10 o'clock. A good all-round experience is important in terms of customer satisfaction. All of the Systembolaget stores are measured using what is known as the Customer Satisfaction Index (CSI). The result forms the basis for stores' improvement work. The store in Källered has one of the highest index figures in Gothenburg and the CSI for Systembolaget as a whole is high too. The highest rating awarded by the customers in the survey is the one they give the store personnel.

10.00 The store opens

Every member of staff works on unpacking goods, cleaning and sitting at the cash register, because job rotation creates greater respect for each other's work. The staff also have different areas of responsibility. Varied work and opportunities for training and development are important factors in ensuring staff commitment. Systembolaget's selling rules – we do not sell to anyone under the age of 20, to anyone who is obviously intoxicated, or to anyone whom we suspect may sell the alcohol illegally – are important and constantly repeated aspects of the day to day work.

The day naturally entails numerous customer interactions and the staff are asked to provide advice and tips for dinners, weddings and large parties.

Interacting with customers in Systembolaget is all about selling responsibly.





Personnel

Competent and committed employees are vital to responsible selling and satisfied customers, so working for Systembolaget must be an attractive prospect. This makes leadership, employment terms, and opportunities for training and development vital.

Competence development

Systembolaget's training activities are wide-ranging and comprehensive. Society is constantly changing, and an ongoing knowledge acquisition process is vital if we are to maintain high standards of service and competence. Which is why we place considerable emphasis on continuously evaluating and developing both the content and the format of Systembolaget's training courses. Much of the training relates to selling rules and product know-how, but courses in leadership, administrative subjects and the work environment are also provided.

Theme meetings about selling rules

Four theme meetings, as they are known, at which all members of staff hold a meeting on a shared theme at the same time, have been held in 2006. Three of the theme meetings addressed Systembolaget's selling rules. The theme meetings are a form of combined training and information provision. Systembolaget's Store Manager training has been developed in 2006 to include an increased focus on everyday leadership and on ethics. 58 Store Managers completed the training, which comprised five modules and lasted a total of 19 days.

20,000 hours in store

The personnel receive ongoing training on food and drink-related matters through courses, tastings and field trips. The training is often carried out in-store, in the form of tastings and training packages on themes such as countries and grapes. Every store carried out an average of four training packages and twelve tastings in 2006, and taken as a whole, this means that collectively, the stores provided approximately 20,000 hours of training.

7,000 training days

Courses lasting one or two days are held regularly at Systembolaget's own training centre on the island of Skarpö. These courses focus primarily on product know-how, e.g. on the world's wine producing areas, or on food and drink combinations. Approximately 1800 of Systembolaget's employees received training there in 2006 and a combined total of approximately 5,000 training days were provided at the centre. If the training provided in stores and through field trips is included, a total of over 7,000 training days were provided by Systembolaget in 2006.

Full-time and part-time sales staff, female/male, 2002–2006

Per cent	2002	2003	2004	2005	2006
Female	75	76	76	71	71
Male	25	24	24	29	29

Store managers, female/male, 2002–2006

Per cent	2002	2003	2004	2005	2006
Male	64	62	57	56	55
Female	36	38	43	44	45

ESI, quality area: duties and developmental opportunities, female/male, 2002–2006

Per cent	2002	2003	2004	2005	2006
Duties	61	62	63	64	66
Development opportunities	62	64	64	65	67

Internal instructors

Most of the training is carried out by internal instructors, approximately 50 of them, who often work as sales staff in the stores. Systembolaget also has 28 sales staff from stores who act as system instructors, which means that they are available to provide training and support for all of the stores' IT systems.

Satisfied employees

The Employee Satisfaction Index, ESI, is measured annually by the external survey company, CFI Group. The way in which employees perceive their work situation is critical, not only to Systembolaget but to our ability to do a good job. The ESI is a development tool that helps us to set priorities and reveals the work situation areas where there is room for improvement. It is also an important indicator of the psychosocial work environment.

Unchanged since 2005

Systembolaget's ESI result is extremely good in comparison with those of other companies. The ESI for 2006 was 70, in a scale from 0 to 100, and was unchanged since 2005. The index trend has been positive, ever since measurements started in 2002. The target figure for 2007 is an increase of one point in the ESI to 71.

Positive response to increased responsibility

The most important parts of the ESI are the way in which the personnel view their developmental opportunities and duties, and their overall view of Systembolaget. All three aspects have developed positively in recent years, with the way in which the personnel view their developmental opportunities and duties increasing from 62 to 67 and from 61 to 66 between 2002 and 2006. This demonstrates that efforts to ensure more people in the stores have clearly defined responsibilities and special areas for which they are responsible has yielded results, namely that people enjoy their work more and that their opportunities for development have been clarified.

Clear goals and visions

In the 2006 survey, employees gave very high marks to questions concerning Systembolaget's vision and objec-

tives. Employees gave good marks when asked if "our vision and objectives are clearly communicated", whether "they can stand behind the company's objectives and visions", and whether "everyone at Systembolaget is working towards the same goals". One of the contributory factors to these high marks is probably Systembolaget's extensive work on the company's selling rules.

Diversity

Systembolaget revised its diversity plan, which includes both equal opportunities and diversity, in 2006. The starting point is that every individual has the same worth. Systembolaget shall work to ensure equality between the sexes, which means that men and women shall enjoy equal rights when it comes to work, terms of employment and opportunities for development. Systembolaget shall also work to ensure equal rights and opportunities, irrespective of ethnic origin, sexual preference or disability.

More female store managers

Systembolaget is a female-dominated company, which also has a high percentage of male managers, and Systembolaget is working to increase the number of women in managerial positions. The percentage of female store managers has increased from 34 per cent in 2000 to 45 per cent in 2006, and the target figure for 2007 is 50 per cent. Increasing the percentage of male sales personnel from 30 per cent to 35 per cent during the same period is another of the company's goals in this sphere. Our efforts to achieve both goals take the form of targeted situations vacant advertisements and recruitment and of actively working to encourage certain groups to apply for vacant positions.

Diversity boosts competence

Systembolaget endeavours to ensure a staff composition at every level that reflects society as a whole. There is considerable value in ensuring that our employees have a range of different knowledge, experience and skills, and in creating a working environment that is characterised by respect, understanding and knowledge of other people and cultures. Diversity also boosts the company's

“The work environment and sickness absence are of strategic importance to the company’s efficiency and future developmental potential. Satisfied and healthy employees are the company’s most important resource.”

overall competence level, along with its ability to meet our customers’ varying requirements and to offer a high standard of service. This increases the company’s quality and efficiency.

Important recruitment policy

Our goal, when recruiting, is to achieve a more even gender distribution amongst managers at all levels of the company, and to increase the ethnic diversity of Systembolaget. Selection for interview shall be based on a fair assessment of the established competence requirements, and not on the gender, name or appearance of the applicant. We shall strive to ensure that people of both sexes, with different ethnic origins and with different sexual orientations are afforded the opportunity to apply for vacant positions in order thereby to expand the recruitment base.

Staff turnover

Staff turnover is significantly higher amongst part-time employees than amongst full-time ones. The ranks of part-time employees include many people who are combining work with studies, and it is hence natural for this group to report a higher level of staff turnover. The overall level of staff turnover is, however, relatively low in comparison with the retail sector as a whole. This is a positive factor and one which is reflected clearly in the positive picture painted by the Employee Satisfaction Index.

Health and health services

Sickness absence is a major problem in society and Systembolaget has been actively involved, for a number of years now, in working to prevent ill health. Measures have included clarifying the line managers’ responsibility for work environment issues and augmented sup-

port for this work has been by recruiting a work environment strategist who will work on the development of target figures and guidelines in this field. The work is characterised by a proactive approach. A number of measures have been taken in 2006, primarily with the aim of reducing short-term sickness absence.

- Sickness support calls are made by the individual’s immediate superior at an early stage of the sickness absence. It’s all about consideration, support and caring.
- Rehabilitation is initiated at an early stage for those on long-term sickness absence.
- Health profiles have been introduced. Every employee over the age of 50 is offered an annual health check that provides an all-round picture of diet, sleep and exercise. Employees over the age of 40 are offered a health check every third year.

The total level of sickness absence has fallen from 8.1 per cent in 2004 to 6.5 per cent in 2006 and Systembolaget has, therefore, managed to reduce its sickness absence levels at a faster rate than the retail trade sector as a whole.

New corporate health care

On 1st April, a company-wide agreement was signed with Previa. Under the terms of the agreement, all workplaces are given access to geographically proximate expert support in the fields of work environment and health.

Annual action plans that describe the measures to be taken in future are currently being drawn up. Every store manager was contacted by Previa in 2006 and many stores have now started working to the new guidelines. One of the keynotes for the health-related work is the prioritisation of preventative measures.

Staff turnover, percentage, 1998–2006

(refers to permanent employees, and those employed on a trial basis, in stores)

Category	1998	1999	2000	2001	2002	2003	2004	2005	2006
Sales staff, part time	14.4	15.8	22.7	20.7	16.9	14.8	14.6	13.0	12.9
Full-time employed store personnel	5.1	6.7	4.5	6.5	5.6	5.5	5.1	5.9	4.9
All store personnel	12.0	13.4	17.8	16.7	13.7	12.0	11.8	10.8	10.5

Sickness absence, total

	2004	2005	2006
Percentage contracted working hours	8.1	7.2	6.5



Is it hard refusing to serve intoxicated customers?

Anders Ottosson
Store Manager, Arninge

"No, not at all. You get used to it and it's part of the job. Yes, of course you get situations where you might feel unsafe, but when that happens, it's important that we, as colleagues, support one another. It's good that we have security guards in the stores that get a lot of intoxicated customers."



What's the best praise you've ever received?

Christina Haffling
Sales staff at the Drottninggatan store in Karlstad

"When the customer comes back and says how much they liked whatever I recommended. That it was exactly what they were looking for and that it exceeded their expectations."



How important is your role in ensuring a successful customer interaction?

Anders Thomée
Sales staff, Mora

"Incredibly important. It's not about finding the optimum wine or the optimum spirit in every customer interaction, it's more about being able to convey a feeling that means you have a satisfied customer leaving the store. A customer who feels, 'Wow, that went well, I'm really pleased with my purchase.'"

Work environment

Systembolaget's work environment work is based on an overall assessment of both physical and psychological work environment factors, and is a natural part of the normal decision-making process.

Focusing on the psychosocial work environment

The Health & Safety Committee is a cooperation group at central level that is responsible for the overall work on the work environment. A considerable amount of effort has been put into improving the physical work environment in recent years, but in 2006, the Health & Safety Committee placed more emphasis than before on psychosocial issues. Efforts to develop the psychosocial work environment can be improved by identifying early signals of ill health, thereby also enabling, in the longer term, a reduction in sickness absence.

- A new division of responsibility in the work environment sphere has been introduced and clearly specifies the measures that managers at various levels are expected to take to improve the work environment.
- Just over 200 managers and Health & Safety Representatives have completed a work environment training programme.
- Methodologies that will enable the realisation of an optimum possible work environment are being developed in partnership with the company health care scheme.

Annual work environment action plan

The role of the Health & Safety Representative is an important one within Systembolaget. The Health & Safety Representatives are the personnel's representatives on work environment issues and are an important resource in our work environment work. They take part in health & safety inspections and are involved in following up on deficiencies in the work environment to ensure they are rectified. All stores are tasked with drafting an annual action plan for their work environment work, based on the results of the health & safety inspections and the ESI survey.

Clear routines for threatening situations

Accidents and occupational illnesses are reported to the regional managers, who forward the report to the Health & Safety Committee. An annual summary is produced of accidents and the number of occupational injuries reported and settled.

Systembolaget has clear routines for its work to counter threats, robbery and violence, describing the way in which a store should act when faced with a robbery or a threatening situation, and the help available in both the short and the long term.

Alcohol lock in all vehicles

Systembolaget installed alcohol locks in all of the company's vehicles in 2006. This measure is part of Systembolaget's commitment to the alcohol issue and clearly symbolises the fact that alcohol and traffic do not go together.

Product range

Systembolaget currently has one of the world's widest ranges of spirits, wine and strong beer, with around 7,000 items. The breadth of the range offered is one of the advantages of the retail monopoly.

One of the world's widest ranges

Systembolaget's product range has two components – the fixed range and the temporary range. The fixed range is designed to meet customers' requirements for a long-term approach, security and continuity, whilst the temporary range represents renewal and seasonal variations. Anything not held in stock in the local store can be ordered from Systembolaget's product depot in Örebro and is delivered within the next one to two days, at no extra charge. There is also a dedicated range available to order which is distributed from the suppliers' warehouses, and which takes a few extra days to arrive. Otherwise any product at all can, in principle, be ordered from anywhere in the world, via Systembolaget's Private import service.

Increased sales

Systembolaget's sales in 2006, increased by 5.5 per cent, measured in terms of pure alcohol. Sales of all product groups increased and sales of both wine and strong beer were the highest ever. The percentage increase in sales was significantly higher in the southernmost provinces (Skåne, Blekinge, and Halland) at 7.3 per cent than in the rest of Sweden, where it was 5.2 per cent.

Satisfied customers

The annual Customer Satisfaction Index reveals a high level of satisfaction with the product range. It is rated highly by Systembolaget's customers and is one of the quality areas of the greatest importance in terms of customer satisfaction.

Extensive product ranges, even in the smallest stores

The entire breadth of our extensive range is available for order in every store, at no extra charge. The size of the local product range depends on the size of the store and local demand for products. Even the very smallest stores stock approximately 530 of the most popular items, whilst the biggest store – the wine cellar store in Stockholm – always has a range of approximately 2,900 items in stock. A normal-sized store has approximately 1,200 items in stock.

Wines from 40 countries

Systembolaget's range contains approximately 1,600 wine items from 40 countries worldwide and a further 3,000 in the available for order range. 150.5 million litres of wine were sold in 2006, corresponding to an increase of 5.2 per cent from the previous year. The most popular wine-producing countries are South Africa, Germany and Italy for white wines and Spain, Australia and Italy for red wines. Wine accounted for 39 per cent of sales by volume in 2006. 55 per cent of red, white and rosé wines were bought in bag-in-box format, corresponding to an increase of 1.0 per cent from 2005. The trend towards a polarisation in the sales structure favouring wines in lower price groups, often bag-in-box, and premium wines with strong brand names in slightly higher price groups is continuing.

Increased sales of strong beer

195.7 million litres of strong beer were bought at Systembolaget in 2006, corresponding to an increase of 9.3 per cent from last year, and virtually all beer types reported increased sales in comparison with the previous year. Systembolaget's range includes approximately 400 strong beer items from 37 countries.

Small increase for spirits

Systembolaget sold 18.9 million litres of spirits in 2006, corresponding to an increase of 0.4 per cent since 2005. The best-selling spirits were non-spiced schnapps/vodka and whisky, whilst rum and grappa/marc accounted for the biggest percentage increase.

Alcohol-free alternatives

The aim of Systembolaget's alcohol-free range is to offer alternatives with an "adult taste" for those consumers who choose not to drink alcoholic drinks.

Sales of alcohol-free drinks are increasing and now account for approximately 0.2 per cent of sales volumes. Systembolaget is actively working to improve the quality of the alcohol-free range, and alcohol-free alternatives are always presented alongside the alcoholic drinks in the stores' food and drink campaigns.

“A total of approximately 1,400 new products were added to the range in 2006.”

More organic products

Sales of organic drinks at Systembolaget have increased in recent years, rising by 42 per cent in 2006. Organically grown products mean that producers and suppliers take responsibility for ensuring that the product is produced in accordance with EU requirements for organic cultivation and that EU-approved labelling is present on the label/packaging. Organic drinks still comprise only a small percentage of total sales volumes, at 0.6 per cent in 2006, but interest is increasing. Systembolaget will renew and expand its range of organic drinks, primarily with regard to wine in the SEK 60-80 price group, in order to satisfy this rising level of demand.

A constantly changing product range

A total of approximately 1,400 new products were added to the range over the 12 months of 2006, with the exception of January. A further 730 or so articles were also added to the range in small quantities in the higher price groups at the three wine cellar stores. It depends entirely on what the customers choose to buy which of these fixed range new items remain in the range, which "sneak in".

Private imports part of our mandate

If a customer wishes to buy a product that is not included in its range, Systembolaget will import the product within the framework of its Private import service, which is part of Systembolaget's mandate. Producers generally demand full crate orders. The price includes handling, freight and tax, and in most cases, the products are delivered within two months.

Sara Engstrand, Category Manager



Sara Engstrand is one of Systembolaget's four Category Managers and is responsible for the red wine category, the other categories being white wine, other wines, alcohol free, and beer and spirits. Sara trained at the Restaurant Academy at Grythyttan and has worked as a Product Manager for various suppliers before becoming a Category Manager at Systembolaget in 2004.

What does a Category Manager at Systembolaget do?

We are responsible for the category's content and manage the procurement process, from purchasing to store. The responsibility includes drawing up a category strategy which results in plans for launches during the year and the various shifts in the fixed range. We monitor trends, visit trade fairs and suppliers, and analyse the outside world, and what customers are asking for and buying in the stores.

What key performance indicators do you work with?

The CSI (Customer Satisfaction Index), value for money, sales, the degree of breadth and depth in the range, the number of returns and the number of renewals are just some of the key performance indicators we work with. Maintaining a range that meets our customers' requirements is in line with Systembolaget's overall goal.

What are the strong trends right now?

Interest in organic wines is getting bigger and bigger. More and more producers are reorganising their production to produce organically. The polarisation of the

market is, at the same time, becoming increasingly clear. Customers are happy to buy bag-in-box wines, but they are also buying more expensive wines in bottles. Better knowledge of wines and greater purchasing power mean that the demand for wines in the SEK 80 and upwards price group is increasing rapidly – in some segments, by over 20 per cent in 2006. The percentage of wine sales in bottles in the SEK 50–70 price group is, however, decreasing.

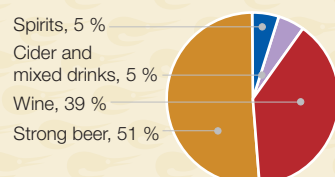
List some of your challenges for 2007

Finding a good balance between the old world and the new world wines. The big new wine-producing regions such as Australia, South Africa and South America are good at building up brand names and launching premium wines. At the same time, proximity to market favours the old world wines, particularly those from Europe – not least from an environmental perspective.

Another important challenge we face is lifting bag-in-box wines to the next level, quality-wise. Smaller boxes of 1.5–2 litres will be launched in 2007 with higher quality wines.

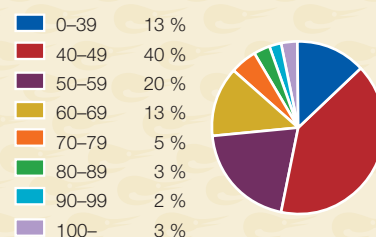
Tables and charts associated with the Product Range section on pages 14–15

Sales in litres by product group, 2006



Wine sales by price group

Systembolaget's wine sales (excl. fortified wines) by price group (converted to SEK per 75 cl)



Systembolaget's sales per product group (1,000 litres)

	2002	2003	2004	2005	2006
Spirits	23 308	22 107	19 226	18 786	18 860
Wine	136 507	141 785	138 738	143 029	150 528
Strong beer	170 455	179 141	172 947	179 044	195 654
Cider and mixed drinks	17 075	18 702	16 775	17 031	18 251
Total, as 100% alcohol	36 394	37 401	35 599	36 440	38 442

Systembolaget's sales by province per head of population in 2006, compared with 2005 (litres)

Province	Spirits		Wine		Beer		Cider/mixed drinks		Total, pure alcohol	
	Litres	%	Litres	%	Litres	%	Litres	%	Litres	%
Stockholm	2.04	– 1.6	22.89	2.1	23.76	6.0	1.75	5.5	5.15	2.7
Uppsala	1.86	– 0.8	17.48	3.3	20.97	7.7	1.98	3.2	4.22	3.9
Södermanland	2.26	– 1.1	17.70	4.1	23.70	9.4	2.40	7.1	4.59	4.7
Östergötland	1.90	0.0	14.16	4.3	19.71	8.6	2.00	6.4	3.77	4.7
Jönköping	1.67	– 0.7	9.69	5.7	18.11	8.1	1.69	7.3	2.99	5.0
Kronoberg	2.03	– 1.0	10.78	6.0	16.74	10.5	1.73	9.0	3.18	5.4
Kalmar	2.45	0.4	13.64	7.3	22.90	11.3	2.29	10.3	4.09	6.8
Gotland	2.97	– 0.6	22.48	4.3	30.27	3.7	3.23	3.9	5.86	3.2
Blekinge	2.11	1.3	11.20	6.0	15.87	7.7	1.79	7.8	3.25	5.2
Skåne	1.47	1.2	12.10	6.3	10.64	10.4	1.18	9.2	2.79	6.2
Halland	1.80	– 0.1	13.72	6.3	14.80	10.1	1.65	6.8	3.36	5.9
Västra Götaland	1.99	– 0.5	16.34	4.7	20.87	9.5	1.90	7.2	4.12	5.1
Värmland	3.50	0.3	20.92	7.3	32.76	12.5	2.75	8.8	5.96	7.1
Örebro	1.90	0.8	12.60	5.8	22.88	12.7	2.23	8.7	3.76	7.1
Västmanland	1.98	– 0.8	15.08	4.9	22.53	10.0	2.39	9.6	4.09	5.4
Dalarna	2.30	– 0.3	15.18	5.1	25.77	10.3	2.63	6.3	4.38	5.7
Gävleborg	2.34	– 0.7	14.82	4.1	24.82	9.1	2.44	3.8	4.30	4.6
Västernorrland	2.74	– 0.5	16.19	4.5	25.58	7.4	2.79	4.1	4.71	4.2
Jämtland	4.14	0.7	22.71	7.6	38.13	9.5	3.53	6.1	6.79	6.4
Västerbotten	2.59	1.6	15.78	6.2	29.35	6.0	3.03	1.9	4.79	5.0
Norrbottn	2.22	1.8	14.45	6.1	31.58	6.6	3.43	4.8	4.64	5.4
Total	2.07	– 0.4	16.52	4.4	21.47	8.4	2.00	6.3	4.22	4.7
Whole country per inhabitant aged 15+	2.49	– 0.5	19.90	4.3	25.87	8.3	2.41	6.2	5.08	4.6

Systembolaget's wine sales (excl. fortified wines) by producing country, 2002–2006 (1,000 litres)

Country	2002	2003	2004	2005	2006	Andel % 2006	Percentage change % 2006/2005
Spain	31 439	27 454	23 996	23 840	23 445	16.1	– 1.7
Italy	28 627	28 311	23 106	22 473	22 014	15.2	– 2.0
South Africa	5 999	11 172	15 184	19 679	21 940	15.1	11.5
Australia	7 287	11 011	13 666	14 768	19 357	13.3	31.1
France	18 487	18 639	15 069	13 952	14 941	10.3	7.1
Chile	12 165	12 586	12 527	11 018	10 138	7.0	– 8.0
USA	4 345	5 110	8 329	9 304	8 692	6.0	– 6.6
Germany	7 631	7 040	6 537	6 395	7 087	4.9	10.8
Hungary	5 846	6 310	5 785	5 613	5 608	3.9	– 0.1
Portugal	1 960	2 275	3 126	3 328	3 372	2.3	1.3
Argentina	634	891	1 137	2 200	3 356	2.3	52.6
Bulgaria	1 999	1 461	1 453	2 141	2 304	1.6	7.6
Sweden	1 865	1 705	1 680	1 596	1 476	1.0	– 7.5
New Zealand	175	178	175	205	296	0.2	44.3
Romania	470	453	477	332	266	0.2	– 19.9
Cyprus	342	328	284	251	235	0.2	– 6.6
Austria	177	131	130	162	208	0.1	28.8
Greece	255	296	275	187	144	0.1	– 23.0
Lebanon	87	64	67	75	64	0.0	– 14.6
Other	202	166	152	139	321	0.2	130.6
Total	129 992	135 583	133 154	137 657	145 265	100.0	5.5

Systembolaget's sales, 1955–2006 (thousand litres)

Year	Spirits	Fortified wine	Wine*	Strong beer	Alcohol-free
1955	48 376	7 858	7 799	8 102	
1960	43 007	9 509	14 975	9 646	119
1965	51 605	10 712	22 410	20 136	207
1970	53 028	10 655	40 331	30 574	395
1975	61 245	12 110	55 321	24 901	590
1980	57 787	11 628	67 609	70 529	538
1985	44 141	9 590	88 059	77 954	542
1990	37 837	8 387	96 393	106 193	646
1995**	29 654	6 249	104 165	107 902	604
2000	23 402	5 792	123 968	142 361	400
2005	18 786	5 271	154 789	179 044	719
2006	18 860	5 260	163 518	195 654	735

* Including cider and mixed drinks

** Systembolaget's monopoly on the wholesale of spirits, wines and imported strong beer ceased in 1995.





A store is reborn

44 of Systembolaget's stores were rebuilt in line with the new self-service concept in 2006. The aim is to rebuild all of the stores by 2010.

Planning

Before a decision is taken to rebuild a store, the store's location is examined, its net sales are reviewed and the potential effect of the rebuilding process on surrounding stores is examined. The store is also assigned a product range based on the assumed net sales and the type of customer demand. Customer service, the suitability of the premises for Systembolaget's operations and finances are all weighed together. After which, and depending on the results of the analysis, either a new premises is sought in a new location or the existing premises are rebuilt.

Projection and design phase

Systembolaget's Project and Property Development Unit has overall responsibility for the project – from projection and design through construction to installing fixtures and fittings and equipping the store. Detailed construction plans are drawn up using Systembolaget's Store Programme software and the preconditions offered by the premises. The documents subsequently comprise the basis for requests for tender when contractors are procured.

The store remains open during the rebuild

The store is rebuilt whilst at the same time, being kept open for its customers. Every stage ends with installing the fixtures and fittings, and then the shelves are stocked with the products. The self-service approach is functional, even when only the first stage of the work has been completed!

Preparations for the re-opening

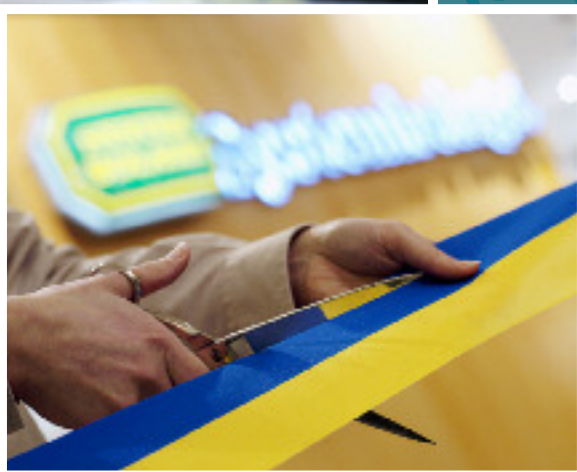
During the rebuilding period, the store personnel hold a number of meetings and complete a variety of training courses addressing such issues as work environment, work routines, security, customer service, selling rules and practical circumstances in conjunction with the opening.

In-store communication

Approximately one week before the store is scheduled for completion, a "starter pack" of communication material will arrive at the store. It includes campaign images, signs, brochures, folders, posters, labels and mobiles.

Inauguration

Once the entire store has been rebuilt, an inauguration ceremony is held. A red carpet is rolled out on to the street from the entrance, the store is decorated and alcohol-free drinks and snacks are offered. The Area Manager and, usually, someone from the company management, will come to the store and cut the blue and gold ribbon.



Stores and agents

Systembolaget has a nationwide retail network comprising 410 stores and 552 agents. The majority of the stores – 250 of them – are self-service outlets and account for 81 per cent of Systembolaget's total sales.

New store concept

Systembolaget has, as part of a new store concept, been rebuilding all of its stores as self-service outlets since 2001. The aim is to increase customer value and the efficiency of the store network. One of the benefits of this style of store is that it allows the store's floor area to be reduced by approximately 20 per cent – and by up to 50 per cent in small stores. The annual Customer Satisfaction Index reveals that satisfaction with the self-service stores is eight points higher than for over-the-counter stores. The new store concept has helped improve the environment for customers and personnel alike and offers every customer the chance to shop at their own pace.

Systembolaget's store concept has three component parts:

- The offering – the products and services offered to the customers
- The store design – the stores' environment, e.g. design and choice of materials
- The methodology – which is the same in every store.

Stores from north to south

At the end of 2006, Systembolaget had 410 stores, from Skanör in the south to Kiruna in the north. 250 stores were self-service outlets and accounted for 81 per cent of sales and 81 per cent of customer visits. 44 stores were rebuilt in line with the new self-service concept in 2006. The rebuilding rate is high and Systembolaget aims to have implemented the new concept in every store by 31st December 2010. The store with the highest net sales is Bromma Flyg in Stockholm, whilst the store with the most customers is Klarabergsgatan in Stockholm, and the smallest store, whose net sales total SEK 6.6 million, is in Österbymo.

Opening hours

The Swedish Parliament sets the opening hours for Systembolaget and has ruled that the stores may be open no later than 8 p.m., Monday-Friday, and 3 p.m. on Saturdays. Most of the stores are, in practice, open between 10 a.m. and 6 p.m. on weekdays, with many remaining open until 7 p.m. on Thursdays, and between 10 a.m. and

2 p.m. on Saturdays. Larger stores, including those located in shopping malls, often remain open until 7 or 8 p.m. on weekdays and until 3 p.m. on Saturdays. Customers have awarded high marks to Systembolaget for accessibility since the stores began opening on Saturdays.

Agents in small communities

Systembolaget has 552 agents in smaller communities, where there is an insufficient customer base for an actual store. Customers can order products from the entire range from Systembolaget's agents, and in many cases, the products are delivered the next day. The agents account for 1.1 per cent of Systembolaget's net sales and keep no products in stock.

Guidelines for opening stores

The guidelines for opening Systembolaget stores state that built-up areas, urban districts, and suburbs with a population of more than 16,000 over a 20-year period within a radius of 5 kilometres should have a store. Central locations are prioritised for the first store in a local authority/built-up area. If there is more than one store in an area, the second and any subsequent stores are placed in locations where other forms of grocery retail are most densely grouped. Systembolaget's contract with the government states that the overall goal, in principle, is to provide a Systembolaget store in every local authority that wants one. And there are now Systembolaget stores in all of Sweden's local authorities bar three. A decision to open or close down a Systembolaget store is taken by the Board after a collective evaluation of financial and service considerations. The guidelines for establishing agents state that they shall be appointed in built-up areas with at least 500 permanent residents living more than 20 kms from an existing store and more than 10 kms from another town with an agent.

Systembolaget is responsible for ensuring that people have the option of purchasing alcoholic drinks, wherever they may live in Sweden. The store network is accordingly structured in line with this service perspective, which means that not all stores are financially self-sustaining, and indeed, 40 stores posted a negative result in 2006. The corresponding figure for 2005 was 52.

Different store formats

The stores are divided into different formats to enable their adaptation to the customers' different expectations and the preconditions generated by the stores' locations.

The agent (format 1) operates in smaller communities that often lack a Systembolaget store. The agents carry no items in stock.

The small store (format 2) is the smallest store format. The aim is to enable cost-effective stores with a good range of products to be operated in small towns and villages. The stores are specially adapted to make working alone there easier. These stores have net sales of up to approx. SEK 20 million and the stores carry 530 of the most popular items in the range.

The medium-sized store (format 2–3) is a combination of the best things about the small and large stores. It focuses on offering a good range of products in rela-

tion to size and is designed to operate with few staff. This type of store is established in small to medium-sized communities and can be found in or close to other towns that also have a Systembolaget store. These stores have net sales of up to approximately SEK 45 million and carry around 870 items.

The large store (format 3) is the most common store format. The store may, based on net sales, vary in terms of floor space and product range. The aim is to create a balance between a good offering, cost-effective operation and a good in-store experience. These types of stores are established in medium-sized towns and larger cities. There may be several stores in the same town. These stores have net sales of at least SEK 45 million and carry between 1,200 and 1,750 items, depending on the size and location of the store.

The Wine Cellar store comes in the form of three stores located in central Stockholm, Malmö and Gothenburg. The Wine Cellar stores display the extensive breadth and depth of Systembolaget's product range, and in addition to the normal range, the stores also carry all of our wines priced at over SEK 100 and all types of spirits. 1,100 items in high price groups and limited editions were launched exclusively in the Wine Cellar stores in 2006. In the majority of cases, these products can also be ordered in other stores, via Systembolaget's product depot.

There are two **Food Hall stores**, in Hötorgshallen and Söderhallarna in Stockholm. The link between food and drink cannot be made more clearly. The stores form a natural part of the Food Halls' offering and sales are made over the counter.

Systembolaget's five biggest and five smallest stores

	Sales incl. VAT (SEK m)	No. customers (1,000)
The biggest stores		
Bromma flyg, Stockholm	262	690
Oslovägen 44, Strömstad	240	504
Charlottenberg, Eda	214	491
Regeringsgatan, Stockholm	210	652
Gränby, Uppsala	190	711
Average Systembolaget store	58	247
The smallest stores		
Norsjö, Norsjö	9.6	40
Sorsele, Sorsele	9.3	38
Ödeshög, Ödeshög	9.2	49
Storfors, Storfors	8.1	42
Österbymo, Ydre	6.6	28

The store network by net sales interval

Sales, incl. VAT (SEK m)	No. stores
<20	78
20–45	132
45–80	94
80–120	58
>120	48

Changes in the store network

Rebuild 2006

Askersund	Södertälje, Lunagallerian
Charlottenberg	Torsby
Ed	Tranemo
Edsbyn	Trelleborg
Färjestaden	Töreboda
Gagnef	Uppsala, Gränby
Grums	Valbo
Gustavsberg	Vara
Hallstavik	Vimmerby
Haninge	Västerås, Arosian
Höganäs	Västerås, Erikslund
Jokkmokk	Ystad
Järpen	Åre
Kil	Åseda
Laxå	Åstorp
Malmö, Mobilia	Älvsbyn
Malå	Överkalix
Mariefred	Övertorneå
Norsjö	
Nödinge	
Pajala	
Skurup	
Skärholmen	
Stockholm, Kungsholmstorg	
Stockholm, Ringen	
Svedala	

Board decisions in 2006

New establishment

Sisjön
Knivsta

Closure

Anderslöv

Purchasing and supply of goods

Systembolaget shall, in its capacity as a purchaser act in a non-discriminatory and brand-neutral manner. Product selection shall be determined by the quality of the product alone, and not by other factors. The entire purchasing process was certified in 2006.

The purchasing process

Systembolaget's purchasing routines mean that a great many suppliers are afforded access to the market, and that the market is also open to small suppliers and small producers. The deciding factor shall be the quality of the product, not the size of the supplier's operations or other such factor. Systembolaget thereby ensures competition between products and between suppliers. Systembolaget launched 1,400 new products in 2006 and had 306 active suppliers.

Extensive analysis

The purchasing process begins with a comprehensive analysis of sales and market trends in Sweden, and of trends and developments internationally. Systembolaget also carries out numerous customer surveys. The analysis is summarised in an annual launch strategy.

Requests for tender issued

Requests for tender are then drafted on the basis of this strategy. A request for tender specifies, amongst other things, the type of product, red wine, for example, and often the country of origin and price band. All registered suppliers (485 in 2006) receive the request for tender and are invited to submit their tenders. If the tender is correct, a number of products are selected and samples are requested. In 2006, Systembolaget received 14,268 tenders and sampled 9,501 products.

Tasting panel decides

The product samples for each request for tender are tasted by a tasting panel. The tasting process is blind, that is, the panel only sees the samples once they have been poured into tasting glasses and in random order, with no idea of the identity of individual brands, suppliers, or producers. The panel assesses the products' quality in terms of taste and bouquet. The product with the highest average rating from each request for tender is bought. The products bought after tasting are then analysed by Systembolaget's own laboratory in Jordbro before being launched in the stores.

Characteristics established

The products are also tasted by a characteristics tasting group that specialises in describing the products. The descriptions of taste and bouquet and the pie-chart ratings for acidity and sweetness, for example, found in the Catalogue, on shelf-labels, or on the website, are based on their collective opinion.

Wine columnists invited

Before sale of the products selected begins in the stores, Swedish wine columnists are invited to try all the new products and all of the wines of a new vintage, free of charge.

Buyer sampling

In the days immediately before sale of the products begins in the stores, buyers sample the products delivered to the stores, to check that the product delivered is the same as the one tendered and selected.

The Jordbro laboratory

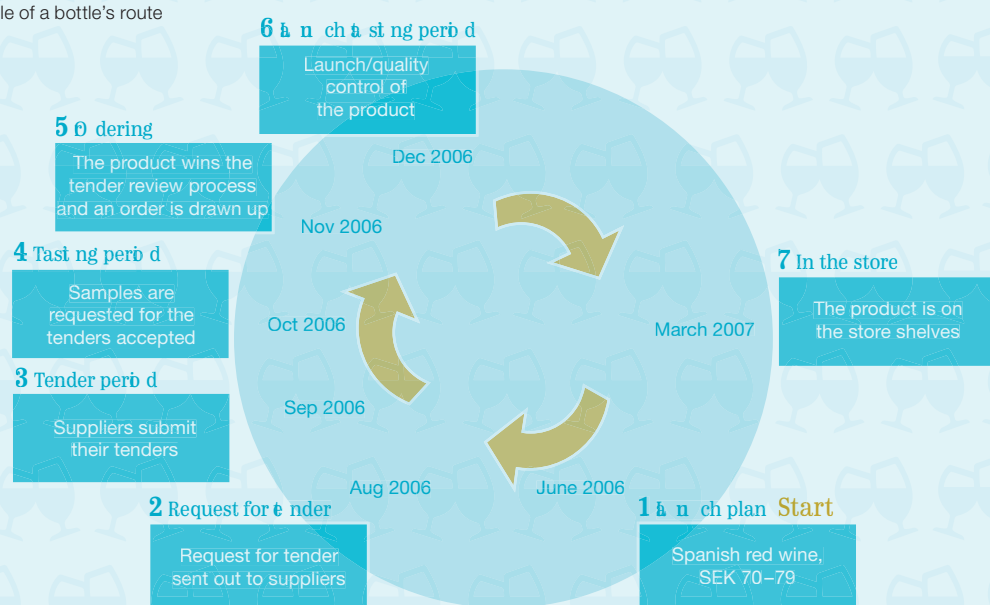
Systembolaget's laboratory, which monitors the quality of the drinks in Systembolaget's product range, is located in Jordbro.

Continuous analysis

The fixed product range is checked once a year, whilst the new products and trial range are analysed continuously. The best-selling ten per cent of products in the available for order range are also tested, and the laboratory also evaluates complaints relating to Systembolaget's products and carries out external analysis work. The laboratory works in partnership with Alko (Finland), Vinmonopolet (Norway), wine and spirits importers, the National Food Administration, the Swedish Ministry of Agriculture, Food and Fisheries, Swedac (the Swedish Board for Accreditation and Conformity Assessment), Swedish Customs and the police.

The purchasing process, a model

An example of a bottle's route

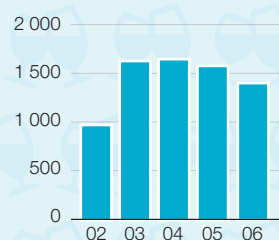


Number of brands in the fixed product range

The number of brands in Systembolaget's fixed product range, 1975-2007 (in January of each year)

Year	Spirits	Wine	Cider and mixed drinks	Strong beer	Alcohol free	Total
1975	198	418		35	17	668
1980	189	447		33	22	691
1985	193	584		41	21	839
1986	197	563		49	20	829
1987	208	534		53	19	814
1988	214	549		55	22	840
1989	207	567		76	24	874
1990	210	595		76	23	904
1991	212	643	1	83	22	961
1992	220	665	1	89	23	998
1993	235	879	7	128	29	1 278
1994	271	909	12	164	30	1 386
1995	332	1 325	21	197	30	1 905
1996	389	1 633	27	286	34	2 369
1997	417	1 761	50	341	44	2 613
1998	385	1 762	90	303	46	2 586
1999	367	1 775	67	287	35	2 531
2000	370	1 812	63	280	29	2 554
2001	352	1 817	63	259	28	2 519
2002	373	1 570	65	273	42	2 323
2003	371	1 500	66	280	33	2 250
2004	479	1 877	65	269	36	2 726
2005	466	1 991	73	283	18	2 831
2006	424	1 525	71	257	21	2 298
2007	382	1 370	65	254	15	2 086

No. new launches, 2002–2006



4,000 samples every year

The laboratory handles approximately 4,000 samples every year. Up to 15 analyses of every sample are carried out, checking for the presence of methanol (wood alcohol), and measuring alcohol and sugar content and levels of various acids and sulphur dioxide, amongst other things.

Special analyses are also carried out to discover any pesticides, preservatives, lead, cadmium, fungicides and colouring residues, for example.

High quality products

The analysis work is preventative. Suppliers and producers know that Systembolaget carries out extensive chemical checks, so they are careful about quality. The most common fault is a discrepancy in the alcohol strength, although this is very unusual. The laboratory is part of Systembolaget's Purchasing & Supply Chain Management and was established in 1996.

Distribution of products to the stores

The size and composition of the product range in each store is determined centrally. The decision is made on a brand-neutral basis, based primarily on the store's sales, but also on the unique conditions obtaining for each store: its customer structure, the number of stores in the town, and the town's geographical position and size. The most popular items nationwide – approximately 530 of them – are always stocked by every store.

Automatic ordering suggestions

The store receives an order proposal from the agreed product range automatically every day. The order proposal is based on sales statistics unique to the items and the store, on forecast sale trends, the current stock situation per item, and the distribution schedule per store and distributor.

Ongoing follow-ups

A number of logistical experts work continuously, planning deliveries to the stores, which can have a substantial effect on the store's ability to work in a rational manner. An electronic event system has been developed and introduced in all of the stores to ensure that information can be received quickly and feedback provided to the distributors.

Supplier requirements

Systembolaget buys the drinks it sells from the suppliers, and the contract includes delivery to the various Systembolaget stores. All suppliers must have a nationwide distribution system that ensures rapid and reliable delivery to every store. The suppliers are free to decide either to use external distributors or to make the deliveries themselves. In 2006, there were just over ten or so nationwide distributors commissioned by Systembolaget's suppliers to distribute drinks to Systembolaget's stores.

The product depot

Systembolaget offers its customers a service that enables them to order products from Systembolaget's entire range from an individual store, including any items not stocked by that particular store. The products are delivered to the store within 24 hours, at no extra charge to the customer. Deliveries to Gotland or stores north of Sundsvall can take up to 48 hours. Systembolaget has a product depot in Örebro that delivers customer-unique pick orders, to enable this service to be provided. The service is very popular and the number of customer orders is constantly increasing. In 2006, the product depot delivered a total of 1,711,000 bottles via 246,000 orders (972,900/242,000 in 2005).

Certified supply process

In 2006, Systembolaget's quality management system for the supply process was certified by the BVQI (Bureau Veritas Certification) certification body. This certifies that the Purchasing & Supply Chain Management works to a standard that is customer- and improvement-orientated. The system comprises the flow of goods from the supplier to the store shelves.

The certification demonstrates that Systembolaget's quality management system:

- has been reviewed to ensure that the standard's requirements are translated into the company's reality.
- is appropriately implemented and actively used within the company's operations.

Lagena Distribution AB

Systembolaget's subsidiary company, Lagena, is an efficient distributor of alcoholic drinks from producers worldwide to restaurants, wholesalers and to every single one of Systembolaget's stores in Sweden.

Systembolaget decided to establish a subsidiary company, Lagena Distribution AB, for the transport of alcoholic drinks in Sweden in conjunction with Sweden's accession to the EU in 1995. The aim was to ensure that all suppliers could, if they wished, have their products distributed to every store. Unlike many other distributors, Lagena has no limit on the size of a supplier's operations, and hence has both large and small suppliers on its customer list. This ensures distribution to every part of the country, irrespective of volumes.

Mainly small suppliers

Lagena distributes approximately 75 (73.5) million litres of drinks per annum to Systembolaget, corresponding to approximately 20 per cent of the total volume of drinks sold. The majority of Lagena's clients are smaller suppliers, with the ten biggest suppliers accounting for approximately 75 per cent of the total volume.

Higher sales and better result

Lagena's results and volumes have both performed positively in 2006. Lagena's result after financial items was SEK 10.5 million and the volume, measured in terms of the number of consignments per whole year has increased by 8 per cent in comparison with 2005. The improvement in volume and the result is not due to an increased number of customers, but to a substantial in-

crease in customers' sales, primarily to Systembolaget.

Lagena implemented a massive recruitment drive in the autumn of 2006 to enable it to handle the increased volumes whilst maintaining its high operating standards.

Focus on health care, quality and the environment

A number of challenges remain, the positive trend notwithstanding. These primarily relate to health care, quality and the environment. Investments were made in a new label-removing machine and a number of new trucks with new environmental technology in 2006. Lagena has also achieved an environmental certification in accordance with ISO 14001 for its entire operations in 2006 and in 2007, will be taking this work further by building up an integrated management system for the work environment, the environment, and quality.

Alcohol lock requirement

Lagena has installed alcohol locks in all of its own trucks and company cars in 2006. A corresponding requirement will be imposed on all transportation subcontractors in 2007. Lagena also intends to install alcohol locks on all of its trucks – around 80 of them – used in the warehousing operations in Jordbro in 2007.

Lagena Distribution AB key performance indicators

	2002	2003	2004	2005	2006
Volume, no. Consignments	7 281 000	7 202 491	6 931 653	7 493 924	8 065 757
Net sales, SEK k	241 136	233 580	229 566	269 890	284 133
Net profit for the year posted	9 312	2 542	6 039	18 910	7 661





A product's route

The purchasing organisation comprises Category Managers, Range Coordinators, Market Analysts, Statisticians/Analysts, Business Development Officers, Tasters and Purchasers, who, collectively, buy in approximately 360 million litres every year.

The entire world is our market

The purchasing organisation monitors trends in the outside world, attends trade fairs and seminars, and visits producers. It also evaluates customers' opinions of the product range – by studying sales statistics and by asking customers through a variety of customer surveys. All of their efforts add up to a purchasing strategy that presents the countries, grapes and price classes for which Systembolaget should submit requests for tender in order to taste and potentially buy in the products as new items. Twice every year, the strategy is converted into concrete launch plans specifying, country by country, what will be in demand.

Tasting and purchasing

Requests for tender are sent out once a month to the just over 500 registered suppliers in Sweden. If their range includes drinks that match our requirements, Systembolaget requests samples. After an initial selection process, the selected drinks – approximately 9,000 every year – are blind-tested by Systembolaget's experienced tasters. The product with the highest rating, i.e. the one that offers best value for money, wins, and a purchase order can then be placed.

Laboratory analysis

All alcoholic drinks bought in for the fixed product range launch are analysed by Systembolaget's laboratory in Jordbro. Up to 15 different analyses are carried out on each drink to check their quality and alcohol content.

Establishing characteristics

Systembolaget's experienced tasters taste the drinks in order to describe their taste and bouquet for the Catalogue, the New Products newsletter (Varunytt), and the stores' shelf labels. This is when the drinks are assigned their individual pie chart values and symbols.

Journalist tastings

Once every month, Sweden's wine columnists are invited to attend a free tasting session for the drinks scheduled for launch 6 to 8 weeks later.

Launch – the product meets the customer in the store

The stores order the drinks ten days before it goes on sale. One week before the product is sent to the stores, the tasters carry out a final tasting comparing the drink with the sample provided as part of the tendering process. If the quality is not the same, the launch can be halted.

Raison d'être, objectives and strategy

Systembolaget's retail monopoly exists for one reason and one reason only: alcohol-related problems are reduced if alcohol is sold in the absence of a profit motive.

An important mandate

Systembolaget's mandate is to help limit the medical and social damage caused by alcohol and thereby improve public health. Systembolaget's mandate entails limiting total alcohol consumption by limiting availability by steering the retail outlet network and opening hours. Sales shall be handled in a way that prevents, wherever possible, the damage caused by alcohol, and Systembolaget shall hence uphold retail regulations. In other words, we shall implement age verification, shall not sell alcohol to intoxicated persons, and not sell when there are reasons to suspect illegal resale. Systembolaget's operations shall also be run efficiently and we shall offer our customers a high standard of service. Our role is governed by the Swedish Alcohol Act, by Systembolaget's contract with the government, and by the directives issued by the government in its capacity as our owner. Systembolaget shall also provide information on the risks associated with alcohol consumption.

Not like other companies

If Systembolaget is to carry out its mandate, it must be run in the absence of any private profit motive. Systembolaget's monopoly on retail sales of alcoholic beverages ensures that the operations are not driven by the profit motive and competition, which would otherwise push up sales and hence increase both alcohol consumption and alcohol-related damage.

The no private-profit motive principle means that Systembolaget differs from other companies in that we do not engage in active marketing or attempt to boost sales. This also means that Systembolaget is brand-neutral, i.e. that no supplier or individual product is either discriminated against or favoured.

All-round responsibility

But our mandate is much wider ranging than simply carrying out age verification and limiting availability. It comprises the entire operational structure, the way in which information and advice are provided, the way the stores are laid out, the development of our range of alcohol-free drinks, and the information we provide on the risks associated with alcohol – amongst many other things.

Important balance

Our mandate requires a balance between availability and public health. The precise nature of the balance depends on society and the way it develops, including, for example, Swedes' attitudes towards alcohol and its effects, the way the effect of limiting availability is viewed, and people's expectations of what constitutes good service. But although situations and conditions may change, and the retail monopoly may change with them, the critical factor is that the monopoly must remain true to its mandate to improve public health.

Our vision, business concept and values

The basis for Systembolaget's operations lies in its social mandate. The operations are planned and organised on the basis of our vision and our business concept.

Our vision

We shall establish a healthy drinking culture, whereby we can enjoy our drinks without harming either ourselves or other people.

Our business concept

We shall sell alcoholic beverages responsibly and shall exceed our customers' expectations by constantly developing our product range, expertise and service.

“Systembolaget's social mandate is the most important reason for Swedes' desire to retain Systembolaget.”

Our values

Systembolaget's core values of consideration, expertise, and inspiration are fundamental to a description of our values. Our values guide us in our mandate, in the development of our operations, in our management, and in the way we deal with our customers and each other.

- Consideration means that we care. We show respect for everyone we encounter in our work. We do not sell to just anyone, specifically, we do not sell to people under the age of 20. We do not attract customers into our stores and we do not attempt to sell more than the customer originally planned to buy. Our information is honest, factual, and brand-neutral.
- Expertise is, when coupled with consideration, what makes Systembolaget unique. Our expertise can be found in our product range, our quality, and the advice, service, and information we provide. Our expertise covers our products, their use, and the associated risks and thereby generates the potential for our customers to make informed choices. Knowledgeable and well-trained managers and employees are also the means we strive to use to develop our operations.
- Inspiration means that we are generous in sharing our expertise with our customers and with each other. We help establish a healthy drinking culture by providing good taste experiences and through the breadth of our range, but also by inspiring people to think about drinking and to apply moderation.

A strategic plan

Systembolaget is extensively engaged in development work. Our goal is to combine improving and developing our alcohol policy-related mandate with giving our customers the best possible service, in order to generate a stable and long-term basis of public support for Systembolaget's operations.

Three-year plan

The strategic plan formulates Systembolaget's vision, business concept, values, objectives, and strategies. It also includes an analysis of the company's strengths and weaknesses and of changes in the outside world. The strategic plan is a multi-year plan that is revised every third year. The plan then forms the basis for the yearly work on developing the operations plan and budget. The operations plan breaks the overall strategies and strategic objectives down operationally into development projects and strategic activities. In the autumn of 2006, the Board of Directors adopted a strategic plan that extends until 2010. The next revision of the plan is scheduled for 2009 and will apply for the period up to and including 2013.

Improving the social mandate

The plan is based on our mandate, as assigned to us by the Government and Parliament. It is based on the belief that Systembolaget shall be enabled to maintain its role as an instrument of alcohol policy in the long term and to continue its operations with a businesslike focus at the same time as it clarifies and improves its social mandate, as defined by the owners' directives.

“Systembolaget’ retail monopoly plays an important part in the sale of alcohol and is designed to minimise the profit motive and competition.

Operations

Systembolaget’s operations are illustrated by the process chart. A process, whereby goods are bought in, distributed to the stores, and sold to the customers, is conducted on the basis of the public’s expectations and the customers’ requirements.

Public and customer

The concepts, “public” and “customer” are a means of illustrating the requirements for both social responsibility and good service inherent in Systembolaget’s mandate. Customers are also members of the public, but there are some members of the public who are not Systembolaget customers. The public concept refers to everyone who has an interest in Systembolaget’s operations and who shares in the benefits it provides. Customer satisfaction shall be achieved within the framework of the public’s wishes with regard to public health.

Brand-neutrality and responsibility

Systembolaget shall be brand-neutral. This means that all products, suppliers, and producers shall be treated the same. This places special demands on the first part of the primary process, Buying- in and distributing products. The second part of the primary process, Selling responsibly, means selling in full compliance with the requirement for age verification and other retail regulations, and ensuring that the no private-profit motive principle is applied in other ways too.

Balanced scorecard

Systembolaget’s strategic and operational planning is based on a model that incorporates a so-called balanced scorecard, whereby management focuses on both hard and soft perspectives. The four different perspectives that make up Systembolaget’s model are society, customers, employees, and finances.

Society

This perspective comprises Systembolaget’s social responsibility and public support for the monopoly. Systembolaget’ retail monopoly plays an important part in the sale of alcohol and is designed to minimise the profit motive and competition that would increase both alcohol consumption and damage caused by alcohol. But it is also designed, by means of efficient age verification, to discourage access to alcohol by young people under the age of 20.

Customers

Systembolaget shall be perceived by its customers as a leading retail chain in terms of product range, expertise, service, and responsibility. Given the demands of both our owners and the market, it is important that the company behaves in a businesslike way. This means a continued focus on the customer. It does not, however, mean that Systembolaget should endeavour to increase sales by marketing alcoholic drinks.

Process map, overall



Employees

Systembolaget shall be an attractive workplace and shall offer its employees good opportunities for development. Success depends on the company having competent and committed employees, and on our being able to attract, retain, and develop motivated employees.

Finances

The operations shall be profitable, shall generate the scope for corporate development and renewal, and shall yield a return in line with the owners' requirements.

Profitability shall be achieved by running the operations efficiently and simultaneously meeting customers' demand for good service. The owner's directive states that Systembolaget's return on shareholders' equity shall, in the long-term correspond to the ten-year government bond interest rate plus four percentage points.

Follow-up

The Board of Directors has established overall objectives for each of these perspectives. A number of strategic key performance indicators have also been defined for the Parent Company, to enable development and our success in achieving our goals over the years to be measured. Measurements were carried out in 2001 to set the base level for each key performance indicator. The strategic plan specifies target levels to be achieved by 2010 for each key performance indicator. Developments within each perspective field are a particularly key aspect of the prioritisation work currently being carried out within the organisation. All key performance indicators have developed well since 2001.

Steering the stores

The stores operations are run with the aid of key performance indicators for the four balanced scorecard perspectives. The model makes it easier to control and develop operations in line with our owners' objectives for the company, and in a way that maintains a sound balance between different aspects of Systembolaget's work. As a consequence of Systembolaget's socio-political mandate and the application of the no private-profit motive principle, key performance indicators for the stores and follow-up work are structured to ensure that the focus on income is minimised. The key performance indicators are followed up continuously to facilitate evaluation and planning of the stores' operations.

Key performance indicators for the society perspective reveal the results of age verification tests in stores. The key performance indicator measures the percentage of instances when proof of age is requested as a percentage of the total number of test purchases. Test purchases are carried out by people aged between 20 and 25.

The financial perspective's key performance indicators include work productivity levels and wastage. Work productivity levels measure how effectively the store adapts its personnel deployment to sales volumes.

The Customer Satisfaction Index (CSI) is the key performance indicator for the customer perspective, whilst for the employee perspective the key performance indicators are the Employee Satisfaction Index (ESI) and absence due to sickness.

The store managers plan the key performance indicators for the coming year every autumn, in consultation with the regional managers. The goal for age verification is always, however, 100 per cent. These objectives are followed up regularly.

Summary of key performance indicators and goals per perspective and target achievement

Perspective	Strategic key performance indicators	2001	2002	2003	2004	2005	2006	Target level 2006	Target level 2007	Target level 2010
Society	Opinion index	49	50	55	53	55	57	56	57	60
	Age verification, %	80	79	83	84	89	88	90	90	93
Customer	Customer Satisfaction Index (CSI)	71	73	73	72	73	74	74	74	75
Employees	Employee Satisfaction Index (ESI)	—	68	69	69	70	70	71	71	73
Financial	Trading margin ex. alcohol tax (Parent Company), %	26.7	25.5	25.1	25.2	25.5	24.3	24.1	23.3	23.0

Target achievement

Increased volumes but reduced consumption

Systembolaget sold 384.0 million (358.6 m) litres of drinks in 2006, corresponding to an increase of 7 per cent in comparison with 2005. Measured as pure alcohol, sales increased by 5.5% to 38.4 million (36.4 m) litres. The increase in volume is attributable to the wine and beer product groups, which increased by 5.2 per cent and 9.3 per cent, respectively. Spirit sales increased by 0.4 per cent.

Systembolaget believes that the primary reason for the increased sales lies in reduced personal imports by travellers. Total alcohol consumption fell in 2006 and now totals 9.7 (10.2) litres of pure alcohol per person aged 15 or over. Systembolaget's share of the total amount of alcohol consumed has, at the same time, increased.

Systembolaget's sales volumes accounted for 53 per cent (48%) of the total amount of alcohol consumed in Sweden in 2006.

Net sales by the Parent Company totalled SEK 19,026 million (SEK 18,083 m), corresponding to an increase of 5.2 per cent.

Follow-up by perspective

The social perspective

Opinion index – public opinion's confidence in Systembolaget has never been higher since 2001 than it was in 2006. Systembolaget's social mandate is the most important reason for Swedes' desire to retain Systembolaget. In 2001, 49 per cent of the public wanted to retain Systembolaget's retail monopoly. The corresponding figure in 2006 is 57 per cent, which is slightly higher than the target figures set for the year.

Age verification – Systembolaget is engaged in a long-term effort to ensure that people under the age of 20 cannot buy alcohol. The target figure in 2006 was for proof of age to be requested in at least 90 per cent of test

purchases, which are carried out by people aged between 20 and 25. The result was that in 88 per cent (89%) of purchases in stores and in 91 per cent (89%) of purchases from agents, proof of age was requested.

The customer perspective

CSI – Levels of customer satisfaction with Systembolaget are measured every year using the Customer Satisfaction Index (CSI). The result for 2006 was 74 (73). Satisfaction levels have increased amongst both customers of both self-service stores and over-the-counter stores.

Customer satisfaction levels with regard to Systembolaget's personnel continue to be very high, with a CSI of 84 during 2006, which is one of the highest values in the retail sector as a whole. Systembolaget aims to achieve an even better result in the year ahead.

The employee perspective

ESI (Employee Satisfaction Index) – the 2006 result is 70 (70), which shows, amongst other things, that employees are satisfied with their opportunities for development and with Systembolaget's goals and visions.

The areas reporting the biggest increase in this year's measurement are duties, opportunities for development and the company as a whole. In the company as a whole, high marks are principally awarded in response to questions about the company's visions and goals.

The financial perspective – lower trading margins

The owner's directive states that Systembolaget's profit shall, in the long term, correspond to a return on shareholders' equity of four percentage points above the ten-year government bond interest rate. For 2006, this means a return of approximately 7.7 per cent. Systembolaget is not a profit-maximising company, and there is hence no reason to strive for a return that exceeds that specified by the owner.

“Public opinion's confidence in Systembolaget has never been higher since 2001 than it was in 2006.”

Systembolaget's efficiency has increased in recent years, both in the stores and at Head Office, and as a result, the company's return has substantially exceeded that specified in the government's owner's directive. Systembolaget's Board of Directors accordingly decided, in accordance with the owner's directive, that this increased efficiency should benefit the customers in the form of lower prices. On 1st August, Systembolaget's pricing model was amended, lowering prices by an average of 1.6 per cent.

The adjustment in the trading margin means that the variable part of the surcharge was reduced from 23 per cent to 19 per cent of Systembolaget's purchase price (excluding alcohol tax) for all product groups. The pricing model was also corrected to ensure that the price of small bottles was lowered slightly more and the price of boxed products slightly less. Overall, Systembolaget's trading margin was reduced by approximately 11 per cent during the final months of the year as a result of the adjustment.

Cost performance

Systembolaget continuously endeavours, in line with the owner's directive, to increase the efficiency of its operations – both in the stores and at Head Office.

The stores

Work productivity is a key performance indicator that measures the stores' efficiency. Work productivity reflects the number of units sold per day's work and is measured daily in every store. Efficiency, measured as work productivity, has increased from 743 in 2005 to 767 in 2006, corresponding to an improvement in efficiency of 3.2 per cent. Other overheads in store have been reduced by 2 per cent in 2006.

Systembolaget places a heavy priority on its efforts to prevent wastage. Product wastage as a percentage of sales has been successfully limited, despite the general attractiveness of the products for thieves. In 2006, the value of the wastage incurred was 1.13 pro mille of sales. The percentage is lower than in 2005 (1.4 pro mille), despite an increase in the percentage of self-service stores. Special measures have been taken in 2006 to reduce wastage.

Head Office

Operational efficiency has also improved centrally, with the earlier review of the workforce achieving full impact in 2006. The Head Office operations were brought together under a single roof in 2006, enabling the sale of an office building in central Stockholm. The total administrative costs for the Head Office have fallen by 7 per cent to SEK 462 million, corresponding to 2 per cent of net sales.

Capital gains

Real estate sales during the year have resulted in capital gains totalling SEK 141 million (SEK 75 m).

Summary of 2006

The financial result for 2006 was substantially higher than the owner's required return. Systembolaget's sales have increased at the same time as the stores and Head Office have continued their efforts to improve efficiency that have been in progress for a number of years now. Systembolaget's pricing model was amended on 1st August, thereby lowering prices by an average of 1.6 per cent. Most of the other key performance indicators have performed positively in 2006.

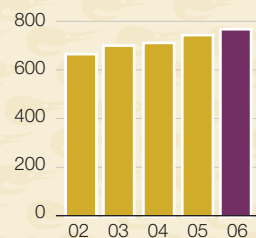
“Systembolaget's pricing model was amended on 1st August, thereby lowering prices by an average of 1.6 per cent.”

Tables and charts associated with the Target Achievement section on pages 32–33

Systembolaget's pricing model

Basic fixed surcharge per unit	
Spirits & other	SEK 2.70
Wine	SEK 3.50
Beer	SEK 0.85
Alcohol-free	—
Packaging-related correction factor per unit	
Small packaging	– SEK 1.75
Boxes and cardboard packaging	+ SEK 0.75
Variable surcharge on purchase price incl. alcohol tax	19%

In-store productivity



Operations in relation to the owner's directive and the financial requirements to which the operation is subject

Per cent	2001	2002	2003	2004*	2005*	2006*
Return on shareholders' equity (Group)	11.0	10.8	9.8	11.5	18.9	20.6
Level in owner's directive	8.1	8.3	8.6	8.4	7.4	7.7
Equity/assets ratio (Group)	36	33	30	39	38	40
Level in owner's directive	30	30	30	30	30	30
Dividend as a percent of consolidated result after tax	60	56	144**	51	100	50
Level in owner's directive (minimum)	50	50	50	50	50	50

* as per IFRS

** Including dividend approved by the Extraordinary General Meeting

Retail trade sales

Net sales per product category, SEK m	2001	2002	2003	2004	2005	2006	05/06, %
Spirits	6 144	6 166	5 864	5 107	4 999	5 026	0.5
Wine, incl. fortified wine	7 862	8 161	8 449	8 382	8 765	9 316	6.3
Beer	3 511	3 874	3 956	3 560	3 661	3 986	8.9
Cider & mixed drinks	386	502	604	556	555	586	5.9
Alcohol-free	11	13	17	20	22	23	4.5
Other	81	92	95	83	81	89	9.9
Income in SEK	17 995	18 808	18 985	17 708	18 083	19 026	5.2
Gross profit	2 354	2 552	2 499	2 371	2 461	2 512	2.1
Gross margin incl. alcohol tax. %	13.2	13.2	13.2	13.5	13.7	13.2	– 3.6
Gross margin ex. alcohol tax. %	26.7	25.5	25.1	25.2	25.5	24.3	– 4.7

Organisation

Organisation chart, 2006

Systembolaget's organisation is process orientated, with responsibility for the principal process lying with the Sales Operations Area and the Purchasing & Supply Chain Management.

The Purchasing & Supply Chain Management is responsible for product range development and for the supply of goods from the supplier to the stores' shelves and the customer.

The Sales Operations Area is responsible for operations and sales in the stores. Systembolaget's 410 stores are organised into 28 areas with between 10 and 17 stores in each area. Each area has a Regional Manager, who is responsible for the day-to-day contacts between his or her store managers and Systembolaget's Head Office.

The other central departments act as support units for the primary process and work in such areas as developing and administering the network of stores and the IT systems, informing, recruiting and developing employees, and administering accounting flows.

The President and corporate management team are responsible for the management process.



Subsidiaries

Lagena Distribution AB
Lars Reinholdsson, Vice President

Systembolaget Fastigheter AB
Gunilla Högbom

IQ-Initiativet AB
Ann-Therese Einarsson, Vice President

Company management

Systembolaget's company management comments on the past year.



“Six years of difficult work have yielded results. Our sights are now set on 2010.

Anitra Steen, President



“We are focusing hard on complying with our selling rules and will be tightening up our in-house checks even more in 2007.

Mikael Wallteg
Sales Director/Vice President



“The certification of our entire purchasing process is an important cornerstone of brand neutrality.

Barbro Ström
Purchasing Director, Vice President



“Several years of structured efforts to improve efficiency allowed us to cut prices in 2006.

Anders Söderlund
CFO



“We’re very pleased that alcohol consumption is falling at the same time as Systembolaget’s market share is increasing.

Björn Rydberg
Press Director



“Developed IT creates the potential for increased quality and customer benefit, and for continued improvements in the efficiency of our operating processes.

Johan Tömmervik
IT Director



“The support from the public and customers and their satisfaction with what we do have increased. Social responsibility is the most important factor.

Per Bergkrantz
Marketing Director



“By 31st December 2010, all of our stores will have been rebuilt as self-service outlets.

Gunilla Högbom
Real Estate Director



“It’s particularly pleasing to note that we have managed to reduce total sickness absence by 1.6 percentage points over the last two years.

Karin Furuvik
Personnel Director

Sustainable development

Systembolaget's mandate – to limit the medical and social damage caused by alcohol and thereby improve public health – is a “sustainability mandate.”

The Brundtland Commission defined sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Systembolaget's mandate supports sustainable development and the vision we have formulated - Systembolaget shall establish a healthy drinking culture, whereby we can enjoy Systembolaget's drinks without harming either ourselves or other people – is an expression thereof.

Systembolaget works actively with sustainable development. The following summary summarises Systembolaget's activities in 2006 in the areas of ethics and the environment. Our activities within the personnel area are described on pages 10-13. Systembolaget's work in relation to research into the area of alcohol is also presented on page 41 and its involvement in the alcohol issue in the form of the IQ initiative is presented on 42.

Ethics

Systembolaget's corporate management has established the company's fundamental ethical values and principles. They state, amongst other things, that:

“Our corporate culture is formed in the interaction between responsible managers and employees, and is based on respect for human worth and dignity, openness and honesty.

“All employees are the company's representatives and shall, both at work and in their leisure time, behave in a professional manner, maintain high standards of personal integrity, and shall not allow themselves to be improperly influenced.

The Personnel Director is responsible for work on the ethical programme within Systembolaget. She heads an ethics group comprising five people from different parts of the company, including the Ethics Advisor, who is a store manager highly respected within the organisation.

Ethics discussed

Ethical issues are raised in a structured way in a variety of contexts within the company in order to keep the discussion alive and maintain a high level of ethics awareness. Ethical issues are, for example, included in the annual performance review discussions between managers and employees. One day's discussion on ethics and values is also included in the managerial development programme for all of Systembolaget's managers, and the company's ethics are included in the internal training provided after employment and in conjunction with promotion. Ethical and value-related issues are also raised in conjunction with all recruitment work.

Contact for advice on ethical issues

In April 2005, an Ethics Advisor was appointed within Systembolaget, tasked with, alongside their role as a store manager, providing employees with advice on ethical issues and acting as someone to whom employees can turn with information on any breaches of the company's guidelines, known as “whistle blowing”. Employees who make use of this opportunity and contact the Ethics Advisor are guaranteed anonymity.

Support from ethical guidelines

The ethical work is supported by special guidelines that all managers within the company are tasked with reviewing and discussing regularly with their colleagues. Guidelines have been drawn up for the following areas:

- external contacts
- secondary occupations
- entertainment
- labour law measures in connection with breaches of the guidelines
- asking for advice and sounding the alarm.

The guidelines for external contacts state, amongst other things, that contact with suppliers of alcoholic drinks shall be handled by personnel from the Purchasing Business Area. The store personnel's contacts are limited to closely regulated study visits to stores by producers or visits to producers for the purposes of training. Contact by the suppliers with store personnel in an attempt to influence them to favour individual products in any way is not, and has never been, permitted.

The environment

In 2001, Systembolaget carried out a general environmental review of its operations which resulted in the adoption of an environmental policy. The environmental policy stipulates the overall aim of the environmental work. Every year, the company management decides on an environmental plan which acts as the tools with which Systembolaget's Environment Group can then carry out the company's environmental work. The environmental review identified three focus areas with which the Environment Group has worked in 2006:

- Organic products
- Building materials
- Transport

The environmental policy states that Systembolaget's operations shall be characterised by an eco-cycle-based attitude and hence we have also been working on the Waste Products focus area.

Key performance indicators are followed up in every area in the Environmental Report. Target figures for 2007 have been adopted in 2006.

Organic products

When wine is produced organically, only 3 per cent of the volume of chemical pesticides used, on average, in conventional wine production is used. Organic production also requires less energy, promotes biological diversity and results in reduced eutrophication.

Organic wines, spirits or beer sold at Systembolaget complies with all of the EU requirements for organically produced products.

The percentage of organic products sold has, once again, achieved record levels this year. All of the product groups are growing, with organic wine accounting for the biggest growth. This is due to the fact that organic bag-in-box wine is now available as part of the fixed product range and that sales of organic wine in bottles have increased since last year. The number of organic products in the fixed product range has increased since last year and all of the stores now carry at least seven organic products.

It should also be noted that not all wines without organic labels are sprayed to the same degree. More exclusive wines are, for example, produced in a completely organic way but without the producer labelling them as organic wines.

Building materials

The materials specified in the company's store programme, and which are used in the stores, are undergoing an environmental review. Most of the materials are recommended for environmental reasons. Only nine materials have not been replaced or removed from the programme to date, due to the lack of any suitable alternative. The materials that still have a high impact on the environment are constantly being evaluated with the aim of replacing them as soon as possible.

“The percentage of organic products sold has, once again, achieved record levels this year. All of the product groups are growing, with organic wine accounting for the biggest growth.”

“The environmental policy states that Systembolaget’s operations shall be characterised by an eco-cycle-based attitude

Energy consumption

The stores’ energy consumption shall be efficient. Major energy savings were made between 1983 and 1996, thanks to investments in, amongst other things, heat reclamation from ventilation, on-demand ventilation and geothermal heating. Energy consumption has once again increased in conjunction with the introduction of the new store concept in 2001. The new store concept requires additional lighting, which generates heat and hence, also boosts the cooling and ventilation requirement.

In 2006, electricity consumption totalled 127 kWh/m² in Systembolaget’s stores, which is on a par with other retail outlets with comparable operations. Systembolaget is constantly investigating the potential for energy saving. All of the electricity bought in 2006 was eco-labelled electricity.

Transport

The transport of products to Systembolaget’s stores generates carbon dioxide emissions totalling approximately 44,000 tonnes per annum.

The transport of customer orders from Systembolaget’s product depot in Örebro is one part of the Systembolaget-related transports for which it is possible to measure the environmental burden. Emissions per transported bottle

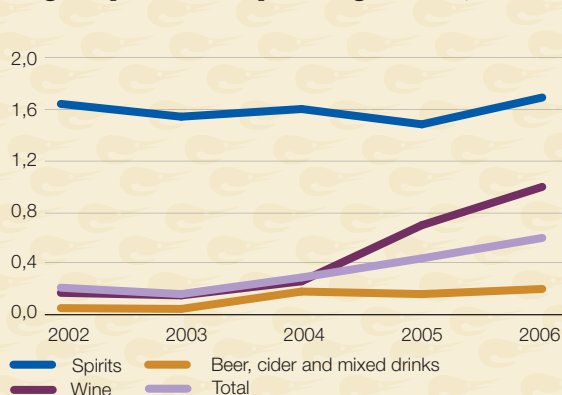
have fallen in 2006 from levels in 2005 due to a higher filling level (no. bottles per consignment) and to more routes being driven by vehicles of a higher environmental class.

The majority of transports occur in conjunction with regular deliveries of products to the stores. The environmental burden this imposes is currently difficult to measure because it is the suppliers, not Systembolaget, who commission the distributors. Cooperation and follow-up work is, however, also possible to some extent for these deliveries.

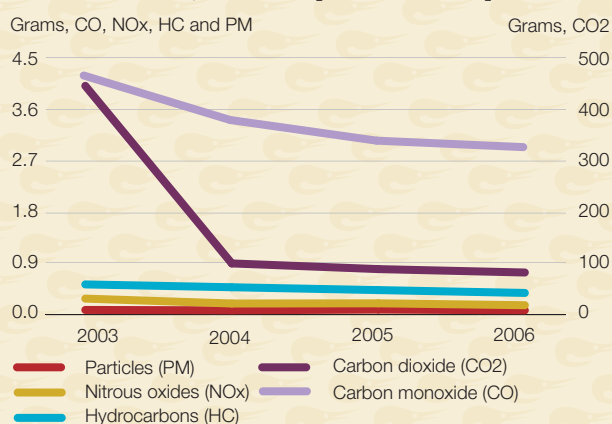
Personnel transport

In 2006, Systembolaget’s personnel travelled 1,234,070 kms (1,088,830 kms) by train, 3,678,950 kms (1,740,170 kms) by airplane, 231,110 kms (128,550 kms) by hire car, and journeys to and from airports (airport bus, Arlanda Express and airport taxis) have totalled 99,690 kms. The distances travelled using all forms of transport have increased since 2005 and are now at the same levels as they were in 2004. The probable cause of the lower figures in 2005 was the reorganisation, which limited the amount of travelling done. By taking the train instead of flying (when possible), carbon dioxide emissions have been reduced by the equivalent of 80,716 kgs (77,000 kgs).

Organic products as a percentage of sales, litres



Customer orders, emissions per bottle transported*



* The term, bottles, also refers to other packaging units such as aluminium cans and boxes.

Waste product processing

The waste stations in Systembolaget's stores have collected 6,140 tonnes (5,404 tonnes) of corrugated cardboard, 190 tonnes (186 tonnes) of paper and 267 tonnes (209 tonnes) of soft plastic during the year. Other fractions in the stores' waste stations comprise glass, fluorescent tubes, batteries, light bulbs, electronic waste, metal, toners and combustible waste.

The fragmentation facility

Systembolaget's has a fragmentation facility in Jordbro that handles returned goods by separating content from packaging. During the past year, the facility has processed 380 tonnes (236 tonnes) of glass, 446 tonnes (447 tonnes) of cardboard boxes and 18 tonnes (15 tonnes) of aluminium cans, resulting in 617m³ (536m³) of liquid. Both the packaging and the liquids are used in new ways.

Paper consumption

Paper consumption has increased by approximately 550,000 sheets, or 8 per cent, in comparison with 2005. This corresponds to an increase of approximately 20 trees.

Systembolaget's Alcohol Research Council

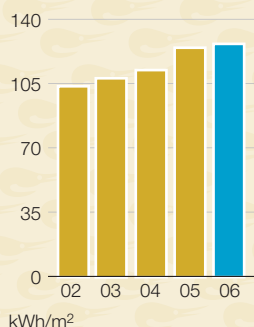
Systembolaget provides financial support every year for alcohol research through the medium of its Alcohol Research Council (SRA). Support can be provided for both socio-scientific and medical alcohol research. Research of particular importance with regard to work on the prevention of alcohol-related injuries and diseases is prioritised. In 2006, the Council allocated SEK 3 million to research.

The Council has nine members. Six of them shall be leading figures in the field of alcohol research, and the remaining three members shall represent general societal interests.

The Council conducts what is, in relation to Systembolaget, an independent review of applications for grants received, based on the projects' scientific merits and societal relevance.

SRA's administration is handled by the Swedish Council for Information on Alcohol and other Drugs, CAN (www.can.se).

Electricity consumption in stores



Breakdown of the waste from stores processed, per cent*

	2003	2004	2005	2006
Other**	0.1	1.0	1.5	0.1
Landfill	1.5	0.8	0.7	0.4
Energy extraction	3.3	3.2	0.5	0.5
Material recycled	95.1	95.0	97.4	99.0

* The breakdown refers to that percentage of the stores' waste that is collected by our partner for waste product processing. We do not, at present, know the total amount because domestic waste is processed by the local authority in question.

** The Other category includes fluorescent tubes, light bulbs, batteries and electronic waste.

The IQ Initiative

The aim of the IQ initiative is to spotlight good examples, both large and small, that lead to a smarter attitude towards alcohol and which prevent or reduce alcohol-related problems.

“Systembolaget launched its IQ initiative in 2005 with the aim of bringing good examples into the spotlight and thereby generating a new focus for the alcohol issue.

Commitment to the alcohol issue (IQ)

Systembolaget launched its IQ initiative in 2005 with the aim of bringing good examples into the spotlight and thereby generating a new focus for the alcohol issue. Concrete measures and projects carried out by companies, organisations and associations in order to prevent or reduce alcohol-related problems shall be highlighted in order to inspire more people to do more. The IQ initiative is run as a subsidiary of Systembolaget - IQ-initiativet AB.

SEK 100 million

Systembolaget is investing SEK 100 million in the IQ initiative over a five-year period. The money will go to running the website at www.iq.se, and to communicating the project with the aid of TV advertising etc. The IQ initiative will also organise seminars and act as an active sounding board for everyone who might want to implement an IQ project. The criteria for the IQ project are that they

- are intended to help prevent or reduce problems associated with alcohol and/or reduce alcohol consumption
- focus on the project sponsor's own operations or on areas closely associated therewith
- comprise a concrete action and lead to a change in behaviour
- have a purpose and an objective that can be followed up
- are carried out in Sweden
- can be communicated externally
- allow everyone to be involved, with the exception of those companies that actively market alcoholic drinks in order to increase their own or other people's sales.

The goal is to create a popular movement

The IQ initiative is more than a classic information campaign. Systembolaget's goal is for IQ to become a completely independent organisation and to give birth to a popular movement that changes behaviour and teaches Swedes smarter alcohol habits.

IQ 2006

Systembolaget is proud to present a massive 120 IQ projects implemented during IT's first year. All of the projects are unique of their kind. The aim of IQ is to spotlight good examples, both large and small, but all of which are designed to bring about a smarter attitude towards alcohol and thereby to prevent or reduce alcohol-related problems. The overall aim is to disseminate good ideas and to inspire more people to do more, in the best way possible.

In the spring of 2006, the focus was on traffic and alcohol. IQ, together with the Swedish Taxi Association and the Swedish Bus and Coach Federation, challenged the bus, coach and taxi industry to install alcohol locks in all of their school runs. 60 or so companies accepted the challenge and are now displaying their commitment to safer school runs through IQ's stickers, "Jag kör med alkoholås [I'm driving with an alcohol lock].

The autumn saw the launch of a partnership with the Swedish Football Association aimed at highlighting the alcohol issue within Sweden's biggest sporting association. The partnership is designed to encourage both policy development within the clubs and an extension of alcohol prevention work. The partnership is called IQ United. IQ United is about football, alcohol and dreams for thousands of boys' and girls' teams. Almost a quarter of million young people play football and few environments offer the same opportunity for influencing norms and attitudes as the world of football. IQ United targets trainers and youth teams with players aged between 13 and 17 and is all about taking a stand. The campaign's motto is "be as good as you can be. By the end of the year, approximately 100 teams had signed for IQ United.

IQ has also highlighted the issue of alcohol habits in conjunction with work. Here, IQ was helped by, amongst others, the popular Swedish fictional character, Karl-Bertil Jonsson, who, in the run up to Christmas, encouraged Sweden's employers not to give presents that clink. The aim was to make people think about Christmas presents.

Seeking to achieve reflection and consideration when it comes to alcohol habits is a long-term process and one that is taking place on multiple levels, involving many players. Because it is the many small steps that, collectively, make the big difference.

Public opinion

Public support for Systembolaget and the retail monopoly has strengthened still further in 2006. The public opinion index has risen from 49 per cent in favour in 2001 to 57 per cent in 2006.

There is considerable support in Parliament for a retail monopoly in the sale of alcoholic drinks in Sweden, for public health reasons. The Swedish public's view of the way in which Systembolaget handles this assignment is critical to public acceptance of the monopoly. The aim is, therefore, to develop the operations such that a balance is maintained between service and responsibility, in order to retain the efficiency of the alcohol policy instrument and an acceptance thereof amongst the public and customers.

Positive trend

In conjunction with the annual Customer Satisfaction survey, Systembolaget asked 60,000 customers if they would vote to retain the retail monopoly in a referendum. Support for retention of the monopoly strengthened still further in 2006 and is now at 53, in comparison with 47 the first time measurements were taken, in 2002.

The Opinion Index (OPI) is one the strategic key performance indicators and is measured every month. The key performance indicator comprises the average value of the year's measurements. The public are asked to answer the following question. "Do you think that Systembolaget and the monopoly on the sale of strong beer, wines and spirits should be retained, or would you prefer strong beer, wines and spirits to be sold in other stores? Measurements began in 2001, when 49 per cent of the Swedish public chose Systembolaget. The trend since then has been positive and in 2006, 57 per cent answered "Systembolaget in response to the same question. Support amongst the public strengthened still further during

the autumn of 2006, and during the last quarter of the year, the average Opinion Index figure was 62.

Biggest support amongst the young and the old

Levels of support for the monopoly are slightly higher amongst women than men. Support is also higher in the youngest and oldest age groups (15-29 and 65+, respectively), and in the northern part of the country. The percentage of those who are uncertain remains relatively constant at between 6 and 8 per cent.

Controlled selling important

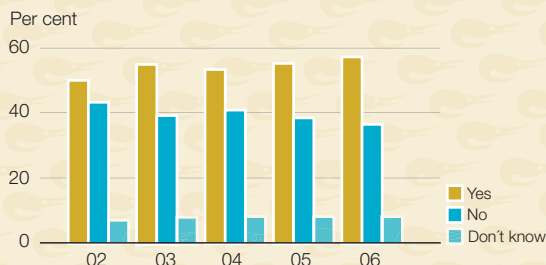
The main reasons for the support of those who wanted to retain the monopoly were a desire for alcohol to be sold in a controlled manner - to protect young people and to promote public health - and satisfaction with Systembolaget's product range. The main reasons cited by the just under one third of respondents who wanted the monopoly to be abolished were a dislike of monopolies on general principles, and a desire to see an improvement in availability and opening hours.

Award-winning advertising

Systembolaget produces advertising promoting Systembolaget and the retail monopoly in a variety of ways. In 2006, the advertising addressed the issue from a variety of perspectives through "The little monopoly analysis and through advertisements addressing Systembolaget's selling rules. The advertising won a prize for best advertising in Sweden (the "Golden Egg) and for web production in Europe ("Eurobest) in 2006.

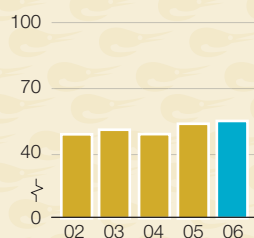


Opinion Index, average yearly values



Support in the CSI

"How likely is it that you would vote to retain Systembolaget's monopoly?"



Alcohol policy and the outside world

Alcohol taxes and the retail monopoly are two of the most effective instruments for reducing consumption and disease or injury associated with alcohol consumption.

Two alcohol policy instruments

Swedish alcohol policy is based on the fundamental principle that an increase in the total consumption of alcohol leads to an increase in injuries and disease. Two alcohol policy instruments work together to limit alcohol consumption in Sweden – a high price, due to high alcohol taxes, and a retail monopoly on the sale of alcoholic drinks. One of the most important reasons for Systembolaget's efficiency when it comes to limiting the damage caused by alcohol is the "not for private profit motive, i.e. the operations are not run to make a profit. This enables availability to be reduced and prohibits the marketing of the products in order to increase sales, thereby reducing profitability but contributing to better public health and reduced social costs.

In a book entitled "Alcohol – no ordinary commodity, published in 2003, and written by Thomas Babor and fourteen other world-leading researchers into alcohol, the authors summarised what research into the effect of different alcohol policy measures has shown. The measures that have the greatest effect and the broadest scientific support are a state monopoly on retail sales, alcohol taxes, age limits on the purchase of alcohol, and lowering the maximum permitted blood alcohol level when driving.

Alcohol consumption in Sweden

The Centre for Social Research on Alcohol and Drugs at Stockholm University, SoRAD, has been commissioned by the government to chart alcohol consumption in Sweden. Total alcohol consumption is broken down into a statistically monitored section (Systembolaget, restaurants, and class II beer) and a non-statistically monitored section (personal imports by travellers, smuggling, and home-produced alcohol). The unregistered section is charted through interview-based surveys.

A break in the alcohol consumption trend

Alcohol consumption in Sweden has increased during the current decade. A break in this trend has, however, been noted, with consumption falling in both 2005 and 2006. According to SoRAD's surveys, the level of total alcohol consumption in Sweden in 2006 was 9.7 litres, converted to pure alcohol, per person aged 15 and above. This is a fall of 7 per cent from the highest figure recorded

of 10.4 litres in 2004, but consumption is still above the average level of approximately 8 litres noted in the 1990s. Consumption has, therefore, increased by just over 20 per cent over a ten year period. Much of the alcohol drunk originates from personal imports by travellers – a percentage that reached 20 per cent in the most recent measurement period. 2 per cent of alcohol drunk during the same period originated from home production, 9 per cent from smuggling, 16 per cent from restaurants and food stores, and 53 per cent from Systembolaget.

A break in the trend for private imports, too

A break in the private imports trend was also noted over the past two years, and converted to pure alcohol per person aged 15 and above, the volume imported has fallen from 2.7 litres in 2004 to 1.9 litres in 2006.

The EU

The retail monopoly was reviewed by the European Court of Justice in 1997 in what was known as the Franzen case. The Court's finding was that Systembolaget's monopoly was compatible with EU law.

Non-discriminatory

The ruling stated that the Court of Justice does not require the abolition of government-owned commercial monopolies; rather the requirement is that the monopoly be adapted to become non-discriminatory. The Court, which had received detailed information on the full range of Systembolaget's operations, stated that Systembolaget was not discriminatory and did not treat imported products unfairly.

Monopolies promote public health

The Court noted that the purpose of Systembolaget was to protect public health from the harmful effects of alcohol and confirmed that EU law afforded the opportunity to maintain certain commercial monopolies that existed to serve such public interest ends. The Court further stated that the provisions of EU law regarding government-owned commercial monopolies aim at the elimination of obstacles to the free movement of goods, save, however, for restrictions on trade which are inherent in the existence of the monopolies in question.

Alcohol taxes in January 2007

Ex. VAT

Beer

Alcohol content, % by volume over	Tax in SEK per litre for every maximum percentage point by volume of alcohol ¹⁾	
—	–2.8	0
2.8	—	1.47

Medium-class products (Fortified wines, etc.)

Alcohol content, % by volume over	maximum	SEK per litre
1.2	15	27.20
15	22	45.17

Wine (cider, etc.)

Alcohol content, % by volume over	maximum	SEK per litre
—	2.25	0
2.25	4.5	7.58
4.5	7	11.20
7	8.5	15.41
8.5	15	22.08
15	18	45.17

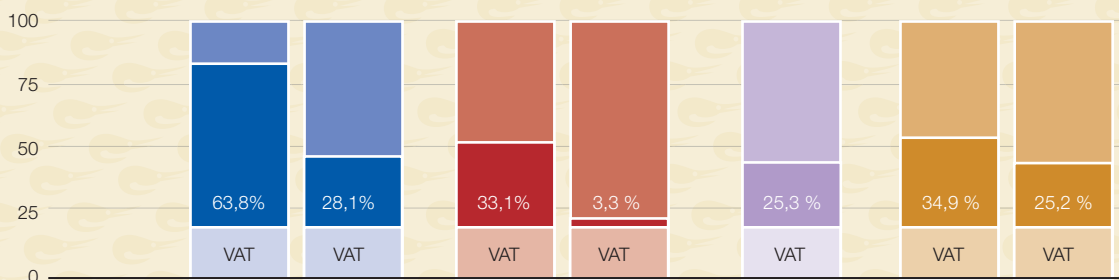
Spirits

SEK per litre pure alcohol

501.41

¹⁾ The alcohol tax for a brand of beer with an alcohol strength of 5.0 per cent by volume is $5.0 \times 1.47 = 7.35$.

Alcohol tax as a percentage of the price of spirits, wine and beer brands in January 2007



	Spirits 70 cl 40 vol%	Spirits 70 cl 40 vol%	Wine 75 cl 13 vol%	Wine 75 cl 13 vol%	Cider/Alcopops 50 cl 4.5 vol%	Extra strong beer 33 cl 7.2 vol%	Strong beer 33 cl 5.2 vol%
Price	220.00	500.00	50.00	500.0	15.00	10.00	10.00
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Alcohol tax	140.39	140.39	16.56	16.56	3.79	3.49	2.52
	63.8%	28.1%	33.1%	3.3%	25.3%	34.9%	25.2%
Supplier's price	27.61	215.61	16.44	319.44	3.96	2.66	3.48
	12.6%	43.1%	32.9%	63.9%	26.4%	26.6%	34.8%
Systembolagets trading margin	8.00	44.00	7.00	64.00	3.45	1.35	1.50
	3.6%	8.8%	14.0%	12.8%	23.0%	13.5%	15.0%
VAT	44.00	100.00	10.00	100.00	3.00	2.00	2.00

“Imports by travellers and smuggling account for approximately one third of the total consumption of alcohol in Sweden

Distance trading

Swedish legislation, which prohibits distance trading in alcohol from abroad, is currently being reviewed by the European Court as part of the Rosengren case, as it is known. The Supreme Court has stated that the seizure of alcohol shall not be suspended until such time as a ruling is issued, and the Swedish Customs Authority is hence able to continue seizures. The Swedish Government has stated its opinion that the prohibition complies with EU law in that it is part of the retail trade monopoly and is important for the protection of public health. The Advocate General stated, in his draft ruling, that the Swedish prohibition on distance trading does not contravene EU regulations. The ruling by the European Court is expected in 2007.

Alcohol taxes

The European Court of Justice has, in response to a request for an advance ruling, as it is known, submitted by a Dutch court ruled in the Joustra case, as it is known, which relates to whether alcohol tax shall be paid in the country of origin or in the country of consumption when the purchaser organises special transportation to their home country. The European Court found that it is only when an individual, while travelling, personally takes the products with them that alcohol tax does not need to be paid in the country of consumption. When alcoholic drinks are freighted with the aid of, for example, a transport company, the tax shall be paid in the country of consumption, irrespective of who has ordered the freight.

The EU's alcohol strategy

On 24th October 2006, the European Commission presented a proposal for a common strategy within the EU aimed at reducing the harmful effects of alcohol. The proposal entails a strengthening of the public health perspective on alcohol issues within the EU.

Actions at Union level

The overall purpose is to propose measures that could reduce the harmful effects of alcohol on people's health within the EU. The strategy focuses on a number of areas where the Commission believes that actions at Union level are important: the link between alcohol and traffic, protecting children and young people and counteracting foetal damage, preventing problems for adults, activities promoting information, education and an increased understanding of harmful alcohol consumption and the need for a shared knowledge base with regard to, amongst other things, the effect of trends in alcohol consumption on economic growth.

Imports/cross-border trade

Imports by travellers and smuggling, account for approximately one third of the total consumption of alcohol in Sweden, according to the survey-based investigations by the Centre for Social Research on Alcohol and Drugs at Stockholm University, SoRAD.

Reduced alcohol taxes in neighbouring countries

The free importation of alcohol by travellers for personal use imposes a strong downwards pressure on alcohol taxes when differences exist between neighbouring countries' tax level. Denmark and Finland have lowered their alcohol taxes for that reason.

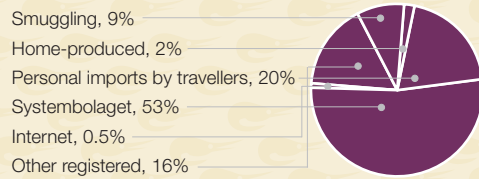
High level for personal use

The so-called indicative level, which under EU law, shall act as a guideline for when an individual's imports in conjunction with travel shall be deemed to be for personal use, is very high for alcohol and corresponds to more than two years' normal consumption per journey. The level for tobacco, for example, is considerably lower and corresponds to approximately two months' consumption.

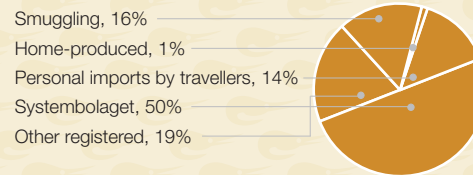
Consumption of alcohol, by registered and unregistered sales

Percentage of consumption, measured as pure alcohol

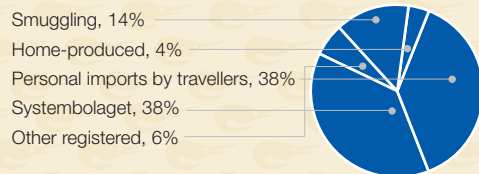
Total



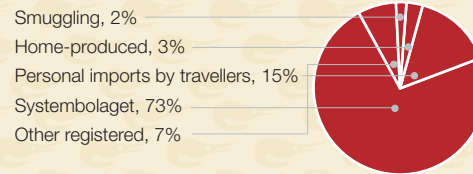
Beer



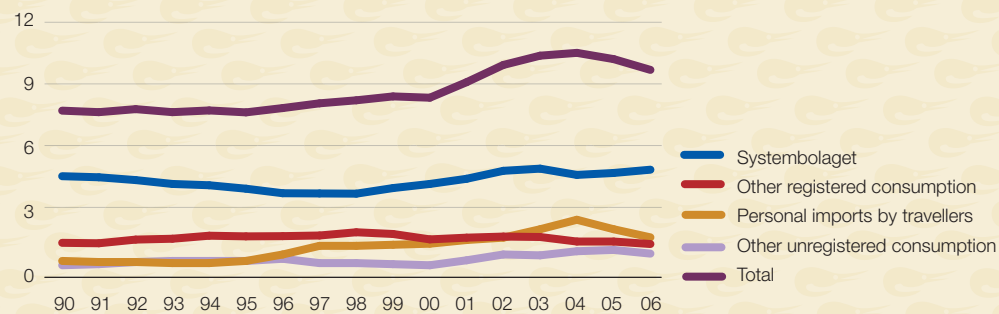
Spirits



Wine



Trend in alcohol consumption, by registered and unregistered sales



Alcohol consumption, 1990–2006 (litres of 100% alcohol per person aged 15 and over)

Directors' Report

The Board of Directors and the President of Systembolaget AB, corporate identity number 556059-9473, hereby submit the Annual Accounts and the Consolidated Accounts for the financial year from 1st January 2006 until 31st December 2006.

Operations

Systembolaget's mandate focuses on both our customers and other members of the public. Living up to the public's expectations at the same time as we meet the requirements and wishes of our customers makes special demands on our operations. Systembolaget's business concept is to sell alcoholic drinks responsibly and to exceed customers' expectations by constantly developing our product range, expertise and service.

The operations are conducted both in company-owned and in leased store premises and via agents. At the end of 2006, the operations were conducted via 410 stores and 552 agents.

Significant events during the financial year

New stores and renovations

44 stores have been rebuilt in line with the new self-service concept. Two new stores have been opened and one has been closed.

Adjusted pricing model

Systembolaget has increased its efficiency in both the stores and at Head Office in recent years. This has resulted in the company's returns being considerably higher than those stipulated in the states' owner's directive. The Board of Directors of Systembolaget decided, therefore, in accordance with the owner's directive, that the increased efficiency should benefit the customers in the form of lowered prices. On 1st August, prices were lowered by an average of 1.6 per cent.

Improvement in public opinion

Every month, Sifo Research & Consulting measures what the Swedish public think of Systembolaget and its monopoly. The opinion index was slightly over 60 during the latter part of 2006, which is the highest value since measurements began in 2002. The opinion index for 2006 as a whole was 57.

The market

Alcohol consumption in Sweden fell during 2006 and now totals 9.7 litres (10.2 l) of pure alcohol per person aged 15 and over. Systembolaget's share of the total alcohol consumption has increased to 53 per cent (48%) during 2006.

Financial information

The Group

The operating result totalled SEK 559 million (SEK 477 m). The result before tax was SEK 602 million (SEK 513 m). The improvement in the consolidated result is primarily due to increased sales volumes and to reduced overheads in stores and at Head Office. The 2006 result includes capital gains on the sale of properties in Systembolaget Fastigheter AB totalling SEK 141 million (SEK 75 m).

The Group's gross investments totalled SEK 898 million (SEK 445 m). The renovation and opening of stores accounts for SEK 267 million (SEK 167 m).

The Parent Company

The Parent Company's net sales increased during the last year by 5 per cent in comparison with the previous year and totalled SEK 19,026 million (SEK 18,083 m). The Parent Company's operating result totalled SEK 298 million (SEK 262 m) and the result before tax was SEK 352 million (SEK 889 m). The Parent Company's trading margin, including alcohol tax, was 13.2 per cent (13.7%).

The Parent Company's gross investments totalled SEK 854 million (SEK 346 m).

Non-financial information

The average number of full-time employees in 2006 was 3,026 (2,960) in the Group and 2,842 (2,793) in the Parent Company. The total sickness absence was 6.5 per cent (7.2%).

Subsidiaries

Systembolaget Fastigheter AB

The wholly owned subsidiary company, Systembolaget Fastigheter AB owns the properties and tenant-owner rights held by the Group. A total of 110 (113) properties comprising a total of 153,000m² (168,000 m²) have been managed during the year. The vacancy level is approximately 4.6 per cent (2.7%). All owned properties are related to Systembolaget's operations. The real estate management posts a result after financial items of SEK 220 million (SEK 161 m). The result includes capital gains totalling SEK 141 million (SEK 75 m).

Lagena Distribution AB

Lagena Distribution AB is a wholly owned subsidiary of Systembolaget AB, see page 25.

Net sales have increased by 5 per cent to SEK 284 million. The result after financial items totalled SEK 10.5 million (SEK 2.6 m).

IQ-initiativet AB

The purpose of IQ-initiativet AB's operations (IQ) is to generate a new focus for the alcohol issue and thereby to bring about a change in society's attitudes and behaviour with regard to alcohol, which results in reduced alcohol consumption and hence in a reduction in the harm caused by alcohol. See page 42.

Net sales in 2006 totalled SEK 26.5 million (SEK 7.9 m).

Risks

Financial risks

Systembolaget is self-financing, thanks to a high rate of stock turnover that matches purchasing and payment terms. The Group has no interest-bearing liabilities. Systembolaget's sales are made for payments in cash or by credit card and Systembolaget hence has no significant accounts receivable. Systembolaget's liquidity risk is low. Systembolaget's drinks suppliers are responsible for the import of alcoholic drinks and reporting alcohol tax. Products are bought in, in Swedish kronor, and the company hence has no currency exposure and its exposure to exchange rate and currency risks is low.

Seasonal effects

The liquidity flow varies in line with seasonal variations in sales and in customers' purchasing patterns. Sales are higher towards the end of the week and at the end of the month, and this affects the company's liquidity. The biggest sales peaks occur ahead of major public holidays such as Christmas, New Year, Easter and Midsummer.

Internal controls

Given Systembolaget's principal processes and the risk assessments made, the control environment is good for providing reasonable assurance that Systembolaget's goals will be achieved and its mandate fulfilled. The internal controls are described in the Board's report on internal controls in respect of the financial reporting.

Events after the closing day

No significant events have occurred after the closing day that affect the financial information contained in these annual accounts.

Future outlook and expectations

Uncertainty with regard to the trend in alcohol consumption in Sweden, the trend in private imports from abroad by travellers, and the level of Swedish alcohol taxes all make it difficult to predict sales volumes and income. Sales by the spirits, wines and strong beer product groups are expected to increase by 2 per cent in 2007. The operations plan for 2007 is based on the assumption that alcohol taxes will remain the same in both Sweden and the outside world. Major investments will be made in IT over the next few years, including a new cash register solution that will become operational in 2007/2008. Overall, the company believes that it will meet the owner's returns requirement in the coming financial year.

Proposed allocation of profits

The Board of Directors proposes that the profits available for allocation, comprising SEK 1,056,872,633, are allocated as follows:

SEK m	
Dividend (SEK 583 per share)	210
Carried forward	847
Total	1 057

The dividend will be disbursed on 30st March 2007.

The Board of Directors is of the opinion that the proposed dividend payment is justifiable with reference to the requirements that the nature of the operations, their scope and their inherent risks make of the shareholders' equity in the Parent Company and the Group. The dividend payment is also deemed justifiable from the point of view of the Parent Company's and Group's consolidation requirements, liquidity and position in general, and is compatible with the owner's requirements and expectations.

The Group – a ten year summary

	2006*	2005*	2004**	2003	2002	2001	2000	1999	1998	1997
Profit/loss (SEK m)										
Income	19 026	18 083	17 708	18 985	19 132	18 241	17 368	16 625	15 495	15 464
Gross profit/loss	2 512	2 461	2 371	2 499	2 562	2 414	2 321	2 143	1 959	1 966
Operating profit/loss	559	477	197	172	165	159	165	451	343	234
Net financial items	43	36	43	29	37	38	32	19	8	5
Profit before tax	602	513	240	202	202	197	196	470	351	239
Net profit/loss for the year	419	330	178	138	142	133	108	338	254	174
Balance Sheet (SEK m)										
Fixed assets	2 605	1 943	2 101	1 502	1 345	1 360	1 270	1 210	1 180	1 202
Current assets	2 627	3 235	2 246	2 615	3 359	2 435	2 944	2 932	2 409	2 079
Shareholders' equity	2 071	1 989	1 749	1 348	1 409	1 348	1 294	1 395	1 179	1 040
Liabilities	3 161	3 196	2 598	2 768	3 295	2 447	2 920	2 747	2 409	2 241
Balance Sheet total	5 232	5 185	4 347	4 116	4 704	3 795	4 214	4 142	3 588	3 281
Cash flow statement (SEK m)										
Cash flow from operating activities	363	1 039	198	170	1 508	211	501	791	207	186
Cash flow from investment activities	- 637	- 318	- 190	- 342	- 174	- 267	- 361	- 165	- 45	- 117
Cash flow from financial activities	- 330	- 90	- 80	- 302	- 216	- 802	- 50	- 122	45	123
Cash flow for the year	- 604	631	- 72	- 474	1 119	- 858	90	504	207	193
Key performance indicators										
Trading margin, incl. alcohol tax, %	13.2	13.7	13.4	13.2	13.2	13.2	13.4	12.9	12.6	12.7
Trading margin, ex. ex. alcohol tax, %	24.3	25.5	25.2	25.1	25.5	26.7	27.7	27.1	27.6	27.6
Return on shareholders' equity, %	20.6	17.7	11.5	10.0	10.3	10.1	8.0	26.2	22.9	17.4
Return on capital employed, %	31.9	29.7	15.6	15.3	15.1	15.5	17.0	38.3	34.3	25.9
Equity/assets ratio, %	39.6	38.4	40.2	32.7	30.0	35.5	30.7	33.7	32.9	31.7
Earnings per share before and after dividend, SEK	1 164	917	494	384	393	370	300	938	707	484
Shareholders' equity per share, SEK	5 753	5 525	4 858	3 744	3 915	3 743	3 595	3 875	3 276	2 888
Cash flow per share, SEK	1 008	2 886	550	472	4 189	585	1 392	2 198	574	518
Dividend per share, SEK	583	917	250	556	222	222	222	139	319	250
Work productivity, number/employee	766	743	708	701	662	659	619	644	604	591
Rate of stock turnover, multiple	21.3	20.5	19.9	21.9	24.7	27.6	26.8	26.9	24.2	21.6
Product wastage, SEK m	16.0	18.4	18.2	22.0	21.3	11.6	5.7	5.7	5.4	5.1
Wastage, %	1.13	1.40	1.05	1.15	1.16	0.68	0.33	0.34	0.35	0.33
Age verification, %	88	89	84	83	79	81	81	80	79	77
Average no. full-time employees	3 026	2 960	3 127	3 334	3 350	3 403	3 440	3 246	3 270	3 386

* As per IFRS

** As per IFRS, but not adjusted for IAS 39, Financial Instruments

Consolidated Income Statement

SEK m	Note	2006	2005
Income	2	19 026	18 083
Cost of goods sold	3	– 16 514	– 15 622
Gross profit/loss		2 512	2 461
Other income	4–5	648	582
Selling expenses	5–7	– 1 922	– 1 823
Administrative expenses	5–7	– 301	– 358
Other expenses	8	– 378	– 385
Operating profit/loss		559	477
Financial income	9	88	79
Financial expenses	10	– 45	– 43
Profit/loss before tax		602	513
Tax	11	– 183	– 183
Net profit/loss for the year	12	419	330
There are no minority interests, and hence 100% of the net profit/loss accrues to the Parent Company's shareholders			
Earnings per share before and after dividend, SEK	13	1 164	917
No. shares at period end		360 000	360 000
Average no. shares during the period		360 000	360 000
Total proposed dividend, SEK m		210	330
Proposed dividend per share, SEK		583	917

Income Statement

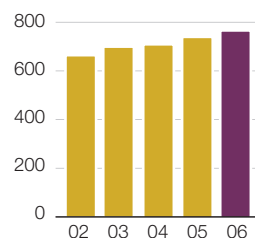
Income increased by SEK 943 million to SEK 19,026 million in comparison with 2005. The operating profit/loss increased by SEK 82 million to SEK 559 million. The increase is primarily due to higher sales volumes, principally in the wine and beer product groups, which totalled 5.2 per cent (3.1%) and 9.3 per cent (3.5%), respectively. The main reason for Systembolaget's increased sales is a reduction in private imports by travellers. Alcohol consumption fell in 2006 and now totals 9.9 litres (10.2 l) of pure alcohol per person aged 15 and above. Systembolaget's share of total alcohol consumption has, at the same time, increased.

Selling expenses increased by SEK 99 million and are due to the higher sales volumes. The efficiency of the in-store operations has increased still further in 2006 and the increase in selling expenses is hence not so large in relation to the increase in sales. This is largely due to the fact that the in-store personnel have handled more units per working hour in 2006 than they did in the preceding year, as illustrated in the chart to the right, which shows the number of units handled per store in relation to the number of hours worked.

Head office operational efficiency has also increased still further, leading to a reduction of SEK 57 million administrative expenses from last year. Finally, the effect on the operating profit/loss of capital gains from real estate sold has exceeded the corresponding figure for the previous year by SEK 66 million.

In-store productivity

No. units handled in store in relation to the number of hours worked.



Consolidated Balance Sheet

SEK m	Note	31st Dec 06	31st Dec 05
ASSETS			
Fixed assets			
Buildings and land	14	498	573
Equipment, fixtures and fittings	14	544	499
Construction in progress	14	109	65
Capitalised expenses, business system	15	77	99
Pension assets	16	442	411
Deferred tax receivables	11	52	50
Other long-term securities holdings	17	876	238
Other long-term receivables	17	7	8
Total fixed assets		2 605	1 943
Current assets			
Stock-in-trade	18	820	817
Accounts receivable and accrued income	17	64	55
Prepaid costs	19	73	39
Other receivables		45	51
Short-term investments	17	290	334
Liquid assets	17	1 335	1 939
Total current assets		2 627	3 235
Fixed assets held for sale	20	0	7
TOTAL ASSETS	12	5 232	5 185

Fixed assets

Buildings and land fell by SEK 75 million, primarily as a result of the sale of two properties.

The value of equipment, fixtures and fittings and of construction in progress increased collectively by SEK 89 million. The increase is principally due to the rebuilding of stores as self-service outlets.

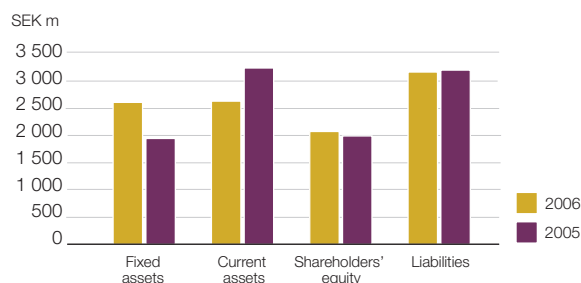
Other long-term securities holdings increased by SEK 638 million due to a reallocation between current assets and fixed assets.

Current assets

Stock-in-trade totalled SEK 820 million, which corresponded to approximately 31 per cent of current assets. The stock-in-trade value remained largely unchanged in comparison with last year.

Short-term investments and liquid assets fell collectively by SEK 648 million. The change is due to a reallocation between current assets and fixed assets.

Consolidated Balance Sheet



SEK m	Note	31st Dec 06	31st Dec 05
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	21		
Share capital		360	360
Reserves		– 7	–
Profits carried forward		1 299	1 299
Net profit/loss for the year		419	330
Total shareholders' equity		2 071	1 989
Long-term liabilities			
Deferred tax liabilities	11	161	137
Long-term provisions	22	3	12
Total long-term liabilities		164	149
Current liabilities			
Accounts payable and accrued costs	17	2 832	2 655
Prepaid income	19	22	20
Tax liabilities		69	244
Other liabilities		54	103
Short-term provisions	22	20	25
Total current liabilities		2 997	3 047
Total liabilities		3 161	3 196
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	12	5 232	5 185
Pledged assets and contingencies			
Pledged assets	23	6	5
Contingencies	24	6	6

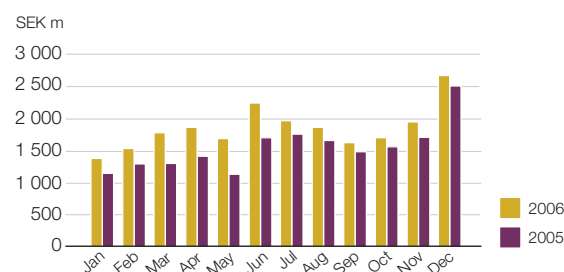
Shareholders' equity

The consolidated shareholders' equity increased by SEK 82 million and the change is a net result, primarily, of the dividend paid to the owners of SEK 330 million and the net profit/loss for the year of SEK 419 million. The equity/assets ratio increased from 38.4 per cent to 39.6 per cent, which exceeds the requirement stipulated in the owner's directive by 30.0 per cent. The return on shareholders' equity increased from 18.9 per cent to 20.6 per cent, which exceeds the requirement stipulated in the owner's directive by 7.7 per cent.

Liabilities

Accounts payable and accrued costs increased by SEK 177 million to SEK 2,832 million, corresponding to approximately 90 per cent of the Group's total liabilities.

Consolidated accounts payable over time



Change in shareholders' equity, the Group

SEK m	Share-capital	Reserves	Profit carried forward	Total shareholders' equity
Closing balance, 31st Dec. 2004	360	—	1 389	1 749
Net profit/loss for the year, 2005			330	330
Total change in wealth	0	—	330	330
Dividend			– 90	– 90
Closing shareholders' equity, 31st Dec. 2005	360	—	1 629	1 989
Change in financial assets that can be sold		– 7		– 7
Changes in wealth reported booked directly to shareholders' equity	0	– 7	0	– 7
Net profit/loss for the year, 2006			419	419
Total change in wealth	0	– 7	419	412
Dividend			– 330	– 330
Closing shareholders' equity, 31st Dec. 2006	360	– 7	1 718	2 071

Consolidated Cash Flow Statement

SEK m	Note	2006	2005
Operating activities			
Profit/loss before tax		602	513
Adjustments for items not included in the cash flow			
Depreciation and write-downs		188	213
Provisions		—	—
Capital gains profit/loss		– 142	– 54
Other		– 69	– 1
Tax paid		– 361	– 118
Cash flow from operating activities before changes in working capital		218	553
Cash flow from changes in working capital			
Change in stock-in-trade		– 2	– 38
Change in receivables		22	– 6
Change in liabilities		125	530
Cash flow from operating activities		363	1 039
Investment activities			
Acquisition of tangible fixed assets		– 260	– 161
Sale of tangible fixed assets		260	137
Acquisition of intangible assets		– 6	– 6
Acquisition of financial assets		– 631	– 288
Cash flow from investment activities		– 637	– 318
Financial activities			
Dividend		– 330	– 90
Cash flow from financial activities		– 330	– 90
Cash flow for the year		– 604	631
Liquid assets at beginning of the year		1 939	1 308
Liquid assets at the end of the year	25	1 335	1 939

Income Statement, Parent Company

SEK m	Note	2006	2005
Net sales	2	19 026	18 083
Cost of goods sold	3	– 16 514	– 15 622
Gross profit/loss		2 512	2 461
Selling expenses	5–7	– 1 932	– 1 861
Administrative expenses	5–7	– 302	– 359
Other operating income	4	22	23
Other operating expenses	8	– 2	– 2
Operating profit/loss		298	262
Income from participation in Group companies	9	20	166
Income from other securities and receivables that are fixed assets	9	18	12
Interest income	9	6	10
Interest income from Group companies	9	12	13
Interest expenses	10	– 2	– 2
Interest expenses to Group companies	10	0	0
Profit/loss after financial items		352	461
Appropriations	26	—	428
Profit/loss before tax		352	889
Tax	11	– 93	– 254
Net profit/loss for the year	12	259	635

Balance Sheet, Parent Company

SEK m	Note	31st Dec 06	31st Dec 05
ASSETS			
Fixed assets			
Intangible fixed assets			
Capitalised expenses, business system	15	70	92
Tangible fixed assets			
Buildings and land	14	37	38
Equipment, fixtures and fittings	14	517	479
Construction in progress	14	109	65
Total tangible fixed assets		663	582
Financial fixed assets			
Participations in Group companies	12	15	15
Receivables from Group companies	12	224	349
Deferred tax receivables	11	28	28
Other long-term securities holdings	17	876	238
Other long-term receivables	17	13	13
Total financial fixed assets		1 156	643
Total fixed assets		1 889	1 317
Current assets			
Stock-in-trade	18	819	817
Current receivables			
Accounts receivable		13	13
Receivables from Group companies	12	1	164
Other receivables		87	43
Prepaid costs and accrued income	27	69	35
Total current receivables		170	255
Short-term investments	17	290	334
Cash and bank balances	17	1 337	1 942
Total current assets		2 616	3 348
TOTAL ASSETS	12	4 505	4 665

SEK m	Note	31st Dec 06	31st Dec 05
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	21		
Restricted equity			
Share capital		360	360
Statutory reserve		72	72
Total restricted shareholders' equity		432	432
Non-restricted shareholders' equity			
Fair value reserve		– 7	–
Profit/loss carried forward		805	500
Net profit/loss for the year		259	635
Total non-restricted shareholders' equity		1 057	1 135
Total shareholders' equity		1 489	1 567
Long-term liabilities			
Liabilities to Group companies	12	8	43
Deferred tax liabilities	11	19	19
Long-term provisions	22	80	89
Total long-term liabilities		107	151
Current liabilities			
Accounts payable	12	2 634	2 462
Liabilities to Group companies		3	1
Tax liabilities		7	234
Other liabilities		103	98
Accrued costs and prepaid income	28	142	134
Short-term provisions	22	20	18
Total current liabilities		2 909	2 947
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	12	4 505	4 665
MEMORANDUM ITEMS			
Pledged assets and contingent liabilities			
Pledged assets	23	6	5
Contingent liabilities	24	9	10

Change in shareholders' equity, Parent Company

SEK m	Restricted shareholders' equity			Non-restricted shareholders' equity		
	Share capital	Reserves	Fair value reserve	Profit carried forward	Net profit/ loss for the year	Total shareholders' equity
Closing balance, 31st Dec. 2004	360	72	—	436	154	1 022
Transfer to non-restricted reserves				154	– 154	0
Net profit/loss for the year, 2005					635	635
Total change in wealth	0	0	—	154	481	635
Dividend				– 90		– 90
Closing shareholders' equity, 31st Dec. 2005	360	72	—	500	635	1 567
Change in financial assets that can be sold		– 7		– 7		
Transfer to non-restricted reserves				635	– 635	0
Net profit/loss for the year, 2006					259	259
Total change in wealth	0	0	– 7	635	– 376	252
Dividend				– 330		– 330
Closing shareholders' equity, 31st Dec. 2006	360	72	– 7	805	259	1 489

Cash Flow Statement, Parent Company

SEK m	Note	2006	2005
Operating activities			
Profit/loss after financial items		352	461
Adjustments for items not included in the cash flow			
Depreciation and write-downs		151	160
Provisions		—	19
Other		– 23	– 1
Tax paid		– 329	– 93
Cash flow from operating activities before changes in working capital		151	546
Cash flow from changes in working capital			
Change in stock-in-trade		– 2	– 38
Change in receivables		138	– 12
Change in liabilities		189	511
Cash flow from operating activities		476	1 007
Investment activities			
Acquisition of tangible fixed assets		– 216	– 117
Sale of tangible fixed assets		12	5
Acquisition of intangible assets		– 6	– 5
Acquisition of financial fixed assets		– 631	– 744
Sale of financial fixed assets		—	520
Reduction in financial receivables from subsidiaries		90	58
Cash flow from investment activities		– 751	– 283
Financial activities			
Dividend		– 330	– 90
Cash flow from financial activities		– 330	– 90
Cash flow for the year		– 605	634
Liquid assets at beginning of the year		1 942	1 308
Liquid assets at the end of the year	25	1 337	1 942

Supplementary information and Notes

1 Accounting principles

The following is a presentation of the significant accounting principles applied during the preparation of the consolidated and annual accounts. The accounting principles have been applied consistently for all years shown, unless otherwise stated.

General

The consolidated accounts comprise the Parent Company, Systembolaget AB, the wholly owned subsidiaries, Lagena Distribution AB and IQ-Initiativet AB, and the subsidiary group, Systembolaget Fastigheter AB. The companies are referred to throughout as the Group or Systembolaget. The annual accounts comprise the Parent Company.

The Parent Company, Systembolaget AB, is a wholly government owned company whose registered offices are in Stockholm and which is registered in Sweden. The address of the head office is Kungsträdgårdsgatan 14, SE-103 84 Stockholm, Sweden.

The consolidated and annual accounts for the 2006 financial year were approved for publication by the Board of Directors and the President on 21st February 2007 and will be submitted to the Annual General Meeting on 22nd March 2007.

Operations

The operations comprise the exclusive right to conduct retail sales of alcoholic drinks and to provide information on the risks associated with alcoholic drinks, and to engage in other operations compatible therewith. The underlying principle is that the sale of alcohol shall not be steered by private for profit interests.

Bases for preparation

Amounts

The functional currency, i.e. the currency of the primary economic environment in which the Parent Company conducts its operations, is Swedish kronor. Swedish kronor comprise the reporting currency for both the Parent Company and the Group. The amounts in the financial reports have been rounded off to the nearest million Swedish kronor (SEK m), unless otherwise stated, and the amounts in parentheses constitute values for the comparison year.

Dates

Income Statement-related items refer to the period from 1st January to 31st December and Balance Sheet-related items refer to 31st December.

Consolidated accounts

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU, including International Accounting Standards (IAS) and interpretative statements by the

International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC). The Group also complies with recommendation RR 30:05, Complementary Reporting Rules for Corporate Groups, issued by the Swedish Financial Accounting Standards Council, which specifies the supplementary information required by the Swedish Annual Accounts Act, and applicable statements by the Emerging Issues Task Force (URA) of the Swedish Financial Accounting Standards Council.

The consolidated accounts are based on historic acquisition values, with the exception of certain financial assets that are valued at their true value. Financial assets valued at their true value comprise financial assets that can be sold and financial assets valued at their true value via the Income Statement.

Annual Accounts

The annual accounts have been prepared in accordance with recommendation RR 32:05, Reporting for Legal Entities, issued by the Swedish Financial Accounting Standards Council, and which specifies the supplementary information required by the Swedish Annual Accounts Act and the exceptions that apply for the Parent Company with regard to the IFRS requirements.

The following accounting principles are the same for the Group and the Parent Company, unless otherwise stated. If differences occur, they are clearly specified.

The differences between the Group's and the Parent Company's accounting principles derive from the requirements imposed on the Parent Company by RR 32:05, the Swedish Annual Accounts Act, the Swedish Securing Pension Commitments Act, and tax legislation.

Future standards, addenda and interpretations

The following standards and addenda will affect Systembolaget:

- IFRS 7 Financial instruments: Information. The standard comes into force on 1st January 2007 and will entail additional information requirements with regard to financial instruments in the financial reports.
- Addendum to IAS 1, Structure of financial reports – information and capital. The addendum comes into force on 1st January 2007 and will entail an augmented requirement for information on capital in the annual accounts.

The following standard may, possibly, affect Systembolaget:

- IFRS 8 Operating Segments. The standard has not been approved by the European Commission. The standard will come into force on 1st January 2009. It is currently unclear whether the standard will affect Systembolaget.

The following interpretations will probably not affect Systembolaget:

- IFRIC 7 Application of the inflation adjustment method in accordance with IAS 29 Accounting in high-inflationary countries. The interpretation comes into effect for the financial year starting on 1st March 2006, or later.
- IFRIC 8 Application area for IFRS 2. The interpretation comes into force for the financial year starting on 1st May 2006, or later.
- IFRIC 9 Revaluation of embedded derivatives. The interpretation comes into force for the financial year starting on 1st June 2006, or later.
- IFRIC 10 Interim Financial Reporting and impairment. The interpretation has not been approved by the European Commission. The interpretation comes into force for the financial year starting on 1st November 2006, or later.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions. The interpretation has not been approved by the European Commission. The interpretation comes into force for the financial year starting on 1st March 2007, or later.
- IFRIC 12 Service Concession Arrangements. The interpretation has not been approved by the European Commission. The interpretation comes into force for the financial year starting on 1st January 2008, or later.

Important estimates and assessments

The Group makes estimates and assumptions with regard to the future that may entail adjustments to the reported amounts for assets and liabilities in the next financial year due to the fact that the actual results can differ from the reported amounts. The estimates that may entail substantial changes in the reported amounts relate to pensions.

The current value of the pension undertakings is dependent on a number of factors that are determined on the basis of actuarial assumptions. The assumptions that are used to determine the current balance for pensions include the long-term return on plan assets and the discount rate. Every change in these assumptions will have an effect on the reported value of the pension undertakings.

The assumption with regard to the expected return on plan assets takes into account historic long-term returns, the distribution of the assets, and an assessment of their future long-term return.

The Group adopts an appropriate discount rate at the end of every year, based on the market's expectations with regard to bonds with the same term as the pension liability. The valuation has been based on an interest rate curve estimated on the basis of Swedish real interest rate government bonds.

Important assessments

When applying the company's accounting principles, the company management makes various assessments that can have an effect on the reported amounts in the Income Statement and the Balance Sheet. The reporting assessments made by the company management that have the

most significant effect on the reports are the assessments of capitalisation of costs for system development.

Consolidated accounts

Subsidiaries

The consolidated accounts include subsidiary companies in which the Parent Company has a decisive influence, i.e. the right to formulate the company's financial and operational strategies for financial gain. A decisive influence is deemed to exist when the Parent Company, either directly or indirectly, holds more than half of the company's voting shares.

Subsidiary companies are included in the consolidated accounts from the date of acquisition, i.e. the date when the Parent Company achieves the decisive influence, and are excluded from the consolidated accounts from the date when the Parent Company ceases to have a decisive influence, e.g. in conjunction with the date of sale.

The accounting principles for subsidiary companies have, where relevant, been adapted in the consolidated accounts in order to achieve a consistent application of the Group's principles. The financial reports from the Parent Company and subsidiary companies used in conjunction with the preparation of the consolidated accounts have, furthermore, been prepared as of the same closing day.

The acquisition value method

The consolidated accounts have been prepared in accordance with the acquisition value method. The acquisition cost of an acquisition comprises the true value of assets paid in remuneration and arising or assumed liabilities as of the transfer date, and any costs directly attributable to the acquisition. Identifiable acquired assets and liabilities, and any contingent liabilities, are valued at their true value on the acquisition value. Any positive differences between the acquisition cost and the true value is reported as goodwill. If the difference is negative, it is reported directly in the Income Statement.

Receivables and liabilities, and transactions

Intra-Group Balance Sheet items and income and expenses, including unrealised profits and losses on transactions between Group companies, are eliminated if the loss does not indicate the need for a write-down.

Internal pricing

Market prices are applied in conjunction with transactions between Group companies.

Foreign currencies

Transactions in foreign currencies are converted to the functional currency at the exchange rate applicable on the transaction date. Monetary assets and liabilities expressed in foreign currencies are reported in the Balance Sheet after conversion at the rate applicable on the closing date. Exchange rate differences arising in conjunction with conversion are reported in the Income Statement.

Note 1, cont.

Segment-based reporting

An industry segment comprises a financially identifiable part of the company that supplies products or services and which are exposed to risks and opportunities that differ from those applicable to other industry segments. Geographical areas supply products or services within a financial environment that is exposed to risks and opportunities that differ from those applicable to other financial environments.

Systembolaget operates within one industry segment and one geographic market, and hence segment reporting is not relevant.

The Income Statement

The Income Statement has been prepared by function, which means that costs are classified according to their function.

Selling expenses pertain to the expenses arising from the activities of the stores, primarily consisting of expenditure relating to personnel and premises.

Administrative expenses include the cost of central administrative staff functions at head office.

Subsidiary companies' operations, real estate management and distribution of products are reported under the heading of other operating income and operating expenses.

Systembolaget has, pursuant to the provisions of the Swedish Alcohol Act, a monopoly on the retail of alcoholic drinks in Sweden. This monopoly has a socio-political purpose and entails restricting the availability of alcohol. In these circumstances, Systembolaget's retail sales are reported as its primary activity. Other operations - which are not critical to Systembolaget's retail operations and which could be conducted by another business - are reported separately (in accordance with the requirements of the owner's directive) and are regarded as non-operating income and expenses. This classification has been adjudged to provide the most accurate picture of Systembolaget's primary activity.

Revenue recognition

Revenue is recognised when the income can be reliably calculated and when it is likely that the economic benefit associated with the transaction will accrue to the company. Income is valued at the true value of goods and services sold, excluding VAT.

Sale of goods

The Group's income is generated, in every significant respect, by the sale of drinks to consumers. Sales are reported as income in conjunction with the sale of the goods to the customer. Sales are paid for in cash or by credit card.

Interest income

Interest income is recognised as revenue over a relevant period, applying the effective interest method. Effective interest is the interest that discounts the estimated future cash flows exactly over the anticipated term of the financial instrument to the instrument's reported value.

Leasing

Leasing contracts where the lessor, in every significant respect, retains the economic risks and benefits associated with ownership, are classified as operational leasing. The

vast majority of the Group's leasing agreements are exclusively operational.

Lessors

The Group's letting of properties is classified as operational leasing. The leasing income is periodised and recognised as revenue linearly over the term of the leasing agreement, while costs, including depreciation, are recognised when they arise.

Lessees

The Group has signed leasing agreements that, in every significant respect, relate to rental payments for premises. The leasing charge is carried as an expense linearly over the leasing period, which is the period for which Systembolaget has contractually agreed to lease an asset.

Income tax

Income tax comprises the combined sum of current and deferred tax. Current tax and deferred tax are reported in the Income Statement with the exception of the fiscal effect attributable to transactions or events reported directly to shareholders' equity, which are reported under shareholders' equity.

Current tax is the tax that is payable or receivable during the current period, including adjustments to current tax for previous periods. Current tax is calculated and valued in accordance with the tax rules and at the tax rates applicable or, in principle, approved on the closing day.

Deferred tax is calculated on all temporary differences. A temporary difference exists when the reported value of an asset or liability differs from the fiscal value. Deferred tax is calculated and valued in accordance with the tax rules and at the tax rates approved or announced on the closing day and which are expected to apply when the tax receivable in question is realised or the tax liability is settled.

Deferred tax receivables are reported to the extent that it is probable that future fiscal surpluses will exist, against which the temporary differences can be utilised. On every closing day, the reported value of the deferred tax receivables is reassessed and reduced to the extent that it is no longer probable that sufficiently large fiscal surpluses will be available. The reduction is reversed to the extent that it is subsequently deemed likely that sufficient fiscal surpluses will be available.

The Parent Company

Deferred tax liabilities are - due to the link between accounting and taxation - reported in the Parent Company as part of the untaxed reserves. Untaxed reserves are reported in the Balance Sheet and the change is reported as appropriations in the Income Statement.

Information on related parties

Systembolaget defines Group companies, pension funds, the Swedish state, government-owned companies in which the government owns a decisive influence and has senior decision-makers, Members of the Board and close family members of these persons as related parties.

Information is provided when transactions have occurred with a related party, irrespective of whether remuneration was disbursed. The term, transactions, refers to the transfer of resources, services or undertakings.

Earnings per share

Earnings per share are calculated by dividing the result accruing to the Parent Company's shareholders by the weighted average of outstanding ordinary shares during the period. Systembolaget has no convertible instruments, options or warrants, and hence no dilution effect occurs.

Tangible fixed assets

A tangible fixed asset is reported as an asset in the Balance Sheet when the acquisition value can be reliably calculated and when it is likely that the future economic benefits associated with the asset will accrue to Systembolaget.

Tangible fixed assets are valued using the cost method at the acquisition value less accumulated depreciation and any accumulated write-downs. Expenses attributable to the improvement of the assets' performance, over and above its original level, increase the reported value of the asset. Expenses attributable to repairs and maintenance are capitalised on a rolling basis.

Systembolaget Fastigheter AB owns properties that are leased out to and used by, amongst others, the Parent Company, Systembolaget AB and the subsidiary company, Lagena Distribution AB. The properties reported in the consolidated accounts consequently comprise real estate used in business operations. Real estate used in business operations is real estate held for the company's own business operations, primarily comprising stores and administrative operations.

Intangible assets

Expenses for the development of a new business system are reported as intangible assets. Expenses for system development are reported as intangible assets when the following criteria are met:

- the intangible asset is identifiable
- Systembolaget has control over the asset
- the asset generates future financial gains, and
- the asset's acquisition value can be reliably calculated.

Intangible assets are valued using the cost method at the acquisition value less any accumulated depreciation and any accumulated write-downs.

The expenses that do not meet the above criteria are capitalised as they arise.

Depreciation

Tangible fixed assets and intangible assets are depreciated systematically over the useful life of the asset, which is the period during which Systembolaget expects to make use of the asset for its designated purpose. Depreciation is based on the acquisition value after deductions for any residual values. The depreciation is based on the following useful life periods:

Asset	Useful life
Buildings	25-50 years
Machinery and fixtures & fittings	3-5 years
Rebuilding in-store	7 years
Intangible assets	5 years

Expenses attributable to improvements in another party's premises are depreciated over the planned rental period, which is normally assumed to be 20 years.

The residual value and useful life of each asset is reviewed as of every closing day and adjustments are made, if necessary.

Write-downs

An assessment is carried out, as of every closing day, to determine whether there is any indication of a write-down requirement with regard to the reported values of the Group's assets. If such indications do exist, the recoverable amount less selling expenses and the useful value of the asset, i.e. the current value of the estimated future cash flows, are calculated. A write-down is effected when the reported value exceeds the recoverable value for an asset and is capitalised immediately in the Income Statement.

A calculation is carried out on every closing day to determine whether there is any indication that a previous write-down, either wholly or in part, is no longer justified, and in such cases, the recoverable value of the asset is calculated and a reversal occurs. The reversal increases the reported value of the asset. The reported value may not exceed the value that would have been reported, after depreciation, if no write-down had ever occurred.

Remuneration to employees

Remuneration in the form of salaries and pensions are reported as operating expenses during the period when the employee performs the services to which the remuneration refers. The expense is classified as a selling expense or administrative expense, depending on the nature of the employee's duties.

Defined benefit pension plans in the Group

The Group has defined benefit pension plans, which means that the Group has an undertaking to disburse the agreed remuneration to current and former employees and that the Group, in every significant respect, carries the actuarial risk and the investment risk. The actuarial risk is the risk that the remuneration will cost more than expected and the investment risk is the risk that the assets invested will prove insufficient to provide the expected remuneration. The defined benefit pension plans are primarily secured through pension funds, but also through provisions made in the Balance Sheet and, to a limited extent, through insurance premiums.

Actuarial methods are used, when reporting defined benefit pension plans, in order to calculate the remuneration amount earned by the employee during the current period and previous periods reliably. The Group makes assessments, known as actuarial assumptions, of the demographic and financial variables that affect the cost of the remuneration. The remuneration amount calculated is discounted annually by independent actuaries applying what is known as the "Projected Unit Credit Method". The current value of the defined benefit undertaking is determined by discounting estimated future cash flows using the interest rate for Swedish government interest bonds with a term comparable with the pension liability in question.

Note 1, cont.

Actuarial profits and losses arise in conjunction with adjustments and changes in actuarial assumptions, to which the so-called "corridor rule" is applied. Under the corridor rule, that part of the accumulated actuarial profits and losses which, at the end of the preceding reporting period, exceeded whichever was the higher of 10% of the value of the plan assets and 10% of the defined benefit undertaking, is capitalised or taken up as income over the employees' estimated average remaining period of service. Actuarial profits or losses are not otherwise taken into account.

The net of the current value of the undertaking on the closing day plus any actuarial profits not yet reported, less the true value of the plan assets, any expenses in relation to previous periods' employment not yet reported and any actuarial losses not yet reported are reported within the Group. If the net amount is positive, a liability (pension undertaking) is reported in the Balance Sheet, whilst if the net amount is negative, an asset (pension asset) is reported there.

Defined contribution pension plans in the Group

The Group also has defined contribution pension plans. In defined contribution pension plans, the Group's undertaking is limited to the amount that the Group has agreed to contribute, which means that the employee varies the actuarial risk and the investment risk. Fees payable to defined contribution pension plans are reported as an expense over the period during which the employee performs those duties.

Parent Company pensions

The Parent Company's pension undertakings are reported and calculated in accordance with the Swedish Securing Pension Commitments Act and directives issued by the Swedish Financial Supervisory Authority. Application of the provisions of the Swedish Securing Pension Commitments Act is a prerequisite for fiscal deductibility.

The provisions reported in Systembolaget's Balance Sheet refer to non-vesting pension undertakings. They are not covered by the provisions of the Swedish Securing Pension Commitments Act and hence may not be secured via pension funds, nor may they be reported in the Balance Sheet under the Pension Provisions heading, and are, instead, reported under the "Long-term provisions" heading.

Severance payments

Severance payments are reported when Systembolaget is demonstrably obliged either to terminate an employment before the normal date, in accordance with a detailed formal plan without any realistic possibility of a recall, or to pay compensation in conjunction with an offer designed to encourage voluntary redundancy.

Financial instruments

Reporting in and removal from the Balance Sheet

Financial instruments, i.e. financial assets and financial liabilities, are reported in the Balance Sheet when Systembolaget becomes a party to the instrument's contractual terms and conditions.

Financial assets are removed, either wholly or in part, from the Balance Sheet when the contractual rights to the cash flows cease or when virtually all risks and benefits associated with the ownership of the financial asset have been transferred.

Financial liabilities are removed, either wholly or in part, from the Balance Sheet when the financial liability is ended, i.e. when the commitment is fulfilled, cancelled or ceases.

Valuation

Upon acquisition, financial instruments are valued at their true value including transaction costs. The exception to this comprises the category of financial assets valued at their true value via the Income Statement, which are valued at their true value.

Subsequent valuation is effected either at the true value or at the accrued acquisition value by application of the effective interest method. The true value is the amount at which an asset could be transferred or a liability settled between knowledgeable and independent parties who have an interest in completing the transaction. The true value comprises a listed price on an active market.

The accrued acquisition value is the acquisition value less repayment of the nominal amount and reduction due to write-downs, and less or plus accumulated depreciation. A write-down assessment is carried out, as of every closing day, to determine whether objective grounds exist to demonstrate the existence of a write-down requirement. The write-down is calculated as the difference between the reported value and the current value of the estimated cash flows and is reported in the Income Statement.

Subsequent valuations of financial instruments are determined by the category into which the respective instrument falls. The Group classifies its financial instruments into one of the following categories: assets valued at their true value via the Income Statement, loan receivables and accounts receivable, financial assets that can be sold, or financial liabilities valued at their accrued acquisition value, which are described below. The classification is based on the purpose for which the instrument has been acquired.

Financial assets valued at their true value via the Income Statement

The category, financial assets valued at their true value via the Income Statement, has two sub-groups, namely financial assets held for trading purposes and financial assets identified in conjunction with the first reporting instance as an instrument valued at its true value via the Income Statement.

Changes in the value of assets valued at their true value via the Income Statement are reported in the Income Statement.

Loan receivables and accounts receivable

Loan receivables and accounts receivable are financial assets that have fixed or fixable payments and which are not quoted on an active market. Loan receivables and accounts receivable are valued, in conjunction with subsequent valuations, at the accrued acquisition value.

Changes in the value of loan receivables and accounts receivable are reported in the Income Statement when the financial asset is removed from the Balance Sheet, in conjunction with write-downs and through periodisation.

The category also includes accounts receivable and other receivables, which are reported in the Balance Sheet when the invoice has been sent out. Receivables have, after individual valuation, been booked in the amount that they are expected to yield.

Financial assets that can be sold

This category includes financial assets that can be sold and which are not classified into the other categories. Financial assets that can be sold are valued, in conjunction with subsequent valuations, at their true value.

Changes in the value of financial assets that can be sold are reported directly to shareholders' equity, with the exception of write-downs and exchange rate effects, until such time as the financial asset is removed from the Balance Sheet, at which time the accumulated profit or loss is reported in the Income Statement. When objective grounds exist for a write-down, the accumulated loss that has been reported directly to shareholders' equity is reported in the Income Statement.

The financial instruments included in the "Other long-term securities holdings" and "Short-term investments" items have been re-categorised during the 2006 financial year into this category from the "investments held until maturity" category.

Financial liabilities valued at the accrued acquisition value

This category includes accounts payable, which are reported in the Balance Sheet when the invoice has been received.

Liquid assets

Cash and bank balances and short-term liquid investments with a maximum term of three months from the date of acquisition, which can easily be converted at a known amount and which are exposed to only an insignificant risk of fluctuations in value, collectively make up liquid assets.

Stock-in-trade

The stock-in-trade has been valued at whichever is the lower of the acquisition value and the net sales value. The acquisition value is calculated using the first in, first out method (FIFO) and the net sales value is the estimated sale price less selling expenses attributable to the sale. The stock-in-trade comprises goods for resale.

The reported value of goods held in stock that are sold is capitalised in the period when the corresponding income is recognised. Adjustments of goods held in stock to their net sales value, together with losses on goods held in stock, are reported in the Income Statement in the period when the adjustment or loss occurs.

Fixed assets held for sale

A fixed asset is classified as a fixed asset held for sale if its reported value will primarily be recovered through sale and not through ongoing use. Reclassification occurs when an assessment has been made that a sale is highly probable, which means that a decision shall have been taken at managerial level, that there shall be an active programme in place for completing the sale, that the sales price shall be at a reasonable level in relation to the true value and that the sale will normally occur within one year of the decision being taken.

The fixed asset is valued at whichever is the lower of the reported value and the true value, less selling expenses. Assets and liabilities attributable to the fixed asset are reported separately in the Balance Sheet.

The Group has sold and intends to continue selling real

estate in conjunction with changes in the store structure. Real estate will normally be reclassified as fixed assets held for sale when the object is handed over to the realtor. No depreciation is effected in the consolidated accounts as of this date.

Provisions

A provision is defined as a liability that is uncertain with regard to the due date or the amount. Provisions are reported in the Balance Sheet when the Group has an existing legal or informal undertaking as a result of an event that has occurred, and for which it is likely that a disbursement of resources will be required to clear the commitment and the amount can be reliably estimated.

Provisions are valued at the amount that is the best estimate of the amount which, on the closing day, is required to clear the existing commitment. When the effect of the point in time at which payment is made is significant, the current value of anticipated future cash flows is calculated. Provisions are reviewed as of every closing day and, if necessary, adjusted to reflect the current best estimate.

Contingencies/contingent liabilities

In the Group, this item is referred to as "contingencies" and in the Parent Company, as "contingent liabilities".

A contingency/contingent liability is reported when a possible commitment exists deriving from events that have occurred and whose incidence is only confirmed by one or more uncertain future events, or when there is an existing commitment that is not reported as a liability or provision because it is not likely that a disbursement of resources will be required, or because the size of the commitment cannot be calculated with sufficient reliability.

Cash Flow Statement

The Cash Flow Statement demonstrates the inflow and outflow of monies attributable to the operating activities, investment activities and financial activities, and which has occurred during the period. The Cash Flow Statement is prepared using the indirect method, whereby the result is adjusted for

- transactions that have not entailed the inflow or outflow of monies
- accrued or prepaid items that refer to previous or future periods, and
- any income and expenses where the effects on the cash flow are attributable to investment and financial activities.

Events after the closing day

Events after the closing day are defined as events that occur during the period from the closing day to the day when the financial reports are approved for publication.

Systembolaget adjusts the amounts in the financial reports as instructed by the Board of Directors for events, positive or negative, that confirm the circumstances that existed on the closing day. If, however, events occur that indicate circumstances that arose after the closing day, the financial reports are not adjusted. Information on the events that are so significant that the publication of the information could affect the financial decisions that users take on the basis of the financial reports is, however, provided.

2 Income/net sales

Type of income	The Group		Parent Company	
	2006	2005	2006	2005
Drinks				
Spirits	5 026	4 999	5 026	4 999
Wine	9 316	8 765	9 316	8 765
Strong beer	3 986	3 661	3 986	3 661
Cider and mixed drinks	586	555	586	555
Alcohol-free	23	22	23	22
Total drinks	18 937	18 002	18 937	18 002
Other products and services	89	81	89	81
Total	19 026	18 083	19 026	18 083

3 Cost of goods sold

	The Group		Parent Company	
	2006	2005	2006	2005
Goods for resale	- 16 514	- 15 622	- 16 514	- 15 622

4 Other income/other operating income

	The Group		Parent Company	
	2006	2005	2006	2005
Rental income	174	206	—	—
Other operating income	333	300	22	22
Capital gains/losses	141	76	—	1
Total	648	582	22	23

Subsidiary companies' income is reported under Other income. Subsidiary companies' expenses are reported under Other expenses.

SEK 106 million (SEK 144 m) of the rental income totalling SEK 174 million (SEK 206 m) refers to the market rate rents paid by the subsidiary company, Systembolaget Fastigheter AB, to the Parent Company.

5 Leasing

Operational lessors

Due date	The Group	
	2006	
Future minimum leasing charges		
Within one year	42	
More than one year but less than five years	108	
More than five years	19	
Total	169	

The operational leasing income for the year totals SEK 53 million (SEK 62 m) and refers to Systembolaget Fastigheter AB. The Parent Company has no leasing income.

Operational lessees

Due date	The Group		Parent Company	
	2006		2006	
Future minimum leasing charges				
Within one year	322		320	
More than one year but less than five years	1 025		1 024	
More than five years	559		559	
Total	1 906		1 903	

The operational leasing cost for the year totals SEK 319 million (SEK 385 m) in the Group and SEK 318 million (SEK 384 m) in the Parent Company.

6 Selling and administrative expenses

	The Group		Parent Company	
	2006	2005	2006	2005
Staff overheads	- 1 148	- 1 155	- 1 159	- 1 120
Depreciation	- 151	- 161	- 151	- 161
Other expenses	- 924	- 865	- 924	- 939
Total	- 2 223	- 2 181	- 2 234	- 2 220

No research or developmental work has been carried out.

Depreciation

Depreciation by function	The Group		Parent Company	
	2006	2005	2006	2005
Selling expenses	- 119	- 126	- 119	- 126
Administrative expenses	- 32	- 35	- 32	- 35
Total	- 151	- 161	- 151	- 161

Fees and reimbursement of expenses paid to audit companies

Fees and reimbursement of expenses paid to audit companies are included in administrative expenses.

Audit company	The Group		Parent Company	
	2006	2005	2006	2005
SET Revisionsbyrå AB				
Audit engagements	- 3	- 5	- 3	- 5
Other engagements	—	—	—	—
Swedish National Audit Office				
Audit engagements	0	0	0	0
Total	- 3	- 5	- 3	- 5

The term, audit engagements, refers to the auditing of the annual accounts and bookkeeping and of the administration by the Board of Directors and President, other duties performance of which is incumbent upon the company's auditors, and the provision of advice or other assistance occasioned by observations in conjunction with such auditing or the execution of such other duties. All other work is classified as Other engagements.

7 Personnel

Staff overheads	The Group		Parent Company	
	2006	2005	2006	2005
Salaries and remuneration	848	814	795	763
Payroll overhead	357	349	336	328
Total	1 205	1 163	1 131	1 091

For information on pensions, please see Note 16, Pensions.

Salaries and other remuneration to the Board, senior executives and other employees

	2006			2005		
	Board and President	Other employees	Total	Board and President	Other employees	Total
Parent Company	3	792	795	3	760	763
Subsidiaries	2	51	53	2	49	51
Total, Group	5	843	848	5	809	814

Principles of remuneration to senior executives

Fees are paid to the Board Chairman, Deputy Chairman and directors in accordance with decisions by the Annual General Meeting. Such decisions approved a fee of SEK 166,000 (160,000) to the Chairman, SEK 99,000 (96,000) to the Deputy Chairman, SEK 83,000 (80,000) to the Board Members. Fees are paid monthly and adjusted annually on 1st May. Employee representatives are not paid a director's fee.

Remuneration to the President and other senior executives consist of a basic salary, other benefits and a pension entitlement. No variable, bonus-based remuneration is paid, nor is any remuneration paid in the form of financial instruments etc. Other senior executives are such persons who, with the President, constitute the Company's management team.

Remuneration for the Board, 2006 (SEK)

	Elected/ appointed	Fee/salary	Other benefits	Pension cost	Other remuneration	Total	Notice period (employee/company)	Severance pay
Olof Johansson, Chairman of the Board	2002	164 499	—	—	—	164 499	—	—
Anna Hedborg, Deputy Chairman	2002	98 250	—	—	—	98 250	—	—
Ulf Melin, Board Member	1999	82 250	—	—	—	82 250	—	—
Elisebeht Markström, Board Member	1999	82 250	—	—	—	82 250	—	—
Marianne Nivert, Board Member	2002	82 250	—	—	—	82 250	—	—
Gert Karnberger, Board Member	2004	82 250	—	—	—	82 250	—	—
Margareta Andersson, Board Member	2000/2005 *	82 384	—	—	—	82 384	—	—
Marita Aronson, Board Member	2006	62 250	—	—	—	62 250	—	—
Ingrid Burman, Board Member	2006	62 250	—	—	—	62 250	—	—
Annika Nilsson, Board Member	2006 **	62 250	—	—	—	62 250	—	—
Robin Dahl, Board Member until 16 th March 06	1995/2005 *	20 000	—	—	—	20 000	—	—
Ewa Persson Göransson, Deputy Member until 16 th March 06	2001	20 000	—	—	—	20 000	—	—
Karin Pilsäter, Deputy Member until 16 th March 06	1999/2005 *	20 000	—	—	—	20 000	—	—
Total, Board of Directors		920 883				920 883		

Remuneration for the company management, 2006 (SEK)

	Elected/ appointed	Salary	Other benefits	Pension cost	Other remuneration	Total	Notice period (employee/company)	Severance pay
Anitra Steen, President	1999	2 195 059	98 881	556 785	1 536	2 852 261	6/0 months	24 months
Mikael Wallteg, Vice President	2001	1 539 651	99 074	495 842	1 663	2 136 230	6 months	12 months
Barbro Ström, Vice President	2000	1 395 494	84 253	859 276	5 575	2 344 598	6 months	18 months
Karin Furevik, Personnel Director	2001	1 055 376	90 276	471 570	1 671	1 618 893	6 months	12 months
Gunilla Högbom, Real Estate Director	2000	937 161	79 583	357 725	2 834	1 377 303	6 months	18 months
Per Bergkrantz, Marketing Director	2000	995 587	77 565	315 744	2 164	1 391 060	6 months	6 months
Anders Söderlund, CFO	2003	1 354 896	71 667	399 506	889	1 826 958	6 months	6 months
Johan Tömmervik, IT Director	2003	1 111 646	30 532	370 236	4 208	1 516 622	6 months	6 months
Björn Rydberg, Press Director	1992–2000, 2002	837 082	84 902	527 712	2 544	1 452 240	6/0 months	24 months
Total, company management		11 421 952	716 733	4 354 396	23 084	16 516 165		
Total, Board of Directors and company management		12 342 835	716 733	4 354 396	23 084	17 437 048		

* Elected as Deputy Member/elected as Member of the Board.

** Annika Nilsson tendered her resignation from the Board on 5th October 2006.

Other benefits refer primarily to company car benefits. The President and company management receive no bonuses or housing allowance.

Other remuneration primarily comprises per diem reimbursement.

If notice of termination is given by the company, provided that remuneration for the contract of employment is not covered by the Swedish Employment Protection Act, severance pay is payable based, in certain cases, on the individual's age when employment ceases, the amount to be paid monthly in arrears:

- 6 months' fixed salary if the individual is less than 50 years of age
- 12 months' fixed salary if the individual is aged between 50 and 56
- 18 months' fixed salary if the individual is over 56 years of age

No severance pay is payable for Anders Söderlund and Johan Tömmervik after 61 years of age.

Note 7, cont.

Remuneration for the Board, 2005 (SEK)

	Elected/ appointed	Salary	Other benefits	Pension cost	Other remuneration	Total	Notice period (employee/company)	Severance pay
Olof Johansson, Chairman of the Board	2002	157 499	—	—	—	157 499	—	—
Anna Hedborg, Deputy Chairman	2002	94 500	—	—	—	94 500	—	—
Ulf Melin, Board Member	1999	78 750	—	—	—	78 750	—	—
Elisebeht Markström, Board Member	1999	78 750	—	—	—	78 750	—	—
Ewa Persson Göransson, Board Member	2001	78 750	—	—	—	78 750	—	—
Marianne Nivert, Board Member	2002	78 750	—	—	—	78 750	—	—
Gert Karnberger, Board Member	2004	78 750	—	—	—	78 750	—	—
Robin Dahl, Board Member	1995/2005*	69 375	—	—	—	69 375	—	—
Margareta Andersson, Board Member	2000/2005*	69 375	—	—	—	69 375	—	—
Karin Pilsäter, Board Member	1999/2005*	69 375	—	—	—	69 375	—	—
Evert Lindholm, Board Member until 28th Feb. 05	1999	9 375	—	—	—	9 375	—	—
Ingvar Löfstrand, Board Member until 28th Feb. 05	1996	9 375	—	—	—	9 375	—	—
Total, Board of Directors		872 624				872 624		

Remuneration for the company management, 2005 (SEK)

	Elected/ appointed	Salary	Other benefits	Pension cost	Other remuneration	Total	Notice period (employee/company)	Severance pay
Anitra Steen, President	1999	2 113 649	89 482	330 324	4 182	2 537 637	6/0 months	24 months
Mikael Wallteg, vice vd Vice President from 1st March 05	2001	1 486 096	99 654	445 803	0	2 031 553	6 months	12 months
Barbro Ström, Vice President from 1st March 05	2000	1 250 024	83 259	1 173 685	4 434	2 511 402	6 months	18 months
Karin Furevik, Personnel Director	2001	988 400	86 006	482 932	870	1 558 208	6 months	12 months
Gunilla Högbom, Real Estate Director	2000	894 842	83 959	350 814	390	1 330 005	6 months	18 months
Per Bergkrantz, Marketing Director	2000	943 651	72 106	347 714	736	1 364 207	6 months	6 months
Anders Söderlund, CFO	2003	1 238 296	71 230	379 244	200	1 688 970	6 months	6 months
Johan Tömmervik, IT Director	2003	1 082 049	31 658	351 630	3 186	1 468 523	6 months	6 months
Björn Rydberg, Press Director	1992–2000, 2002	801 849	83 932	685 159	4 377	1 575 317	6/0 months	24 months
Håkan Johansson, Logistics Director until 28th Feb. 05	2003	155 507	16 803	74 268	0	246 578	6 months	6 months
Total, company management		10 954 363	718 089	4 621 573	18 375	16 312 400		
Total, Board of Directors and company management		11 826 987	718 089	4 621 573	18 375	17 185 024		

Conditions of pension agreements

Systembolaget's collective bargaining agreements include a premium-based supplementary pension entitled Kåpan. The premium is 1.7 per cent of the employee's pensionable salary.

Cleaners and caretakers are insured via the AMF pension organisation.

President

Systembolaget's President is entitled to a pension at the age of 60. A defined-benefit retirement pension is payable at 70 per cent of the pensionable salary in 2001, which amounted to SEK 1,660 k. This amount is index-linked. The defined-benefit pension entitlement has been fully earned. In addition, as of 1 January 2002, the President is entitled to a premium-based pension with an annual premium of 3 price base amounts plus 25% of salary components above SEK 1,660 k. The President is also included in the Kåpan supplementary pension plan from the age of 65.

Vice President

The Company's Vice President, Mikael Wallteg, is entitled to a pension at the age of 60. A retirement pension will be paid until the age of 65 at 70 per cent of the pensionable salary, up to a maximum of 70 per cent of 30 income base amounts. The pensionable salary is the regular monthly salary payment, multiplied by 12.3. In addition, the Vice President is entitled to a premium-based pension with a premium of 20% of salary components above 30 income base amounts. A pension in accordance with Systembolaget's collective bargaining agreement pension plan for salaried employees, including the complementary pension, Kåpan, is payable from the age of 65.

The Vice President, Barbro Ström, is subject to the conditions shown below for "Other senior executives, employed before 1st January 2003".

Other senior executives, employed before 1st January 2003

The pensionable age is 60. A retirement pension will be paid until the age of 65 at 70 per cent of the pensionable salary. The pensionable salary is based on the regular monthly salary payment on 1 July 2002, multiplied by 12.3 and is calculated as a number of price base amounts. A pension in accordance with Systembolaget's collective bargaining agreement pension plan for salaried employees, including the complementary pension, Kåpan, is payable from the age of 65.

The Marketing Director, Per Bergkrantz, is subject to the conditions shown below for "Other senior executives, employed before 1st January 2003".

Other senior executives, employed after 1st January 2003

The regular pensionable age is 65, and a retirement pension will be paid in accordance with Systembolaget's collectively agreed pension plan for salaried employees. In addition, the employee is entitled to a premium-based pension with a premium of 16% of the pensionable monthly salary, which is defined as the regular monthly salary multiplied by 12. The purpose of the premium-based pension is to make retirement on a pension possible before the age of 65. The complementary pension, Kåpan, is also payable from the age of 65.

Senior executives covered by conditions negotiated earlier

The pensionable age is 60. Retirement pensions are paid in an amount corresponding to 70 per cent of the regular monthly salary payment. The complementary pension, Kåpan, is also payable from the age of 65.

The Press Director, Björn Rydberg, is subject to these conditions.

Other employees (non-management)

The regular pensionable age is 65, and pensions are payable in accordance with Systembolaget's collectively agreed pension plan for salaried employees. Pensions are of the defined-benefit type and are secured via a pension fund. The pension payable is 10 per cent of the pensionable salary amount, up to 7.5 base amounts. For pensionable salary amounts from 7.5 base amounts to 20 base amounts, inclusive, the pension entitlement is 65 per cent and for salary components above that amount, 32.5 per cent. The size of the pension is also affected by the pensionable period of service. The complementary pension, Kåpan, is also payable from the age of 65.

Store managers and unit managers at head office are also able under a special agreement to take retirement at the age of 63.

Preparation and decision-making process

At the Board's initiative, the President's pension conditions were renegotiated in 2002. As a result of this agreement, the rise in costs following from a defined-benefit pension plan was eliminated.

In 2003, the President renegotiated at the request of the Board the existing pension agreements with the rest of the Company's management. The Board approved the new terms of the agreements, which have been in force since 1 January 2003.

Remuneration to the President and Vice-President has been approved by the Board. Remuneration to the divisional managers has been approved by the President following consultation with the Chairman of the Board.

Average no. employees and gender balance

Average no. and gender balance (%)	2006			2005		
	Women	Men	Total	Women	Men	Total
Parent Company	1 881 (66)	961 (34)	2 842	1 843 (66)	950 (34)	2 793
Subsidiaries	35 (19)	149 (81)	184	33 (20)	134 (80)	167
Group total	1 916 (63)	1 110 (37)	3 026	1 876 (63)	1 084 (37)	2 960

Note 7, cont.

	2006			2005		
	Women	Men	Total	Women	Men	Total
Board of Directors and company management (%)						
Board of Directors	7 (70)	3 (30)	10	6 (60)	4 (40)	10
Company management	4 (44)	5 (56)	9	4 (44)	5 (56)	9
Board of Directors and company management total	11 (58)	8 (42)	19	10 (53)	9 (47)	19

In stores (%)	Full-time sales staff		Part-time sales staff		Store Managers		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Women	303 (57)	280 (54)	1 287 (76)	1 279 (76)	155 (42)	146 (42)	1 745 (67)	1 705 (67)
Men	227 (43)	240 (46)	417 (24)	395 (24)	210 (58)	199 (58)	854 (33)	834 (33)
Total in stores	530 (20)	520 (20)	1 704 (66)	1 674 (66)	365 (14)	345 (14)	2 599	2 539

At Parent Company head offices (%)	Employees		Managers		Total	
	2006	2005	2006	2005	2006	2005
Women	111 (59)	115 (58)	25 (45)	23 (42)	136 (56)	138 (59)
Men	76 (41)	84 (42)	31 (55)	32 (58)	107 (44)	116 (41)
Total at Parent Company head offices	187 (77)	199 (78)	56 (23)	55 (22)	243	254

Sickness absence

Sickness absence in relation to ordinary working hours (%)	Parent Company	
	2006	2005
Total sickness absence,	6.5	7.2
Of which long-term sickness absence, over 60 days	3.8	4.4
Sickness absence for respective gender		
Men	5.0	5.1
Women	7.3	8.3
Sickness absence for respective age groups		
Employees below the age of 30	3.8	4.2
Employees aged between 30 and 49	5.1	5.8
Employees over the age of 49	9.9	10.7

8 Other expenses/other operating expenses

	The Group		Parent Company	
	2006	2005	2006	2005
Operating expenses, real estate management	- 68	- 71	—	—
Other operating expenses	- 274	- 262	- 2	- 2
Depreciation	- 36	- 52	—	—
Total	- 378	- 385	- 2	- 2

The subsidiary companies' income is reported under Other income. Subsidiary companies' expenses are reported under Other expenses.

9 Financial income

	The Group	
	2006	2005
Interest income from long-term receivables	1	0
Interest income from financial investments	17	12
Return on pension assets	63	56
Other interest income	7	11
Total	88	79

	Parent Company	
	2006	2005
Result of participations in Group companies		
Dividend from Lagena Distribution AB	20	5
Dividend from Systembolaget Fastigheter AB	—	161
Income from other securities and receivables that are fixed assets		
Interest income from long-term receivables	1	0
Interest income from financial investments	17	12
Interest income		
Interest income from Group companies	12	13
Other interest income	6	10
Total	56	201

10 Financial expenses

	The Group	
	2006	2005
Interest expenses on pension liabilities	- 43	- 41
Penalty interest	0	- 1
Other interest expenses	- 2	- 1
Total	- 45	- 43

	Parent Company	
	2006	2005
Interest expenses to Group companies	0	0
Penalty interest	0	- 1
Other interest expenses	- 2	- 1
Total	- 2	- 2

11 Taxes

Tax on the net profit/loss for the year	The Group		Parent Company	
	2006	2005	2006	2005
Current tax	- 161	- 138	- 93	- 254
Deferred tax	- 22	- 45	0	0
Total reported tax	- 183	- 183	- 93	- 254

Tax expense and effective tax rate	The Group			
	2006		2005	
	Profit/loss	%	Profit/loss	%
Profit/loss before tax	601		513	
Tax at applicable tax rate (28%)	- 168	- 28	- 144	- 28
Tax attributable to previous years	0	0	0	0
Fiscal effect on non-deductible expenses	- 1	0	- 2	- 1
Fiscal effect of non-taxable income	0	0	0	0
Deferred tax revenue in respect of temporary difference	—	—	- 6	- 1
Change in deferred tax	- 14	- 2	- 31	- 6
Reported tax expense and effective tax rate	- 183	- 30	- 183	- 36

Tax expense and effective tax rate	Parent Company			
	2006		2005	
	Profit/loss	%	Profit/loss	%
Profit/loss before tax	352		889	
Tax at applicable tax rate (28%)	- 99	- 28	- 249	- 28
Tax attributable to previous years	1	0	0	0
Fiscal effect on non-deductible expenses	- 1	0	- 2	- 0,2
Fiscal effect of non-taxable income	6	2	0	0
Deferred tax revenue in respect of temporary difference	—	0	0	0
Reversed deferred tax receivable	0	0	0	0
Other	—	0	- 3	- 0,3
Reported tax expense and effective tax rate	- 93	- 26	- 254	- 29

Deferred tax	The Group		Parent Company	
	2006	2005	2006	2005
Deferred tax receivables in respect of				
Depreciation of buildings	52	50	1	1
Pension provisions	—	—	22	22
Social security contributions provisions	—	—	5	5
Total deferred tax receivables	52	50	28	28
Deferred tax liabilities in respect of:				
Untaxed reserves	- 3	- 3	—	—
Payroll tax liability	—	—	- 19	- 19
Pension assets	- 156	- 134	—	—
Buildings	- 2	—	—	—
Total deferred tax liabilities	- 161	- 137	- 19	- 19
Total deferred tax, net	- 109	- 87	9	9

12 Transactions with related parties

Related parties	The Group							
	Sales		Purchasing		Receivables		Liabilities	
	2006	2005	2006	2005	2006	2005	2006	2005
Owner with decisive influence, govt.	—	—	—	—	—	—	—	—
Other related parties	185	13	3 576	3 687	53	2	659	237
Total	185	13	3 576	3 687	53	2	659	237

Related parties	Parent Company							
	Sales		Purchasing		Receivables		Liabilities	
	2006	2005	2006	2005	2006	2005	2006	2005
Owner with decisive influence, govt.	—	—	—	—	—	—	—	—
Other related parties	—	—	3 568	3 676	50	0	658	236
Subsidiaries								
IQ-initiativet AB	—	—	25	10	—	1	1	8
Lagena Distribution AB	1	0	11	12	0	—	9	36
Systembolaget Fastigheter AB	19	19	106	144	225	513	1	—
Total	20	19	3 710	3 842	275	514	669	280

Other related parties" includes the pension funds and government-owned companies in which the government has a decisive influence. Dividends have been paid from Lagena Distribution AB and Systembolaget Fastigheter AB to the Parent Company, Systembolaget AB, of SEK 20 million (SEK 5.4 m) and SEK 0 (SEK 161 m), respectively.

Transactions with senior executives and Board Members

Remuneration to senior executives including the President and Members of the Board is described in Note 7.

Group companies

	Corporate ID no	Reg. office	No. participations	Capital share, %	Book value	
					2006	2005
Lagena Distribution AB	556501-3496	Haninge	150	100	15.0	15.0
Systembolaget Fastigheter AB	556601-5615	Stockholm	100	100	0.1	0.1
IQ-initiativet AB	556680-9892	Stockholm	10	100	0.1	0.1
Total					15.2	15.2

IQ-initiativet AB's operations began on 23rd May 2005 and the first financial year was from 23rd May to 31st December 2005.

	Parent Company	
	2006	2005
Opening balance, 1st January	15.2	15.2
Acquisitions during the year	—	—
Closing balance, 31st December	15.2	15.2

Note 12, cont.

The Parent Company has contributed a capital investment of SEK 1,000 to each of the following limited partnerships

Company	Corporate ID no.	Registered office
Fastighetsbolaget Näckströmsgatan i Stockholm KB	969674-9690	Stockholm
Fastighetsbolaget Armarturvägen i Haninge KB	969674-9424	Stockholm
Bonden 11 KB	969675-1511	Stockholm
Buntmakaren 10 i Motala KB	969675-3442	Stockholm
Tärnan 25 KB	969675-1529	Stockholm
Gävle 10 KB	969675-1479	Stockholm
Fastighetsbolaget Thor 15 KB	969675-3848	Stockholm
Döbeln 7 KB	969675-0117	Stockholm
Malörten 1 i Vänersborg KB	969675-1842	Stockholm
Fastighetsbolaget Drottninggatan i Karlstad KB	969675-0588	Stockholm
Fastighetsbolaget Hammartorget 5–7 KB	969675-4614	Stockholm
Hofors 6:87 KB	969675-1099	Stockholm
Fastighetsbolaget Storgatan i Sollefteå KB	969675-2113	Stockholm
Stora Örnen 18 KB	969675-0554	Stockholm

The following limited partnership has been sold during the year:

Fastighetsbolaget Kungsträdgårdsgatan i Stockholm KB	969674-9416	Stockholm
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The Parent Company's capital investment per limited partnership sold was SEK 1,000.

13 Earnings per share

	The Group	
	2006	2005
Net profit/loss for the year, SEK m (numerator)	419	330
Average no. shares (denominator)	360 000	360 000
Earnings per share before and after dilution, SEK	1 164	917

14 Tangible fixed assets

	The Group					
	Real estate used in business operations		Other		Total	
	2006	2005	2006	2005	2006	2005
Buildings and land						
Opening acquisition values, 1st Jan	1 254	1 222	58	59	1 312	1 281
New acquisitions	28	35	—	—	28	35
Sales	– 150	2	—	– 1	– 150	1
Reclassifications	– 70	– 5	—	—	– 70	– 5
Closing accumulated acquisition values, 31st Dec	1 062	1 254	58	58	1 120	1 312
Opening depreciation, 1st Jan	– 720	– 687	– 20	– 19	– 740	– 706
Sales	43	– 1	—	—	43	– 1
Reclassifications	103	0	—	—	103	0
Depreciation for the year	– 27	– 31	– 1	– 1	– 28	– 32
Closing accumulated depreciation, 31st Dec	– 601	– 719	– 21	– 20	– 622	– 739
Reported value, 31st Dec	461	535	37	38	498	573
Rateable value, real estate	742	902	13	13	755	915
of which, buildings	573	664	11	11	584	675

	The Group			
	Equipment, fixtures and fittings		Construction in progress	
	2006	2005	2006	2005
Other tangible fixed assets				
Opening acquisition values, 1st Jan	1 306	1 468	65	39
New acquisitions	33	60	198	65
Sales and Retirements	– 78	– 261	—	—
Reclassifications	154	39	– 154	– 39
Closing accumulated acquisition values, 31st Dec	1 415	1 306	109	65
Opening depreciation, 1st Jan	– 807	– 892	—	—
Sales and Retirements	62	238	—	—
Reclassifications	5	—	—	—
Depreciation for the year	– 131	– 153	—	—
Closing accumulated depreciation, 31st Dec	– 871	– 807	—	—
Reported value, 31st Dec	544	499	109	65

Note 14, cont.

Tangible fixed assets	Parent Company							
	Buildings and land		Equipment, fixtures & fittings		Construction in progress		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Opening acquisition values, 1st Jan	58	59	1 220	1 389	65	39	1 343	1 487
New acquisitions	—	—	18	53	198	65	281	118
Sales and Retirements	—	– 1	– 74	– 260	—	—	– 74	– 261
Reclassifications	—	—	154	38	– 154	– 39	– 65	– 1
Closing accumulated acquisition values, 31st Dec	58	58	1 318	1 220	109	65	1 485	1 285
Opening depreciation, 1st Jan	– 20	– 19	– 741	– 845	—	—	– 761	– 864
Sales and Retirements	—	0	62	237	—	—	62	0
Depreciation for the year	– 1	– 1	– 122	– 133	—	—	– 123	– 134
Closing accumulated depreciation, 31st Dec	– 21	– 20	– 801	– 741	—	—	– 822	– 761
Reported value, 31st Dec	37	38	517	479	109	65	663	582
Rateable values, real estate of which, buildings	13	13						
	11	11						

15 Intangible assets

Capitalised expenses, business system	The Group		Parent Company	
	2006	2005	2006	2005
Opening acquisition values, 1st Jan	144	137	135	131
New acquisitions	7	7	5	4
Closing accumulated acquisition values, 31st Dec	151	144	140	135
Opening depreciation, 1st Jan	– 45	– 17	– 43	– 17
Depreciation for the year	– 29	– 28	– 27	– 26
Closing accumulated depreciation, 31st Dec	– 74	– 45	– 70	– 43
Reported value, 31st Dec	77	99	70	92
Remaining depreciation period	2,25 yrs	3,25 yrs	2,25 yrs	3,25 yrs

16 Pensions

The regular pensionable age is 65 years, and pensions are payable in accordance with Systembolaget's collectively agreed pension plan for salaried employees. Pensions are of the defined-benefit type and are secured via a pension fund. The pension payable is 10 per cent of the pensionable

amount, up to 7.5 base amounts. For pensionable salary amounts from 7.5 base amounts to 20 base amounts, inclusive, the pension entitlement is 65 per cent, and for salary components above that amount 32.5 per cent. The size of the pension is also affected by the pensionable period of service.

	The Group	
	2006	2005
Pension expense		
Cost of pensions earned during the year	- 41	- 32
Interest expense	- 43	- 41
Anticipated return on plan assets	63	56
Actuarial profits/losses reported during the year	0	-
Change in deferred payroll tax receivable	7	19
Cost of defined benefit plans	- 14	2
Cost of defined contribution plans	- 16	- 18
Total pension expense	- 30	- 16
Net sums	2006	2005
Current value of funded commitments	1 183	1 135
Current value of non-funded commitments	53	52
True value of plan assets	- 1 530	- 1 463
Unreported actuarial profits (+)/losses (-)	- 62	-55
Deferred payroll tax receivable	- 86	-80
Net sums in the Balance Sheet (commitment +/-asset-)	- 442	- 411
Defined benefit commitments	2006	2005
Opening current value, 1st Jan	1 187	1 021
Cost of pensions earned during the year	41	32
Interest expense	43	41
Actuarial profits (-)/losses (+)	10	132
Remuneration disbursed	- 45	- 39
Closing current value, 31st Dec	1 236	1 187
Plan assets	2006	2005
Opening true value, 1st Jan	1 463	1 330
Anticipated return on plan assets	63	56
Actuarial profits (-)/losses (+)	2	69
Charges by the employer	2	8
Closing true value, 31st Dec	1 530	1 463
Actual return on plan assets	2006	2005
Anticipated return on plan assets	63	56
Actuarial profits (-)/losses(+)	2	69
Actual return on plan assets	65	125

Note 16, cont.

	Percentage, %	2006 Anticipated return, %	True value	Percentage, %	2005 Anticipated return, %	True value
Plan assets						
Financial instruments						
Real interest bonds	70.26	3.74	1 075	68.99	3.35	1 009
Share-related instruments	23.33	8.73	357	24.13	7.57	353
Hedge funds and other	6.27	6.08	96	4.84	4.92	71
Liquid assets	0.13	3.43	2	2.04	2.27	30
Total	100	5.05	1 530	100	4.42	1 463
Deductions for tax on returns	—	– 0.54	—	—	– 0.49	—
Net anticipated return	—	4.51	—	—	3.93	—

Reconciliation of change in pension assets	2006	2005
Opening net assets, 1st Jan	411	361
Pension expense for the period	– 14	3
Deposit in pension fund	0	8
Pension disbursements	45	39
Closing net assets, 31st Dec	442	411

Actuarial profits/losses	2006	2005
Accumulated unreported actuarial profits(+)/losses(-), 1st Jan	– 55	8
“Corridor rule”, 1st Jan	146	133
Surplus	—	—

	2006	2005
Anticipated average remaining period of service	11	11
Actuarial profits/losses to be reported	0	—
Accumulated unreported actuarial profits/losses, 1st Jan	– 55	8
Profits/losses on commitment	– 9	– 132
Profits/losses on plan assets	2	69
Total	– 62	– 55
Reported actuarial profits/losses	0	—
Unreported actuarial profits/losses, 31st Dec	– 62	– 55

Actuarial assumptions

A number of assumptions have been made, based on Systembolaget's expectations with regard to the operations and the market's expectations with regard to financial factors, when calculating pension commitments, the year's pension earnings, and the return. The assumptions used on the closing day constitute a weighted average.

Significant actuarial assumptions, %	2006	2005
Average discount rate	3.74	3.35
Anticipated return	4.51	3.93
Assumed long-term rate of pay rises	3.09	2.7
Assumed long-term rate of inflation	2.09	1.7
Indexing of pensions	2.09	1.7

Discount rate

The discount rate is based on market expectations on the closing day vis-à-vis bonds with the same term as the pension liability. The assessment took as its starting point a trend of interest rates based on the trend for Swedish government real fixed-income bonds in accordance with the Nelson-Siegel method.

Anticipated return

The anticipated return is based on Systembolaget's assessment of the anticipated return on the fund's assets.

Assumed rate of pay rises

The assumed rate of pay rises corresponds to the assumed rise in the income base amount. The expectation is thus that pay rises within Systembolaget will run at the same level as in the community at large.

Assumed rate of inflation

The assumed long-term rate of inflation is based on the market's implicit expectations, which may be deduced as the difference between nominal and real rates on bonds. The assumption is very close to the inflation target of Riksbanken (the Bank of Sweden), which is 2 per cent.

Multi-year overview	2006	2005	2004
Current value of defined benefit commitments	1 236	1 187	1 022
True value of plan assets	1 530	1 463	1 330
Surplus(-)/deficit(+)	- 294	- 276	- 308
Experienced-based adjustments in the plan liabilities	244	235	103
Experience-based adjustments in the plan assets	- 182	- 180	- 111

The Parent Company

The provisions of the Swedish Securing Pension Commitments Act are applied when calculating the Parent Company's pension undertaking.

	Parent Company	
	2006	2005
Pension expense		
In-house pension plans		
Cost of pensions earned and interest expenses	85	113
Return on specially detached assets	- 65	- 125
Cost of in-house pension plans	20	- 12
Insurance-based pension plans		
Insurance premiums	14	15
Subtotal	34	3
Special payroll tax charged to the profit/loss	16	16
Pension expense for the year	50	19
Increase in surplus in specially detached assets	24	50
Total reported net cost attributable to pensions	74	69

Net sums	2006	2005
Capital value of pension commitments	1 133	1 091
True value of specially detached assets	- 1 530	- 1 463
Surplus in specially detached assets	474	448
Net sum in Balance Sheet (commitment+/asset-)	77	76

SEK 77 million (SEK 76 m) of the undertaking cannot be secured in the pension funds and is included under "Long-term provisions". Other undertakings are covered wholly by the assets in the pension funds and are not reported in the Balance Sheet.

Capital value of commitments	2006	2005
Opening capital value, 1st Jan	1 091	1 018
Cost of pensions earned and interest expenses	85	113
Disbursement of pensions	- 43	- 40
Closing capital value, 31st Dec	1 133	1 091

Note 16, cont.

Capital value of commitments	2006	2005
Opening value in pension fund, 1st Jan	1 014	941
Change during year	42	73
Closing value in pension fund, 31st Dec	1 056	1 014
Opening value in long-term provisions, 1st Jan	76	77
Change during year	1	- 1
Closing value in long-term provisions, 31st Dec	77	76
Closing capital value, 31st Dec	1 133	1 091

True value of specially detached assets	2006	2005
Opening true value, 1st Jan	1 463	1 330
Return on specially detached assets	65	125
Payment to (+) and from (-) pension funds	2	8
Closing true value, 31st Dec	1 530	1 463

You are referred to the Group for details of the true value for specially detached assets by principal asset category.

Significant actuarial assumptions, %	2006	2005
Interest before tax, until retirement	3.50	3.50
Interest after tax, until retirement	3.00	3.00
Interest before tax, after retirement	3.00	3.00
Interest after tax, after retirement	2.55	2.55

The calculation of the pension undertaking is based on the salary and pension level pertaining to the closing day.

Systembolaget has formed two pension funds in order to secure its pension undertakings. Each fund has a Board comprising two members from the employees' side and one independent Chairman. The Boards are, at present, identical.

The sole purpose of the funds is to secure the pension commitments to employees and former employees of Systembolaget AB. The funds shall, therefore, in their investment activities, endeavour to ensure a good return and to balance the risk that the value performance of the secured pension liability entails.

The size of Systembolaget's pension liability changes in line with, amongst other things, inflationary and real wage trends in Sweden. The investment activities shall, therefore, primarily be exposed to values in Swedish kronor and operations in Sweden.

The funds' Boards of Directors have, in the light of the above, established an investment orientation that entails the investment of a substantial part of the capital in long-term real interest bonds issued by the Swedish government or other highly creditworthy issuer. Substantial amounts are also invested in the stock market through share index bonds. Share index bonds provide an exposure to a global index comprising the world's biggest stock markets whilst simultaneously eliminating the currency risk. The share index bonds also provide a high level of protection against falls in exchange rates. The above two approaches are also complemented with smaller investments in other instruments.

The funds' combined capital was, as of 31st December 2006, distributed as follows:

Real interest bonds	0 %
Share index bonds	23 %
Other	7 %

The duration of the funds' real interest bonds is matched with the duration of the undertaking secured, in order to ensure maximum compliance between the secured undertaking and the assets. The deviation in duration between them was, as of 31st December 2006, 0.5 years. The "consolidation" in the funds was, as of 31st December 2006, 114 per cent, i.e. the funds' assets exceeded the combined secured undertaking (including the tax on returns due thereon) by 14 per cent. This does not mean that Systembolaget's pensioners will receive a more favourable pension rate: it does, however, mean that the combined receivable from Systembolaget is relatively secure.

17 Financial instruments

Financial risk management

The Group's operations expose it to financial risks such as market risks (incl. currency risks and interest risks), credit risks, liquidity risks and cash flow risks. The Group's overall risk management policy, which is set by the Board of Directors, is to strive for the minimum possible unfavourable effects on the Group's financial results and position.

Market risks

Currency risk:

Purchases and sales are, in every significant respect, transacted in Swedish kronor, and the level of currency exposure is hence limited.

Interest risk:

The Group's exposure to interest risks is, in every significant respect, associated with the pension funds. The interest rate component of this calculation follows the government interest bond rate, and the interest risk is hence not deemed to be significant. The foundation also endeavours to invest the plan assets in a way that balances the risk that the value performance of the pension liability nonetheless entails.

A certain exposure to interest risk is associated with investments in interest-bearing assets.

Financial investments

Other long-term security holdings

	The Group		Parent Company	
	2006	2005	2006	2005
Financial assets that can be sold				
Bond loans	517	147	517	147
FRN (Floating rate notes)	359	91	359	91
Total	876	238	876	238

Short-term investments

	The Group		Parent Company	
	2006	2005	2006	2005
Financial assets that can be sold				
Bond loans	169	244	169	244
Municipal commercial papers	—	40	—	40
Structures*	81	—	81	—
FRN	40	50	40	50
Total	290	334	290	334
Total financial investments	1 166	572	1 166	572

Financial investments which are scheduled to be realised within twelve months of the closing day are classified as short-term investments. The comparative figures for 2005 have been recalculated in accordance therewith. Financial investments were categorised in 2005 as investments held until maturity.

* Structured capital guaranteed bonds

Credit risk/Counterparty risks

The majority of the Group's sales are for cash or credit card payment, and the credit risk is hence insignificant. The credit risk in the investment portfolio is further limited by imposing limits per issuer and class of borrower.

The following investment formats are permitted for financial instruments:

- Interest-bearing securities issued by the Swedish government, local authorities or county councils
- Interest-bearing securities issued by Swedish government-owned companies where the state's proprietary holding is a minimum of 50 per cent
- Interest bearing securities issued by banks, other companies or institutions with a minimum rating of A/A-1 with Standard & Poor or A2/P-1 with Moody's
- Investments in structured products are only permitted if they are 100 per cent capital guaranteed.

Liquidity risk

The Group has good liquidity and no interest-bearing liabilities. The liquidity risk is adjudged to be low.

The Group has a guaranteed overdraft facility of SEK 300 million which is unused.

Note 17, cont.

Due date	Bond loans		Municipal commercial papers		Structures*		FRN		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Within 1 year	169	244	—	40	81	—	40	50	290	334
1–2 yrs	125	106	—	—	—	—	27	91	152	197
2–3 yrs	101	18	—	—	—	—	292	—	393	18
3–4 yrs	236	—	—	—	—	—	—	—	236	—
4–5 yrs	55	23	—	—	—	—	40	—	95	23
Over 5 yrs	—	—	—	—	—	—	—	—	—	—
Total	686	391	—	40	81	—	399	141	1 166	572
Effective interest, %	3.28	2.39	—	1.72	3.75	—	3.21	2.25	3.29	2.31

* Structured capital guaranteed bonds

Other long-term receivables	The Group		Parent Company	
	2006	2005	2006	2005
Opening value, 1st Jan	8	9	13	9
Additional receivables	—	—	1	5
Reversed short-term receivable	1	1	1	1
Transferred to current receivable	– 1	– 1	– 1	– 1
Receivables settled during the year	– 1	– 1	– 1	– 1
Closing value, 31st Dec	7	8	13	13
Of which percentage falling due for payment after more than 5 yrs	5	5	8	9
Total Sureties, mortgages or bank guarantees				
received as collateral for receivables	35	37	35	37

Accounts receivable and accrued income	The Group	
	2006	2005
Accounts receivable	64	55
Total	64	55

Liquid assets	The Group		Parent Company	
	2006	2005	2006	2005
Cash and bank balances	1 335	1 939	1 337	1 942
Total	1 335	1 939	1 337	1 942

Accounts payable and accrued expenses	The Group	
	2006	2005
Accounts payable	2 675	2 513
Holiday pay liability	71	71
Pay liability	20	19
Social security contributions	31	29
Accrued operating expenses	35	23
Total	2 832	2 655

True value

True value is not shown for other long-term receivables, accounts receivable or accounts payable as the reported value is a reasonable approximation of the true value. The true value of financial investments totalled SEK 560 million in 2005.

18 Stock-in-trade

Type of goods	The Group		Parent Company	
	2006	2005	2006	2005
Goods for resale	820	817	819	817
Total	820	817	819	817
Valued at acquisition value	820	817	819	817
Valued at net sales value	—	—	—	—
Total	820	817	819	817

19 Prepaid costs and accrued income

Prepaid costs	The Group	
	2006	2005
Prepaid rents	59	29
Other prepaid expenses	14	10
Total	73	39
Accrued income		
Prepaid rents	22	20
Total	22	20

20 Assets held for sale

	The Group	
	2006	2005
Book value, buildings and land	0	7
Liabilities attributable to real estate sold	0	0
Total	0	7

3 properties were sold in 2006. The sales yielded a capital gain of SEK 141 million. The sale of 2 properties is planned for the next financial year, 2007. They have an estimated market value of SEK 4.3 million.

21 Shareholders' equity

The share capital comprises a minimum of SEK 125 million and a maximum of SEK 500 million and is divided between 360,000 shares with a nominal value of SEK 1,000. No exchange rate differences or taxes have been reported directly to shareholders' equity.

22 Provisions

	The Group					
	Reorganisation		Other		Total	
	2006	2005	2006	2005	2006	2005
Long-term provisions						
Opening balance, 1st Jan	12	23	1	7	13	30
Year's provisions	—	7	3	—	3	7
Provisions utilised	—	– 8	—	– 1	—	– 9
Transferred to current liabilities	– 2	– 10	– 2	– 6	– 4	– 16
Provisions reversed	– 9	—	—	—	– 9	—
Closing balance, 31st Dec	1	12	2	0	3	12

	2006	2005	2006	2005	2006	2005
Short-term provisions						
Opening balance, 1st Jan	10	10	15	46	25	56
Year's provisions	—	—	16	2	16	2
Provisions utilised	– 10	– 10	– 15	– 39	– 25	– 49
Transferred from long-term liabilities	2	10	2	6	4	16
Provisions reversed	—	—	—	—	—	—
Closing balance, 31st Dec	2	10	18	15	20	25

	Parent Company					
	Reorganisation		Pensions		Other	
	2006	2005	2006	2005	2006	2005
Long-term provisions						
Opening balance, 1st Jan	12	23	76	77	1	7
Year's provisions	—	7	4	1	3	—
Provisions utilised	—	– 8	– 3	– 2	—	– 3
Transferred to current liabilities	– 2	– 10	—	—	– 2	– 6
Provisions reversed	– 9	—	—	—	—	– 9
Closing balance, 31st Dec	1	12	77	76	2	89

	2006	2005	2006	2005	2006	2005	2006	2005
Short-term provisions								
Opening balance, 1st Jan	10	10	—	—	8	32	18	42
Year's provisions	—	—	—	—	16	2	16	2
Provisions utilised	– 10	– 10	—	—	– 8	– 32	– 18	– 42
Transferred from long-term liabilities	2	10	—	—	2	6	4	16
Provisions reversed	—	—	—	—	—	—	—	—
Closing balance, 31st Dec	2	10	—	—	18	8	20	18

Reorganisation

Reorganisation refers to costs associated with staff cuts in conjunction with a reorganisation carried out at the head office in 2005.

Pensions

In the Parent Company, the provisions also refer to a pension liability for non-vested portions that cannot be secured via funds. It is eliminated within the Group and reported, instead, as part of the value of "Pension assets".

Other

2006's other provisions include provisions for the impending closure of stores comprising SEK 3 million, SEK 2 million of which is scheduled for settlement in 2007, severance pay totalling SEK 7 million, all of which is scheduled for settlement in 2007, and extra days' leave for the personnel to be taken in 2007 to a value of SEK 9 million, all of which is scheduled for settlement in 2007.

23 Pledged assets

	The Group		Parent Company	
	2006	2005	2006	2005
For pension undertakings				
Long-term receivables	6	5	6	5
Total	6	5	6	5

24 Contingencies/contingent liabilities

	The Group		Parent Company	
	2006	2005	2006	2005
For Group companies	—	—	5	6
For personnel loans	2	2	2	2
For pension commitments	—	—	1 055	1 014
Funds in pension funds	—	—	– 1 055	– 1 014
For premium settlement reserves	2	2	2	2
Other	2	2	—	0
Total	6	6	9	10

25 Cash Flow Statement

	The Group		Parent Company	
	2006	2005	2006	2005
Liquid assets				
Cash and bank balances	1 335	1 939	1 337	1 942
Total	1 335	1 939	1 337	1 942
Interest				
Interest received	25	11	36	23
Interest paid	– 2	– 2	– 2	– 2
Total	23	9	34	21

Interest relates to the operating activities.

26 Appropriations

	Parent Company	
	2006	2005
Change in tax allocation reserve	—	428
Total	—	428

27 Prepaid expenses and accrued income

	Parent Company 2006	2005
Prepaid rents	59	29
Other prepaid expenses	10	6
Total	69	35

28 Accrued costs and prepaid income

	Parent Company 2006	2005
Holiday pay liability	68	67
Salary liability	18	18
Social security contributions	28	27
Accrued operating expenses	28	22
Total	142	134

29 Events after the closing day

No significant events have occurred after the closing day.

"The Board of Directors and the President hereby affirm that the annual accounts have, to the best of our knowledge, been prepared in accordance with generally accepted accounting principles, that the information provided corresponds to the actual situation and that nothing of importance has been omitted that could affect the picture of the Group or the Parent Company painted by the Annual Report."

Stockholm, 21st February 2007

Olof Johansson
Chairman

Anna Hedborg
Vice President

Ulf Melin

Ingrid Burman

Marita Aronson

Gert Karnberger

Marianne Nivert

Elisebeht Markström

Margareta Andersson

Patrik Ström
(HTF – the Salaried Employees' Union)

Margot Herrdin
(HTF – the Salaried Employees' Union)

Anitra Steen
President

Our Audit Report was submitted on 22nd February 2007

SET Revisionsbyrå AB

Bo Axberg
Authorised Public Accountant

Filip Cassel
*Authorised Public Accountant,
Appointed by the Swedish National Audit Office*

Audit Report

To the Annual General Meeting of Systembolaget AB, corporate identity number 556059-9473.

We have examined the annual accounts, the consolidated financial statements, the accounting records and the administration by the Board of Directors and the President of Systembolaget AB for 2006. The company's annual accounts are shown on pages 48-49 of this printed document. These accounts, the administration of the company, the application of the Swedish Annual Accounts Act, and compliance with international accounting standards, IFRS, as adopted by the EU when preparing the annual accounts and the consolidated financial statements, are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual accounts, the consolidated financial statements and the administration based on our audit.

The audit was carried out in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform our audit so as to obtain reasonable assurance, but not absolute certainty, that the annual accounts and consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. It also includes assessing the accounting policies used and their application by the Board of Directors and the President, and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated accounts, as well as evaluating the overall presentation of information in the annual accounts and consolidated financial statements. As the basis for our opinion on discharge from liability, we have examined significant decisions, actions taken and circum-

stances in the Company in order to be able to determine the liability, if any, to the Company of any Board Member or the President. We also examined whether any Board Member or the President has, in any other way, acted in contravention of the Swedish Companies Act, the Swedish Annual Accounts Act or the Company's Articles of Association. We believe that our audit gives us reasonable grounds for the following statements.

The annual accounts and the consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act and thereby give a true and fair view of the financial results and position of the Company in accordance with generally accepted accounting standards in Sweden. The consolidated financial statements have been prepared in accordance with international accounting standards, IFRS, as adopted by the EU, and the application of the Swedish Annual Accounts Act, and thereby give a true and fair view of the financial results and position of the Group. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We recommend to the Annual General Meeting, that the Income Statements and Balance Sheets of the Parent Company and Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Directors' Report, and that the Members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, 22nd February 2007

SET Revisionsbyrå AB

Bo Axberg
Authorised Public Accountant

Filip Cassel
Authorised Public Accountant
Appointed by the Swedish National Audit Office

Review report

To the General Meeting of the shareholders of Systembolaget AB, corporate identity number 556059-9473.

On behalf of Swedish Parliament's Board of Administration, we have examined the administration and the internal controls of Systembolaget AB in the 2006 financial year.

We have examined significant decisions, actions taken and circumstances in the Company in order to be able to determine whether the Company has been managed in an appropriate and financially acceptable manner and whether the Company's internal controls are adequate. Our examination did not reveal any circumstances giving cause for objection.

We have also examined whether the Company, its management and Board observed the guidelines laid down by the government with specific reference to Systembolaget AB and also to State-owned enterprises in general. This examination also did not reveal any circumstances giving cause for objection.

Stockholm, 22nd February 2007

Lars U Granberg

Rolf Gunnarsson

Ulla Wester

Auditors

Composition on 31 December 2006.

Regular auditors

Appointed by the Annual General Meeting

SET Revisionsbyrå AB, represented by
Bo Axberg, Senior Auditor.

Appointed by the Swedish National Audit Office

Filip Cassel, Authorised Public Accountant,
Swedish National Audit Office, Stockholm.

Appointed by the Swedish Parliament's Board of Administration

Lars U Granberg, MP, Piteå.
Rolf Gunnarsson, MP, Falun.
Ulla Wester, MP, Rinkaby.

Deputy Auditors

Appointed by the Swedish National Audit Office

Lars Nordstrand, Authorised Public Accountant,
Swedish National Audit Office, Stockholm.

Appointed by the Swedish Parliament's Board of Administration

Lennart Axelsson, MP, Nora.
Bertil Kjellberg, MP, Sundsvall.
Christina Oskarsson, MP, Surte.

Board of Directors



Top row from left: Olof Johansson, Anna Hedborg, Margareta Andersson, Marita Aronson, Ingrid Burman and Gert Karnberger.

Olof Johansson

Born: 31st July 1937

Principal education: Junior college of commerce degree, Stockholm School of Economics

Other positions currently held: Chairman of the Board of AB Svensk Bilprovning and the Knowledge Foundation, Chairman of the LUSTRA research group (Land Use Strategies), Chairman of the Kalmar Sund Commission, public sector mediator, impartial chairman of PAR (the Swedish Press Collective Bargaining Council) and Bemanningsföretagens Auktorisationsnämnd (Staffing Companies' Authorisation Board).

Positions previously held:

Member of Parliament, 1971–1998, Cabinet Minister, 1976–1978, 1979–1982, 1991–1994.

Elected to the Board of Systembolaget AB: Chairman since 2002

Independent: The Member should, according to the Election Committee, be regarded as independent in relation to the company and the company management.

Anna Hedborg

Born: 17th September 1944

Principal education: B.Sc. in Economics and Business Administration at the Stockholm School of Economics, 1967

Other positions currently held: Director General of the Ministry of

Health and Social Affairs - special investigator on the social insurance committee, Chairman of the Board of the Swedish National Council for Cultural Affairs, Member of the Board of Första AP-fonden, Member of the Board of UNRISD.

Positions previously held: Director General of the National Social Insurance Board, Minister for Social Insurance.

Elected to the Board of Systembolaget AB: Deputy Chair-man since 2002

Independent: The Member should, according to the Election Committee, be regarded as independent in relation to the company and the company management.

Margareta Andersson

Born: 6th May 1948

Principal education: B.Sc., majoring in economics and English, 1972, University of Gothenburg

Other positions currently held: Chairman of Cooperative Development in the County of Jönköping, Deputy Chairman of NTG (National Thematic Group) for Social Enterprise, financed by the European Social Fund and NUTEK (the Swedish Agency for Economic and Regional Growth).

Positions previously held: Centre Party MP, 1995–2006.

Elected to the Board of Systembolaget AB: 2000 as a Deputy

Member. Regular Member since 2005

Independent: The Member should, according to the Election Committee, be regarded as independent in relation to the company and the company management.

Marita Aronson

Born: 10th May 1939

Principal education: PhD, Registered Psychologist

Other positions currently held: Member of the Boards of ATG, BRG (Business Region Gothenburg), Sparbankstiftelsen Första, Rescue Mission Gothenburg, Chairman of Mölndal Business Committee and Member of the Mölndal Municipal Board and Council.

Positions previously held:

Municipal Commissioner (Mölndal), Member of Parliament, special investigator, etc.

Elected to the Board of Systembolaget AB: Member since 2006

Independent: The Member should, according to the Election Committee, be regarded as independent in relation to the company and the company management.

Ingrid Burman

Born: 4th November 1952

Principal Education: LL.B

Other positions currently held: National Board of Health and Welfare's legal council

Positions previously held:

Member of Parliament, Chairman of the Parliamentary Social Committee, etc.

Elected to the Board of Systembolaget AB: Member since 2006

Independent: The Member should, according to the Election Committee, be regarded as independent in relation to the company and the company management.

Gert Karnberger

Born: 23rd September 1943

Principal education: Graduate of Upper Secondary Engineering Course

Other positions currently held: President, CEO and Member of the Board of Clas Ohlson AB, Chairman of the Board of the subsidiary companies, Clas Ohlson AS (Nw), Clas Ohlson OY (Fi), Deputy Chairman of the Swedish Trade Federation and the Swedish Mail Order and Traders Association, member of the Board of the Confederation of Swedish Enterprise.

Positions previously held: Former Member of the Board of Swedish subsidiaries of the Finnish ASKO corporate group, and President of one of them

Elected to the Board of Systembolaget AB: Member since 2004

Independent: The Member should, according to the Election Committee, be regarded as independent in relation to the company and the company management.



Top row from left: Elisebeht Markström, Ulf Melin, Marianne Nivert, Margot Herrdin, Patrik Ström, Maj-Britt Eriksson and Maria Åström.

Elisebeht Markström

Born: 14th December 1955

Principal education: Two years of upper secondary education

Other positions currently held: Member of Parliament (Socialist), Member of the Board of the National Board of Institutional Care and the Swedish Prison and Probation Service, Member of the National Centre for Men's violence against Women.

Positions previously held: Member of the Board of National Courts Administration.

Elected to the Board of Systembolaget AB: Member since 1999

Independent: the Member should, according to the Election Committee, be regarded as independent in relation to the company and the company management.

Ulf Melin

Born: 4th January 1952

Principal education: 1971, three-year social sciences course programme in Borås, School Management training at the University of Linköping

Other positions currently held: Director General of the International Programme Office for Education and Training, Member of the Board of the Advanced Vocational Education and Training Authority (KY), Member of the Board of CSN (The Swedish National Board of Student Aid).

Positions previously held: Head of Development for Conservative Party, Parliamentary Secretary for Conservative Party's Parliamentary Office, MP from 1988–1998, Member of the Board of the Swedish UNESCO council, Member of the County Administrative Board of the County of Jönköping, Member of the Police Board of the County of Jönköping, Member of the Gender Equality Council, Member of the Board of the Jönköping College of Further Education.

Elected to the Board of Systembolaget AB: Member since 1999

Independent: the Member should, according to the Election Committee, be regarded as independent in relation to the company and the company management.

Marianne Nivert

Born: 17th August 1940

Principal education: B.A. and training as a telecommunications engineer

Other positions currently held: Chairman of the Board of Posten AB, Chairman of the Board of the Swedish Save the Children Fund, Deputy Chairman of the Board of Karolinska University Hospital, Member of the Boards of SSAB, Beijer Alma AB, Wallenstam AB, and Fjärde AP-fonden

Elected to the Board of Systembolaget AB: Member since 2002

Independent: The Member should,

according to the Election Committee, be regarded as independent in relation to the company and the company management.

Margot Herrdin

Born: 2nd January 1960

Principal education: 3-year upper secondary economics course programme, degree in library and information sciences and a B.A. in the Humanities

Other positions currently held: Employed by Systembolaget as a member of the sales staff since 1981, Store Manager since 1988

Elected to the Board of Systembolaget AB: As an employee representative in 2005

Patrik Ström

Born: 14th October 1972

Principal education: 2-year upper secondary course specialising in woodwork

Other positions held: Employed by Systembolaget in 1993, Store Manager since 2000, Chairman of Systembolaget's Staff Association

Elected to the Board of Systembolaget AB: As an employee representative in 2004

Maj-Britt Eriksson

Born: 29th September 1947

Principal education: Natural Sciences study programme at Komvux (local government-administered adult education) in Kalmar.

Other positions currently held:

Chairman of the South Eastern Sales Personnel Club, Contract Representative Salesperson for the South Eastern Group of Seven, HTF (the Salaried Employees' Union) representative at store #0802, Departmental Member of the Board of HTF's South Eastern Division.

Elected to the Board of Systembolaget AB: As a deputy employee representative in 2004

Maria Åström

Born: 29th May 1967

Principal education: 2-year upper secondary course, Chef's training

Other positions currently held: Member of the Departmental Board of Directors of Västerbotten HTF (the Salaried Employees' Union), Chairman of the Sales Personnel Club, Umeå/Skellefteå.

Elected to the Board of Systembolaget AB: As a deputy employee representative in 2006.

Corporate Governance Report for Systembolaget AB

The Board of Directors of Systembolaget AB, corporate identity no. 556059-9473, hereby submit their report regarding corporate governance for the 2006 financial year. The report has been prepared in accordance with chapter 5 of the Swedish Code of Corporate Governance and is divided into two sections. The first section has, at the request of the Board of Directors of the Company, been reviewed by the company's auditors. The Board of Directors' Report on Internal Control of Financial Reporting has not been reviewed by the auditors.

Implementation of the Code of Corporate Governance at Systembolaget AB

Implementation of the Code of Corporate Governance at Systembolaget AB began in 2005. This work was completed in 2006 and is reported, in summary form, at the end of this report.

Account of the way in which the preparatory work for the appointment of the Board and auditors is organised

The 2005 Annual General Meeting resolved that company's Board of Directors shall – over and above the Members appointed pursuant to the provisions of Acts of Parliament other than the Swedish Companies Act – comprise a minimum of 6 and a maximum of 11 Members. No Deputy Members have been appointed as a result of the resolution by the Annual General Meeting.

10 Members were elected at the 2006 Annual General Meeting. Board Member Annika Nilsson tendered her resignation from the Board, effective as of 5th October 2006, and a vacancy on the Board has consequently been registered with the Swedish Companies Registration Office by the company since that date.

Systembolaget AB is 100% owned by the Swedish state. The nomination process is conducted in accordance with the principles described in pages 6 et seq. of the State's ownership policy for 2006. The document can be also ordered or downloaded from: <http://www.regeringen.se>.

Members of the Board

Olof Johansson (Chairman)
Anna Hedborg (Deputy Chairman)
Ulf Melin
Marianne Nivert
Gert Karnberger
Elisebeht Markström
Margareta Andersson
Marita Aronson
Ingrid Burman

Employee representatives:

Patrik Ström
Margot Herrdin
Maj-Britt Eriksson (Deputy)
Maria Åström (Deputy)

See pages 92–93 of this Annual Report for personal details of the Board Members, and page 91 for details of Systembolaget AB's auditors.

Corporate Governance:

The company's agreement with the state, and the owner's directive in which the owner's requirements of Systembolaget are specified, constitute an important starting point for the work and responsibilities of the Board of Directors. The agreement and the owner's directive form the basis for the company's operations with regard both to the social mandate and to the profitability requirement. The owner's directive stipulates that the retail monopoly has a socio-political objective. It also clarifies Systembolaget's mandate. Under the terms of its mandate, Systembolaget shall limit the availability of alcohol through its control over the stores network and opening hours. Systembolaget shall also uphold the selling rules, i.e. age verification, refusing to sell to people who are intoxicated, and counteracting illegal sales onward. Systembolaget also, and in addition to the agreement and the owner's directive, complies with the state's ownership policy.

The basis of Systembolaget's operations can be found in its social mandate. Systembolaget holds a monopoly on retail sales of spirituous drinks, wines and strong beers in Sweden. This monopoly has an alcohol policy-related objective and restricts the availability of alcohol. This restriction results from the fact that the company, in accordance with both the provisions of the Swedish Alcohol Act (1994:1738) and the agreement with the state, not only has control over the start-up or stores and opening hours, but can ensure that alcoholic drinks are not

sold to people under the age of 20 or who are noticeably intoxicated, or where there are grounds to assume that the product is being bought with the intention of supplying it to someone illegally.

The activities of the Board are supported by the "Steering document and overall policies for Systembolaget AB" body of documentation, in which the texts of certain operationally relevant laws are presented, together with documents produced by the EU, a range of statutory instructions, company-related documents, owner-related documents and agreements, rules governing investment, accounting principles, strategic plans, Systembolaget's ethical programme, various other policies, and information on subsidiaries.

The work of the Board

All Members of the Board of Directors of Systembolaget AB work actively on the issues incumbent upon the Board and the other issues referred to the Board. The Board has a Remuneration Committee, comprising the Chairman and Deputy Chairman, and which is tasked with preparing issues relating to remuneration and other terms of employment for the company management. The Chairman of the Board is the Chairman of the Remuneration Committee. The final decision on matters relating to remuneration and other terms of employment for the President and company management is taken by the Board of Directors.

The Chairman's duties

The Chairman heads up the work of the Board. The Chairman prepares the Board Meetings, working in cooperation with the President. The Chairman consults on an ongoing basis with the President on strategic issues arising, and represents the company on matters relating to the ownership structure. The Chairman meets with the company's auditors twice yearly. The Chairman of the Board has special duties, which are laid down in the rules of procedure for the Board of Directors, over and above his general duties as a Director and the duties specified above.

The Board's working methods

The starting point and structure for the Board's work, and that of the entire company, is the so-called absence of private profit principle, whereby alcoholic drinks shall be sold without a "for profit" motive, such that the protection of public health objective steers the operations, rather than profitability.

The structure of the Board's work is laid down in the Board's work plan, which is adopted annually. The work plan forms the basis for the work and stipulates the point during the financial year when special areas of responsibility shall be addressed by the Board. The Board has previously adopted an overall strategic plan for the operations for three years at a time. The current strategic plan comprises the years from 2005 to 2007, inclusive. In 2006, the Board decided that the strategic plan shall, as of 2007, apply to four year periods. Annual budgets and annual operations plans are based on the strategic plan and the ambitions and objectives described therein. The strategic plan demands that changes be implemented within the next few years. The target figures stipulated in the annual operations plan mean that the changes will, first and foremost, refer to improvements based on customer preferences and the requirement for increased efficiency. An extension of the self-service store network is critical to meeting these objectives.

The structure of the strategic plan and of the annual operations plans entail an examination of the operations from four different perspectives: society, customers, personnel, and financial, in order to comply with Systembolaget's mandate, owner's directive and its agreement with the state. The operations plan for 2006 has been based on these four perspectives.

- *Society* – responsibility: we must clarify and secure our mandate externally and must develop methodologies/measurement methods for our selling rules.
- *Customer* – interaction with customers: we must generate preconditions and develop methods that enhance interactions with the customer.
- *Personnel* – skill development: we must extend our work within the fields of the work environment, strategic competence and managerial supply, and must secure internal communication.
- *Financial* – increased efficiency: we must increase operational efficiency, improve control/follow up activities, and secure customer benefit.

Strategic target figures have been set within each perspective, as shown in the Annual Report. The key performance indicators are followed up by the Board and reported on an ongoing basis at the Board meetings.

The work of the Board in 2006

The Board has held a total of seven ordinary Board meetings in 2006.

The usual follow-up work, both on economic performance and on a number of operationally strategic key performance indicators, has been carried out each quarter.

These activities aside, the work of the Board has primarily focused on follow up work on operating activities, the strategic plan for 2007–2010, streamlining the financial reporting, the development of and discussions of key performance indicators with regard to the social responsibility, cutting marginal prices, implementing the corporate governance code, selling certain properties and renovating the head office, developing Lagena Distribution AB's operations, future IT investments, and reporting on the consequences of the prosecutions brought as a result of the bribery and corruption reports submitted to the police by Systembolaget.

Systembolaget's operations are governed by a number of policy documents adopted by the Board. These documents are reviewed regularly at the Board's annual two-day seminars for long-term and strategic work.

Issues addressed by the Board include decisions on the rate of new construction work in and changes to the stores network, the ongoing work on ethical issues, and the reports by the Swedish Competition Authority to the EU, together with the legal review in the European Court of the question of private imports (the Rosengren case), together with external analyses and discussions about private import quotas. The Board of Directors meets annually with the company's auditors. For ad-

ditional information on the Board's and Chairman's contacts with the company's auditors, please see "The Board of Directors' Report on Internal Control of Financial Reporting".

Quality assuring financial reporting

The Board's efforts to quality assure the financial reporting and the way in which the company communicates with the auditors are described in "The Board of Directors' Report on Internal Control of Financial Reporting".

The President: Anita Steen

Born: 13th May 1949

Anitra Steen has been the President of Systembolaget AB since 1999. She was formerly an Undersecretary of State at the Ministries of Education and Finance, the Director General of National Agency for Services to Universities and University Colleges and of the Swedish Tax Agency. *Positions currently held:* Member of the Boards of SAS, the Almega forum for service companies, Södersjukhuset AB, Voss ASA and Kungsträdgården Park & Evane-mang.

Education: B.Sc. in behavioural and social scientific studies from the University of Uppsala.

Independent: Neither the President nor any persons closely associated with her has any significant share holding in companies with which Systembolaget has significant commercial links.

Present at Board Meetings in 2006

	22 Feb	16 Mar	19 Apr	19-20 Jun	6 Sept	25 Oct	6 Dec
Olof Johansson	●	●	●	●	●	●	●
Anna Hedborg	●	●	●	●	●	●	●
Marita Aronson	●		●	●	●	●	●
Ulf Melin	●	●	●		●	●	●
Gert Karnberger	●	●	●	●	●	●	●
Marianne Nivert	●	●	●	●			●
Elisebeht Markström		●	●	●	●	●	
Margareta Andersson	●	●	●	●		●	●
Ingrid Burman	●	●	●	●	●		●
Annika Nilsson*	●	●	●	●	●		
Patrik Ström, employee representative	●		●		●	●	●
Margot Herrdin, employee representative		●		●	●		●

● = Present

*Annika Nilsson tendered her resignation from the Board on 5th October 2006.

Ewa Persson Göransson and Robin Dahl were present at the Board Meeting held on 22nd February, and resigned from the Board at the Annual General Meeting on 16th March 2006.

Remuneration principles and terms of employment adopted for the President and other members of Systembolaget's senior management

Systembolaget follows the government's guidelines regarding remuneration principles and terms of employment for the President and other members of the company's senior management.

Agreements previously entered into have, in certain cases, terms that deviate from these guidelines. For more detailed information, please see Note 7 on pages 68–72 of the Annual Report.

Principles for remuneration to senior executives

Directors' fees, as approved by the Annual General Meeting, are payable to the Chairman of the Board, the Deputy Chairman, Members and Deputy Members. Employee Representatives receive no Directors' fees.

Summary of the code's application within Systembolaget AB

1	Complies with those parts of relevance to the company	Complies
1.1	Convening notices	Complies
1.3	The presence of the Board, the management and the auditor	Complies
1.4	Implementation	Complies
2.	Appointment of the Board and auditors	Complies with those parts relevant to the company, see the State's owner's directive policy, 2006 (N6019)
3	The Board of Directors	Complies
3.1.2	The Board evaluates its work annually through a systematic and structured process	Complies
3.5.1	The statutory instructions shall be clear, detailed and concrete (The Board's formal work plan, President's instructions, etc.)	Complies
3.5.2	Establishment of committees (remuneration committee)	Complies
3.5.3	Evaluation of the President	Complies
3.5.4	Decisions on important matters are only taken when they have been included in the agenda	Complies
3.5.5	The Board is assisted by a Secretary to the Board who is not a Board Member	Complies
3.5.6	The Minutes of Board Meetings are clear and detailed	Complies
3.6	Financial reporting	Complies
3.7	Internal checking and internal auditing	Complies. The Board decided, in 2006, to establish internal auditing
3.8	Work on accounting and auditing issues	Complies
3.8.2	Audit committee	Does not comply. The Board has decided not to establish an audit committee; rather the whole Board is responsible for this function
3.8.4	Meetings with the auditors	Complies
4.	Company management	Complies with those parts relevant to the company
4.2.1	Remuneration committee	Complies
4.2.2	Principles for remuneration for the company management	Complies
5.	Corporate governance information	Complies
5.1	Corporate governance report	Complies
5.2	Report on internal control of financial reporting	Complies
5.3	Information on the website	Complies

The numbering to the left is the number of the code section in question.

The Board of Directors' Report on Internal Control of Financial Reporting

The Board of Directors of Systembolaget AB, corporate identity no. 556059-9473, hereby submits its report in internal control of financial reporting for the 2006 financial year.

This report on internal control of financial reporting has been prepared in accordance with the Swedish Corporate Governance Code, sections 3.7.2 and 3.7.3, and hence relates to the way in which the internal control of financial reporting is organised. The report has not been reviewed by the company's auditors.

Under the provisions of the Swedish Companies Act and the Swedish Corporate Governance Code, the Board of Directors is responsible for internal control. The Board has, in addition to this report, drawn up a Corporate Governance Report for Systembolaget AB.

Introduction

Internal control is usually defined* as follows: *Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:*

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

The basis for internal control is the *control environment*, which comprises the culture that the Board of Directors and senior management communicate and on which they base their activities. A good control environment generates the structure on which other process components are based. These components are:

- A *risk assessment* of things that could go wrong
- *Control activities*, both at overall level and in more detail, and which are designed to prevent, discover and correct errors and deviations
- *Information and communication* on compliance with the organisation's policies and control activities
- *Monitoring* by the Board of Directors and the senior management, and onwards down throughout the organisation, to ensure the quality of the process.

Internal control is not only conducted by means of regulatory frameworks and instructions: it is primarily conducted by employees at every level within the organisation. Internal control of financial reporting is designed to ensure that the company's external reporting is comprehensive and correct. The purpose of the internal controls is to minimise the risk of errors occurring that could affect people's view of, or their evaluation of the company's economic results and position, its ability to meet established operational goals and/or the owner's expectations of the company.

Internal audits

The Board completed its evaluation of the need for an internal audit function in 2006, and in the light of this work, has decided to establish a function to this end. The establishment work has begun and a fundamental Risk evaluation/Risk analysis has been carried out. The Risk analysis was based on guidelines adopted by COSO and employed a broad definition of "risk", that reads as follows. "An event, or activity, that prevents the organisation from achieving its goals." The Risk analysis will form the basis for the Internal Audit Programme that will be implemented in 2007.

Internal control of financial reporting

The control environment within Systembolaget

Systembolaget's internal control work is designed to identify, evaluate and minimise risks within the operational sphere. The work includes both preventative and monitoring aspects, and is based on a sound corporate culture, on people's desire to do the right thing, and on shared corporate values. The foundations have been laid, in 2006, for a developed model for competence development and managerial supply. A competence library, in which competences or abilities – expressed as behaviours that make a difference – has been developed. Role profiles are being drawn up for all roles within Systembolaget (scheduled for completion in Q1 2007) and will form the basis for recruitment, competence development and succession planning.

* Source: Definition according to The Committee of Sponsoring Organizations of the Treadway Commission (COSO)

Organisation and structure

Clarity of organisation, decision-making routes, authorisations and responsibilities are a central part of internal checking. These areas have been documented in steering documents such as the owner's directive, the agreement with the state, internal policies, guidelines, handbooks, manuals and job descriptions. The division of labour between the Board of Directors, on the one hand, and on the other, the President and the other organs established by the Board has been clarified and documented. This is also the case with regard to authorisation and delegation regulations, and accounting and reporting instructions. This organisation and structure is supported by the company employees and is available via Systembolaget's intranet.

It is vital that IT systems and their accessibility reflect formal rights and authorisations. A review of the complete authorisation structure has been carried out in 2006. A review of hacking risks and simulated hacking attempts have also been carried out.

Policies for contacts with suppliers

Policies and regulations have been established to govern employees' conduct during contact with suppliers. This applies principally to Systembolaget's drinks suppliers, but the policies also apply to relationships with other suppliers. These policies are communicated within the organisation. All Systembolaget employees have confirmed in writing that they are familiar with and have understood the import of these guidelines and regulations.

Values and Systembolaget's mandate

The Board of Directors and the senior management have continued their efforts in 2006 to further clarify and firmly establish Systembolaget's mandate and shared values. Theme meetings have been held with all employees in order to build support for the company's shared values and what constitutes a good customer interaction, and for compliance with selling rules.

Certification

A certification review of the company's quality management system was carried out in 2006 with regard to product supply in line with the ISO 9001:2000 standard by the certification body, BVQI (Bureau Veritas Certification). The review comprises the processes for "the beverage products' route" from supplier to store shelf. The review went very well and only one deviation from the standard was noted. Corrective measures have been taken.

Managing the operations with the aid of a management system entails a heavy focus on customers (external and internal), process orientation, and the concept of "ongoing improvements". Establishing, understanding and managing interacting processes as a system, helps ensure efficiency in the field of management by objectives. BVQI will, in future, carry out annual developmental visits in order to verify and maintain the certified management system. The management system also includes routines for internal audits, suggested improvements, preventative measures, document control, deviation reporting, etc.

Risk assessment

Risk assessment is carried out by the Board of Directors, the senior management and, in the context of the day to day operations, with the aim of minimising the risk of errors in the financial reporting. A fundamental and wide-ranging Risk evaluation/Risk analysis has been carried out in 2006. The Risk analysis will form the basis for an internal audit programme which will be implemented in 2007. Work with and development of the way in which the risk evaluation work is organised and structured is also ongoing, with the aim of meeting the demands for efficient risk evaluation. Based on the requirements made of Systembolaget's operations and the requirements with regard to financial reporting, the biggest risks have been identified in the fields of product supply (the tendering, purchasing and distribution process) and sales and cash accounting, adaptation to International Financial Reporting Standards (IFRS) and IT.

The Board has established both an ethics programme and general principles concerning the ways in which any breaches of established rules and guidelines shall be assessed.

The Group has no interest-bearing liabilities. Systembolaget's liquidity risk is low, thanks to the high rate of stock turnover and current purchasing and payment terms.

The Board has established an updated financial policy in 2006. The policy clarifies permitted investment types, risk management organisation, measurement of investment risks, acceptable counterparties, and risk monitoring routines.

Control activities

The Board of Directors and the senior management monitor compliance with steering documents, process descriptions, policies, and the efficiency of the control structures. One of the tools used to carry out this monitoring comprises the work of a unit with special responsibility for internal control. The unit works to a control programme for inspection of the store operations and the results are reported in an internal control index (IC Index). The areas and processes covered by this review are: product handling, personnel administration, cash handling, and security issues. The administrative quality of the stores' operational processes is reviewed and reported to those persons responsible for these matters within the organisation. These reports and tools offer the senior management and Board of Directors extensive potential for monitoring, generating action plans, and rapidly implementing measures designed to improve the store operations.

The risks identified with regard to financial reporting are handled via the company's control structures, which have been documented in process and internal control descriptions. The company has developed the special controls process with regard to the requirements of the International Financial Reporting Standards (IFRS). Stocks and inventories are inventoried on a regular basis in accordance with established routines. A consistent and single-minded programme to counteract wastage has resulted in a further reduction in wastage in 2006. Cash and invoice accounting are monitored and reconciled on an ongoing basis.

Information and communication

Considerable emphasis has been placed on implementing and quality assuring the internal communication process in 2006, with the aim of ensuring that information is disseminated in a structured way throughout the organisation. Information and communication channels have been established with the aim of, amongst other things, promoting completeness and accuracy in the financial reporting. Steering documents in the form of internal policies, guidelines, manuals and codes for financial reporting are known to the relevant personnel and are available via the company's intranet.

Monitoring

The Board receives ongoing reports on the way in which the operations have developed in relation to the operations plan, budget and established targets. The Board also regularly monitors the results of the established internal control programmes.

The accounts department continuously monitors the administrative processes within the organisation. This work includes ongoing monitoring of significant internal control processes, VAT and tax accounting, internal and external entertainment, and compliance with authorisation and delegation regulations. Financial reporting is monitored continuously.

A number of control and monitoring routines have been introduced to reduce the risk of irregularities and embezzlement. Authorisation limits and integrity checks have also been refined.

The Chairman of the Board meets with the auditors at the ordinary meeting in the autumn and the closing audit, and when necessary. The entire Board meets with the auditors at the Board meeting that addresses the annual accounts and in conjunction with the Annual General Meeting.

Statement regarding internal control of financial reporting in 2006

Systembolaget is working continuously to develop and secure good internal control. The work includes both preventative and monitoring measures, intended to identify evaluate and minimise the operational risks.

The Board believes that the company's internal controls with regard to financial reporting are of a high standard.

Auditors' review

The Board of Directors' Report on Internal Control of Financial Reporting has not been reviewed by the company's auditors.

Stockholm, 21st February 2007

Olof Johansson

Anna Hedborg

Ulf Melin

Ingrid Burman

Marita Aronson

Gert Karnberger

Marianne Nivert

Elisebeht Markström

Margareta Andersson

Patrik Ström

Margot Herrdin

In an extension of our audit engagement reported via our Audit Report dated 22nd February 2007, we have, at the request of the Board of Directors, conducted a general review of the Corporate Governance Report on pages 94-97 for Systembolaget AB for 2006. Our review was not designed to evaluate how well the internal controls with regard to financial reporting have functioned during the financial year. No circumstances have emerged, based on our general review, that give us grounds to suppose that the Corporate Governance Report was not prepared in accordance with the guidelines laid down in the Swedish Corporate Governance Code, or that the Board of Directors' report regarding internal controls of financial reporting has not, in every significant respect, been prepared in accordance with the Guidelines for the Swedish Corporate Governance Code.

Stockholm, 22nd February 2007

SET Revisionsbyrå AB

Bo Axberg
Authorised Public Accountant

Filip Cassel
Authorised Public Accountant,
Appointed by the Swedish National Audit Office

Definitions

Work productivity

The number of work units processed (packs after weighing per product group) per day's work (8 hours).

Shareholders' equity per share

Shareholders' equity divided by the number of shares on the closing day.

Average number of shares

Weighted average of the number of outstanding shares during the year.

Trading margin

Gross profit as a percentage of income.

Income/net sales

"Income" within the Group and "net sales" within the Parent Company comprise income from goods sold and services provided that form part of Systembolaget's core operations.

Cash flow per share

Cash flow from operating activities divided by the average number of shares.

Stock turnover rate

Income divided by the average stock value at sale price.

Customer Satisfaction Index (CSI)

Measures how satisfied customers are with Systembolaget. Measured and reported once a year.

Employee Satisfaction Index (ESI)

Measures how satisfied employees are with Systembolaget as an employer. Measured and reported once a year.

Opinion index (OPI)

Measures the percentage of the Swedish population who wish to retain Systembolaget and the monopoly on retail sales of strong beer, wines and spirits.

Earnings per share

The net profit/loss for the year divided by the average number of shares.

Return on shareholders' equity

The net profit for the year as a percentage of adjusted shareholders' equity.

Return on capital employed

Operating result plus financial income as a percentage of the average capital employed.

Equity/assets ratio

Adjusted shareholders' equity as a percentage of the Balance Sheet total.

Wastage

Wastage, as established during stocktaking, per thousand of turnover, including both product and cash.

Capital employed

The Balance Sheet total less non-interest bearing liabilities including deferred tax liabilities.

Dividend per share

Proposed/disbursed dividend divided by the average number of shares.

Age verification

Measures the number of occasions when proof of age has been requested of customers under the age of 25 as a percentage of the number of control purchases made by people aged between 20 and 25.

Suggested reading – about alcohol

For further information, please see www.systembolaget.se

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Johnson, Anders. Alkoholen – nästa ohälsobomb. TCO Värdeskapande Tillväxt no. 8, 2003. www.tco.se

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Willner, Sam. Alkoholpolitik och hälsa hos kvinnor och män. Del 5 i Svenska folkets hälsa i historiskt perspektiv, ed. J Sundin et al, Folkhälsoinstitutet, 2005. www.fhi.se

Alcohol trends in Sweden

Alkoholstatistik 2005, Statens Folkhälsoinstitut R 2006:25, www.fhi.se

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Ten years in brief

Sales per inhabitant aged 15+, by product group (litres)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Spirits	3.4	3.2	3.2	3.2	3.2	3.2	3.0	2.6	2.5	2.5
Wines	14.4	14.6	15.6	16.1	17.0	18.6	19.2	18.7	19.1	19.9
Strong beer	15.3	15.6	17.9	19.6	21.4	23.3	24.3	23.3	23.9	25.9
Cider and mixed drinks	1.7	1.5	1.8	1.8	1.9	2.3	2.5	2.3	2.3	2.4
Total as pure alcohol	3.9	3.9	4.2	4.4	4.6	5.0	5.1	4.8	4.9	5.1

Sales in millions of litres, by product group

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Spirits	24.3	23.3	23.3	23.4	23.4	23.3	22.1	19.2	18.8	18.9
Wines	103.6	105.5	112.5	116.6	124.2	136.5	141.8	138.7	143.0	150.5
Strong beer	110.2	112.5	129.6	142.4	156.0	170.5	179.1	172.9	179.0	195.7
Cider and mixed drinks	12.0	11.1	12.8	13.2	13.7	17.1	18.7	16.8	17.0	18.3
Alcohol-free	0.5	0.5	0.4	0.4	0.4	0.4	0.5	0.7	0.7	0.7
Total as pure alcohol	28.3	28.3	30.2	31.7	33.6	36.4	37.4	35.6	36.4	38.4

From the Consolidated Income Statement (SEK million)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Income	15 464	15 495	16 625	17 368	18 241	19 132	18 985	17 708	18 083	19 026
Gross profit	1 966	1 959	2 143	2 321	2 414	2 562	2 499	2 371	2 461	2 512
Operating profit/loss	234	343	451	165	159	165	172	197	477	559
Net profit/loss for the year	174	254	338	108	133	142	138	178	330	419

Retail network

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
No. communities with stores	296	298	304	310	314	315	322	323	322	322
Stores	396	397	403	411	416	419	426	417	411	410
Local agents	589	586	575	575	579	590	580	576	560	552

