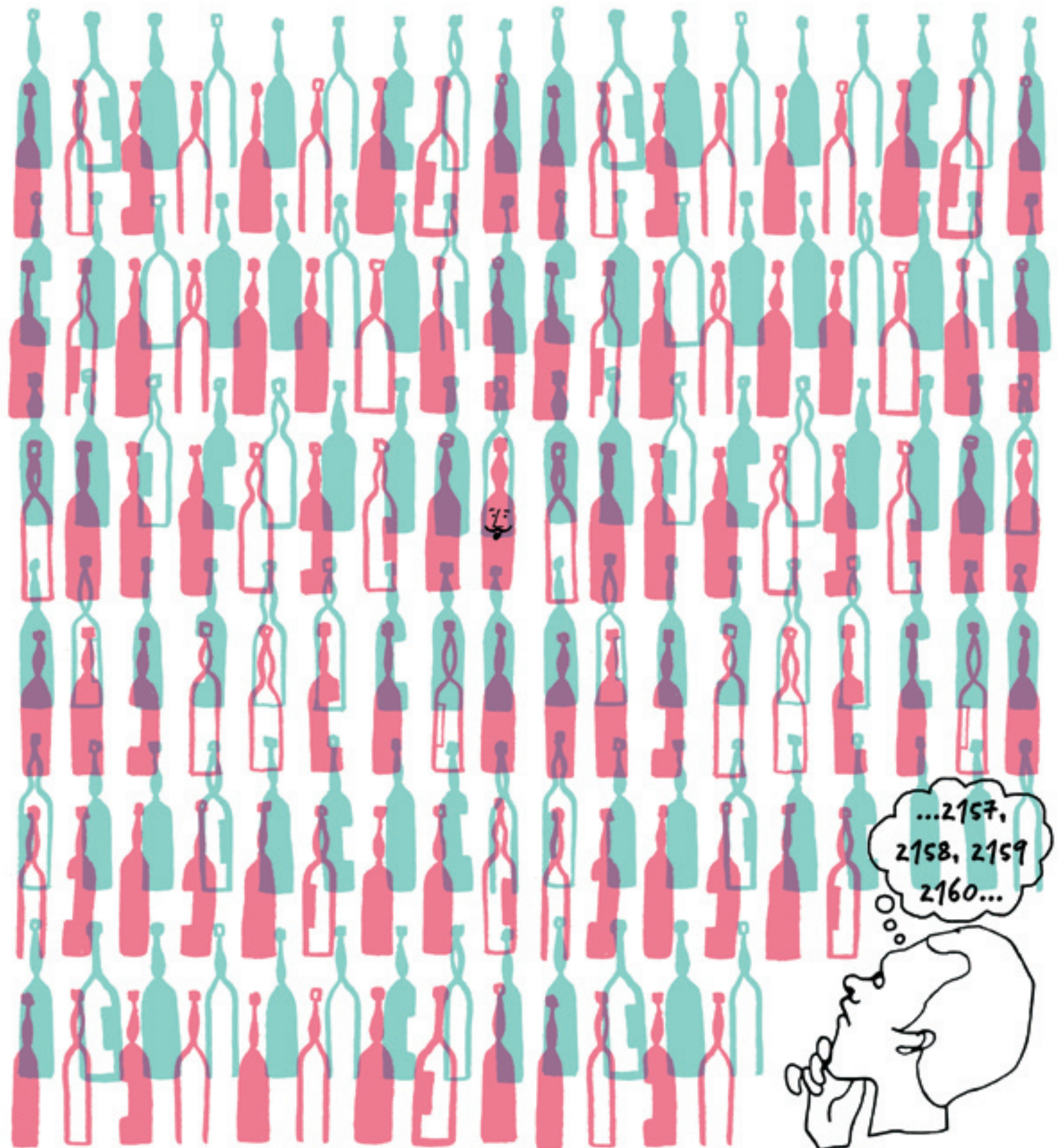


Annual Report 2005

Systembolaget – a retail company with an important role



2005 in brief

2004's figures in parentheses

Age checks, %	89 (84)
Opinion index	55 (53)
Customer satisfaction index	73 (72)
Employee satisfaction index	70 (69)
Sales margin, % (ex. alcohol tax)	25.5 (25.2)
No. stores	411 (417)
Local agents	560 (576)
Brands stocked (ex. brands available to order)	2,298 (2,831)
Wine sales, million litres	143.0 (138.7)
Spirit sales, million litres	18.8 (19.2)
Strong beer sales, million litres	179.0 (172.9)
Customer visits, million	98.1 (96.1)
No. employees	4,397 (4,893)
Net sales, SEK million (the Group)	18,083 (17,708)
Profit after financial items, SEK million (the Group)	513 (240)
Return on shareholders' equity, %	18.9 (11.5)

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PHOTO MAGNUS SKOGLÖF

2005 – Anniversary Year

We can look back on three tough years for Systembolaget. It started in January 2003 when we reported three suppliers and seven store managers to the police on suspicion of bribery and corruption, respectively – something that has consumed a great deal of our attention and energy ever since. But at the same time, we have learned a great deal along the way.

The fact that this could happen is naturally a result of a lack of sufficiently secure routines on both our part and that of a number of our suppliers. But it has nothing to do with the monopoly we hold, other than in that our rules must be stricter and more transparent. Additionally, it lies in the way in which we have organised, developed our work routines, and set up our internal checking system. The initial ruling by the Stockholm District Court in December 2005 led to the conviction of all of the accused. It's not exactly a source of delight for us, but in all honesty, it was a relief, and the judgement sends an important signal.

As early as 2000, when I had just taken over as the President of Systembolaget, there were a number of more or less vague rumours within the organisation of breaches of our policies. So whilst we attempted to establish whether there was any

basis for these rumours, we also initiated a comprehensive change management process within the organisation. We developed a new sales organisation with a greater proximity between the head office and the stores, we implemented clearer control of the product range, and we created new platforms for our IT systems. And as a result of this work, coupled with the measures we took in direct connection with the battle against corruption, we have emerged strengthened from the process.

When, in February 2005, the preliminary investigations became a prosecution, we were able to complete the final part of our own review process and move on towards more positive and constructive internal work. We have strengthened our culture, generated insight, learnt from what has happened, and laid the foundations for re-establishing the confidence that the Swedish population and our customers had previously shown in us. We launched a “new start” programme in April 2005 by bringing together all of our leaders and managers. We then involved all of our employees in a number of activities throughout the year, based on gaining support for our role and our company’s values. The new start ended, on 5th November, when we brought all of our employees together to collectively summarise the contents of the new start and plot a course for the future. And to celebrate Systembolaget’s 50th anniversary.

Outwardly, we celebrated our anniversary in two ways. Working in partnership with Nordiska museet in Stockholm, we helped create the exhibition entitled “Systemet – for better or for worse?” which opened on Systembolaget’s anniversary on 1st October. The exhibition addresses the alcohol question in a modern way, from the perspectives of both the individual and society, and thereby creates the potential for reflection and contemplation on the part of the visitor. We also launched a major anniversary campaign at the end of November, with advertisements in seventy or so daily and evening newspapers in Sweden. As part of the campaign, we highlighted our advertisement in the Financial Times, our letter to EU Chairman Barroso in which we presented Systembolaget’s role in Sweden, and the World Health Organisation’s description of the alcohol question in Europe. The aim of our advertisement in the Financial Times was to generate understanding of and respect for our model at a European level.

Every cloud has a silver lining – and it’s true for us here at Systembolaget, as well. At the end of the year, we were able to announce that the results of our annual employee satisfaction survey indicated that employees were generally more satisfied and had gained a better understanding of and a firmer support for our role and our objectives. The same positive trend was also apparent from our major customer satisfaction survey, where one of the most important parameters for increased satisfaction – our social responsibility – increased markedly. Satisfaction with our service, in the form of our personnel, our product range, and our stores, also remained high. Our efforts to improve efficiency have also borne fruit. We have successfully cut costs in both the store network and our administrative functions. Support for Systembolaget and the retail monopoly has increased during the autumn according to the results of our opinion polls. We regard these results as clear confirmation of the fact that we are on the right track, and that gives a fantastic boost to the confidence and energy with which we face the future.



Anitra Steen
President

Alcohol – No Ordinary Commodity

Alcoholic beverages are, for the most part, associated with good company, good food and drink, and partying and having a good time. There is huge variation in the flavours and subtleties of different types of beer, wine, and spirits, and the potential for good combinations with virtually every type of food is considerable. And we have fun when we drink alcohol. We serve and drink alcoholic beverages at parties and when we want to celebrate, when we have reason to be glad, and when we are happy. And whether it's due to the physiological effects of the alcohol or our own expectations, we often feel that alcohol makes it easier to express ourselves and easier to make contact with other people. It relaxes us and instils a sense of fellowship.

Almost 90 per cent of adult Swedes use alcohol, and in most cases, they respond positively to it with no negative consequences.

But alcohol is no ordinary commodity. The negative consequences of alcohol consumption are numerous and wide-ranging. Alcohol can damage virtually every single one of the body's organs and systems. It causes a large number of diseases and injuries. Some of the most serious include cancer, cardiovascular disease, cirrhosis of the liver, accidents, poisoning, and murder. In 2000, alcohol accounted for 9 per cent of disease in the developed world, making alcohol the third largest risk factor for ill health, after tobacco and high blood pressure. Alcohol also causes social problems that can affect both the person who drinks and the people around them. It can cause fights, arguments, vandalism, violence, absenteeism at work, problems at work, and problems at home. Its positive characteristics notwithstanding, alcohol is one of our biggest public health problems.

An increase in total consumption means an increase in diseases, injuries, accidents and violence. Alcohol problems also result in substantial costs, both for the individual and for society as a whole.

But drinking patterns – the way in which alcohol is consumed – are just as important as the total amount consumed. Binge drinking accounts for a substantial percentage of both acute medical damage and social problems.

Reducing total levels of alcohol consumption has always been the basis of Scandinavian alcohol policy, and this is still the case. It means we have a sense of solidarity with other people who risk being exposed to the problematic aspects of alcohol consumption. We collectively decide to accept restrictions on price and availability, amongst other things, for the sake of other people's well-being.

In February 2005, the Swedish National Institute of Public Health published a report on the health-related effects of moderate alcohol consumption. They determined that moderate drinking has a minor effect on health. The often-alleged protection that it gives against coronary disease and diabetes does not have a health-giving effect until an individual passes forty years of age. The protective effect is achieved in conjunction with low consumption levels. The lowest risk of mortality for a man in his fifties, for example, is yielded by consuming four standard glasses per week, which is a half a glass per day. For women of the same age, approximately half a standard glass a week has the greatest protective effect. All consumption over these levels entails an increased risk. For people under the age of forty, all alcohol

• **Alcohol (ethanol)** – the main psychoactive ingredient in alcoholic beverages.

• Alcohol is a sedative/hypnotic. Apart from social effects of use, alcohol intoxication may result in poisoning or even death; long-term heavy use may result in dependence or in a wide variety of physical and organic mental disorders.

• **Psychoactive substance** – a substance that, when ingested, affects mental processes, e.g. cognition or affect.

• **Sedative/hypnotic** – any of a group of central nervous system depressants with the capacity of relieving anxiety and inducing calmness and sleep.

• **WHO lexicon of alcohol and drug terms**
(http://www.who.int/substance_abuse/terminology/who_ladt/en/index.html)

consumption entails an increased risk. Binge drinking constitutes a medical risk, irrespective of age.

Monopoly for public health

In 1850, a company was founded in Falun and given the monopoly on the sale of alcohol in the town. The idea was to remove the private profit motive from the sale of alcohol in order to reduce the problems associated with alcohol consumption. Similar companies were formed all over Sweden during the next fifty years. The country's alcohol-related problems declined, and in the early 1900s, a law was passed making the companies mandatory.

A book entitled *Alcohol: No Ordinary Commodity*, written by a group of the world's leading alcohol researchers and published with the support of the World Health Organisation in 2003, contains a review of alcohol policy measures. For each measure, the book describes how effective research has shown it to be and how widely the conclusions are supported. According to the book, the most effective measures and the ones with the most widespread support are:

- Government-controlled retail monopolies
- Taxes on alcohol
- Legislated age limits
- Lowered blood alcohol levels for driving

The monopoly's function of reducing the damage caused by alcohol is primarily achieved by reducing overall consumption levels, which is achieved by:

- Detachment of the private profit motive from sales
- Absence of advertising or sales-promotional measures
- Limiting the number of stores
- Limiting opening hours
- Fidelity to laws and regulations, not striving to bring about liberalisation
- Effective age verification

The effect of a limited number of stores, limited opening hours, and separating the private profit motive from sales can be illustrated by the sale of mid-strength beer (class II) in food stores in Sweden between 1965 and 1977, and the 1967–68 trial involving the sale of strong beer (class III) in two counties.

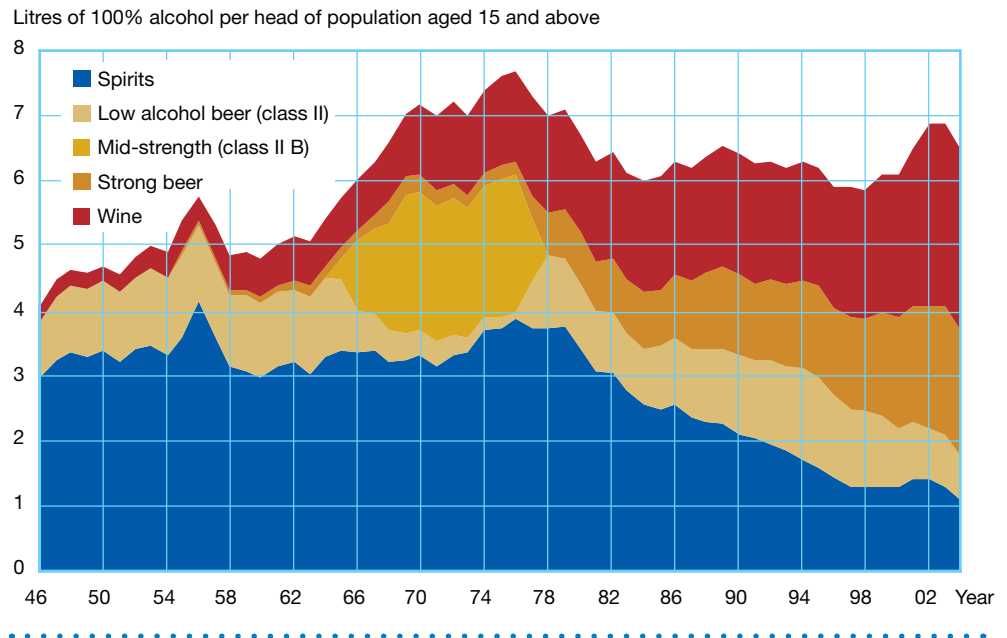
The sale of mid-strength beer in ordinary food stores began in 1965 and was launched to the accompaniment of successful advertising campaigns. Consumption rose substantially: over the next fifteen years, the registered total consumption rose from approximately 5 litres per person to over 7 litres per person by the early 1970s. Mid-strength beer was finally removed from ordinary food stores in 1977, primarily as a result of the increased abuse of this type of beer by young people and of the criticism aimed at inadequate age verification in the privately owned retail sector.

November 1967 saw the launch of unrestricted trial sales of strong beer (class III) in ordinary food stores in Gothenburg, Bohuslän, and Värmland. The trial was initially intended to continue throughout 1968, but was stopped as early as July in response to vigorous protests. Sales of strong beer increased almost ten-fold and abuse, particularly by young people, was reported to have increased substantially.

The experience gained from these trials and other experience gained from Swedish history shows that the lack of a profit motive in the retail of alcoholic beverages is a powerful instrument for limiting the harm caused by alcohol. The Alcohol Policy Committee presented its report in 1974 and stated that this experience showed that

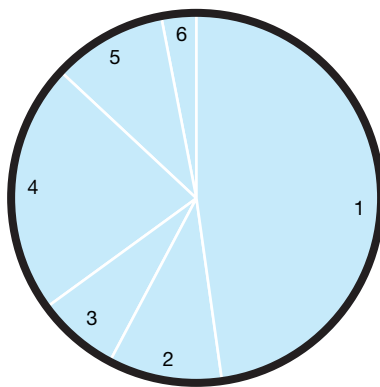
a government-controlled monopoly with no private profit motive offered a method of achieving high levels of public health benefits unequalled by any other form of regulation.

Sales, 1946–2004



Swedish alcohol policy has endeavoured to manage the dual aspects of alcohol, taking into account both the positive and the negative effects, since the 1800s. Today's Systembolaget is an efficient and modern retail chain offering a unique combination of service and responsibility. The fundamental concept – to sell alcoholic beverages in a way that prevents, as far as possible, the harm they can cause – remains the same.

Percentage of total consumption, 2005*
measured in pure alcohol



1. Systembolaget, 48%
2. Restaurants, 10%
3. Low alcohol beer, 7%
4. Personal imports by travellers, 22%
5. Smuggling, 10%
6. Home-made 3%

* Preliminary figures
Source: SoRAD

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.

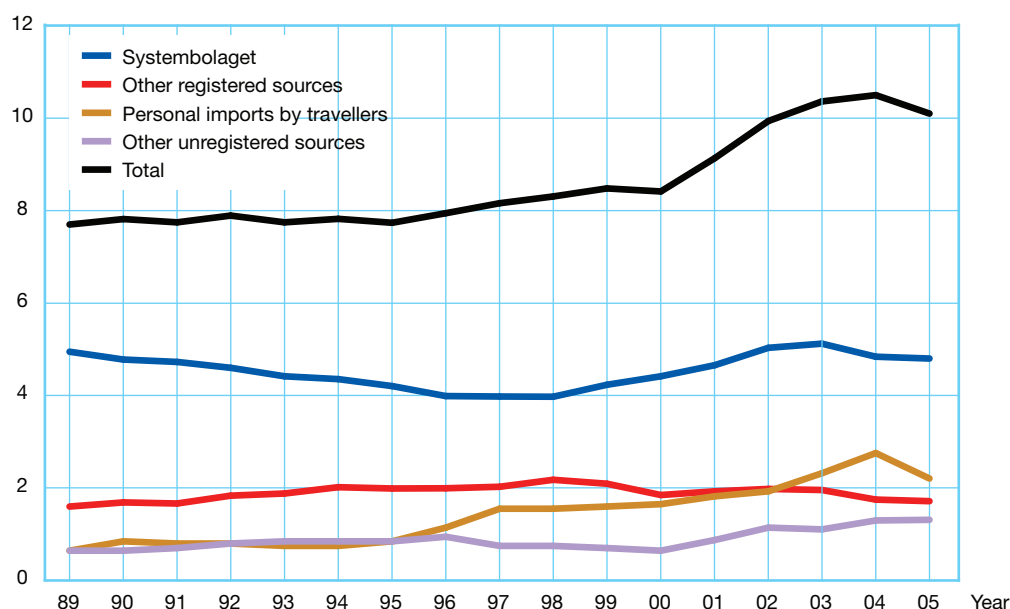
Alcohol consumption has risen sharply in Sweden since the turn of the century, a minor reduction in 2005 notwithstanding. According to SoRAD's surveys, total alcohol consumption in Sweden was approximately 10.1 litres (measured as pure alcohol) per inhabitant aged fifteen or above. This corresponds to an increase of almost 30 per cent over a ten-year period. Much of the alcohol now being consumed originates from private imports, and this sector accounted for 22 per cent of total consumption during the most recent measurement period. During the same period, 3 per cent of consumption derived from home-produced alcohol, 10 per cent from smuggling, 17 per cent from restaurants and food stores, and 48 per cent from Systembolaget.

The percentage of unregistered alcohol has almost doubled since 1990, from

18 per cent of consumption to 35 per cent. The increase is due, in part, to a higher percentage of illegal alcohol, but the main increase is due to the rise in the amounts of alcohol that is imported privately. This trend is largely due to the successive adaptation to the EU's personal allowance rules, which were implemented in full on 1st January 2004. In volume, measured as pure alcohol per person over the age of fifteen, consumption has increased from 1.4 litres to 3.6 litres between 1990 and November 2004–October 2005. Personal imports by travellers account for the greatest part of this increase by far, rising by more than 300 per cent from 0.7 litres to 2.3 litres.

Alcohol consumption 1989–2005

Litres of 100% alcohol per head of population aged 15 and above

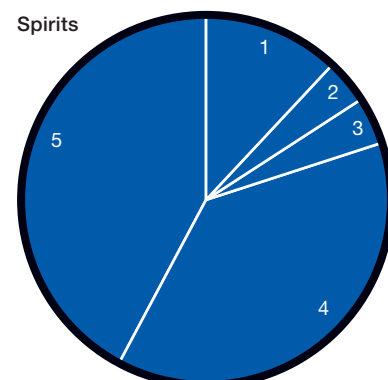


The type of drink chosen has also changed considerably. The importance of wine has increased steadily ever since World War II, and it now accounts for almost 40 per cent of alcohol consumption, measured in litres of pure alcohol. Consumption of strong beer (class III) has also increased, and has accounted for a larger percentage of total consumption than spirits for several years now.

The genders differ, both with regard to consumption levels and to their choice of drinks. The most recent SoRAD survey showed that men consumed, on average, over twice as much alcohol as women. The highest consumption levels for both sexes were seen in the 16–29 age group and the lowest in those aged over 64. Women's consumption has increased from one quarter of men's in the late 1960s to approximately 45 per cent of men's by the late 1990s. Women have mainly drunk wine for several decades now, whilst for men, strong beer (class III) took over spirits' role as the dominant type of drink during the 1990s. Cider and mixed drinks have become a noticeable feature of consumption, particularly amongst younger women.

There are also geographical differences in alcohol consumption. In southern Sweden (Skåne, Blekinge, Halland, Kronoberg) and in the metropolitan regions around Stockholm and Gothenburg, the estimated alcohol consumption per head of popu-

Percentage of consumption, measured in pure alcohol, November 2004 – October 2005

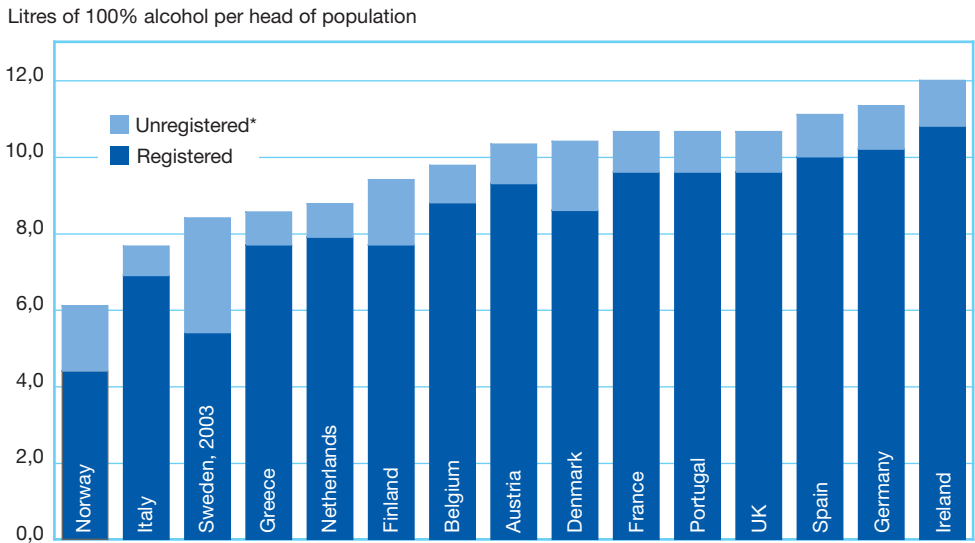


Source: SoRad

lation in 2004 was approximately 11 litres, measured by people aged 15 and above. This is just under 2 litres higher than in the rest of the country. In the southern part of Sweden, personal imports by travellers account for almost half of the total consumption, whilst Systembolaget's share is approximately 30 per cent. The percentage of alcohol derived from personal imports by travellers declines the further north in Sweden we go, and the reverse situation applies with regard to Systembolaget's share of total consumption. In the counties of Norrland (Gävleborg, Västernorrland, Jämtland, Västerbotten, and Norrbotten), Systembolaget's share is just over 60 per cent, with personal imports by travellers only accounting for around 10 per cent of total consumption.

Alcohol consumption levels in Sweden are amongst the lowest in the EU. It is also apparent that the consumption trend in the European countries in question (Norway and the fifteen countries that formerly made up the EU) is moving in different directions. The wine-drinking countries are reducing their wine consumption, and the percentage of total consumption comprised by beer and spirits is increasing, whilst in the typically spirit-consuming countries, this trend is reversed. The equalisation of consumption levels is also resulting in an equalisation in alcohol-related mortality rates. This is particularly true when it comes to death resulting from cirrhosis of the liver, which has declined in the EU's wine-drinking countries and increased in the beer-drinking countries, whilst Norway, Sweden, and Finland display relatively constant levels.

Alcohol consumption in western Europe, 2003



*Unregistered consumption is estimated at 10 per cent of registered consumption for the non-Nordic countries.
Sources: World Drink Trends 2005, and Information on the Nordic Alcohol Markets (Esa Österberg 2004).

Systembolaget – Raison d'être

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

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, the so-called no private-profit motive principle. Competition and a profit motive – which are the most dynamic forces in the market economy – would 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, we do not attempt to boost sales, and we are brand-neutral. No supplier or individual product is either discriminated against or favoured. This gives us an excellent opportunity to offer our customers factual, reliable information, based entirely on the customers' own preferences and questions.

One of Systembolaget's most important tasks is to ensure we do not sell to young people under the age of 20, and we carry out ongoing checks to see how our age verification system works in store on test subjects aged between 20 and 25. Proof of age was requested in 89 per cent of the subjects' attempts to buy alcohol in 2005. We intend to make our age verification system even more effective, and will be implementing measures to improve still further our ability to avoid selling to young people under the age of 20 in 2006.

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.

The concept behind Systembolaget's mandate is commonly said to be two-fold – Systembolaget is supposed both to sell and not to sell. But this is not the case. It's not a question of whether Systembolaget should sell alcoholic drinks or not: it's a question of how the sales should be managed. And it is precisely because we have a monopoly on sales that our mandate to limit the damage caused by alcohol can be carried out effectively.

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,

“Systembolaget is a retail company with an important mandate.”



The Falun company's statutes from 1850 lay down the principles that govern the company's operations:

... have therefore formed a company which, without taking into account its own profit or advantage, shall assume the right to operate public houses in Falun, to be exercised in a more restricted number of business premises by the company's employed and salaried representatives under careful supervision, to ensure that immoderate drinking is restrained, rather than encouraged, to ensure that schnapps is never sold on credit or account, and never to under-age or already intoxicated persons, and to ensure compliance with statutes and decrees, and that decency and orderliness are wherever possible observed, and, if the company so wishes, to allocate the profit that may arise from the operation of the public houses, once all overheads, charges and expenses for the same have been paid, to any establishment that is of benefit to the town or is of a charitable nature. This is the purpose of the company.

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.

The Systembolaget concept

The latter half of the 1800s saw the formation throughout Sweden of local companies which were given exclusive rights, within their respective municipalities, to operate outlets for the sale and serving of alcoholic drinks, which in those days mainly meant schnapps. The first company, as far as we know, was formed in Falun in 1850. But it was the company in Gothenburg, founded in 1865, which became famous both inside and outside Sweden and which acted as a model for the sale of alcoholic drinks. The model became known as "the Gothenburg system," and hence the company in Stockholm, for example, was known, in its early days, as "the Gothenburg system in Stockholm." The idea was that alcohol should be sold by companies whose objective was to reduce the problems associated with alcohol consumption, "in the interests of decency," as the 1895 Act of Parliament put it.

One of the fundamental principles behind the creation of the "system companies" was the so-called no private-profit motive principle. The principle was in place even when the Falun company was founded in 1850. This principle states that alcohol should be sold without any single individual having an economic interest in the sale. As soon as there is more than one player in a market, competition arises, and this pushes up sales and hence increases consumption. The no private-profit motive approach also enables a company to work, as far as possible, towards public health goals, which may, for example, mean that sales are limited and reduced beyond what would otherwise be possible.

The reason why Systembolaget holds a monopoly is, therefore, that it enables the operations, both in practice and in real terms, to be run on the basis of public health goals, rather than with the aim of maximising the profit. The owners' desire to maximise their profit is one of the strongest driving forces in ordinary companies. And competition also means that they are constantly competing with other companies to develop and expand their operations, to find new customers and markets. Competition is not a goal in its own right – it is a means of achieving increased prosperity. Competition is designed to push down prices, to offer consumers wide-ranging freedom of choice, and to stimulate economic activity and the formation of new companies. The effect of competition is beneficial when it comes to ordinary products. But for products such as alcohol, which can have significantly negative effects on public health, the lack of competition ensured by the presence of a monopoly enables collective well-being and welfare to be promoted more efficiently than would otherwise be possible.

Management and Organisation

Objectives 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 and be at the forefront of the development of a healthy drinking culture. We shall exceed our customers' expectations by constantly developing our product range, expertise, service, and responsibility.

How do we differ from other companies?

We do not attempt to maximise our profit and we do not promote additional sales. We are brand-neutral: we neither favour nor discriminate against any individual supplier or product.

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.

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.

In November 1999, Parliament passed an Alcohol Bill intended to enhance Systembolaget's ability to boost confidence in and support for the retail monopoly. Parliament's decision included the potential to extend opening hours in the evenings, to open on Saturdays, to pay by credit card, and to increase the number of stores. This decision by Parliament would subsequently form the basis for the new strategic plan for Systembolaget drawn up in 2000.

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 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.

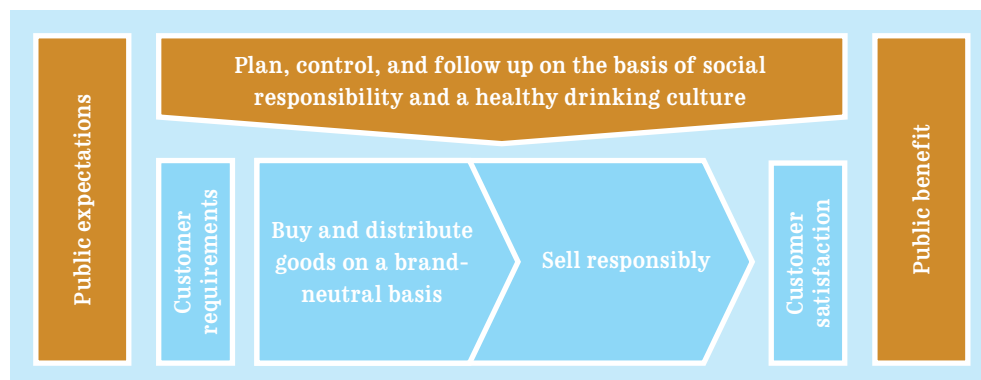
The following points summarise, at an overall level, the strategic starting points for both the operations and the development work:

- We shall comply with retail regulations whereby alcohol may not be sold to:
 - *customers under the age of 20*
 - *obviously intoxicated customers*
 - *customers whom we suspect will sell the alcohol illegally*
- The product range shall be broad, quality-tested, and shall also meet the demands of small consumer groups.
- The entire range of products shall be available nationwide. The locally held product stocks may vary by location and demand.
- The company shall be neutral with regard to the brand names and suppliers of the alcoholic beverages.
- We shall ensure a pleasant buying experience for the customers, and the service we provide shall be at least equivalent to that of other retail outlets.

The strategic plan is a multi-year plan that is revised every third year. The plan 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. The next review will be held in 2006 and will cover the years up to and including 2010.

Operations

Process chart (overall)



Systembolaget's operations are illustrated by the process chart above. 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. 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.

Systembolaget endeavours to carry out this process in a way that ensures the customers are happy with the service they receive and the public are satisfied that sales are made in the spirit of social responsibility and in a way that protects public health. The public's interest in Systembolaget limiting the harmful effects of alcohol is what differentiates our process from those of most other companies. Customer satisfaction shall be achieved within the framework of the public's wishes with regard to public health.

The first part of the primary process, buying and distributing goods, shall be brand-neutral. This means that all products, suppliers, and producers shall be treated the same, with a total absence of favouritism. 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.

The primary process is controlled by means of a management process. It is the latter that ensures that the primary process meets the requirements for both good service and social responsibility, and which ensures that the entire operations are conducted in a cost-effective manner.

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 sup-

port 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. An increasingly businesslike approach does not, however, mean that Systembolaget should endeavour to increase sales by marketing alcoholic drinks.

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 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 2007 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.

- **Opinion index** – public opinion's confidence in Systembolaget has never been higher since 2001 than it was in 2005. Systembolaget's social mandate is the most important reason for Swedes' desire to retain Systembolaget.
- **Age verification** – the improvement in this perspective is a result of long-term, successful efforts to ensure that people under the age of 20 cannot buy alcohol. This year's result of 89 per cent is the highest value achieved since measurements in accordance with our current method began in 2001.
- **CSI** – Our success in conveying our social responsibility and our knowledgeable personnel are two of the important areas in which we have scored highly with customers.
- **ESI** – The 2005 result is the highest figure ever achieved at Systembolaget, showing higher levels of employee satisfaction than ever before.
- **Trading margin**, exclusive of alcohol tax – The higher trading margin is mainly due to a change in the sales mix.

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

Perspective	Strategic key performance indicator						Target level	Target level	Target level *
		2001	2002	2003	2004	2005	2005	2006	2007
Society	Public-opinion index	49	50	55	53	55	55	56	57
	Age verification	80 %	79 %	83 %	84 %	89 %	86 %	90 %	88 %
Customers	Customer satisfaction index (CSI)	71	73	73	72	73	73	74	76
Employees	Employee satisfaction index (ESI)	-	68	69	69	70	70	71	73
Financial	Trading margin, ex. alcohol tax (Parent Company)	27.1 %	26.1 %	25.1 %	25.2 %	25.5 %	25.1 %	25.0 %	25.0 %

*Target level in the strategic plan adopted in 2003

- *Opinion index* – public opinion's confidence in Systembolaget has never been higher since 2001 than it was in 2005. Systembolaget's social mandate is the most important reason for Swedes' desire to retain Systembolaget.
- *Age verification* – the improvement in this perspective is a result of long-term, successful efforts to ensure that people under the age of 20 cannot buy alcohol. This year's result of 89 per cent is the highest value achieved since measurements in accordance with our current method began in 2001.
- *CSI* – our success in conveying our social responsibility and our knowledgeable personnel are two of the important areas in which we have scored highly with customers.
- *ESI* – the 2005 result is the highest figure ever achieved at Systembolaget, showing higher levels of employee satisfaction than ever before.
- *Trading margin, exclusive of alcohol tax* – the higher trading margin is mainly due to a change in the sales mix.

Planning and following up the stores' operations

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 (turnover in Swedish kronor) 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. Tests are carried out four times a year and each involves three test purchases in every store.

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 however, always, 100 per cent. Every key performance indicator is then summed per store and area to give a total planning objective for the company. These objectives are followed up regularly.

Organisation

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 Sales Operations Area is responsible for operations and sales in the stores. Systembolaget's 411 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 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.

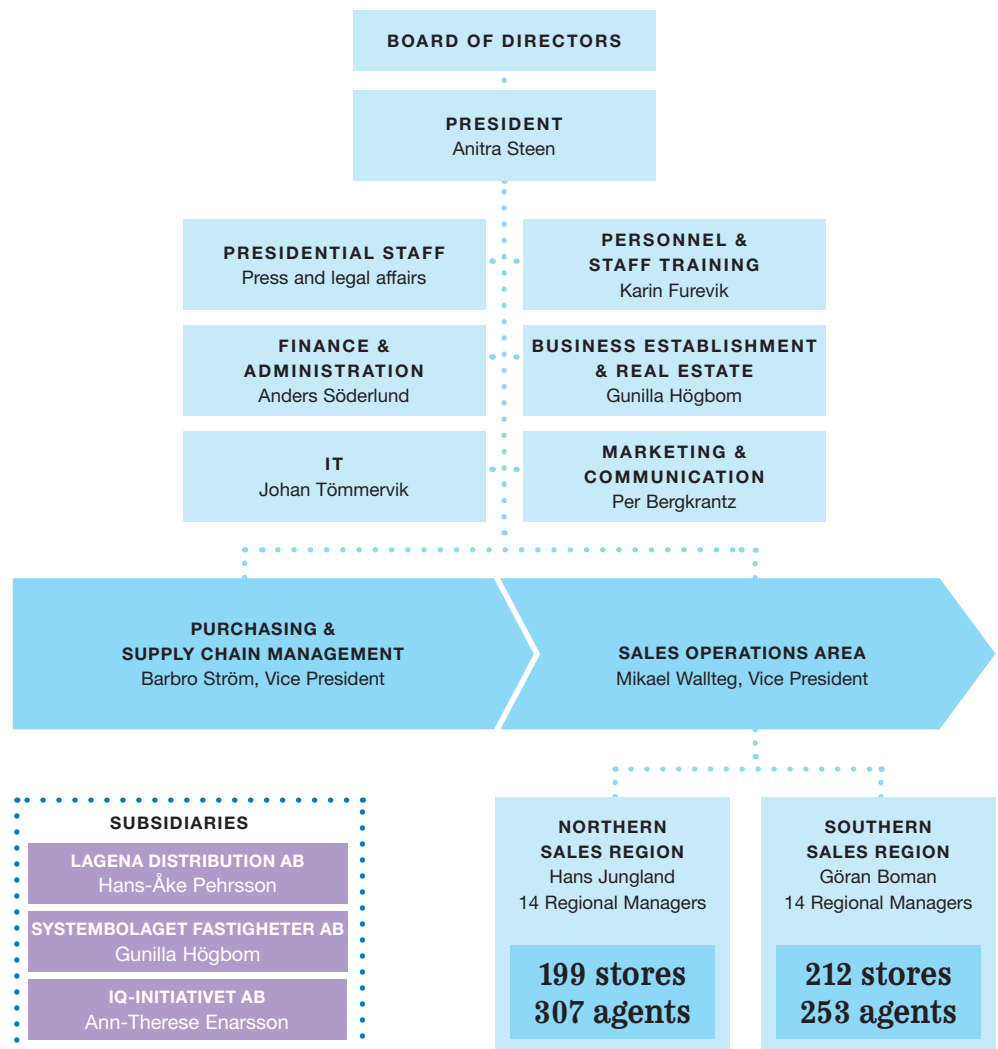
The other central departments act as support units for the primary process and work in such areas as developing and administering the network of stores and the IT systems, informing, recruiting and developing employees, and administering accounting flows.

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

Systembolaget AB's Board of Directors comprises ten Members and two regular staff representatives, and two deputies for the same.

The Board's duties are based on an annually adopted work schedule. The Board also adopts a strategic plan for the company every third year. The current strategic plan covers the years from 2005 to 2007, inclusive. The Board of Directors is presented on page 84.

Organisation



Company management



From the left: Gunilla Högbom, *Real Estate Director*, Björn Rydberg, *Press Director*, Barbro Ström, *Purchasing Director/Vice President*, Per Bergkrantz, *Marketing Director*, Anitra Steen, *President*, Anders Söderlund, *CFO*, Karin Furevik, *Personnel Director*, Mikael Wallteg, *Sales Director/Vice President*, and Johan Tömmervik, *IT Director*.

PHOTO MAGNUS SKOGLÖF

Process chart



Systembolaget and its Customers

Product range

Systembolaget's product range shall be broad, quality-tested, and shall meet the demands of even small consumer groups. Systembolaget's product range is one of the largest in the world, with almost 3,000 items made up of beer, wine, and spirits from 40 or so different countries. The range of items available to order includes almost 4,000 more items. The entire range of products should be available throughout the country, although the product range held in stock locally may vary by location and demand.

The most popular items – around 430 of them – are always kept in stock in every store. These items are identified in the Catalogue by a blue square around the price. Items not in stock in any given store can be ordered at no extra cost to the customer, and in most cases, the item ordered will be in store by the next day.

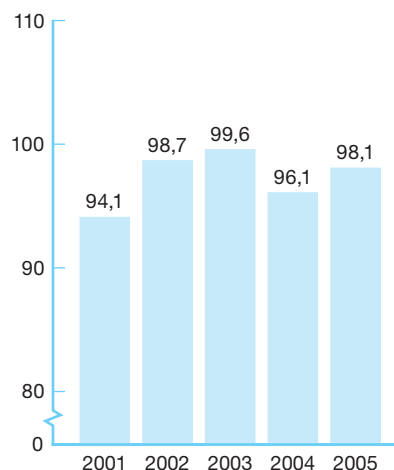
The three Wine Cellar stores in Malmö, Gothenburg, and Stockholm carry Systembolaget's entire range of wines costing in excess of SEK 100 and every type of spirit, as well as an exclusive range of several hundred specially selected wines and spirits. The smallest store in the country carries approximately 470 items in its product range, while the largest has around 2,900 items.

The product range is just one of the factors given top marks in the customer satisfaction surveys carried out for each store every year. The product range's mark has risen from 74 when the survey was first carried out in 2001 to 76 in 2005.

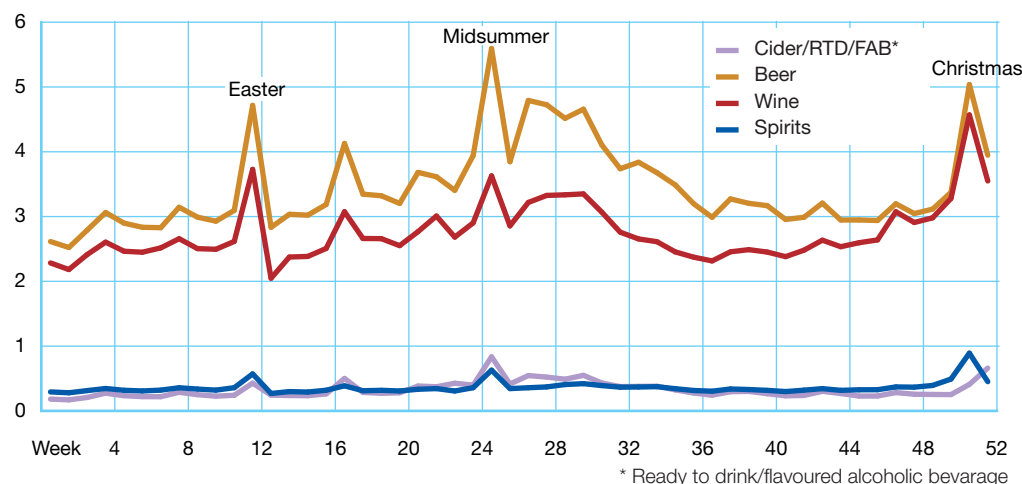
Stores

Systembolaget had 411 stores by the end of 2005, 214 of which had self-service facilities, and 197 continued to provide over-the-counter sales. The self-service stores account for 76 per cent of Systembolaget's turnover and 76 per cent of the total number of customer visits.

Number of customer visits, million customers



Systembolaget's weekly sales, 2005 (million litres)



Systembolaget also has 560 agents in communities without a Systembolaget store. The agents can supply products from the entire Systembolaget range, and can often provide next day delivery at no extra cost to the customer. The agents account for 1.1 per cent of Systembolaget's turnover.

Opening hours

Parliament has ruled that Systembolaget's stores must close by 8 p.m., Monday–Friday, and by 3 p.m. on Saturdays. In practice, the minimum opening hours are between 10 a.m. and 6 p.m., Monday–Friday and between 10 a.m. and 1 p.m. on Saturdays. Stores located in shopping malls are often open until 7 p.m. or 8 p.m., Monday–Friday, and 3 p.m. on Saturdays. The opening hours for each store are shown on Systembolaget's website at www.systembolaget.se.

Availability

Increased availability increases sales, and this is true both for alcoholic drinks and for other commodities. One of the reasons for the retail monopoly's existence is to limit availability, and the fact that Systembolaget has 400 or so stores does, of course, limit the availability of alcohol in comparison with it being sold in thousands of food stores. But if we are to maintain popular support for the retail monopoly, it is also important for Systembolaget to provide good service for its customers, and for the restricted availability to be perceived as reasonable by the public. What is required, in other words, is a balance between public health objectives and the requirement for reasonable availability as part of providing a high standard of service.

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 except 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 opening Systembolaget stores state that settled 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/settled 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. The guidelines for establishing agents state that they shall be appointed in settled areas with at least 500 permanent residents living more than 20 kilometres from an existing store and more than 10 kilometres from another town with an agent.

As a government controlled monopoly, Systembolaget is responsible for establishing stores also in locations and towns where the store's operations will not be financially self-sustaining. In 2005 there were 54 stores reporting negative operating results. The monopoly enables a wide product range to be made available nationwide.

The number of Systembolaget stores has increased from 384 in 1995 to 411 in 2005. As of 1st July 2001, Parliament decided to re-introduce Saturday opening.

A trial of Saturday opening was carried out in three experimental areas in 2000 ahead of the decision to allow Saturday opening. The areas, Northern Sweden, Stockholm, and Skåne, were compared with a control area. Researchers' evaluation of the experimental results showed that alcohol consumption increased in the experimental area by approximately 3 per cent, but none of the damage indicators analysed sho-

Changes in the store network

Changes occurring in 2005

New stores opened, self-service

Torslanda, Gothenburg

Rebuilding for self-service

Boden

Burlöv

Eskilstuna

Fagersta

Gothenburg, Kapellplatsen

Gothenburg, Östra Nordstan

Huskvarna

Kungälv

Leksand

Limhamn

Malung

Nybro

Skara

Skellefteå

Solna

Stockholm, Folkungagatan 56

Stockholm, Rosenlundsgatan

Södertälje, Genetaleden

Timrå

Vallentuna

Västerås, Hälla Syd

Stores closed down

Kristianstad, Kanalgatan

Mjölby, Skänninge

Stockholm, Bredäng

Stockholm, Folkungagatan 101

Sundbyberg, Tulegatan

Visby, Stora Torget

Board decisions in 2005

Stores to be closed down

Stockholm, Folkungagatan 101

Mjölby, Skänninge

Kristianstad, Kanalgatan

Malmö, Rosengård

Stockholm, Vasagatan

(Company management mandated to take a decision on possible closure)

wed any statistically reliable increases. Two opinion surveys were also carried out, the first prior to the trial and the second when the trial had been in progress for ten months. Both surveys revealed a clear majority who felt that Systembolaget should be open on Saturdays, and the percentage in favour actually increased from 68 per cent in the first survey to 76 per cent in the second. Parliament also, in conjunction with its decision to allow Saturday opening, gave the Swedish National Institute of Public Health a rolling brief to monitor the consequences of opening Systembolaget stores on Saturdays.

Self-service trials were carried out in seven Systembolaget stores between 1991 and 1996. Researchers evaluated the results of the trial and found that sales increased by between 7 and 9 per cent, measured as pure alcohol. Sales of wine increased by almost twice as much as sales of spirits. Customer surveys at the end of the 1990s showed that customers preferred self-service because it allowed them “to choose for themselves,” and because they felt it reduced waiting times. The Board of Systembolaget decided, in conjunction with the launch of Systembolaget’s strategic plan in 2000 and in the light of Parliament’s decision in November 1999 intending to increase the opportunities to boost Systembolaget’s legitimacy, to launch a programme of converting the stores to self-service. The decision was taken in order to strengthen the retail monopoly and to ensure its survival by balancing the effects on sales, the customers’ demand for good service, and the owners’ demand for efficiency and social responsibility. Currently half of Systembolaget stores are self-service. Customers are still highly appreciative of the self-service concept, and it has proved to be an important factor in the improved results for the Customer Satisfaction Index since 2000.

Service

Personnel are a very important aspect of providing good service for the customers. Customers consistently rate our personnel very highly in customer surveys, both overall and in terms of subsidiary areas, such as expertise, availability to provide help, and commitment. All of our personnel receive ongoing training in the form of tasting sessions, training packages, courses, and study trips in order to maintain and develop their expertise and enable them to meet customers’ increasing expectations of the service they receive. Systembolaget’s personnel are rated far higher than those of the food retail chains in the same surveys. Systembolaget’s Customer Service Department and its webpage at www.systembolaget.se are other channels we have set up to provide additional information for our customers.

Systembolaget holds evening tasting sessions for its customers in 36 stores nationwide. The tasting sessions have different themes, such as wine tasting techniques, different wine-producing countries, and food-drink combinations. The tasting sessions are led by Systembolaget’s personnel.

Two wines and spirits auctions were organised in 2005 in cooperation with the Stockholms Auktionsverk firm of auctioneers. The valuation of the 500 or so collectibles on sale at each auction was carried out by Systembolaget’s valuation experts.

The highest price bid was for a collection of 57 bottles of Château Mouton Rothschild (1945–2000) from Bordeaux, which sold for SEK 175,000 at this autumn’s wines and spirits auction.



Customer Satisfaction Index

The Customer Satisfaction Index, CSI, is one of Systembolaget's strategic key performance indicators. It is used as a target figure in all our operations, both at the overall level and for every single store. A total of over 60,000 people are questioned as part of the survey – 150 per store – and the survey is carried out once a year.

Systembolaget's CSI for 2005 has increased by 1 point to 73 on a scale from 0 to 100, and is hence now back on a par with levels prior to 2004.

Of all the different areas addressed by the survey, the one to show the biggest increase was social responsibility, which increased from 59 to 64 in 2005. All aspects of social responsibility have increased. Customers' perception of Systembolaget as standing for sound values and fulfilling an important role in society has returned to the same levels as in 2003. Risk information and Systembolaget's protection of young people and the socially disadvantaged are rated more highly than before.

The areas that customers regard as being of most importance in terms of their satisfaction with Systembolaget are social responsibility and product range, but they also regard the store personnel and the store itself as important. Satisfaction with our personnel continues to be very high at 84, which is one of the highest values reported in the entire survey.

Support for the monopoly has also increased amongst customers in this year's survey – a result that is supported by the values reported in the Opinion Index measurements we conduct amongst the public (see page 49).

The CSI also asks customers to state how satisfied they are with their food stores. Systembolaget's customers are more satisfied with their Systembolaget store than their food store. The difference is most pronounced when it comes to satisfaction with personnel. Customers also rate Systembolaget's product range and stores more highly, but rate value for money lower.

Selling rules

Ensuring that we do not sell alcohol to anyone under the age of 20, when there are grounds for suspecting illegal resale, or to anyone who is obviously intoxicated is an important part of our work in store.

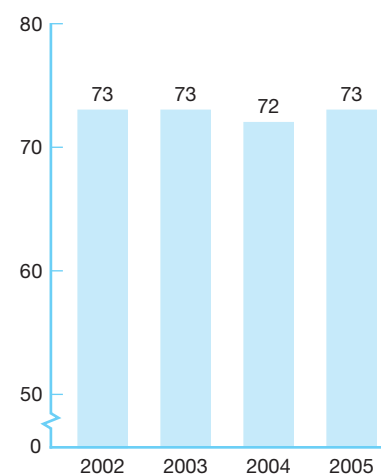
To minimise the risk of selling to people under the age of 20, personnel must ask anyone who looks as though they may be under 25 to produce proof of age. Our age verification checks are monitored by an external company. Around 5,000 test purchases are made every year by people aged between 20 and 25 and the results registered. The results have improved from year to year since test purchases began in 2001, when proof of age was requested in approximately 80 per cent of test-purchase cases. In 2005, personnel asked for proof of age in 89 per cent of test-purchase cases.

Sales performance

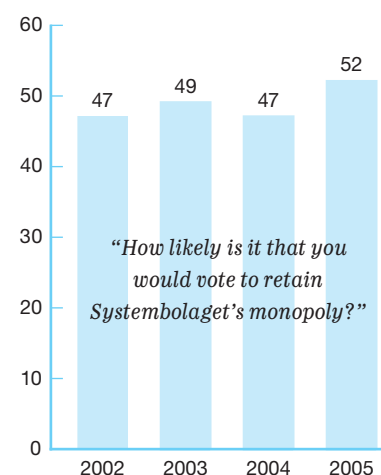
Systembolaget's sales increased again in 2005 to 358.6 million litres (+2.9 per cent) after a decline in 2004. The increase occurred across all product groups with the exception of spirits and cider, which continued to decline. The product group reporting the biggest increase was the alcohol-free range (+9.8 per cent).

South Africa now tops sales of white wine and Spain has retained its position as the most popular country of origin for red wine. Interest in bag-in-box wine remains

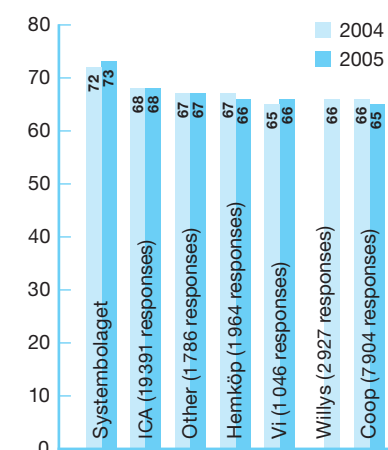
Customer Satisfaction Index (CSI) Source CFI*



Customer support for the monopoly Source CFI*

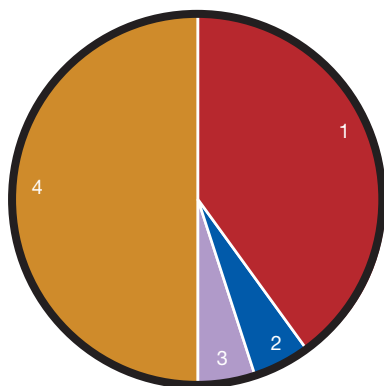


Systembolaget's Customer Satisfaction index (CSI) Source CFI*



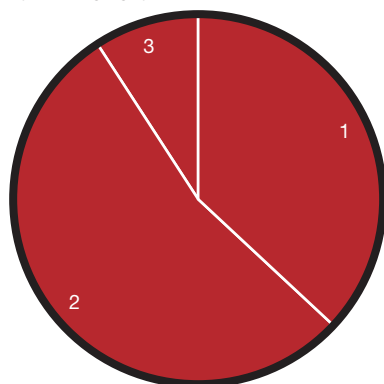
*Claes Fornell International

Sales in litres, 2005
by product group



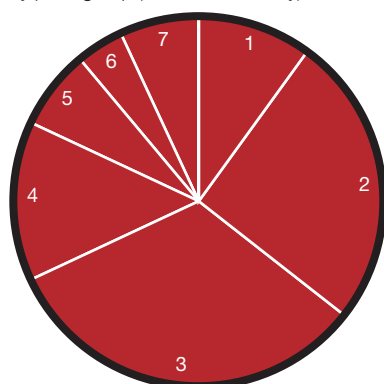
1. Wine 40%
2. Spirits 5%
3. Cider and RTD/FAB* 5%
4. Beer 50%

Wine sales 2005, red, white and rosé
by packaging type



1. Bottles 37%
2. Bag-in-box 54%
3. Cardboard packaging 9%

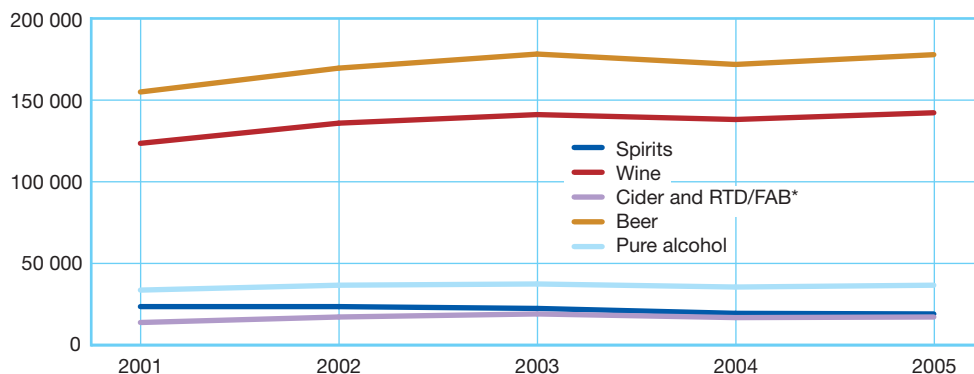
Wine sales 2005 (ex. fortified wine)
by price group (whole bottles only)



1. SEK 0-49 10.1%
2. SEK 50-59 25.7%
3. SEK 60-69 32.3%
4. SEK 70-79 14.1%
5. SEK 80-89 6.7%
6. SEK 90-99 4.4%
7. SEK 100+ 6.7%

Systembolaget's sales, January–December, 2001–2005

Thousand litres



high and now accounts for approximately 54 per cent of wine sales. This has helped bring about a polarisation in the sales structure between low price wines (often bag-in-box) and premium products with strong brand names. This trend is true of virtually all categories. Generally speaking, wine sales are moving towards better quality and slightly higher prices. We are seeing an increased interest in screw-top wine bottles, whilst beer and cider are increasingly sold in cans.

Demand for organic products is increasing, particularly in the wine sector, with 0.4 per cent of wine sales falling into this category in 2005. The product range currently includes 34 organic products (and 23 in the products for order range), and this will increase in 2006.

Comparison of Systembolaget's sales by product group in 2005 and 2004 (thousand litres)

Wine	2004	2005	diff
Red wine	80 965	82 770	2.2%
White wine	44 531	46 524	4.5%
Rosé wine	1 832	2 165	18.2%
Sparkling wine	3 707	3 997	7.8%
Champagne	536	634	18.3%
Fortified wine, ex. fortified			
mulled wine	3 840	3 633	-5.4%
Mulled wine and Glühwein	2 848	2 839	-0.3%
Total	138 738	143 028	3.1%

Cider and RTD/FAB*	2004	2005	diff
Mixed drinks	2 393	2 666	11.4%
Cider	14 382	14 365	-0.1%
Total	16 775	17 031	1.5%

Alcohol-free and mineralwater	2004	2005	diff
Alcohol-free	497	582	17.1%
Mulled wine and Glühwein	65	41	-36.9%
Mineral water	92	96	4.3%
Total	654	719	9.9%

Spirits	2004	2005	diff
Aperitifs/bitters	260	261	0.4%
Vodka	6 134	5 737	-6.5%
Spiced schnapps/Aqvavit	1 453	1 410	-3.0%
Flavoured vodka	316	347	9.8%
Gin	1 159	1 136	-2.0%
Armagnac, Cognac, Brandy	662	649	-2.0%
Rum	482	543	12.7%
Swedish (Arrack) Punsch	195	184	-5.6%
Whisky	6 952	6 898	-0.8%
Liqueurs	1 419	1 429	0.7%
Other spirits	194	193	-0.5%
Total	19 226	18 787	-2.3%

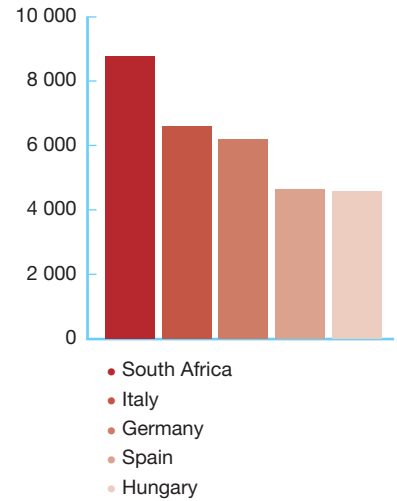
Strong beer	2004	2005	diff
Blonde lager	164 836	170 785	3.6%
Dark lager	3 758	3 766	0.2%
Ale	2 730	2 907	6.5%
Porter/Stout	803	762	-5.1%
Other strong beer	820	824	0.5%
Total	172 947	179 044	3.5%

* Ready to drink/Flavoured Alcoholic Beverages

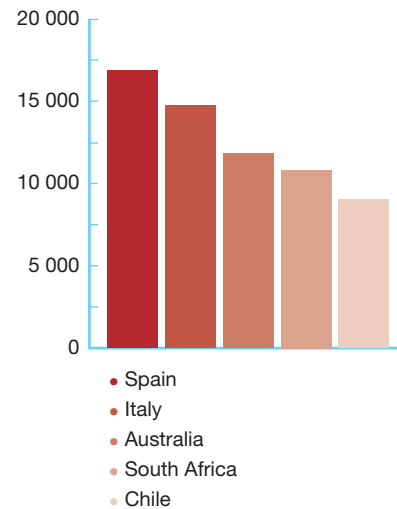
Systembolaget's sales of wine (ex. fortified wine), 1996–2005 (thousand litres)

Country	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Percentage	
											Share 2005	change 2005/2004
Spain	29 902	27 266	30 633	32 501	30 288	31 379	31 439	27 454	23 996	23 840	17.3%	-0.6 %
Italy	12 013	15 454	14 826	15 344	17 498	21 250	28 627	28 311	23 106	22 473	16.3%	-2.7 %
South Africa	2 297	2 747	3 086	3 555	4 494	5 527	5 999	11 172	15 184	19 679	14.3%	29.6 %
Australia	6 334	5 028	3 827	4 692	5 601	5 817	7 287	11 011	13 666	14 768	10.7%	8.1 %
France	9 487	11 490	13 263	14 281	15 728	16 676	18 487	18 639	15 069	13 952	10.1%	-7.4 %
Chile	4 962	5 206	4 697	6 265	7 788	10 143	12 165	12 586	12 527	11 018	8.0%	-12.0 %
USA	5 661	5 917	5 101	5 468	4 825	4 254	4 345	5 110	8 329	9 304	6.8%	11.7 %
Germany	9 785	8 679	8 299	8 462	8 634	8 179	7 631	7 040	6 537	6 395	4.6%	-2.2 %
Hungary	2 059	1 859	1 661	2 108	2 592	3 821	5 846	6 310	5 785	5 613	4.1%	-3.0 %
Portugal	2 380	2 697	3 371	4 108	4 051	3 088	1 960	2 275	3 126	3 328	2.4%	6.5 %
Argentina	425	607	1 050	1 011	1 139	855	634	891	1 137	2 200	1.6%	93.5 %
Bulgaria	2 963	2 746	3 022	2 461	2 352	2 391	1 999	1 461	1 453	2 141	1.6%	47.4 %
Sweden	2 484	2 319	2 159	2 103	1 817	1 853	1 865	1 705	1 680	1 596	1.2%	-5.0 %
Romania	1 230	1 103	848	661	611	527	470	453	477	332	0.2%	-30.4 %
Cyprus	478	441	376	351	331	327	342	328	284	251	0.2%	-11.7 %
New Zealand	442	366	430	419	321	261	175	178	175	205	0.1%	17.1 %
Greece	819	652	595	635	712	439	255	296	275	187	0.1%	-32.1 %
Austria	806	753	500	470	375	314	177	131	130	162	0.1%	24.6 %
Denmark	73	78	80	86	99	107	141	127	102	100	0.1%	-2.0 %
Lebanon	65	42	31	45	59	45	87	64	67	75	0.1%	13.0 %
Other	641	574	565	590	717	456	202	166	152	139	0.1%	-8.5 %
Total:	95 306	96 024	98 421	105 617	110 032	117 706	130 133	135 710	133 256	137 757	100.0%	3.4 %

Systembolaget's five top white wines by country of origin, 2005 (thousand litres)



Systembolaget's five top red wines by country of origin, 2005 (thousand litres)



Comparison between Systembolaget's sales by county per head of population in 2005 and 2004 (litres)

County	Spirits		Wine		Beer		Cider/RTD/FAB*		Total pure alcohol	
	Litres	%	Litres	%	Litres	%	Litres	%	Litres	%
Stockholm	2.07	-4.7	22.42	0.9	22.42	1.5	1.66	0.7	5.02	0.5
Uppsala	1.88	-4.1	16.92	1.1	19.47	1.5	1.92	-2.9	4.06	0.5
Södermanland	2.29	-3.1	17.00	2.2	21.66	2.2	2.24	1.2	4.39	1.4
Östergötland	1.90	-2.3	13.57	3.1	18.15	6.4	1.88	2.8	3.60	3.1
Jönköping	1.68	-0.7	9.16	6.4	16.76	8.3	1.57	6.1	2.84	5.5
Kronoberg	2.06	0.1	10.17	5.9	15.14	8.6	1.59	9.0	3.01	5.3
Kalmar	2.44	-2.5	12.71	3.8	20.58	6.1	2.08	8.9	3.83	3.2
Gotland	2.98	-4.4	21.56	2.0	29.19	-0.2	3.11	2.3	5.67	0.3
Blekinge	2.08	-0.6	10.57	6.1	14.73	8.2	1.67	7.1	3.09	5.1
Skåne	1.45	-1.4	11.39	4.2	9.64	7.5	1.08	4.2	2.62	3.9
Halland	1.80	-2.1	12.90	5.0	13.45	5.3	1.55	0.3	3.18	3.6
Västra Götaland	2.00	-0.8	15.61	4.3	19.05	6.2	1.78	2.8	3.92	4.0
Värmland	3.48	-0.8	19.50	4.7	29.13	3.6	2.52	-0.8	5.57	3.2
Örebro	1.89	-3.2	11.91	3.1	20.29	4.0	2.05	3.3	3.51	2.3
Västmanland	2.00	-5.4	14.38	0.1	20.49	-0.9	2.18	-0.6	3.88	-1.0
Dalarna	2.30	-2.9	14.44	1.8	23.36	-2.0	2.48	0.8	4.15	-0.1
Gävleborg	2.36	-4.2	14.24	0.1	22.74	-2.2	2.35	-2.9	4.11	-1.3
Västernorrland	2.76	-3.1	15.49	1.2	23.83	-0.9	2.68	-1.3	4.52	-0.2
Jämtland	4.11	-0.2	21.11	4.0	34.82	4.6	3.33	2.5	6.38	3.3
Västerbotten	2.55	-1.2	14.86	4.2	27.69	4.3	2.98	-0.8	4.56	3.1
Norrbottn	2.18	-4.2	13.62	3.7	29.64	-1.0	3.27	-5.8	4.40	0.2
Whole country	2.08	-2.6	15.82	2.7	19.80	3.2	1.88	1.2	4.03	2.0
Whole country per head of population aged 15 and above	2.51	-3.2	19.08	2.1	23.88	2.6	2.27	0.6	4.86	1.4

* Ready to drink/Flavoured Alcoholic Beverages

Systembolaget's sales, 1955–2005 (thousand litres)

Year	Spirits	Fortified wine	Wine*	Strong beer	Alcohol-free
1955	48 376	7 858	7 799	8 102	
1956	57 674	7 511	8 744	9 541	
1957	50 465	7 712	11 599	7 514	
1958	44 292	7 988	13 034	7 575	60
1959	43 795	8 738	14 224	8 680	95
1960	43 007	9 509	14 975	9 646	119
1961	45 778	10 485	16 460	10 702	139
1962	47 348	10 691	17 829	12 057	147
1963	44 400	10 252	19 536	20 007	177
1964	49 199	10 442	21 325	18 995	188
1965	51 605	10 712	22 410	20 136	207
1966	51 844	10 524	24 934	15 310	213
1967	52 723	10 598	28 642	16 986	258
1968	50 406	10 298	31 528	22 128	266
1969	51 224	10 442	35 241	33 003	340
1970	53 028	10 655	40 331	30 574	395
1971	50 968	10 590	45 947	28 742	448
1972	53 643	11 142	52 875	27 060	478
1973	54 454	10 709	48 362	24 079	453
1974	60 413	11 532	50 930	24 963	515
1975	61 245	12 110	55 321	24 901	590
1976	63 583	11 950	57 544	24 475	608
1977	61 657	10 990	67 280	44 508	636
1978**	62 491	11 675	63 263	60 610	643
1979	63 250	12 255	65 860	70 427	559
1980	57 787	11 628	67 609	70 529	538
1981	52 353	9 896	70 985	67 957	598
1982	52 260	10 419	76 406	75 905	558
1983	48 219	10 042	79 881	76 445	738
1984	45 161	9 619	87 103	79 127	605
1985	44 141	9 590	88 059	77 954	542
1986	45 558	9 456	90 523	87 556	551
1987	42 104	8 777	90 558	94 194	660
1988	40 934	8 673	93 613	100 775	674
1989	40 150	8 766	97 332	107 121	634
1990	37 837	8 387	96 393	106 793	646
1991	37 177	8 082	97 913	106 722	706
1992	35 807	7 961	100 670	105 367	711
1993	34 287	7 962	103 127	103 307	667
1994	32 245	7 504	107 263	109 354	683
1995***	29 654	6 249	104 165	107 902	604
1996	26 801	7 263	103 026	102 184	605
1997	24 304	6 517	109 059	110 232	517
1998	23 257	6 202	110 403	112 534	457
1999	23 267	6 007	119 291	129 594	393
2000	23 402	5 792	123 968	142 361	400
2001****	23 396	5 740	132 113	156 011	373
2002	23 308	5 656	147 925	170 455	415
2003	22 107	5 426	155 062	179 141	545
2004	19 226	5 443	150 071	172 947	655
2005	18 786	5 271	154 789	179 044	719

* Including cider and Ready to drink/Flavoured Alcoholic Beverages.

** Systembolaget's monopoly on the wholesale trade of Swedish-made strong beer (class III) ended in 1978.

*** Systembolaget's monopoly on the wholesale trade of other drinks ended in 1995.

**** Systembolaget's wholesale selling ended in 2001.

Brand-neutral supply

One of the consequences of Systembolaget’s monopoly is that the product range we offer our customers must be as broad and multifaceted as possible. This is vital, because the customers are unable to switch to another retail outlet in Sweden and because Systembolaget is obliged, within the framework of its mandate, to offer its customers good service.

The products that make up the range are determined by the customers, that is, by customer demand. The breadth of the range is important here too, because it enables customers to make a genuine choice from several different product types. The selection of new products for the range should be determined by the quality of the product alone, and not by other factors, such as the size of the supplier’s operations. Systembolaget’s purchasing process is based on the above-mentioned preconditions, and on the requirement for brand neutrality, and is accordingly both structured and painstaking.

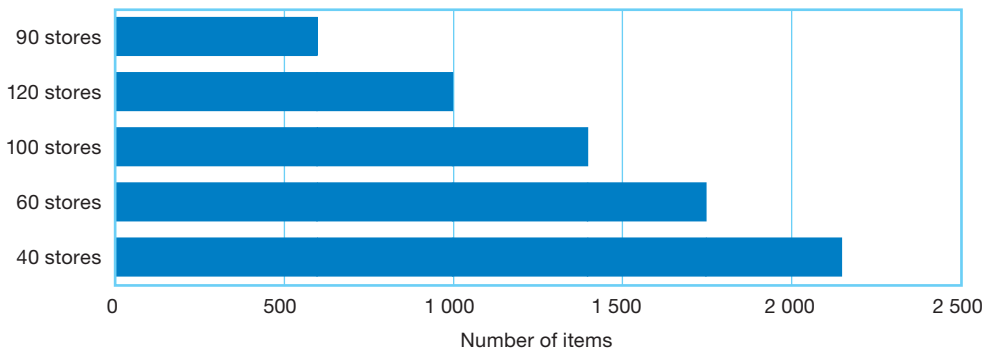
EU legislation demands that Systembolaget does not discriminate and favour Swedish products over products from other EU countries, and requires us to treat Swedish and other EU products the same with regard to such aspects as selection, product information, and pricing. The Swedish Competition Authority has been tasked by the Government with monitoring Systembolaget to ensure that we operate in a non-discriminatory manner, and reports to the European Commission twice yearly.

Product range

Products held in stock in the stores are divided into two categories. The first comprises products that are always available, and is known as the fixed product range. The fixed product range is reviewed and updated with new products twice yearly, in April and October. The products least in demand are delisted from the range.

The second category comprises seasonal items and smaller, limited number consignments, such as of particular wine vintages from single vineyards. New products

Approximate number of items in our stores’ product range



Process chart



Product categories

Red wine

Bottle		Other packaging
SEK 0–49	SEK 80–99	Bag-in-box, SEK 0 –66/litre
SEK 50–59	SEK 100–	Bag-in-box, SEK 67– /litre
SEK 60–69	Half bottles	Other cardboard packaging
SEK 70–79	Full bottles	

White wine

Dry	Medium	Sweet	Other packaging
SEK 0–49	SEK 0–49	Sweet	Bag-in-box, dry, SEK 0–59/litre
SEK 50–59	SEK 50–59		Bag-in-box, dry, SEK 60–/litre
SEK 60–69	SEK 60–79		Bag-in-box, medium
SEK 70–79	SEK 80–		Other cardboard packaging
SEK 80–99	Half bottles		
SEK 100–			
Half bottles			

Other wine

Rosé wines	Sparkling wines	Fortified wines	Other wines
Rosé (non-sparkling)	Champagne, SEK 0–249	Port, white	Fruit wines
	Champagne, SEK 250–	Port, red	Aperitifs/bitters
	Champagne, large bottles	Sherry/Montilla, dry	Mulled wine
	Sparkling, dry	Sherry/Montilla, medium	Other wine
	Sparkling, semi-dry	Sherry/Montilla, sweet	
	Sparkling, semi-dry and sweet	Madeira	
	Other sparkling (rosé)	Vermouth	
		Other quality fortified wines	

Spirits

Vodka/Aqvavit	Whisky	Liqueurs	Other spirits	
Non-spiced schnapps/Vodka	Scottish, blended	Cream and egg liqueurs	Gin	Aperitifs/bitters
Spiced schnapps	Scottish, single malt	Fruit and berry liqueurs	Cognac	Tequila
Flavoured vodka	Canada	Coffee, cocoa, and nut liqueurs	Other brandies	Calvados
	USA	Swedish (Arrack) Punsch	Light rum	Anise-flavoured
	Ireland	Other liqueurs	Dark rum	Grappa
	Other whisky		Flavoured rum	Other spirits

Beer, etc.

Beer			Cider/RTD*	Alcohol-free
Lager, international, bottle	Lager, other packaging	Ale/porter/stout, other packaging	Dry/semi-dry cider, bottle	Alcohol-free
Lager, Swedish, bottle	Dark beer, bottle	Ale/port/stout, extra strength	Dry/semi-dry cider, can	
Lager, international, can	Dark beer, can	Wiessbier	Dry/semi-dry cider, other packaging	
Lager, Swedish, can	Dark lager, other packaging	Speciality beers	Semi-sweet/sweet cider, bottle	
Lager, bottle, extra strength	Ale/porter/stout, bottle	Seasonal beers	Semi-sweet/sweet cider, can	
Lager, can, extra strength	Ale/porter/stout, can		Semi-sweet/sweet cider, other packaging	
			RTD/FAB**	

* Ready to drink

** Ready to drink/Flavoured Alcoholic Beverages

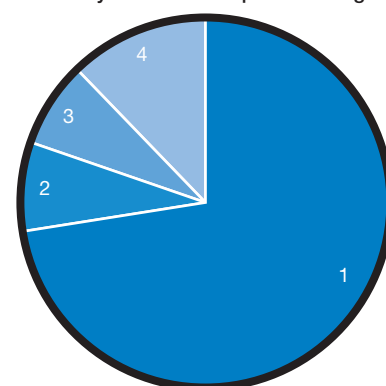
in this category are launched nine times a year, and are sold as long as stocks last.

It is not possible for every store to carry the entire range. The composition of the range and the way it is distributed to stores shall be brand-neutral and based on consumer demand. Systembolaget accordingly uses a product range model, which guarantees that Systembolaget can meet the demand for a wide-ranging, brand-neutral, efficient, and customer-oriented product range in every Systembolaget store.

The product range model is based on category control that divides the range into five product categories: red wine, white wine, other wine, spirits, and beer etc. The categories are, in turn, divided into different segments – around 100 in total in the model as a whole. The division into segments takes into account different price bands, product types, and/or packaging types. The idea is for the customers, as far as possible, to perceive the items in a particular product range as being of equivalent value. The articles within each segment compete for shelf space in the stores, with the best-selling articles in each segment stocked by the greatest number of stores.

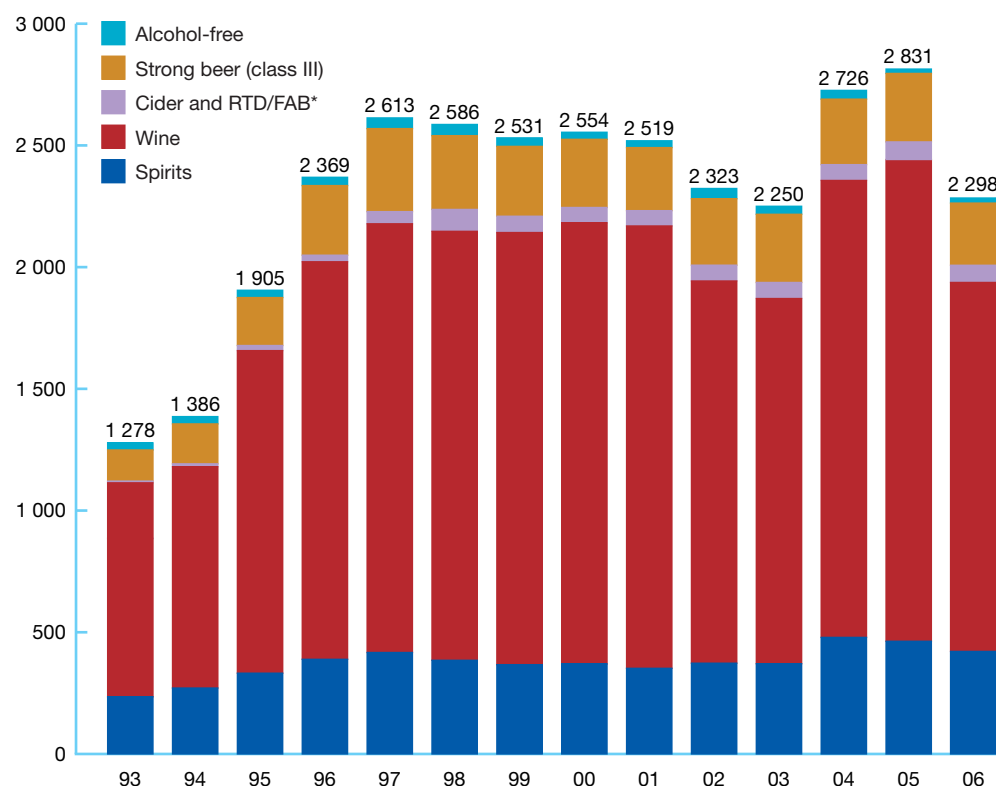
The range's two categories comprise a total of approximately 2,800 items. Calculated in terms of the number of brands, the corresponding figure was approximately 2,300 in January 2006. The product range was complemented in 2003 and 2004 with several exclusive new brands intended for the Wine Cellar stores in Stockholm and Malmö. The range as a whole was the subject of a major review in 2005, and a number of brands that were only stocked by a few stores and for which customer demand was very low in recent years have been delisted. The range of products available to order,

Summary of the store's product range

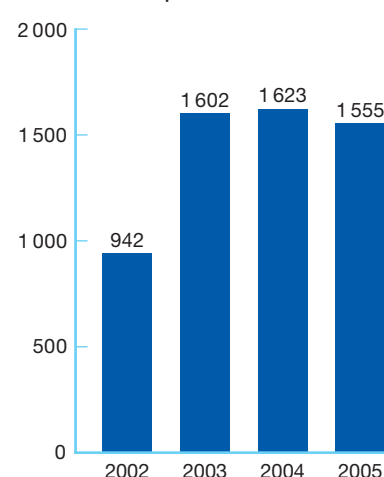


1. Fixed product range (updated twice/year)
2. New products, fixed range
3. Locally selected items
4. Temporarily in store: seasonal, temporary items, etc.

Number of brands in Systembolaget's ordinary range, 1993–2006
(in January of each year)



Number of new product launches



The purchasing process

Market analysis

Request for tender

Tender selection

Tasting and purchase

Laboratory analysis

Characteristics tasting

Journalist tasting

First store orders

Launch

which are stocked by suppliers and can be ordered in any store, comprised slightly less than 4,000 articles in January 2006.

The purchasing process

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 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, as well as the country of origin and price band. All registered suppliers (440 in 2005) 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.

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.

In 2005, Systembolaget received 17,773 tenders and sampled 11,859 products.

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 freshness and sweetness, for example, found in the Catalogue, on shelf-labels, or on the website, are based on their collective opinion.

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.

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.

Systembolaget launched 1,555 new products in 2005. There were a total of 289 active suppliers during the year.

Systembolaget shall, in its capacity as a purchaser, act in a non-discriminatory and brand-neutral manner. The deciding factor shall be the quality of the product, not the size of the supplier's operations or other such factor. 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. In this way, Systembolaget creates competition between products and between suppliers.

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 430 of them – are always stocked by every store.

The stores can also order in other items, over and above the centrally allocated product range, to complement and extend the store's range in the light of local demand.

Customers can order any of the items in the fixed range that are not stocked by the store, and receive them within 24 hours (48 hours in northern Sweden and on the island of Gotland) via Systembolaget's product depot in Örebro.

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. The centrally formulated order proposal has substantial advantages, including positive trends for both the turnover rate of the product range and the level of service provided for the customer.

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.

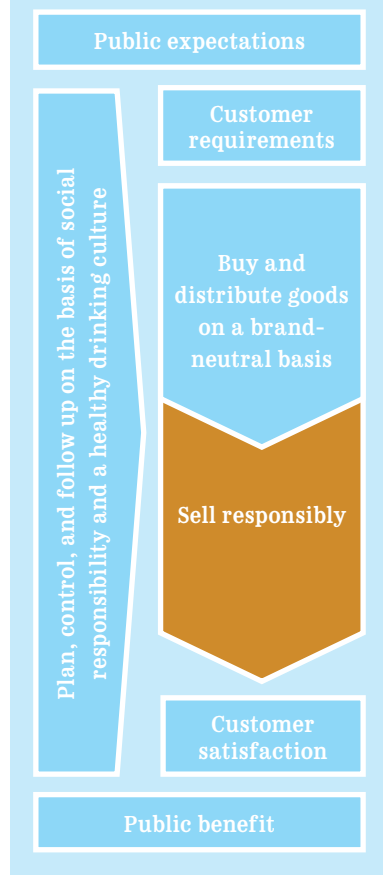
Systembolaget has a product depot in Örebro to enable rapid delivery of individual customer orders to the stores. We do not, however, have a central warehouse, which means that all suppliers must be able to deliver the products to all of our stores nationwide. The suppliers are free to decide either to use one of the distributors who offer this service, or to make the deliveries themselves. In 2005, there were twelve nationwide distributors commissioned by manufacturers and importers to distribute alcoholic drinks to Systembolaget's stores. Most of the Swedish breweries and Vin & Sprit AB distribute their own products.

Lagena Distribution AB

Systembolaget decided to establish a subsidiary company, Lagena Distribution AB, in conjunction with Sweden's accession to the EU in 1995. This was to guarantee access to nationwide delivery and to offer it in competition with other distributors to the then newly launched suppliers. 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. Lagena, nonetheless, reports healthy profitability levels, and made a profit within only three years of its launch. In recent years, Lagena's gross profit in relation to turnover has been around 18 per cent.

Lagena distributes approximately 73.5 million litres of beverages per annum to Systembolaget, corresponding to approximately 20 per cent of the total volume of beverages sold. The majority of Lagena's clients are small suppliers.

Process chart



Selling Responsibly

Given the effect that alcohol has on public health, it is important for society to be able to control alcohol retail and consumption levels. One of the most important tools in this work is the “no private-profit motive” principle.

The no private-profit motive principle means, amongst other things, that Systembolaget does not endeavour to maximise its profits or increase sales. Customers must, within the framework for this mandate, receive fast, knowledgeable, and friendly good service that is, at a minimum, on a par with that they receive in other areas of the retail sector. Systembolaget works from what customers want and does not try to persuade its customers to buy additional products or to encourage impulse buying. Within this framework, the operations shall be conducted cost-effectively.

The difference between Systembolaget and retailers subject to competition is apparent in a number of ways:

Systembolaget

- does not try to tempt its customers to buy more than they initially intended by such means as attractive offers and advertising.
- provides factual, comprehensive, and brand-neutral information. Product information is based exclusively on the customers’ wishes, with no attempt to steer the customers’ choice to the most profitable products or to establish links to special selling campaigns.
- structures its stores and positions its products to make them easy to find, but does not position products in a way that tempts people to buy them, does not use bulk displays, does not position high frequency products in such a way that customers must pass several other products to reach them, and does not display high margin products at comfortable “pick heights” in order to increase sales.
- offers a product range that is both wide-ranging and in-depth and that also includes less mainstream products, even in smaller towns.
- prices its products in a completely transparent and brand-neutral manner. Systembolaget does not use pricing to achieve maximum possible profit margins or temporary offers with discounted prices to increase sales or introduce new products.
- trains its personnel in its selling rules and does not permit additional sales.
- does not cooperate with suppliers in sales activities or campaigns to increase sales of particular products.
- provides comprehensive information on both the advantages and disadvantages of a product.

Systembolaget invests considerable energy and resources in maintaining its selling rules. The selling rules mean that:

- we do not sell to anyone under the age of 20
- we do not sell to anyone who is obviously intoxicated
- we do not sell to anyone whom we suspect may sell the alcohol illegally

Store staff are obliged to carry out age verification checks. Anyone who looks as though he or she might be below the age of 25 shall be asked to present proof of age. Ongoing control purchases are made by an external company, using people aged between 20 and 25, in order to monitor our age verification work.



Store concept

Systembolaget's store concept comprises three parts: the offering, or the products and services that we offer our customers; the store design, or the environment we have created in our stores through design and choice of materials; and finally, the way in which we work in the stores.

The way in which the stores are designed when they are built or rebuilt is determined by Systembolaget's stores programme. The design of the stores is intended to make it easy for the customers to find and choose what they are looking for, and to help customers make conscious choices. It should also be a good working environment and make rational operation easy.

To make it easier for customers to find what they are looking for, the store is divided into sections for the various product groups with the aid of wall and floor shelving. Alcohol-free products are displayed on their own product display unit to ensure they are clearly visible. The aim is to make it easy for customers entering the store to orientate themselves quickly and gain a good overview. The position of the various product groups and the customer meeting points shall be clearly visible. The shelving is accordingly low, which also makes it easier for customers to approach personnel to ask questions or request advice.

The shelving system has been specially designed for Systembolaget. It is extremely flexible and is based on a rack system with moveable shelving, and can easily be adapted for different requirements. The product range is communicated using both signs and printed material.

The long wall outside of the line of checkouts has display points for responsibility messages on the theme of alcohol and health. A brochure on the same theme is displayed with other printed material inside the store. Signs announcing age verification checks and detailing the selling rules are positioned in a specially designated location at the entrance.

Systembolaget has been working for a couple of years now to implement a common methodology in the stores with the aim of improving occupational quality and increasing employees' participation, willingness to accept responsibility, and work satisfaction levels.

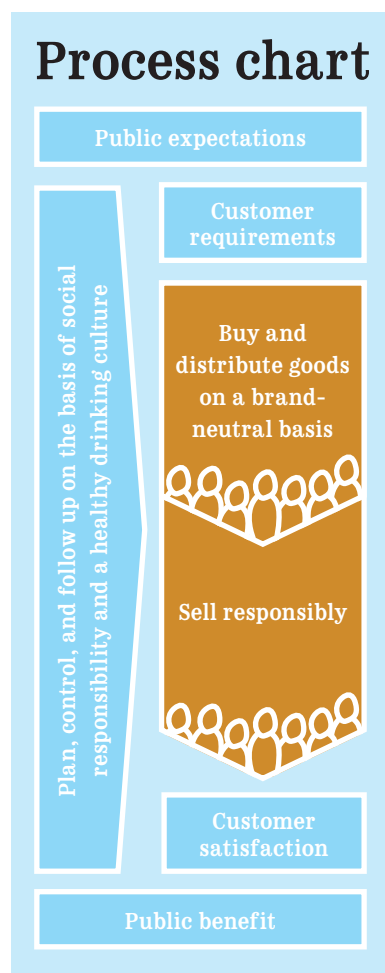
The in-store work is divided up into different areas of responsibility, and the sales staff are assigned their own areas of responsibility with clear goals and expectations. The store manager shall act as both a leader and a coach. The areas of responsibility also generate a more natural career path within the company and a broader recruitment base for more senior positions. The areas of responsibility can comprise the products in a particular product group, such as red wines, the store's agency activities, or part of the store's administration. Collectively, the staff aim, by means of efficient routines, to increase the potential for focusing on the encounter with the customer, on creating the time to meet with customers, and on enjoying being able to provide good service.

A fundamental part of this work involves focusing on the store manager's leadership, in other words, by setting collective and individual targets, and by being consistent and honest, open and respectful. The company's values, company loyalty, and understanding both our mandate to limit the damage caused by alcohol and the brand-neutrality requirements that are unique to Systembolaget are all important aspects of our management approach.

Systembolaget's store concept



“The combination of expertise and consideration are what make Systembolaget unique.”



Personnel

Systembolaget's survival depends on our having competent and committed employees, so working for Systembolaget must be an attractive prospect. And if we are to be able to attract and develop competent and committed employees, good leadership, good employment terms, and good opportunities for training and development are all vital.

A new start

The year 2005 was characterised, in many respects, by the new start programme launched after the conclusion of the preliminary investigation into suspected bribery and corruption. This enabled the final part of our own review process to be completed and the focus to shift to more constructive and restorative work. The new start programme began on 4th April when all team leaders and managers got together and launched a new approach based on our mandate and our values. Every single employee was then involved in a range of activities based on the same theme. A new internal communication strategy was implemented, all employee introduction and training programmes were reviewed, management training was complemented with an obligatory seminar on ethics, and the entire new start programme ended when all of Systembolaget's employees got together in Stockholm on 5th November to produce a collective summary of the new start and plot our course for the future. And we also took the opportunity to celebrate Systembolaget's 50th anniversary year of 2005.

Expertise

Systembolaget has an extensive training programme. If we are to maintain high standards of service and competence in a changing society, knowledge must be maintained and updated continuously.

Much of the training relates to knowing the products, and the staff receive ongoing training on food and drink in the form of courses, tasting sessions, and study trips. Much of the training takes the form of tasting sessions or other training packages held in store and lasting one or two hours. Longer courses lasting one or more days are often held at Systembolaget's own training centre. These include courses in knowing the product, on subjects such as the world's wine-producing areas, or on food and drink combinations, and include both practical tasting sessions and theoretical sessions examining the factors that help or hinder the success of a combination. But we also hold courses providing in-depth training in administrative matters, for example, and management training.

From two-man teams to store teams

In the past, our stores' organisations comprised one store manager and one assistant store manager, who both led and took part in the store's work. Employee Satisfaction Index surveys carried out over a number of years showed both that the store managers had a very heavy workload and that the sales staff felt understimulated and wanted more responsibility. To address this, Systembolaget has changed the way in which its stores are organised: the position of assistant store manager has been removed and responsibility for aspects of the store's operations has, instead, been divided up amongst several of the in-store employees. These changes have taken us from a two-man team to a store team, giving us a more horizontal organisation in

which a greater number of people have increased responsibility and more stimulating duties.

Employee Satisfaction Index

The Employee Satisfaction Index (ESI) is measured annually at Systembolaget. 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.

Systembolaget has a good ESI result that is well in line with those of other retail companies. The ESI for 2005 was 70, on a scale from 0 to 100, and has increased by 1 point since 2004. The index has displayed a positive trend ever since 2002, when the measurements began.

In this year's survey, employees gave very high marks to questions concerning Systembolaget's vision and objectives. Employees also 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." The target figure for 2006 is an increase of 1 point to 71 points.

Diversity

The basis for our equality work is the company's diversity policy and our plan designed to increase diversity. Systembolaget is a female-dominated company, which also has a high percentage of male managers. This may, in part, be a matter for the retail trade as a whole, but Systembolaget is keen to bring about a change. The starting point for our work is that everybody is of equal worth.

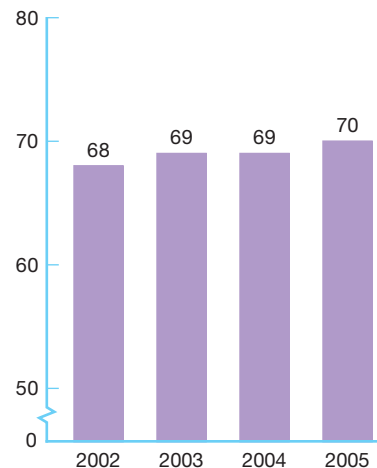
Systembolaget shall work to bring about equality between the sexes, which means equal rights for men and women with regard to jobs, terms of employment, and opportunities for development. We shall always endeavour to ensure equal rights and opportunities, irrespective of ethnic origin, sexual orientation, or disability.

Systembolaget realises the value of employing personnel with different spheres of knowledge, experience, and skills, and we shall have a working climate that is characterised by respect, understanding, and knowledge of other people and cultures. Diversity raises the overall level of competence within the company and increases our ability to meet our customers' various requirements and provide good service. The quality and efficiency of our company thereby also increases.

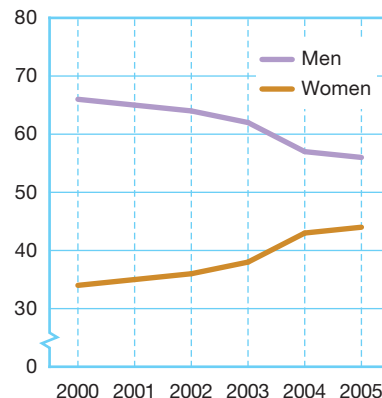
Our goal, when recruiting, is to achieve a more even gender distribution amongst managers at all levels of the company, and to increase the ethnic diversity of Systembolaget. Selection for interview shall be based on a fair assessment of the established competence requirements, and not on the gender, 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.

A clearly positive trend can be discerned with regard to the gender breakdown of store managers, with the percentage of women in this role increasing from 34 per cent in 2000 to 44 per cent in 2005.

Employee Satisfaction Index (ESI)



Male/female breakdown, store managers
Per cent



Staff turnover

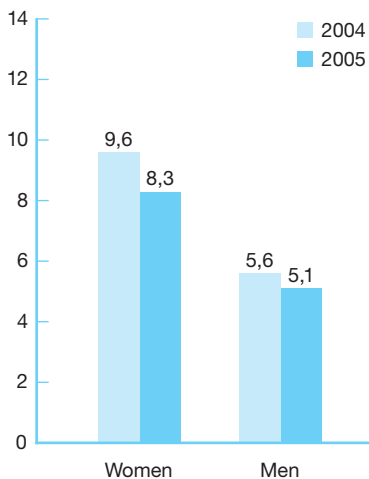
Staff turnover is significantly higher amongst part-time employees than amongst full-time ones. The ranks of part-time employees include many people who are combining work with studies, and it is hence natural for this group to report a higher level of staff turnover. The overall level of staff turnover 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.

Staff turnover, percentage, 1998–2005

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

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

Sickness absence, women/men
Percentage of contracted working hours



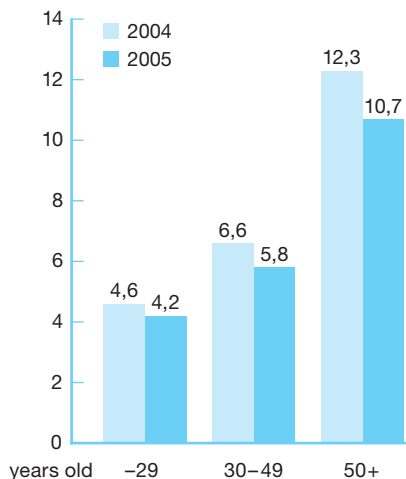
Absence due to sickness

Systembolaget has worked actively for many years now to prevent ill health. Systembolaget is keen to further reinforce our efforts in this field, and we have accordingly clarified the line manager's responsibility for work environment issues and augmented support for these efforts by recruiting a work environment strategist who will develop target figures and guidelines in this field. Our efforts will be characterised by a proactive approach.

Sickness absence is reported every month in the same way as other key performance indicators. The key performance indicator shows the number of hours of absence due to sickness in relation to the hours worked and gives an indication of how happy our employees are at work, the state of our work environment, and areas where we could improve.

The total sickness absence in terms of employees' regular contracted working hours was 8.1 per cent in 2004.

Sickness absence, age
Percentage of contracted working hours



Work environment

Systembolaget has been systematically involved in a programme of work environment improvement for a number of years now. It 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.

Stress injuries/stress disorders are charted annually in conjunction with an Employee Satisfaction Index (ESI) survey. The results of the measurements are summarised for the whole of Systembolaget, by sales area, region, store, and headquarters. Comparisons are made with previous measurements to follow up on changes.

Systembolaget is engaged in ongoing development with the aim of improving existing aids and generating new ones designed to reduce the physical stress associated with store work. A number of aids have, for example, been developed to facilitate carton handling, such as the vacuum lift installed in every store since 1998, a special cart designed to take entire carton loads from pallets and which are provided in every store, and battery-powered lifting trucks.

The role of the Health and Safety Representative is an important one at Systembo-

laget. The Health and Safety Representatives are the personnel's representatives on work environment issues and are an important resource in our work environment efforts. They take part in health and 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 measures, based on the results of the health and safety inspections and the ESI survey.

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

Systembolaget has clear routines in place in an effort 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. The work environment and efforts to address 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.



Efficiency

Systembolaget's mandate includes helping to limit the medical and social costs of alcohol and thereby helping to bring about an improvement in public health. To enable Systembolaget to fulfil this mandate efficiently, the company is run without a profit maximisation motive and has been granted a monopoly by Parliament. There is, however, a potentially inherent risk of inefficiency in the lack of both a profit motive and competition, and Systembolaget has also, therefore, been directed by its owner, the government, to conduct its operations efficiently within the framework of its mandate to limit the damage caused by alcohol.

The owner's directive states that the 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 2005, this corresponds to a return of approximately 7.4 per cent. Systembolaget shall not, however, have cause to attempt a higher return than this, and hence if the profit consistently exceeds the required level, the trading margin shall, under the terms of the owner's directive, be reduced.

Systembolaget's operations are characterised by high sales volumes with low margins. Changes in the company's environment, such as increases or reductions in alcohol taxes in our neighbouring countries, or increased personal allowances, affect sales volumes and demand considerable organisational flexibility. Our biggest overheads come from staff and premises-related costs, and there is no easy way of adapting these to short-term changes in sales volumes. The operating result is consequently relatively sensitive to changes in sales, and every percentage point change in turnover leads to a change in the gross profit of approximately SEK 24 million (SEK 26 m).

Performance in 2005

Sales

After 2004's fall in the inflow of customers and turnover, 2005 saw the trend reversed, and the number of customers increased once again. The main reason for the increase was probably a corresponding decrease in the amount imported by private travellers (see more under "Systembolaget and Its Customers," page 36). The sales mix also continued to change in 2005, with continued falls in spirit sales accompanied by an increase in sales of wine and beer. The average gross margin accordingly increased slightly during the year, from 13.5 per cent to 13.7 per cent. If alcohol tax is excluded, the margin rose from 25.2 per cent to 25.5 per cent.

Costs

Systembolaget endeavours at all times, and in accordance with its owner's directive, to increase the efficiency of its operations – both in store and at head office.

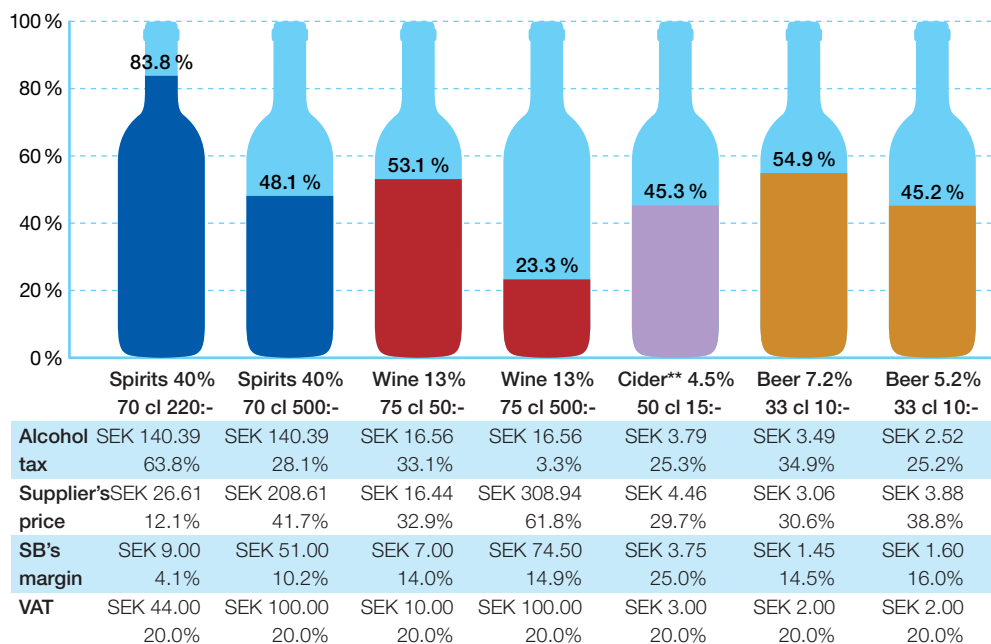
The stores are run independently and the store manager is responsible for the store's operations. The store managers endeavour to increase their operational efficiency on the basis of a set of key performance indicators. The key performance indicators are carefully chosen to ensure that the operations are run in a way that ensures customer satisfaction, employee satisfaction, efficiency, and simultaneously ensures that our social mandate is fulfilled.

Retail sales

Turnover per product category, SEK million

	2001	2002	2003	2004	+/- 03/04	2005	+/- 04/05
Spirits	6 144	6 166	5 864	5 107	-13%	4 998	-2%
Wine, incl. fortified wine	7 862	8 161	8 449	8 382	-1%	8 765	5%
Beer	3 511	3 874	3 956	3 560	-10%	3 661	3%
Cider	369	445	473	420	-11%	408	-3%
Alcohol-free	11	13	17	20	18%	21	5%
RTD/FAB*	17	57	131	136	4%	145	7%
Other	81	92	95	83	-13%	104	25%
Income in SEK	17 995	18 808	18 985	17 708	-7%	18 102	2%
Gross profit	2 354	2 552	2 499	2 371	-5%	2 461	4%
Gross margin, incl. alcohol tax	13.2%	13.2%	13.2%	13.5%		13.7%	
Gross margin, excl. alcohol tax	26.7%	25.5%	25.1%	25.2%		25.5%	

Tax as a percentage of the price of products in different price bands,
as of 31st December 2005



* Ready to drink/Flavoured Alcoholic Beverages

** Cider and Ready to drink/Flavoured Alcoholic Beverages

Alcohol taxes, 1st January 2006

Plus VAT

Beer

Alcohol content, % by volume	Tax in SEK per litre for every percentage point by volume of alcohol*
-2.8	0
2.8+	1.47

Medium class products (fortified wine etc.)

Alcohol content, % by volume	Tax in SEK per litre
1.2-15	27.20
15-22	45.17

Wine (cider etc.)

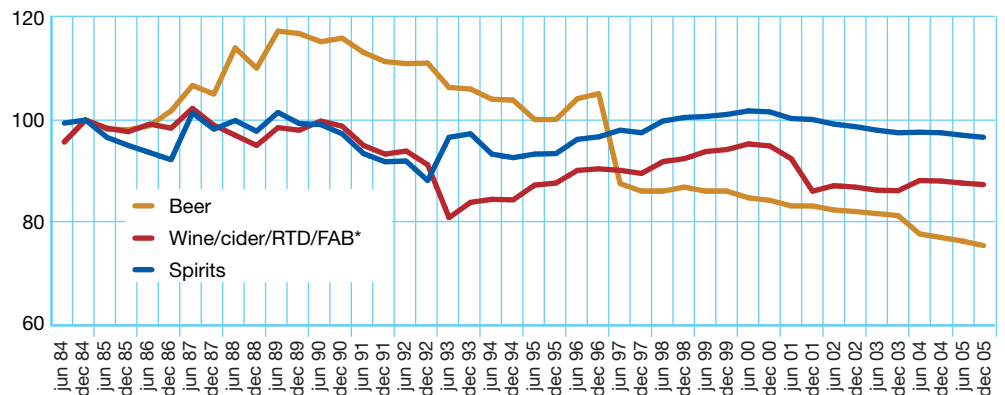
Alcohol content, % by volume	Tax in SEK per litre
-2.25	0
2.25-4.5	7.58
4.5-7	11.20
7-8.5	15.41
8.5-15	22.08
15-18	45.17

Spirits

Tax in SEK per litre pure alcohol
501.41

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

Real price trend for the spirits, wine and strong beer (class III) product groups, 1984-2005 (real price index, December 1984=100)



* Ready to drink/Flavoured Alcoholic Beverages

Systembolaget's efforts to increase efficiency in recent years have been successful. Measured in terms of the number of customers served per working day in stores, efficiency has increased by 13 per cent since 2001, and by 6 per cent in 2005 alone. Other store overheads have been reduced by 6 per cent in 2005.

Systembolaget places a very high priority on work aimed at preventing shoplifting, and despite the generally theft-prone nature of the products we sell, the figure for shoplifting as a percentage of sales has been successfully restricted. In 2005, the value of goods shoplifted fell from 2004's levels (0.12 per cent), and now corresponds to 0.11 per cent of sales, despite an increase in the number of self-service stores.

Operational efficiency has also increased centrally. A major review of the head office organisation was initiated in 2004, and led to a reduction of approximately 80 man-years. The economic effect of these measures will impact in full in 2006, but even in 2005, central administration costs fell by 11 per cent in 2004. At the same time, the number of customers served has increased, and the increase in efficiency was hence even greater.

The improvements described above have been made possible by our investments in modern IT tools and by systematising and structuring the work in stores to an even greater degree than before. Clarity and unanimity in relation to our vision, goals, and values have also all helped to ensure that everyone is pulling in the same direction.

Successful cost-cutting has, amongst other things, enabled Systembolaget to report a return on shareholders' equity of 18.9 per cent. This figure exceeds the target level of 7.4 per cent set in the owner's directive by a very clear margin, and Systembolaget is consequently currently engaged in a review of the company's pricing model.

Operations in relation to the owner's directives and the financial demands on the operations

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

* Not reported in accordance with IFRS

** Includes a dividend payment approved by an Extraordinary General Meeting

*** Proposal submitted to the Annual General Meeting



Systembolaget and the EU

Sweden's government and parliament stated, in their decision regarding the European Economic Area (EEA) agreement, that all Swedish monopolies in the field of alcohol were compatible with the EEA agreement. Under the terms of the EEA agreement, the provisions of the EC Treaty regarding the free movement of goods and regarding government-owned monopolies would begin to apply in Sweden as of 1994. During negotiations regarding full accession to the EU, Sweden acceded to the European Commission's view that import, manufacturing, and wholesale trade monopolies were not compatible with EU law. These monopolies were consequently abolished in conjunction with Sweden's accession to the EU in 1995.

The Commission did, however, accept the Swedish retail trade monopoly, as is stated in the agreement entered into between Sweden and the European Commission at the end of 1993. The Commission undertook, in the agreement, to not initiate any actions against the maintenance of the retail trade monopoly.

The agreement also contained details of the import of the non-discrimination requirement, and stated, amongst other things, that Systembolaget's selection of products may not favour Swedish products, and that the price of a product shall be set using objective criteria that apply equally to domestic and foreign products. An independent body to which Systembolaget's decisions to remove products from its range could be appealed was also required, and led to the establishment of the Alcohol Assortment Board.

Sweden also accepted the Commission's request that the Swedish Competition Authority be tasked with monitoring Systembolaget to ensure it acted in a non-discriminatory manner, and that the Authority report to the European Commission twice every year. The Commission has not commented on Systembolaget's operations with reference to the reports submitted by the Swedish Competition Authority since reporting began in 1995.

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

The ruling in the case concerning the Swedish pharmaceutical retail monopoly, Apoteket AB, which was given in 2005, confirmed the Court's arguments in the Franzén ruling. Here too, the Court states that there is no requirement to abolish government-owned monopolies, but that they must be adapted to ensure that they are non-discriminatory. Shortly after this ruling was issued, the Alcohol Assortment Board was also tasked with reviewing Apoteket's product range decisions, and was renamed the Alcohol and Pharmaceutical Assortment Board.

Draft services directive

In January 2004, the European Commission presented its proposal on services in the internal market. Under the terms of the proposal, services supplied from one country to another, with the aid of temporarily posted personnel, for example, shall be subject to regulations obtaining in the country of origin and may not be hindered or controlled by the recipient country's authorities. Any decision to permit distance retail trading in alcoholic drinks will have consequences for Systembolaget. The proposal is currently being discussed by the Council of Ministers and the European Parliament.

Distance trading

Swedish legislation, which prohibits distance trading in alcohol from abroad, is currently being reviewed by the European Court. 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 ruling by the European Court is expected in 2006.



Sustainable development

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.”

For Systembolaget's operations, this means that the purchase and sale of alcoholic drinks shall be conducted in an impartial and strictly brand-neutral manner, and that no efforts shall be made to encourage additional sales. This makes demands of every Systembolaget employee. We are the company's representatives and shall, both at work and in our leisure time, behave in a professional manner, maintain high standards of personal integrity, and not allow ourselves to be improperly influenced.”

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, and the company's ethics are included in the internal training provided upon employment and in conjunction with promotion. Ethical and value-related issues are also raised in conjunction with all recruitment.

An in-house Ethics Advisor to whom employees can turn if they wish to seek advice on ethical issues or to “blow the whistle” has also been appointed.

The ethical work is supported by special guidelines for

- external contacts
- secondary occupations
- entertainment
- labour law measures in connection with breaches thereof
- seeking advice and sounding the alarm

The company's managers are all responsible for reviewing and discussing the documents on a regular basis with their staff.

The guidelines for external contacts state, amongst other things, that contacts with suppliers of alcoholic drinks shall be handled by personnel from the Purchasing & Supply Chain Management. 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.

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 a greater number of people to do more. The IQ initiative is run as a subsidiary of Systembolaget – IQ-initiativet AB.

Systembolaget is investing SEK 100 million in the IQ initiative over a five-year period. The money will go to establishing and running the company, to running its website at www.iq.se, and to communicating the project by means of such aids as television advertising. The IQ initiative will also organise seminars and serve as an active sounding board for anyone who might want to implement an IQ project. The criteria for IQ projects are that they

- are intended to 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

Fifty IQ projects were launched in 2005, including one by the colleges of further education in Örebro, where parents of teenagers successfully halved young people's alcohol consumption with the aid of clear boundaries and by establishing a common set of rules; a project at the Gruvön works in Grums, involving a long-term effort to raise awareness of the importance of a healthy relationship with alcohol and drugs, both in the workplace and at home; and a project at the Restaurant Academy at Grythyttan, where all students are obliged to complete a course for five academic credits in responsible use of alcohol as a preparation for working in the restaurant, wine, and drinks industries.

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.

The environment

Systembolaget's environmental impact work is governed by the company's environmental policy and its annual environmental plans. The environmental policy, which was adopted in 2002, states:

Systembolaget shall exceed customers' expectations by constantly developing its product range, expertise, service, and responsibility in connection with the sale of alcoholic drinks. We shall monitor current legislation and constantly work to make improvements that reduce our environmental impact. Our environmental efforts focus, with a basis in good customer service, on:

- *offering an organic range of drinks*
- *working towards the construction of stores using environmentally friendly materials and which use energy efficiently*
- *reducing the environmental impact of our transports*

A focus on recycling and preventative environmental work shall characterise our operations. Systembolaget aims, thereby, to contribute to the creation of a long-term sustainable society.

Our objective is that Systembolaget and the products we sell shall have the minimum possible impact on the environment. We are working actively to reduce our environmental impact.

The director of the Purchasing & Supply Chain Management is the senior executive with overall responsibility for environmental work, which is carried out through a group comprising representatives of the various departments.

Systembolaget strives to ensure that the product range includes a number of organic products. At least one red and one white organically produced wine is stocked by every store, and organic products accounted for 0.4 per cent of sales, measured in litres, in 2005. The goal for 2006 is to increase organic products' percentage of sales, measured in litres, to 1 per cent.

Most of the materials used in the renovation or new construction of stores is recommended from an environmental viewpoint, and we are constantly looking for alternatives to those materials that still have a major environmental impact.

The transportation of products to Systembolaget's stores adds up to approximately 400 million kilometres per annum, which corresponds to 10,000 trips around the world! We measure the amount of emissions generated by customer orders from the product depot in Örebro, and have successfully reduced this figure by increasing capacity utilisation levels for these transports. A project involving the coordination of product transports in the province of Bohuslän during the summer of 2005 also successfully reduced emissions of carbon dioxide, amongst other substances.

Recycling stations are installed in every store, and in 2005, there were 5,800 tonnes of corrugated cardboard, paper, and plastic collected and recycled. Glass, fluorescent tubes, batteries, lightbulbs, electronics, metal, toners, and combustible materials are also sorted at source, and 97.4 per cent of the stores' waste products were sent for materials recycling, with 0.45 per cent sent for energy recycling and 1.5 per cent of other waste (fluorescent tubes, lightbulbs, batteries) sent for other purposes. Only 0.65 per cent of the waste products were dumped at a tip.

Systembolaget's fragmentation facility in Jordbro handles returned goods. The facility separates content from packaging and, during the past year, it handled 236 tonnes of glass, 447 tonnes of cardboard boxes, 15 tonnes of aluminium cans, and 536 m³ of liquid. Both the packaging and the liquids are used in new ways.

Working against corruption

At the end of 2002, one of Systembolaget's employees found lists of products in the store in which he worked. He handed the lists over to Systembolaget's Human Resources Director on 10th January 2003. The documents listed a number of products and assigned points or a sum in kronor for each product. On 17th January, the suppliers whose products were included on the lists were summoned to discussions with Systembolaget's President, Purchasing Director, and corporate lawyer. The very same day, six store managers were given notice for having stocked products included on the lists in a manner that clearly breached Systembolaget's rules. On 27th January, Systembolaget reported the three suppliers and five of the store managers to the police on suspicion of bribery and corruption, respectively.

After further follow-up investigations, a further five store managers were given notice just over one month later, and two of them were reported to the police in May

2003. Thirteen store managers received formal warnings.

In March, Chief Prosecutor Ewa Nyhult, launched a preliminary investigation as a result of the reports Systembolaget submitted to the police. Systembolaget assigned specific members of staff to assist with the investigation and to hand over material and information on a rolling basis throughout the course of the preliminary investigation.

The County Criminal Investigation Police in Stockholm handed over the preliminary investigation material to the corruption unit of the office of the public prosecutor in September 2003. The preliminary investigation covered 77 people, both employees and former employees of Systembolaget, and 15 people from three different suppliers' organisations. In October 2004, Systembolaget was given the names of everyone from Systembolaget covered by the investigation, including 23 who had already left the company and 33 who had been suspended after personally having informed the company of their suspicions. The remaining 21 were identified and suspended.

A prosecution was brought on 11th February 2005. The preliminary investigation was also made public on the same date. Systembolaget gave notice to all of the remaining 50 employees accused of corruption.* The notices referred to the accused who were suspended on full salary. The other 27 accused had already left the company.

The first criminal proceedings started on 6th November at the Stockholm District Court. It was the first of a total of six cases. A judgement was handed down on 19th December 2005.** All of the accused were convicted of bribery or corruption. Two individuals from VinTrädgårdh AB were found guilty of bribery and given suspended sentences and fines proportional to their daily income.

Eighteen former store managers were found guilty of corruption and fined in proportion to their daily income.

The Swedish Labour Court

In March 2003, the store managers' trade union, HTF (the Salaried Employees' Union), sued Systembolaget in the Labour Court. HTF requested the Court to rule that the dismissal of seven store managers was invalid. In May 2004, discussions between Systembolaget and HTF led to a settlement out of court, whereby the employment of the former store managers ceased and Systembolaget paid a sum corresponding to a total of 70 months' salary to be divided between the union members in question.

Actions against suppliers

In May 2003, Systembolaget terminated purchase agreements, for eleven products, with two of the suppliers whose products were included on the lists found in a store.

During the summer and autumn of 2005, Systembolaget decided to apply sanctions to the three suppliers who had breached relevant suppliers' agreements in connection with the bribery and corruption scandal. All purchase agreements for AB VinTrädgårdh were terminated. A number of purchase agreements with Philipson & Söderberg and Åkesson Vin AB were also affected. The termination of all purchase agreements with AB VinTrädgårdh was due to the fact that the breaches were regarded as very serious. The producers affected were offered the chance to deliver the products through other suppliers, to ensure that neither the customers nor innocent producers should suffer as a result. All cancellations take effect on 30th September 2005.

Suppliers who had employees affected by the prosecution were urged to ensure that these individuals' duties did not bring them into contact with Systembolaget.

Systembolaget's sanctions against suppliers were intended to maintain respect for

* As of 6th February 2006, there are 4 people who have chosen to take the matter further.

** The judgement was appealed by six store managers and two suppliers' employees. The prosecutor has also appealed the sentence, requesting that it be made more stringent, in respect of one of the supplier's employees.

Du har väl inte glömt den stora muthärvan i vårt företag?



Vi tänkte berätta vad vi har gjort för att inget liknande ska hända igen. Det kanske viktigaste gjorde vi innan muthärvan upptäcktes, när vi ändrade vår organisation och vår sortimentsmodell. En av följderna blev att regelbrott blev lättare att upptäcka. (Vilket bidrog till att härvan kunde ryttas upp.) På sistone har vi bland annat låtit en oberoende jurist granska chefer och rutiner på vårt huvudkontor, för att hitta eventuella brister. Och skapat ett etiskt råd, med utomstående experter som hjälper oss att se över reglerna. (Exakt vad vi gör kan du se på www.systembolaget.se) Det är ju mycket som står på spel. Mycket mer än framtiden för de medarbetare som är misstänkta för mutbrott. Om vi inte lyckas återöppna ditt förtroende, är hela monopoliet hotat. Det kommer bara frams kvar så länge svenskarna vill. Och vi vet att om stackol, vin och sprit fick säljas i tusentals vanliga affärer, skulle folk dricka betydligt mer. Vilket skulle göra de alkoholisolerade problemen mycket större. Därför lovar vi att reda ut det här. Samtidigt som vi fortsätter göra allt för våra kunder ska vara nöjda med oss. Har du frågor får du gärna ringa 020-85 85 00.



the agreements in question and thereby preserve the company's competition- and brand-neutrality. Systembolaget holds a monopoly on the retail of alcoholic drinks, and sanctions model must, therefore, take a number of special requirements into account. Sanctions must meet the requirements for objectivity, proportionality, and non-discrimination. They must, at the same time, be appropriate. Systembolaget also has a special responsibility for the effect of sanctions on the market (for consumers, producers, and the supplier affected). The starting point for Systembolaget's sanctions model has been the guidelines applied by the European Commission when determining sanctions in connection with breaches of the EU's fair trade regulations. The model was based on the principle of equal treatment, and at the same time, took into account the supplier's size in order to meet the requirement for proportionality.

Internal review

In the autumn of 2003, the company management encouraged everyone who had been involved in a breach of our internal guidelines for contacts with suppliers to come forward on their own initiative. A number of people did so. The facts that emerged led to some people receiving formal warnings, others being assigned to new positions, and one person ending employment with Systembolaget.

In December 2003, Systembolaget's Board tasked Dick Lundqvist, a lawyer, with reviewing the conduct of managers and other key individuals at the head office to determine whether they had had any prohibited contacts with drinks suppliers. The review comprised 98 employees and revealed that 10 or so people had had questionable contacts with suppliers. After an individual assessment on the principle that the same rules apply to all employees, four head office employees received formal warnings.

The managers whose conduct had been reviewed as part of this first round of investigations then carried out equivalent interviews of their members of staff. A total of 263 people were involved. Nothing emerged from these interviews to motivate any action against these employees.

In December 2004, a review of the conduct of all store managers and assistant store managers was launched, investigating their contacts with suppliers. The review was based on interviews and on information obtained from the preliminary investigation regarding employees who were not prosecuted. The facts that emerged during the review led to four people resigning, two people being assigned to new positions, and seventeen receiving formal warnings.

In the spring of 2005, all store managers interviewed their own store personnel. Nothing emerged from these interviews to motivate any action against any employees.

Other measures

In September 2003, Systembolaget's supplier contacts policy was updated and tightened up, and the support of employees for the policy was enlisted. Everyone resigned an affidavit confirming that they were familiar with the policy and accepted its import. Systembolaget also wrote to the drinks suppliers and the industry associations, the Swedish Wine and Spirit Suppliers Association, the Swedish Brewers' Association, and the Swedish Beverage Producers' Association requesting details of what the suppliers were doing to prevent corruption and criminal activity.

In December 2003, Systembolaget established an Ethics Council comprising Professor Madeleine Leijonhufvud, former Head of Division of the Court of Appeal, Thorsten Cars, and ethics consultant Lisbeth Gustafsson. Systembolaget worked with the Eth-

ics Council to draw up labour law-based grounds for assessing breaches of the company's rules and policies, guidelines for an Ethics Advisor, and a combined overview of applicable policies. The guidelines were promulgated throughout the organisation through training and discussions in every store and in all of the Systembolaget head office units. The Ethics Council's work formed the basis for the drafting of an ethics programme for Systembolaget.

In April 2005, Ulf Lidman, a store manager in Kålleröd outside Gothenburg, was appointed Ethics Advisor for Systembolaget. His duties, in addition to his work as a store manager, entailed advising employees on ethical issues and receiving information on any breaches of the company's guidelines. This was the beginning of a whistle-blowing unit in the company. Employees who make use of this facility and approach the Ethics Advisor shall be guaranteed anonymity.

The reorganisation of Systembolaget's stores some years ago into 28 areas with 10 to 17 stores in each area offers greater opportunities for contact and a feeling of affinity between the stores and the central parts of the organisation. The company has also been working since 2004 to convey a new methodology to the stores. This new methodology is intended, amongst other things, to offer greater potential for accepting responsibility and to generate a greater sense of involvement in the store organisation. One aspect of this involves giving more people the opportunity to take responsibility for different aspects of the store's operations. Another involves focusing on the store manager's leadership, where the key words are honesty, openness, and respect, and on conveying the company's values, loyalty to the values and the company, and an understanding of the requirements of brand-neutrality, by the way the manager manages.

Systembolaget's supplier policy

The supplier policy has been made very clear to the company's employees on many occasions over the years, including at store manager meetings and in the various sets of instructions that govern our operations. The suppliers have been informed of the company's rules and requirements at innumerable supplier meetings, as they are known. Store managers and suppliers alike have been informed in detail of what we expect.

The review of "Systembolaget's mandate" carried out in 1981 with all personnel, and which included a section on the importance for the company of acting in a brand-neutral manner, is one example of these efforts.

In 1994, a memorandum was drafted to further stress the importance of the rules governing contacts between suppliers and store managers. All employees were required to sign an affidavit stating that they had studied the document's contents, which could be regarded as confirmation that they had studied and understood the policy. This document explained brand-neutrality and its importance against a background of the rules governing contacts between suppliers and Systembolaget's employees. The rules state, amongst other things, that Systembolaget's employees may not request or accept gifts, nor may they take part in events organised by agents or manufacturers, even during their leisure time or on holiday.

In 1997, Systembolaget decided to review this supplier policy. The main change meant that in certain exceptional cases, the supplier was allowed to contact the store in connection with logistics-related issues and returns. Attempts to "sell in" products, or any other attempts to influence the product range, stocks held, or product displays were not permitted during such discussions. All employees who were not

part of the organisation in 1994 were now required to sign this new version.

A new version of the supplier policy was drawn up in early 2003. This version tightened up the rules governing suppliers' contacts with the Systembolaget stores. Contacts between suppliers and the stores in order to handle logistics- and returns-related issues were no longer permitted. These were, incidentally, now surplus to requirements, thanks to the introduction of the new purchasing system. Suppliers' representatives may hence only visit Systembolaget stores to make purchases in their capacity as private individuals. Suppliers wishing to make study visits to a Systembolaget store with producers are welcome to do so, subject to the agreement of the purchasing department at head office, which will suggest a suitable store.

The suppliers' policy was revised in 2004 when the new Ethics Council was established. The new suppliers' policy is slightly differently structured, but its import is the same as that of previous policies. The policy was given a new name – "Guidelines for external contacts." The guidelines have, amongst other things, been complemented with concrete examples of measures to be taken in connection with various types of breach. The new guidelines also clarify what are regarded as mitigating or aggravating circumstances.

The cost of the police reports

The costs arising from processing the police reports and their consequences have been substantial. By far the biggest single item comprises salaries to those individuals who were involved (SEK 28.8 million). These people were suspended on full pay whilst the preliminary investigation was conducted. The cost of legal advice and other external advice over the past three years totalled SEK 11.5 million.

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Costs arising from processing police reports (SEK million)				
	2003	2004	2005	Total
Staff overheads	11.3	14.5	2.9	28.8
External services	1	6.2	3.2	11.5

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Systembolaget and public opinion

Systembolaget has been measuring public opinion to track levels of support for retaining Systembolaget's monopoly since 2001. The results of these measurements give us one of our strategic key performance indicators, the Opinion Index (OPI), which we use as a target figure at a strategic level. The first measurement in 2001 yielded a value of 49 in favour of the monopoly, that is, 49 per cent of people questioned answered yes to the question, "Do you think that Systembolaget and the monopoly on the sale of strong beer, wine, and spirits should be retained, or would you prefer strong beer, wine, and spirits to be sold in other stores?"

The trend since then has been positive, and in 2005, the OPI was 55 per cent in favour.

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.

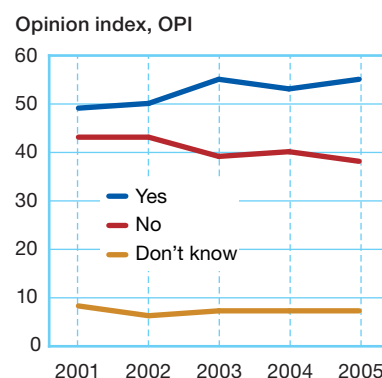
The main reasons for the support of those who wanted to retain the monopoly were a desire for alcohol to be sold in a controlled manner, to protect young people, to promote public health, and satisfaction with Systembolaget's product range. The main reasons cited by the one third of respondents who wanted the monopoly to be abolished were a desire to see free competition (they disliked monopolies on general principles), a desire to see an improvement in availability and opening hours, and a belief that the way alcohol is sold in other countries works fine.

The support of Swedes is vital to the existence of the retail monopoly. Systembolaget was created through public support and could not have continued to exist without the support of the Swedish people, who are both our customers and our owners. The first monopoly created in the 1800s was a local monopoly established in response to a local initiative, as a popular reaction aimed at rectifying the problems of alcohol. Systembolaget was formed as a national monopoly owned entirely by the Swedish government in 1955, and it has been strongly supported virtually ever since.

A number of opinion surveys were carried out in 1990s, asking whether all alcoholic drinks, in other words, strong beer, wine, and spirits, should be sold in food stores. In 1993, before Sweden joined the EU, 52 per cent answered that they thought they should be. By 2000, this figure had fallen to 45 per cent.

The opinion surveys from 2005 show that when asked whether the monopoly on strong beer, wine, and spirits should be retained, 55 per cent answered yes, 7 per cent were uncertain, and 38 per cent of those questioned answered no.

"Do you think that Systembolaget and the monopoly on the sale of strong beer, wine, and spirits should be retained?"



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 2005 until 31st December 2005.

Operations in 2005

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.

Our core business comprises the purchasing and retail processes. The management and steering processes include operational planning and ensuring high standards of internal control.

The operational control and following up of Systembolaget's operations and goal attainment are based on four perspectives: society, customers, personnel, and financial. The Board has established goals and priorities for each of these perspectives for the 2005 financial year, and a number of strategic key performance indicators have been defined, to enable performance to be measured and to measure how well our objectives are achieved. The current strategic plan, which was adopted in 2003, defined target levels for the years up to and including 2007.

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- **The Opinion Index** measures the percentage of Sweden's population who want to retain Systembolaget and the monopoly on the sale of strong beer, wine, and spirits.

- **Age verification** measures the number of occasions when proof of age has been requested from customers under the age of 25 as a percentage of the number of control purchases carried out by people aged between 20 and 25.

- **The Customer Satisfaction Index (CSI)** measures how satisfied customers are with Systembolaget. Measured and reported once a year.

- **The Employee Satisfaction Index (ESI)** measures how satisfied employees are with Systembolaget as an employer. Measured and reported once a year.

- **The trading margin** is the gross profit as a percentage of turnover, excluding alcohol tax.

Summary of key performance indicators and goals per perspective, and goal attainment

Perspective	Strategic key performance indicator	2001	2002	2003	2004	2005	Goal level 2005	Goal level 2006	Goal level* 2007
Society	Opinion index	49	50	55	53	55	55	56	57
	Age verification	80%	79%	83%	84%	89%	86%	90%	88%
Customer	Customer Satisfaction Index (CSI)	71	73	73	72	73	73	74	76
Personnel	Employee Satisfaction Index (ESI)	-	68	69	69	70	70	71	73
Financial	Trading margin, ex. alcohol tax (Parent Co.)	27.1%	26.1%	25.1%	25.2%	25.5%	25.1%	25.0%	25.0%

*The goal level stated in the strategic plan adopted in 2003

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The key performance indicators are reported, analysed, and followed up regularly. The performance within each of the perspectives forms the basic priorities set in the planning work for the next year.

Society

Prioritised areas, 2005

To clarify and gain support for our mandate externally, and to further develop methodologies/measurement methods for our selling rules with the aim of improving the opinion index and age verification.

Opinion index

Opinion surveys show that public support for retaining Systembolaget is increasing. In 2001, 49 per cent of the public wanted Systembolaget's retail monopoly to continue, whilst the corresponding figure for 2005 is 55 per cent, which is on a par with the goals set for the year. Public confidence in Systembolaget was higher in 2005 than it has been since 2001. Systembolaget's social mandate is the most important reason why Swedes want to retain Systembolaget.

Age verification

The goal for 2005 was that we should pass 86 per cent of all control purchases. The result was that in 89 per cent (84 per cent) of the control purchases in stores and 89 per cent (81 per cent) of control purchases from agents, proof of age was requested. Measures are now being planned to further improve our ability to avoid selling to young people under the age of 20. Our goal for 2006 is that proof of age is requested in at least 90 per cent of the control visits.

Systembolaget and the environment

Systembolaget and the products we sell shall have the minimum possible impact on the environment. We are working actively to reduce our environmental impact. Systembolaget has a general environmental policy and a concrete environmental plan. For more information on Systembolaget's environmental work and to see Systembolaget's environmental report, see page 43 and www.systembolaget.se, respectively.

Customers

Prioritised areas, 2005

Generate the preconditions for and develop methods to improve interaction with the customers and to increase the Customer Satisfaction Index (CSI).

Satisfied customers

We measure how satisfied our customers are with Systembolaget every year – our Customer Satisfaction Index (CSI). The result for 2005 was 73 (72). One of the important areas covered by the measurement in 2005 and one in which we did well, was our success in conveying our social responsibility. Systembolaget has won back customers' confidence in the values for which we stand. There has also been a substantial improvement in the value that represents how well we inform people of the risks associated with alcohol.

Levels of customer satisfaction with our personnel remain very high at 84, which is one of the highest values in the retail trade. We will endeavour to improve this result still further in the year ahead.

Sales trend

The Parent Company's turnover increased in 2005 to SEK 18,083 million (SEK 17,708 million), or by 2.1 per cent (-6.7%), as a result of the increase in volumes. The main reason for the increase in sales was the reduction in private imports by travellers. Alcohol consumption nationwide fell in 2005 and now totals 10.1 litres* (10.5 litres) of pure alcohol per person over the age of 15.

* Source: SoRAD, the Centre for Social Research on Alcohol and Drugs at Stockholm University
Preliminary figures for 2005

Systembolaget's sales volumes in 2005 accounted for 48 per cent (46 per cent) of the total alcohol consumption nationwide.

Systembolaget sold 358.6 (348.3) million litres of drinks in 2005, corresponding to an increase of 2.9 per cent in comparison with 2004. Measured in pure alcohol, sales increased by 2.4 per cent to 36.4 (35.6) million litres. The increased volumes are attributable to the wine and beer product groups, which increased by 3.1 per cent (-2.1 per cent) and 3.5 per cent (-3.5 per cent), respectively. Sales of spirits fell by 2.3 per cent (-13.0 per cent) at an annual level.

Personnel

Prioritised areas for the perspective

To create a corporate culture in which we live up ever more closely to our mandate. A culture that is based on our values, pride, faith in the future, good leadership, and a focus on the customer, and an increased Employee Satisfaction Index (ESI).

Employee Satisfaction Index

The result for 2005's ESI was 70 (69), which is the highest level measured since measurements began, showing that Systembolaget's employees are more satisfied than ever.

It is particularly pleasing, in view of the disturbances that have affected us in the last few years to see that the ESI has improved every year since 2002. One quality area measured, and where we have seen a substantial improvement since 2004, is "Systembolaget as a whole," where the index has improved from 63 to 70.

Diversity

The basis for our striving for equal opportunities is the company's diversity policy and its increased diversity plan.

One clearly positive trend detectable is the gender breakdown of store managers. The percentage of women in this role has increased from 34 per cent in 2000 to 44 per cent in 2005. See also page 33 and note 14, page 72.

Sickness absence

Systembolaget has been actively involved in work environment activities for a number of years now, with the aim of preventing ill health.

The results of measurements of the stores' sickness absence levels are reported and followed up every month in the same way as the other key performance indicators, and suggest how much our employees are enjoying their work, how good our work environment is, and areas in which we could improve. The total sickness absence as a percentage of hours worked was 7.2 per cent (8.1 per cent) in 2005. See also note 13, page 72.

Financial

Prioritised areas for the perspective

To improve operational efficiency, improve steering/follow up work, and to secure customer benefit.

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Operations in relation to the owner's directives and the financial demands on the operations

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

* Not reported in accordance with IFRS

** Includes a dividend payment approved by an Extraordinary General Meeting

*** Proposal submitted to the Annual General Meeting

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Under the provisions of the owner's directive, the operations shall be run in a financially efficient manner with no effort made to maximise profits.

Financial overview and sensitivity analysis

The Group's turnover in 2005 totalled SEK 18,083 million (SEK 17,708 m), corresponding to an increase of SEK 375 million (- SEK 1,277 m) in comparison with 2004.

Systembolaget's operations are characterised by high sales volumes with a low margin, and the operating result is hence sensitive to changes in volume. Every percentage point change in turnover corresponds to a change in the gross profit of approximately SEK 25 million (SEK 26 m).

The Parent Company's trading margin, including excise duty, remains largely unchanged at 13.7 per cent (13.5 per cent). The increase in the gross profit since 2004 is due to the increased sales volumes. The Group's operating result has improved by SEK 280 million (SEK 25 million) to SEK 477 million (SEK 197 m).

The improvement in the Group's result is principally due to increased sales volumes and to reduced overheads in the stores and at head office. An efficiency-boosting programme was implemented at the head office in 2004 with the aim of reviewing methodologies and processes. The goal was to achieve an annual saving of approximately SEK 120 million and will achieve its full impact as of 2006. The result for 2005 includes capital gains on the sales of real estate totalling SEK 75 million (SEK 70 m).

Risks and internal controls

Systembolaget is self-financed, 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 card and Systembolaget hence has no significant accounts receivable. 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. Systembolaget's liquidity risk is low. Systembolaget's drinks suppliers are responsible for the import of alcoholic drinks

and for reporting alcohol tax. Products are purchased in Swedish kronor, and the company has no currency exposure. The Group has a limited exposure to exchange rate and currency risks.

Given Systembolaget's principal processes, the structure of the operational control, 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 on page 91.

Systembolaget Fastigheter AB

The wholly owned subsidiary, Systembolaget Fastigheter AB, owns the properties and tenant-owner rights (with a few exceptions) held by the Group. Four properties and two tenant owner rights were sold through the sale of a limited partnership during the year. A total of 113 (117) properties, comprising a total of 168,000 m² (187,000 m²), are managed. The vacancy level is approximately 2.7 per cent (2.5 per cent). All properties owned are related to Systembolaget's operations.

The real estate management business reported a profit after financial items of SEK 161 million (SEK 143 m). The result includes capital gains of SEK 75 million (SEK 70 m).

Lagena Distribution AB

Lagena Distribution AB is a wholly owned subsidiary of Systembolaget AB. Lagena stores and distributes alcoholic drinks to a large number of suppliers of Systembolaget's stores, to wholesalers, and to approximately 2,500 restaurants. Lagena handled 7.7 million articles during the year. A new business computer system became operational at the end of 2004 and, thanks to efficient preparatory work, has worked very well indeed.

Turnover has increased from SEK 230 million to SEK 270 million. The result after financial items was SEK 3 million (SEK 15 m). The deterioration in the result was due to the revision of the depreciation plan for building inventories, which has affected the operating result for 2005 negatively to the tune of SEK 12.2 million.

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, and which results in reduced alcohol consumption and hence in a reduction in the harm caused by alcohol. IQ's operations are directed by a vision in which society is generally characterised by a more sensible approach to alcohol and where moderation is an established value when alcohol is consumed.

IQ-initiativet AB was formed and launched in the spring of 2005, and since September 2005, the operations have been conducted by the company's own personnel. IQ has a total of three employees. Turnover in 2005 totalled approximately SEK 7.9 million. IQ successfully highlighted and identified 50 or so projects aimed at reducing alcohol consumption in 2005, and these projects have subsequently been communicated in a variety of ways in order to inspire more people to do more. IQ has rapidly established itself as a strong shaper of public opinion and a major player in the alcohol field.

Investments

The Group's investments totalled SEK 167 million (SEK 224 m), corresponding to a reduction of SEK 57 million in comparison with last year. Renovation and construction of stores accounts for SEK 103 million (SEK 137 m) of this, with a total of 22 (29) stores renovated and 1 (2) new stores built during the year.

Events after the financial year-end

No significant events have occurred after the financial year-end that affect the financial information contained in this Annual Report.

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, wine, and strong beer product groups are expected to increase by 2 per cent in 2006. The planned tax increase for Ready to drink/Flavoured Alcoholic Beverages will raise the price of these drinks substantially, resulting in a fall in sales.

The operations plan for 2006 is based on the assumption that alcohol taxes will, with the exception of the change mentioned above, remain the same in both Sweden and the outside world. The efficiency programme implemented in 2004 and 2005 will continue to have a positive effect on the financial result in 2006.

Overall, the company believes that it will easily meet the owner's returns requirement in the coming financial year. A review of Systembolaget's pricing model will be carried out in 2006.

Proposed allocation of profits

The Board of Directors proposes that a dividend of SEK 330 million be paid, corresponding to SEK 917 per share. The dividend, in the form of cash payments, will be disbursed on 31st March 2006.

The Board of Directors is of the opinion that the proposed dividend payment is justifiable with reference to the requirements that the nature, scope, and inherent risks of the operations make of the extent of 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.

Definitions

Return on shareholders' equity

The result after standard tax as a percentage of adjusted shareholders' equity at the beginning of the year.

Equity/assets ratio

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

Trading margin

The gross profit as a percentage of turnover.

Work productivity

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

Stock turnover rate

Turnover divided by the average stock value at sale price.

Wastage

Wastage, as established during stocktaking, per thousand of turnover, including both product and cash.

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.

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.

Trading margin

Gross profit as a percentage of turnover, excluding alcohol tax.

The Group – a Five Year Summary

Key ratios

	2005	2004	2003*	2002*	2001*
Earning capacity	18.9%	11.5%	9.8%	10.8%	11.0%
Equity/assets ratio	38.4%	38.9%	32.8%	30.0%	35.5%
Trading margin, inc. alcohol tax	13.7%	13.4%	13.2%	13.2%	13.2%
Trading margin, ex. alcohol tax	25.5%	25.2%	25.1%	25.5%	26.7%
Work productivity	743	708	701	662	659
Stock turnover rate	20.5	19.9	21.9	24.7	27.6
Product wastage, SEK million	18.4	18.2	22.0	21.3	11.6
Wastage, per thousand	1.40**	1.05	1.15	1.16	0.68
Age verification, per cent	89	84	83	79	81
Earnings per share, SEK	917	495	384	393	369

Profit/loss (SEK million)

	2005	2004	2003*	2002*	2001*
Turnover	18 083	17 708	18 985	19 132	18 241
Operating expenses	-17 606	-17 511	-18 813	-18 967	-18 082
Net financial items	36	43	30	37	38
Profit/loss after financial items	513	240	202	202	197
Annual profit/loss	330	178	138	142	133
Dividend	330	90	200	80	80

Balance sheet (SEK million)

	2005	2004	2003*	2002*	2001*
Fixed assets	2 277	2 101	1 501	1 345	1 360
Current assets	2 908	2 246	2 615	3 359	2 435
Total assets	5 185	4 347	4 116	4 704	3 795
Adjusted shareholders' equity	1 989	1 749	1 348	1 409	1 348
Liabilities and provisions	3 196	2 598	2 768	3 295	2 447
Total shareholders' equity and liabilities	5 185	4 347	4 116	4 704	3 795

* Not converted in accordance with IFRS

** The "Wastage (per thousand)" key ratio includes, as of 2005, theft of carrier bags. If the theft of carrier bags is excluded, the result for 2005 is 1.03 per thousand, which is on a par with 2004.

Income Statement, SEK million

		The Group		Parent Company	
	Note	2005	2004	2005	2004
Net sales	7	18 083	17 708	18 083	17 708
Cost of goods sold	8, 9	<u>-15 622</u>	<u>-15 337</u>	<u>-15 622</u>	<u>-15 337</u>
Gross profit/loss		2 461	2 371	2 461	2 371
Selling expenses	9-15	-1 823	-1 972	-1 861	-1 981
Administrative expenses	9-16	-358	-399	-359	-403
Other operating income	17	582	551	23	25
Other operating expenses	17	<u>-385</u>	<u>-354</u>	<u>-2</u>	<u>-3</u>
Operating profit/loss		477	197	262	9
Result from financial investments					
Result from participations in Group companies	18	-	-	166	142
Result from other securities					
and receivables classified as fixed assets	19	27	25	12	7
Interest income	20	11	19	23	37
Interest expenses	21	<u>-2</u>	<u>-1</u>	<u>-2</u>	<u>-1</u>
Profit/loss after financial items		513	240	461	194
Appropriations	22	-	-	428	14
Profit/loss before tax		513	240	889	208
Tax	23	<u>-183</u>	<u>-62</u>	<u>-254</u>	<u>-54</u>
Profit/loss for the year		330	178	635	154
Earnings per share		SEK 917	SEK 495	SEK 1 764	SEK 429
(Earnings per share are calculated on a basis of 360,000 shares.)					

Notes 1–42 comprise an integral part of the financial reports.

Balance Sheet, SEK million

	Note	The Group		Parent Company	
		31-12-05	31-12-04	31-12-05	31-12-04
Assets					
Fixed assets					
Intangible fixed assets					
Capitalised expenses, business system	24	99	121	92	114
Tangible fixed assets					
Buildings and land	25	573	575	38	40
Equipment, fixtures, and fittings	26	499	576	479	544
Construction in progress	27	<u>65</u>	<u>39</u>	<u>65</u>	<u>39</u>
Total tangible fixed assets		1 137	1 190	582	622
Financial fixed assets					
Participations in Group companies	28	-	-	15	15
Receivables from Group companies		-	-	349	408
Pension funds, net	29	411	361	-	-
Deferred tax receivables	30	50	86	28	28
Other long-term securities holdings	31	572	334	572	334
Other long-term receivables	32	<u>8</u>	<u>9</u>	<u>13</u>	<u>9</u>
Total financial fixed assets		1041	790	977	794
Total fixed assets		2 277	2 101	1 651	1 530
Current assets					
Stock-in-trade		817	779	817	779
Current receivables					
Accounts receivable		55	42	13	10
Receivables from Group companies		-	-	164	143
Other receivables		51	10	43	7
Prepaid costs and accrued income	33	<u>39</u>	<u>46</u>	<u>35</u>	<u>43</u>
Total current receivables		145	98	255	203
Liquid assets		1 939	1 308	1 942	1 308
Fixed assets held for sale	34	<u>7</u>	<u>61</u>	<u>-</u>	<u>-</u>
Total current assets		2 908	2 246	3 014	2 290
Total assets		5 185	4 347	4 665	3 819

Notes 1–42 comprise an integral part of the financial reports.

Balance Sheet, SEK million

		The Group		Parent Company	
	Note	31-12-05	31-12-04	31-12-05	31-12-04
Shareholders' equity	35				
Share capital		360	360	-	-
Profits carried forward		1 299	1 211	-	-
Profit/loss for the year		<u>330</u>	<u>178</u>	<u>-</u>	<u>-</u>
Total shareholders' equity		1 989	1 749	-	-
Restricted shareholders' equity					
Share capital (360,000 shares @ SEK 1,000)		-	-	360	360
Statutory reserve		<u>-</u>	<u>-</u>	<u>72</u>	<u>72</u>
Total restricted shareholders' equity		-	-	432	432
Non-restricted shareholders' equity					
Profit/loss carried forward		-	-	500	436
Profit for the year		<u>-</u>	<u>-</u>	<u>635</u>	<u>154</u>
Total non-restricted shareholders' equity		-	-	1 135	590
Total shareholders' equity		-	-	1 567	1 022
Untaxed reserves					
Tax allocation reserves	36	-	-	0	428
Long-term liabilities and provisions					
Liabilities to Group companies		-	-	43	26
Other liabilities	37	-	2	-	-
Provisions for taxes	38	137	274	19	19
Other provisions	39	<u>12</u>	<u>29</u>	<u>89</u>	<u>104</u>
Total long-term liabilities and provisions		149	305	151	149
Current liabilities and provisions					
Accounts payable		2 513	1 933	2 462	1 908
Liabilities to Group companies		-	-	1	1
Tax liabilities		244	38	234	33
Other liabilities		103	83	98	82
Accrued costs and prepaid income	40	162	184	134	152
Provisions		<u>25</u>	<u>55</u>	<u>18</u>	<u>45</u>
Total current liabilities and provisions		3 047	2 293	2 947	2 220
Total shareholders' equity and liabilities		5 185	4 347	4 665	3 819
Memorandum items					
Pledged assets and contingent liabilities					
Pledged assets	41	5	None	5	None
Contingent liabilities	42	6	7	10	13

Notes 1–42 comprise an integral part of the financial reports.

Change in Shareholders' Equity

The Group, 2004

	Note	Share capital	Profit/loss carried forward	Total
Opening balance, 1st January 2004		360	988	1 348
Adjustment for changes in accounting principles	35		303	303
Adjusted shareholders' equity, 1st January 2004		360	1 291	1 651
Profit/loss after tax			178	178
Total changes in wealth, ex. transactions with the company's owner		0	178	178
Dividend			-80	-80
Closing shareholders' equity, 31st December 2004		360	1 389	1 749

The Group, 2005

	Share capital	Profit/loss carried forward	Total
Opening balance, 1st January 2005	360	1 389	1 749
Adjustment for changes in accounting principles			0
Adjusted shareholders' equity, 1st January 2005	360	1 389	1 749
Profit/loss after tax		330	330
Total changes in wealth, ex. transactions with the company's owner	0	330	330
Dividend		-90	-90
Closing shareholders' equity, 31st December 2005	360	1 629	1 989

Parent Company, 2004

	Share capital	Statutory reserve	Profit/loss carried forward	Profit for the year	Total
Opening balance, 1st January 2004	360	72	384	132	948
Transfer to non-restricted reserves			132	-132	0
Profit/loss after tax				154	154
Total changes in wealth, ex. transactions with the company's owner	0	0	132	22	154
Dividend			-80		-80
Closing shareholders' equity, 31st December 2004	360	72	436	154	1 022

Parent Company, 2005

	Share capital	Statutory reserve	Profit/loss carried forward	Profit for the year	Total
Opening balance, 1st January 2005	360	72	436	154	1 022
Transfer to non-restricted reserves			154	-154	0
Profit/loss for the year				635	635
Total changes in wealth, ex. transactions with the company's owner	0	0	154	481	635
Dividend			-90		-90
Closing shareholders' equity, 31st December 2005	360	72	500	635	1 567

Notes 1–42 comprise an integral part of the financial reports.

Cash Flow Statement, SEK million

	The Group		Parent Company	
	2005	2004	2005	2004
Operating activities				
Result after financial items	513	241	461	194
Adjustments for items not included in the cash flow	158	201	178	249
	671	442	639	443
Tax paid	<u>-118</u>	<u>-70</u>	<u>-93</u>	<u>-64</u>
Cash flow from operating activities before changes in operating capital	553	372	546	379
Cash flow from changes in operating capital				
Change in stock-in-trade	-38	62	-38	62
Change in receivables	-6	27	-12	-43
Change in liabilities	<u>-530</u>	<u>-263</u>	<u>-511</u>	<u>-272</u>
Cash flow from operating activities	1 039	198	1 007	126
Investment activities				
Acquisition of fixed assets	-167	-221	-122	-204
Sale of fixed assets	137	94	5	8
Change in other long-term securities holdings	-288	-66	-224	-66
Reduction in financial receivables	-	3	-	3
Reduction in financial receivables from subsidiaries	<u>-</u>	<u>-</u>	<u>58</u>	<u>137</u>
Cash flow from investment activities	-318	-190	-283	-122
Financial activities				
Dividend	-90	-80	-90	-80
Increase in financial liabilities to subsidiaries	<u>-</u>	<u>-</u>	<u>-</u>	<u>4</u>
Cash flow from financial activities	-90	-80	-90	-76
Cash flow for the year	631	-72	634	-72
Liquid assets at the beginning of the year	<u>1 308</u>	<u>1 380</u>	<u>1 308</u>	<u>1 380</u>
Liquid assets at the end of the year	1 939	1 308	1 942	1 308
Supplementary information				
Adjustments for items not included in the cash flow				
Depreciation and write-downs	213	204	160	163
Provisions	-	81	-	71
Capital gain/loss	-54	-66	19	4
Other	<u>-1</u>	<u>-18</u>	<u>-1</u>	<u>11</u>
	158	201	178	249
Details of interest payments				
Interest received	11	14	23	32
Interest paid	2	5	2	5
Liquid assets				
Cash and bank balances	<u>1 939</u>	<u>1 308</u>	<u>1 942</u>	<u>1 308</u>
Amount at the year-end	1 939	1 308	1 942	1 308

Supplementary Information and Notes

All amounts are shown in million Swedish kronor unless otherwise stated.

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Note 1 *General information*

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.

Operations

Systembolaget AB is a government-owned alcohol monopoly, and its operations comprise the retail of alcoholic drinks. The basic concept is that the sale of alcohol shall not be governed by a private profit motive.

Events after 31st December

No significant events have occurred after 31st December.

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Note 2 *The effect of the transition to IFRS*

The transition to International Financial Reporting Standards, IFRS, on 1st January 2004, did not have any effect on shareholders' equity, the profit/loss, or the cash flow for 2004. As of 1st January 2005, IAS 32 and IAS 39, Financial Instruments, will be applied. Their introduction has affected the financial instruments reported in the 2004 Annual Report as short-term investments. These financial instruments have been classified as assets valued at their true value via the Income Statement. The effect of this was an adjustment in shareholders' equity on 1st January 2005 to the tune of SEK 0.4 million. The reported value of the financial investments increased by SEK 0.6 million, and the deferred tax liability increased by SEK 0.2 million. As of Q4 2005, corresponding newly acquired financial assets will be valued in accordance with the principle that they will be kept until they fall due. Valuation is effected at the accrued acquisition value, using the effective interest-rate method.

IFRS 5 Fixed Assets held for sale and wound-up operations, will be applied as of 1st January 2005. The introduction of this standard has affected the Consolidated Balance Sheet such that fixed assets for sale (here referring to real estate) were reclassified and reported on a separate line in the Balance Sheet for 2005. Equivalent reclassification has been effected for the real estate that was for sale in 2004. The amended accounting principle has had no effect on the Income Statement.

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Note 3 *Accounting principles*

General

Systembolaget AB's Annual Report has been prepared in accordance with the provisions of the Swedish Annual Accounts Act and of the International Financial Reporting Standards (IFRS), with the exceptions and addenda that ensue from the Swedish Financial Accounting Standards Council's Recommendation 32, Reporting for Legal Entities and Recommendation 30, Complementary Accounting Rules for Corporate Groups.

Guidelines from the Cabinet Office

Systembolaget applies government guidelines on external financial reporting by state-owned companies. Annual reports, interim reports, and preliminary financial statements must comply both with current accounting legislation and generally accepted accounting principles and, where applicable, with the recommendations listed in the Stockholm Stock Exchange's listing agreement and appendices thereto.

New accounting principles and recommendations

The Group applies the International Financial Reporting Standards (IFRS) adopted by the European Commission. IFRS was applied as of 2005. The effects of the transition to IFRS to the comparative figures for 2004 are described in Note 2.

IFRS 1 includes special transitional regulations with regard to the first time IFRS is applied. The Group has chosen to implement the option offered by these transitional regulations whereby comparable financial information for 2004 is not converted in accordance with the requirements of IAS 39 Financial Instruments, and has further chosen the option of valuing fixed assets at the acquisition cost and not the true value.

It is not felt that the IFRS standards and interpretations that have been published but which had not come into effect by 31st December 2005 will have any effect on the Group's financial reports for 2006.

The Parent Company's accounting principles

The Parent Company applies the Swedish Financial Accounting Standards Council's Recommendation RR32, Reporting for Legal Entities. The differences that this entails, in comparison with the Group's reporting in accordance with IFRS, relate to remuneration to employees and to fixed assets. The differences are described below in this note and are also described in Notes 29 and 34.

Consolidated Accounts

The consolidated accounts include subsidiary companies in which the Parent Company, at the end of the financial year, either directly or indirectly holds more than 50 per cent of the votes, or otherwise has a decisive influence. Companies acquired are included in the Group from the acquisition date, and companies sold are included in the Group up to and including the date of the sale. Only the subsidiary's profits carried forward that were earned after the acquisition and the non-restricted shareholders' equity that can be paid in dividends to the Parent Company without entailing any requirement to write down the shares are included in the Group's non-restricted shareholders' equity.

The consolidated accounts have been prepared in accordance with the acquisition value method, whereby identified acquired assets and liabilities and contingent liabilities are valued at their true value, which comprises the consolidated acquisition value irrespective of the scope of any minority holding. 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, plus costs directly attributable to the acquisition. Any positive differences between the acquisition cost of the shares and the Group's share of the consolidated acquisition value is reported as consolidated goodwill. If the difference is negative, it is reported directly in the Income Statement.

Intra-Group transactions, balance-sheet items, and unrealised profits on transactions between Group companies are eliminated. The accounting principles for subsidiary companies have, where relevant, been adapted in the consolidated accounts to ensure a consistent application of the Group's principles.

Format of the Income Statement

The Income Statement is based on classification according to 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.

Income and expense for the subsidiaries, real-estate management, and distribution of goods are accounted for under the heading of other operating income and operating expense.

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

Sale of goods

The Group's income is generated, in every significant respect, by the sale of drinks to consumers. The income corresponds to the true value of goods sold, excluding value added tax. 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 the term, in accordance with the effective interest rate method.

Segment reporting

An industry segment comprises a group of assets and operations that supply 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 an economic environment that is exposed to risks and opportunities that differ from those applicable to other economic environments. Systembolaget operates within one industry segment and one geographic market, and hence segment reporting is not relevant.

Intangible fixed assets

Expenses in connection with the development of a new business system are reported as intangible fixed assets. These assets are valued at the acquisition value less accumulated depreciation and any write-downs. Expenses for system development are reported as intangible assets when the following criteria are met:

- identifiability
- control over the asset
- the asset will yield future economic benefits

The expenses that do not meet the above criteria are carried as expenses when they are acquired or worked up internally. Useful life and residual value are reviewed on every closing date and adjusted where necessary. An asset's reported value is written down immediately to its recovery value if this value is lower than the reported value.

Tangible fixed assets

Tangible fixed assets are valued at the acquisition value less accumulated depreciation and any write-downs. Expenses arising from improvements to the asset's performance, over and above the original level, increase the reported value of the asset. Expenses for repairs and maintenance are carried as expenses on a rolling basis. Operating properties are properties held for the purposes of Systembolaget's own operations and mainly comprise stores and premises used for administrative activities. Systembolaget utilises and conducts operations in all of the premises it owns and they are, therefore, classified as operating properties.

Fixed assets held for sale

Individual fixed assets available for immediate sale are reported as current assets under the heading, Fixed assets held for sale. Any liabilities or shareholders' equity items associated with the fixed asset shall be reported separately and in the same way, under the respective headings. They are valued at whichever is the lower of the reported value and the true value, less selling expenses. Reclassification as fixed assets for sale occurs when it is adjudged that the sale is highly probable, which means that a decision must have been taken at management level, that there must be an active programme in place to complete the sale, that the sale 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 Group has sold and intends to continue to sell properties in conjunction with changes in the store structure. Properties will normally be reclassified as fixed assets held for sale when the object is handed over to a broker, from which point no depreciation is effected in the consolidated accounts.

Depreciation

Depreciation according to plan is based on the acquisition values which, after deductions for any residual value, is spread over the estimated useful life. Depreciation is based on the following useful life durations:

Asset	
Buildings	25–50 years
Equipment, fixtures, and fittings	3–5 years
Renovation work in-store	7 years
Intangible assets	5 years

Expenses deriving from improvements to properties owned by another party are depreciated over the planned rental period, which is normally assumed to be 20 years.

Write-downs

An assessment is carried out in conjunction with every closing date to determine whether there is any indication of a write-down requirement with regard to the reported values of the Group's assets. If any such indications exist, an asset's recovery value is then calculated. Write-downs are effected when the reported value exceeds the recovery value of an asset. The recovery value is whichever is the higher of the net sale value and the value in use. The value in use is calculated by estimated future payments to be received and made, which are discounted at current value.

Leasing

Fixed assets that are leased such that the Group is exposed to the same risks and receives the same benefits, in every significant respect, as in conjunction with direct ownership, are classified as financial leases. Assets leased where the lessor in every significant respect continues as the owner of the asset are classified as operational leases. The leasing fee is carried as an expense linearly over the leasing period. All of the Group's leasing agreements have been classified as operational.

Stock-in-trade

Stock-in-trade comprises goods for resale. Stock-in-trade has been valued at whichever is the lower of the acquisition value and the net sale value, where the acquisition value is calculated using the FIFO method (First In/First Out). Loan costs are not included in the stock value.

Receivables

Receivables have, following individual valuation, been booked at their estimated realisable value.

Liquid assets

Liquid assets include cash and bank balances, and other short-term investments.

Financial instruments

Financial investments in the form of interest-bearing bonds, treasury bills, and commercial papers are classified as long-term when the purpose of the investment is a long-term one. The financial investments were classified as short-term in the 2004 Annual Report.

The Group classifies its financial instruments according to one of the categories described below. The classification depends on the purpose for which the instrument was acquired.

Financial instruments valued at the true value via the Income Statement

This class of financial instruments includes assets and liabilities that the company management wishes to value at their true value and whose change in value will affect the Income Statement. Derivatives are always included in this class, other than when the derivative comprises part of a hedging transaction.

Financial instruments held until maturity

Financial instruments in the category of instruments held until maturity are acquired with the intent and financial ability to be retained until maturity. These financial instruments are valued at the accrued acquisition value in accordance with the effective interest rate method.

Financial instruments that can be sold

This class contains financial instruments that can be sold and which are not derivatives. Financial instruments in this category are valued at their true value and the change in value is reported over shareholders' equity. The Group had no instruments in this category during the financial year.

Operations-related financial instruments

Loan receivables and loan liabilities, accounts receivable and accounts payable, are examples of operations-related financial instruments. This type of financial instrument is held with no intention to trade in either the receivable or the liability. They are valued at the accrued acquisition value and in accordance with the effective interest rate method.

Purchases and sales of financial instruments are reported on the trade date, which is the date when a binding agreement is entered into. All financial instruments not valued at their true value are valued initially at the acquisition cost plus transaction costs.

The reported value of financial instruments corresponds to their true value, unless otherwise stated.

Loan liabilities

The Group has no interest-bearing liabilities.

Provisions

Provisions comprise commitments pertaining to the financial year or earlier financial years, where the existence of the commitment is certain or probable on the closing day, but where the amount of the commitment, or the date on which it is to be delivered, is uncertain.

Remuneration to employees – pension undertakings

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.

Parent Company pensions

Systembolaget has defined benefit pension undertakings. The pension undertakings are mainly secured via pension funds, but also through provisions reported in the Balance Sheet and, to a limited extent, through insurance premiums.

Systembolaget's pension undertakings are reported and calculated in accordance with the provisions of the Swedish Securing Pension Commitments Acts and the 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 Other provisions heading.

Group pensions

The surplus in the pension funds is reported as an asset in the Consolidated Balance Sheet. The surplus cor-

responds to the true value of plan assets minus the current value of the defined benefit pension undertakings on the closing day. The pension undertaking is calculated annually by independent actuaries in accordance with the Projected Unit Credit Method. The current value of the defined benefit undertaking is determined by discounting the estimated future cash flows, using the interest rate for Swedish government interest bonds with a duration comparable with the current pension liability.

Actuarial profits and losses arising in conjunction with adjustments and changes to actuarial assumptions, and which exceed whichever is the higher of 10 per cent of the value of the plan assets and 10 per cent of the defined benefit undertaking, are carried as expenses or recognised as revenue over the employees' estimated average remaining period of service.

Deferred tax

Deferred tax is calculated in accordance with the balance sheet method on all significant temporary differences. A temporary difference exists when the book value of an asset or liability differs from the fiscal value. A difference of this kind can arise in conjunction with, for example, the write-up or write-down of an asset or when accounting principles applied differ between individual Group companies' accounts and the consolidated accounts. Deferred tax shall be calculated in accordance with the rates of taxation 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.

Deferred tax liabilities are reported as part of the untaxed reserve in the Parent Company, due to the link between accounting and taxation.

Cash flow statement

The cash flow statement is prepared in accordance with the indirect method.

Note 4 *Financial risks*

The Group's operations expose it to financial risks such as market risks (including 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 strives to invest the assets under management 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. The interest-bearing assets are classified as financial assets that are kept until maturity. They are valued at the accrued acquisition value.

Credit risk

The majority of the Group's sales are for cash or credit card payment, and the credit risk is hence insignificant.

The following investment formats are permitted for financial instruments:

- Sight accounts in, call loans to, and reverse repos with Swedish commercial banks
- Securities issued or guaranteed by the Swedish state
- Securities issued by Swedish local authorities or Kommuninvest AB
- Securities issued by limited companies in which the state is the majority owner
- Securities issued by Swedish commercial banks and their wholly owned subsidiaries

Counterparty risks

The rules governing the Group's interest-bearing investment assets state that transactions with Swedish commercial banks or their wholly owned securities brokerage firms are permitted. If satisfactory collateral can be obtained, transactions with other securities brokerage firms approved by the Swedish Financial Supervisory Authority are also permitted.

Liquidity risk

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

Note 5 *Important estimates and evaluations for accounting purposes*

The Group makes estimates and assumptions about the future, which affect reported values. As a result, the amounts reported in these cases seldom correspond to the true amounts. The estimates and assumptions that pose a risk of significant adjustments to reported values during the coming financial year are presented below.

Pension benefits

The current value of the pension undertakings is dependent on a number of factors determined on the basis of actuarial assumptions. The assumptions used to determine the current pensions balance includes the long-term return on the actuarial assets managed and the discount rate. Every change in these assumptions will affect the reported value of the pension undertakings.

The assumption regarding the expected return on managed assets takes into account long-term returns, the distribution of the assets, and an assessment of future long-term returns.

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

Other important assumptions with regard to pension undertakings are based, in part, on prevailing market conditions. For additional information, see Note 29.

Important evaluations when applying the company's accounting principles

Financial instruments

The Group classifies certain financial assets as assets to be kept until maturity. This classification requires the company management to evaluate whether the financial asset should and can be retained until its maturity date. If the Group fails to retain these assets until maturity, the entire group must be reclassified as financial assets that can be sold. The assets shall thereafter be valued at their true value. A valuation of this kind as of the closing day means that the reported value of the financial assets would fall by SEK 1 million, excluding the fiscal effect. The change in value would have to be booked to shareholders' equity.

Note 6 *Information on related parties*

Systembolaget is owned by the Swedish government. In 2005, Systembolaget paid a dividend to its owner corresponding to SEK 90 million. No transactions have occurred between Systembolaget AB and a company or a natural person closely associated with it other than the payment of salaries and remuneration to the Board of Directors and senior management, and commercial transactions between the Group companies. All transactions between Group companies have been effected on commercial terms. Receivables and liabilities between the Parent Company and subsidiaries are reported in the Parent Company's Balance Sheet. Share dividends from the subsidiaries are reported under "Result from participations in Group companies."

The natural persons, the company's Board of Directors and senior executives, who are defined as related parties, are presented in the note entitled "Salaries and remuneration," where they are named and every person's remuneration is specified.

Note 7 *Net sales*

	2005	2004
Spirits	4 999	5 107
Wine	8 765	8 382
Strong beer	3 661	3 563
Cider	409	422
RTD/FAB*	146	137
Alcohol-free	<u>22</u>	<u>20</u>
Total net sales, drinks	18 002	17 631
Other products and services	<u>81</u>	<u>77</u>
Total	18 083	17 708

* Ready to drink/Flavoured Alcoholic Beverages

Note 8 Cost of goods sold, Parent Company

The Parent Company's cost of goods sold includes alcohol tax, pursuant to current legislation.

Note 9 Operating expenses

	The Group		Parent Company	
	2005	2004	2005	2004
Goods for resale	-15 622	-15 337	-15 622	-15 337
Staff overheads	-1 155	-1 248	-1 120	-1 194
Other expenses	-1 197	-1 277	-941	-1 034
Depreciation	<u>-214</u>	<u>-200</u>	<u>-161</u>	<u>-159</u>
Total	-18 188	-18 062	-17 844	-17 724

Note 10 Personnel and Board of Directors

Average number of full-time employees	2005		2004	
		Of whom women		Of whom women
Parent Company	2 793	66%	2 964	65%
Subsidiaries	<u>167</u>	<u>20%</u>	<u>163</u>	<u>20%</u>
Group, total	2 960	63%	3 127	63%

The Parent Company's Board of Directors comprises 10 (9) regular Members, 6 (5) of whom are women. The Company's management, including the President, who is a woman, comprised 9 (10) people, 4 (4) of whom are women, at the end of the financial year.

Note 11 Employees and staff overheads

Salaries, other remuneration, and payroll overhead	2005		2004	
	Salaries and remuneration	Payroll overhead	Salaries and remuneration	Payroll overhead
Parent Company	763	328	789	329
(of which, pension cost)		(53)		(47)
Subsidiaries	51	21	47	18
(of which, pension cost)		(4)		(3)
Pension cost (Parent Company)			2005	2004
Pensions disbursed			39	37
Allocated to pension fund			2	5
Credited from pension fund			0	0
Other			<u>12</u>	<u>5</u>
Total			53	47
Pension			2005	2004
Total pension undertaking, incl. non-vesting portion			-1 091	-1 018
Total capital in pension fund			<u>1 463</u>	<u>1 330</u>
Total			372	312

Note 12 *Salaries and remuneration*

Salaries and other remuneration to the Board, senior executives, and other employees	2005		2004	
	<i>Board & President</i>	<i>Other employees</i>	<i>Board & President</i>	<i>Other employees</i>
Parent Company	3	760	3	786
Subsidiaries	2	49	1	46
Group, total	5	809	4	832

The figures shown in the table above comprise salaries and other remuneration paid, excluding payroll overhead and pension costs. Details of pension costs for senior executives are given below.

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 an annual fee of SEK 160,000 (150,000) to the Chairman, SEK 96,000 (90,000) to the Deputy Chairman, SEK 80,000 (75,000) 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 or the like. Other senior executives are such persons who, with the President, constitute the Company's management team. The composition of the management team is shown on page 84 of this Annual Report.

Salaries and remuneration, 2005 (Swedish kronor)		<i>Other benefits</i>	<i>Pension cost</i>	<i>Other remuneration</i>	<i>Total</i>
	<i>Salary</i>				
Olof Johansson, Chairman of the Board	157 499	-	-	-	157 499
Anna Hedborg, Deputy Chairman	94 500	-	-	-	94 500
Ulf Melin, Board Member	78 750	-	-	-	78 750
Elisebeth Markström, Board Member	78 750	-	-	-	78 750
Ewa Persson Göransson, Board Member	78 750	-	-	-	78 750
Marianne Nivert, Board Member	78 750	-	-	-	78 750
Gert Karnberger, Board Member	78 750	-	-	-	78 750
Robin Dahl, Board Member	69 375	-	-	-	69 375
Margareta Andersson, Board Member	69 375	-	-	-	69 375
Karin Pilsäter, Board Member	69 375	-	-	-	69 375
Ewert Lindholm, Board Member until 28/2/05	9 375	-	-	-	9 375
Ingvar Löfstrand, Board Member until 28/2/05	9 375	-	-	-	9 375
Total	872 624	-	-	-	872 624

Salaries and remuneration, 2005 (Swedish kronor)		<i>Other benefits</i>	<i>Pension cost</i>	<i>Other remuneration</i>	<i>Total</i>
	<i>Salary</i>				
Anitra Steen, President	2 113 649	89 482	330 324	4 182	2 537 637
Mikael Wallteg, Sales Director/Vice Pres.	1 486 096	99 654	445 803	-	2 031 553
Barbro Ström, Purchasing Director/Vice Pres.*1	250 024	83 259	1 173 685	4 434	2 511 402
Karin Furevik, Personnel Director	988 400	86 006	482 932	870	1 558 208
Gunilla Högbom, Real Estate Director	894 842	83 959	350 814	390	1 330 005
Per Bergkrantz, Marketing Director	943 651	72 106	347 714	736	1 364 207
Anders Söderlund, CFO	1 238 296	71 230	379 244	200	1 688 970
Johan Tömmervik, IT Director	1 082 049	31 658	351 630	3 186	1 468 523
Björn Rydberg, Press Director	801 849	83 932	685 159	4 377	1 575 317
Håkan Johansson, Logistics Director until 28/2/05	155 507	16 803	74 268	-	246 578
Total	10 954 363	718 089	4 621 573	18 375	16 312 400

*Vice President from 1/3/05

Salaries and remuneration, 2004 (Swedish kronor)		Other	Pension	Other	Total
	Salary	benefits	cost	remuneration	
Olof Johansson, Chairman of the Board	143 509	-	-	-	143 509
Anna Hedborg, Deputy Chairman	86 862	-	-	1 141	88 003
Ulf Melin, Board Member	71 667	-	-	-	71 667
Elisebeth Markström, Board Member	71 667	-	-	-	71 667
Ewa Persson Göransson, Board Member	71 667	-	-	-	71 667
Marianne Nivert, Board Member	71 667	-	-	-	71 667
Gert Karnberger, Board Member	50 000	-	-	-	50 000
Sven-Erik Österberg, Board Member	37 500	-	-	-	37 500
Leif Linde, Board Member	21 667	-	-	-	21 667
Bengt Silverstrand, Board Member	21 667	-	-	-	21 667
Robin Dahl, Deputy Board Member	35 833	-	-	-	35 833
Ewert Lindholm, Deputy Board Member	35 833	-	-	-	35 833
Ingvar Löfstrand, Deputy Board Member	35 833	-	-	-	35 833
Margareta Andersson, Deputy Board Member	35 833	-	-	-	35 833
Karin Pilsäter, Deputy Board Member	<u>35 833</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35 833</u>
Total	827 038	-	-	1 141	828 179

Salaries and remuneration, 2004 (Swedish kronor)		Other	Pension	Other	Total
	Salary	benefits	cost	remuneration	
Anitra Steen, President	1 928 498	82 400	712 859	1 877	2 725 634
Mikael Wallteg, Sales Director/Vice Pres.	1 428 830	89 365	464 984	599	1 983 778
Karin Furevik, Personnel Director	922 152	70 064	420 155	509	1 412 880
Gunilla Högbom, Real Estate Director	859 718	78 842	322 010	1 209	1 261 779
Per Bergkrantz, Marketing Director	902 026	68 555	302 296	-	1 272 877
Barbro Ström, Purchasing Director	948 745	71 584	700 893	6 863	1 728 085
Anders Söderlund, CFO	1 175 116	60 247	334 874	218	1 570 455
Johan Tömmervik, IT Director	1 027 439	10 187	313 052	3 074	1 353 752
Håkan Johansson, Logistics Director	894 718	108 000	323 223	3 781	1 329 722
Björn Rydberg, Press Director	<u>781 183</u>	<u>82 269</u>	<u>365 861</u>	<u>2 598</u>	<u>1 231 911</u>
Total	10 868 425	721 513	4 260 207	20 728	15 870 873

Other benefits consist in the main of company car benefits. The President and company management are not paid a bonus or any housing allowance. Other expenses comprise above all the reimbursement of travel and accommodation costs.

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. Cleaning and maintenance personnel are insured via the AMF pension organisation.

President

Systembolaget's President is entitled to a pension at the age of 60 years. A defined-benefit retirement pension is payable at 70 per cent of the pensionable salary in 2001, which amounted to SEK 1,660 000. 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 per cent of salary components above SEK 1,660 000. The President is also included in the Kåpan supplementary pension plan.

Vice President

Vice President Mikael Wallteg is entitled to a pension at the age of 60 years. A retirement pension will be paid until the age of 65 years 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 per cent 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.

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 years. A retirement pension will be paid until the age of 65 years 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 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.

Other senior executives, employed after 1st January 2003²

The regular pensionable age is 65 years, 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 per cent 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 years. The complementary pension, Kåpan, is also payable from the age of 65.

Senior executives covered by conditions negotiated earlier³

The pensionable age is 60 years. 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.

Other employees (non-management)

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 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 years.

Conditions of agreements on termination of employment and severance pay

President

In the case of employment being terminated by the President, 6 months' notice is required. Where employment is terminated by Systembolaget, severance pay corresponding to 24 monthly salary payments will be payable. Any other earned income during this period will be deducted.

Senior executives, employed before 1st January 2003¹

In the case of employment being terminated, 6 months' notice is due on both sides. Where employment is terminated by Systembolaget, an aged-based severance payment corresponding to 12–18 monthly salary payments will be payable, other than in the case of Gunilla Högbom, who will receive a severance payment corresponding to 18 monthly salary payments. Any other earned income during this period will be deducted.

Senior executives, employed after 1st January 2003²

In the case of employment being terminated, 6 months' notice is due on both sides. Where employment is terminated by Systembolaget, over and above remuneration during the period of notice, severance pay of 6–18 monthly salary payments will be payable, depending on the employee's age, although for no longer than until the age of 61 years is attained. If, in the case of Per Bergkrantz, employment is terminated by Systembolaget, an extended period of notice of 6–18 months will apply, depending on age. Any other earned income during this period will be deducted.

Senior executives covered by conditions negotiated earlier³

In the case of employment being terminated by the employee, 6 months' notice is required. Where employment is terminated by Systembolaget, it is considered that employment will continue for 24 months, from the day on which the employee is disengaged from his/her work, at the monthly salary amount prevailing on the day of severance. Any other earned income during this period will be deducted.

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 Board Chairman.

¹ Senior executives, employed before 1st January 2003
Mikael Wallteg, Sales Director/Vice President
Barbro Ström, Purchasing Director/Vice President (Vice President from 1/3/05)
Karin Furevik, Personnel Director
Gunilla Högbom, Real Estate Director

but subject to the conditions for this group)
Anders Söderlund, CFO
Johan Tömmervik, IT Director
Håkan Johansson, Logistics Director (left the company management as of March 2005)

² Senior executives, employed after 1st January 2003
Per Bergkrantz, Marketing Director (employed earlier,

³ Senior executives covered by conditions negotiated earlier
Björn Rydberg, Press Director

Note 13 *Sickness absence*

Sickness absence as a percentage of the employees' contractual working hours totalled 7.2 per cent in 2005.

Sickness absence by gender and various age groups

	<i>Below the age of 30</i>	<i>30–49 years old</i>	<i>Over the age of 49</i>	<i>Total</i>
Women	5.0%	7.2%	11.1%	8.3%
Men	3.2%	3.4%	9.6%	5.1%
Total	4.2%	5.8%	10.7%	7.2%

Sickness absence of more than 60 days or more than 4.4 per cent of the contractual working hours

	<i>Below the age of 30</i>	<i>30–49 years old</i>	<i>Over the age of 49</i>	<i>Total</i>
Women	1.3%	4.2%	7.9%	5.2%
Men	0.3%	1.5%	7.2%	2.8%
Total	0.9%	3.2%	7.7%	4.4%

Sickness absence as a percentage of the employees' contractual working hours totalled 8.1 per cent in 2004.

Sickness absence by gender and various age groups

	<i>Below the age of 30</i>	<i>30–49 years old</i>	<i>Over the age of 49</i>	<i>Total</i>
Women	5.4%	8.4%	12.9%	9.6%
Men	3.7%	3.5%	10.7%	5.6%
Total	4.6%	6.6%	12.3%	8.1%

Sickness absence of more than 60 days or more than 5.0 per cent of the contractual working hours

	<i>Below the age of 30</i>	<i>30–49 years old</i>	<i>Over the age of 49</i>	<i>Total</i>
Women	1.2%	5.4%	9.7%	6.0%
Men	0.7%	1.5%	8.7%	3.1%
Total	0.9%	3.7%	9.0%	5.0%

Note 14 *Gender balance*

The gender balance for store personnel on 31st December

	<i>Full-time sales staff</i>		<i>Part-time sales staff</i>	
	2005	2004	2005	2004
Women	61%	56%	78%	77%
Men	39%	44%	22%	23%
Total	100%	100%	100%	100%

	<i>Store managers</i>		<i>Employees, total</i>	
	2005	2004	2005	2004
Women	44%	43%	71%	71%
Men	56%	57%	29%	29%
Total	100%	100%	100%	100%

The gender balance at the Parent Company's head office on 31st December

	<i>Employees</i>		<i>Managers</i>	
	2005	2004	2005	2004
Women	58%	57%	42%	45%
Men	42%	43%	58%	55%
Total	100%	100%	100%	100%

Note 15 *Depreciation of tangible and intangible fixed assets*

	The Group		Parent Company	
Depreciation according to plan by function	2005	2004	2005	2004
Selling expenses	126	129	126	129
Administrative expenses	35	30	35	30
Other operating expenses	<u>52</u>	<u>41</u>	<u>-</u>	<u>-</u>
Total	213	200	161	159

Note 16 Auditors' fees

	The Group		Parent Company	
	2005	2004	2005	2004
SET Revisionsbyrå AB				
Auditing services	5	4	5	3
Other services	0	0	0	0
Swedish National Audit Office				
Auditing services	0	0	0	0
Total	5	4	5	3

"Auditing services" refers to examination of the Annual Report, the accounting records, and the administration of the Board of Directors and the President, as well as other duties that fall to the Company's Auditor to perform, plus advice or other assistance that may arise from observations during such examination or the performance of other duties as referred to herein. All other services fall under the heading of "Other services."

Note 17 Other operating income and other operating expenses

	The Group		Parent Company	
	2005	2004	2005	2004
Other operating income				
Rental income	206	227	0	0
Other operating income	300	254	22	24
Capital gain	<u>76</u>	<u>70</u>	<u>1</u>	<u>1</u>
Total	582	551	23	25
Other operating expenses				
Operating expenses, real estate management	-71	-94	-	-
Other operating expenses	-262	-219	-2	-3
Depreciation according to plan	<u>-52</u>	<u>-41</u>	<u>-</u>	<u>-</u>
Total	-385	-354	-2	-3

The results of the subsidiaries are reported under the headings Other operating income and Other operating expenses. See also the paragraph in Note 3 on the format of the Income Statement (page 62).

The market-level rents charged to selling and administrative expenses in the Parent Company totalled SEK 144 million (SEK 141 million).

Note 18 Result of participations in Group companies

	Parent Company	
	2005	2004
Dividend from Systembolaget Fastigheter AB	161	142
Dividend from Lagena Distribution AB	<u>5</u>	<u>0</u>
Total	166	142

Note 19 Result from other securities and receivables classified as fixed assets

	The Group		Parent Company	
	2005	2004	2005	2004
Interest income from long-term receivables	0	0	0	0
Interest income from financial investments	12	7	12	7
Return on pension funds	56	66	-	-
Interest expenses on pension liabilities	<u>-41</u>	<u>-48</u>	<u>-</u>	<u>-</u>
Total	27	25	12	7

Note 20 Interest income

	The Group		Parent Company	
	2005	2004	2005	2004
Interest income, Group companies	-	-	13	18
Interest income, other	<u>11</u>	<u>19</u>	<u>10</u>	<u>19</u>
Total	11	19	23	37

Note 21 Interest expenses

	The Group		Parent Company	
	2005	2004	2005	2004
Interest expenses, Group companies	-	-	0	0
Penalty interest	-1	0	-1	0
Other interest expenses	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>
Total	-2	-1	-2	-1

Note 22 Appropriations, Parent Company

	2005	2004
Change in tax allocation reserve	428	14

Note 23 Taxes

The difference between the year's nominal tax charge and the tax charge based on the current tax rate of 28 per cent comprises the following components:

	The Group		Parent Company	
	2005	2004	2005	2004
Current tax	-138	-56	-254	-54
Deferred tax	<u>-45</u>	<u>-6</u>	<u>-</u>	<u>-</u>
Total	-183	-62	-254	-54

	The Group		Parent Company	
	2005	2004	2005	2004
Reported profit before tax	513	240	889	208
Nominal tax	-144	-67	-249	-58
Tax attributable to previous years	0	1	0	1
Fiscal effect of non-deductible costs	-2	-5	-2	-1
Fiscal effect of non-taxable income	0	6	0	6
Deferred tax revenue in respect of temporary difference	-6	4	0	-
Reversed deferred tax receivable	-31	-3	0	-2
Deferred tax on appropriations	0	2	-	-
Other	<u>-</u>	<u>-</u>	<u>-3</u>	<u>-</u>
Reported tax expense	-183	-62	-254	-54

Note 24 Capitalised expenses, business systems

	The Group		Parent Company	
	2005	2004	2005	2004
Opening acquisition value	137	102	131	102
New acquisitions	7	36	4	29
Sales	-	-	-	-
Reclassifications, write-downs	<u>-</u>	<u>0</u>	<u>-</u>	<u>-</u>
Closing accumulated acquisition value	144	138	135	131
Opening depreciation according to plan	-17	0	-17	0
Sales	-	-	-	-
Year's depreciation according to plan	<u>-28</u>	<u>-17</u>	<u>-26</u>	<u>-17</u>
Closing accumulated depreciation according to plan	-45	-17	-43	-17
Reported value	99	121	92	114
Remaining depreciation period	3.25 years	4.25 years	3.25 years	4.25 years

Note 25 Buildings and land

	The Group		Parent Company	
	2005	2004	2005	2004
Opening acquisition value	1 281	1 399	59	70
New acquisitions	35	9	-	2
Sales	1	-28	-1	-13
Reclassifications	<u>-5</u>	<u>-99</u>	<u>-</u>	<u>-</u>
Closing accumulated acquisition value	1 312	1 281	58	59
Opening depreciation according to plan	-706	-698	-19	-29
Sales	-1	14	0	10
Reclassifications	0	11	-	-
Year's depreciation according to plan	<u>-32</u>	<u>-33</u>	<u>-1</u>	<u>0</u>
Closing accumulated depreciation according to plan	-739	-706	-20	-19
Reported value	573	575	38	40
Rateable value, properties	915	1 006	13	13
of which, buildings	675	749	11	11

Note 26 Equipment, fixtures, and fittings

	The Group		Parent Company	
	2005	2004	2005	2004
Opening acquisition value	1 468	1 408	1 389	1 263
New acquisitions	60	138	53	136
Sales and disposals	-261	-29	-260	-21
Reclassifications	<u>39</u>	<u>-49</u>	<u>38</u>	<u>11</u>
Closing accumulated acquisition value	1 306	1 468	1 220	1 389
Opening depreciation	-892	-820	-845	-713
Sales and disposals	238	22	237	15
Reclassifications	-	61	-	-
Year's depreciation according to plan	<u>-153</u>	<u>-155</u>	<u>-133</u>	<u>-147</u>
Closing accumulated depreciation	-807	-892	-741	-845
Reported value	499	576	479	544

Note 27 Work in progress

	The Group		Parent Company	
	2005	2004	2005	2004
Opening acquisition value	39	12	39	12
New acquisitions	65	38	65	38
Reclassifications	<u>-39</u>	<u>-11</u>	<u>-39</u>	<u>-11</u>
Reported value	65	39	65	39

Note 28 Participations in Group companies

	2005	2004
Opening acquisition value	15	15
Acquisitions during the year	<u>0</u>	<u>-</u>
Closing accumulated acquisition value	15	15

Specification of shares in subsidiaries	No. participations	Holding, %	Book value
Lagena Distribution AB, 556501-3496, Haninge	150	100	15
Systembolaget Fastigheter AB, 556601-5615, Stockholm	100	100	0.1
IQ-Initiativet AB, 556680-9892	10	100	0.1

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

Fastighetsbolaget Näckströmsgatan i Stockholm KB, 969674-9690, Stockholm
Fastighetsbolaget Kungsträdgårdsgatan i Stockholm KB, 969674-9416, 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 partnerships were sold in 2005:

Alhambra 3 KB	969675-1487	Stockholm
Livia 15 KB	969674-8632	Stockholm
Knut 28 KB	969675-1230	Stockholm

The Parent Company's capital investment per limited partnership sold was SEK 1,000.

Note 29 Pension assets, net

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.

Specification of booked net assets as of 31st December	The Group	
	2005	2004
True value of assets under management	1463	1330
Current value of funded commitments	-1135	-963
Current value of non-funded commitments	-52	-59
Deferred payroll contribution receivable	80	61
Unreported actuarial losses	97	34
Assets unreported due to limited asset value	-42	-42
Net assets	411	361

True value of assets under management per financial instrument category	The Group	
	2005	2004
Real interest bonds	1 009	928
Share-related instruments	351	316
Hedge funds and other	73	11
Liquid assets	29	74
Total	1 463	1 330

Reconciliation of changes in pension assets, net:	The Group	
	2005	2004
Opening balance	361	0
Effect of change in accounting principles	0	341
Net assets at beginning of year, adjusted in accordance with new accounting principle	361	341
Net cost, reported in Income Statement	3	-19
Payment to pension fund	8	0
Pension disbursements	39	39
Closing balance	411	361

	The Group	
Costs reported in the Income Statement	2005	2004
Cost of benefits earned during the period	-32	-38
Interest expenses	-41	-49
Anticipated return on assets managed	<u>57</u>	<u>68</u>
Cost of defined benefit plans	-16	-19
Change in deferred tax receivable	19	-
Periodisation of actuarial profits and losses	<u>-</u>	<u>-</u>
Final cost of defined benefit plans	3	-19
Cost of defined contribution plans	<u>-18</u>	<u>-18</u>
Cost reported in Income Statement	-15	-37

Actual return on assets managed

For calculation of pension commitments, pension entitlement earned during the year, and investment return, a number of assumptions have been established on the basis of Systembolaget's expectations as to its business and market expectations as to financial factors. The following assumptions have been used on the closing day:

	The Group	
	2005	2004
Average discount rate	3.35%	4.28%
Anticipated return	3.93%	5.03%
Assumed long-term rate of pay rises	2.7%	3.1%
Assumed long-term rate of inflation	1.7%	2.1%
Indexing of pensions	1.7%	2.1%

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.

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

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.

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 slightly higher than the inflation target of Riksbanken (the Bank of Sweden), which is 2 per cent.

Accumulated, unreported actuarial profits or losses that exceed 10 per cent of whichever is the higher of the undertaking or the assets managed are reported in the Income Statement linearly, spread over the average anticipated remaining period of employment.

Note 30 *Deferred tax receivables*

Explanation of temporary differences

Temporary differences exist in the cases where the reported values of assets differ from the fiscal values. Temporary differences have led to deferred tax receivables in connection with the following items:

	The Group		Parent Company	
	2005	2004	2005	2004
Depreciation of buildings	50	59	1	1
Pension provisions	0	22	22	22
Social security contributions provisions	<u>0</u>	<u>5</u>	<u>5</u>	<u>5</u>
Total	50	86	28	28

Note 31 *Other long-term securities holdings*

	The Group		Parent Company	
	2005	2004	2005	2004
Investments held until maturity	572	334	572	334
Total	572	334	572	334

The due date and average interest rate of the financial assets are shown below:

	Effective interest rate, %	Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years
Bond loans	2.39%	244	106	18	-	23
Municipal certificates	1.72%	40	-	-	-	-
FRN	2.25%	50	91	-	-	-

The market value of financial investments in the form of interest-bearing bonds, treasury bills, and certificates on the closing day was SEK 560 million (SEK 335 million).

Note 32 *Other long-term receivables*

	The Group		Parent Company	
	2005	2004	2005	2004
Book value at beginning of year	9	12	9	12
Additional receivables	0	0	5	0
Current receivable reversed	1	1	1	1
Transferred to current receivables	-1	-2	-1	-2
Receivables settled during the year	<u>-1</u>	<u>-2</u>	<u>-1</u>	<u>-2</u>
Book value at end of year	8	9	13	9
Of which percentage falling due for payment after 5 years	5	5	9	5
These receivables have been secured through guarantees, mortgages, or bank guarantees totalling	37	35	37	35

Note 33 *Prepaid costs and accrued income*

	The Group		Parent Company	
	2005	2004	2005	2004
Prepaid rent	29	33	29	33
Other prepaid costs	0	7	0	5
Accrued interest	<u>10</u>	<u>6</u>	<u>6</u>	<u>5</u>
Total	39	46	35	43

Note 34 *Assets held for sale*

	The Group	
	2005	2004
Book value, buildings and land	7	61
Liabilities attributable to properties sold	<u>0</u>	<u>0</u>
Total	7	61

Four properties were sold in 2005. The sales yielded a capital gain of SEK 68 million. The sale of one property is planned for the next financial year, 2006. It has an estimated market value of SEK 65 million.

Note 35 *Shareholders' equity*

An effect of a change in accounting principles on shareholders' equity totalling SEK 198 million was reported, as of 1st January 2004, in connection with the introduction of RR 29, Remuneration to Employees. This figure has now been corrected to SEK 303 million. The main reason for the change is that the pension undertaking was initially valued including dividend tax. The principle for the valuation of the pension undertaking has been changed in accordance with URA 43, such that it no longer includes dividend tax. The change has been handled as a change in accounting principles.

For further information, please see the report entitled "Changes in shareholders' equity" on page 60.

Note 36 *Tax allocation reserves, Parent Company*

	Parent Company	
	2005	2004
Tax allocation reserve, allocated in conjunction with the 2000 tax assessment	0	96
Tax allocation reserve, allocated in conjunction with the 2001 tax assessment	0	80
Tax allocation reserve, allocated in conjunction with the 2002 tax assessment	0	60
Tax allocation reserve, allocated in conjunction with the 2003 tax assessment	0	62
Tax allocation reserve, allocated in conjunction with the 2004 tax assessment	0	66
Tax allocation reserve, allocated in conjunction with the 2005 tax assessment	<u>0</u>	<u>64</u>
Total	0	428

Note 37 *Long-term liabilities*

No long-term liability falls due for payment within five years of the closing day. The guaranteed overdraft facility totals SEK 300 million.

Note 38 *Provisions for taxes and explanation of temporary differences*

	The Group		Parent Company	
	2005	2004	2005	2004
Deferred tax in untaxed reserves	3	130	-	-
Deferred payroll contribution liability	0	0	19	19
Deferred tax on pension assets	<u>134</u>	<u>144</u>	<u>-</u>	<u>-</u>
Total	137	274	19	19

Note 39 *Other provisions*

	The Group		Parent Company	
	2005	2004	2005	2004
Opening balance	29	-	104	79
Year's provisions	2	29	2	27
Provisions utilised	-	-	-	-2
Transferred to current liability	-19	-	-17	-
Provisions reversed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	12	29	89	104

Other provisions in the Group refer, in every significant respect, to costs arising from staff cutbacks in conjunction with a reorganisation carried out at the head office in 2005.

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 Net value of pension assets.

Note 40 *Accrued costs and prepaid income*

	The Group		Parent Company	
	2005	2004	2005	2004
Holiday pay liability	91	75	67	72
Wages/salary liability	19	16	18	14
Social security contributions	29	50	27	48
Accrued operating costs	<u>23</u>	<u>43</u>	<u>22</u>	<u>18</u>
Total	162	184	134	152

Note 41 *Pledged assets*

	The Group		Parent Company	
	2005	2004	2005	2004
For pension undertakings				
Long-term receivables	<u>5</u>	<u>-</u>	<u>5</u>	<u>-</u>
Total	5	0	5	0

Note 42 *Contingent liabilities*

	The Group		Parent Company	
	2005	2004	2005	2004
For Group companies	-	-	6	8
For personnel loans	2	3	2	3
For pension undertakings	-	-	1014	941
For assets in pension funds	-	-	-1014	-941
For premium adjustment fund	2	2	2	2
Other	<u>2</u>	<u>2</u>	<u>0</u>	<u>0</u>
Total	6	7	10	13

Comparison: effect of changes in accounting principles and classification

	31-12-2004 after change	Changed classification	Changed acc. principle	31-12-2004 before change
Balance Sheet				
Intangible fixed assets	121			121
Tangible fixed assets	1 190	-27 ¹	-61 ⁴	1 278
Financial fixed assets	789	334 ²	151 ⁵	304
Stock-in-trade	779			779
Current receivables	97			97
Short-term investmentsKortfristiga placeringar	0	-334 ²		334
Liquid assets	1 310			1 310
Assets held for sale	61		61 ⁴	-
Total assets	4 347	-27	151	4 223
Shareholders' equity	1 749		105 ⁵	1 644
Provisions	0	-383 ³	46 ⁵	337
Long-term liabilities and provisions	303	301 ^{1,3}		2
Current liabilities and provisions	2 295	55 ³		2 240
Total shareholders' equity and liabilities	4 347	-27	151	4 223

1. Adjustment is made for stamp duty.

2. Financial instruments reported under Current receivables in the 2004 Annual Report are classified as long-term fixed assets.

3. Provisions are no longer reported under their own heading. The items are divided up into long-term liabilities and provisions, and current liabilities and provisions.

4. Assets held for sale are reported as current assets.

5. Effect of change in accounting principle. Pension undertakings were initially valued including dividend tax. The principle for valuing pension undertakings has been changed in accordance with URA 43, such that it no longer includes dividend tax.

Comparison: effect of changes in accounting principles and classification

	31-12-2004 after change	Changed classification	Changed acc. principle	31-12-2004 before change
Cash flow statement				
Cash flow from operating activities				
before changes in operating capital	372			372
Cash flow from changes in operating capital	-174			-174
Cash flow from operating activities	198	0	0	198
Cash flow from investment activities	-190	-66 ¹	-124	
Cash flow from financial activities	-80			-80
Cash flow for the year	-72	-66	0	-6
Opening liquid assets	1 382	-268 ¹		1 650
Closing liquid assets	1 310	-334	0	1 644

1. Financial instruments reported in the 2004 Annual Report as short-term investments have been classified as long-term fixed assets. Liquid assets have been adjusted by a total of SEK 334 million, SEK 66 million of which refers to new investments in long-term securities holdings in 2004.

Stockholm, 22nd February 2006

Olof Johansson
Chairman

Anna Hedborg
Deputy Chairman

Ulf Melin

Elisebeht Markström

Gert Karnberger

Ewa Persson Göransson

Marianne Nivert

Margareta Andersson

Robin Dahl

Karin Pilsäter

Patrik Ström
Employee representative (HTF)

Margot Herrdin
Employee representative (HTF)

Anitra Steen
President

Our Auditors' Report was submitted on 23rd February 2006

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 (pages 50–81), the accounting records, and the administration by the Board of Directors and the President of Systembolaget AB for 2005. 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 circumstances 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.

We have, at the request of the Board of Directors, examined the Corporate Governance Report (pages 86–90) for Systembolaget AB for 2005. The Corporate Governance report has been prepared in accordance with the guidelines contained in the Swedish Corporate Governance Code.

Stockholm, 23rd February 2006

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 2005 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, 23rd February 2006

Lars U Granberg

Rolf Gunnarsson

Ulla Wester

Auditors

Composition on 31 December 2005

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, Member of Parliament, Piteå

Rolf Gunnarsson, Member of Parliament, Falun

Ulla Wester, Member of Parliament, 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, Member of Parliament, Nora

Bertil Kjellberg, Member of Parliament, Sundsvall

Christina Nenes, Member of Parliament, Surte

Board of Directors

Olof Johansson

Born: 31st July 1937

Principal education: studies at the Stockholm School of Economics

Other positions held: Chairman of the Board of AB Svensk Bilprovning and of the Knowledge Foundation, Chairman of the LUSTRA research group (Land Use Strategies) and Rådet för insyn i Försvarsmakten (the Public Accountability Board of the Swedish Armed Forces, public sector mediator, and impartial chairman of PAR (the Swedish Press Collective Bargaining Council) and Bemanningsföretagens Auktorisationsnämnd (Staffing Companies Authorisation Board)

Elected to the Board of Systembolaget AB: Chairman since 2002

Independent: 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, and 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 Chairman since 2002

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

Karin Pilsäter

Born: 24th June 1960

Principal education: the Stockholm School of Economics

Other positions held: Member of Parliament, Board of Governors of the Bank of Sweden, Board of Södertörn College, economic spokesperson for the Liberal Party

Elected to the Board of Systembolaget AB: Deputy Member: 1999, Regular Member: 2005

Independent: 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 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, 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: 2004

Independent: 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 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: 2002

Independent: 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 held: Centre Party MP since 1995, 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)

Elected to the Board of Systembolaget AB: 2000 as a Deputy Member. Regular Member since 2005

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

Elisebeht Markström

Born: 14th December 1955

Principal education: Two years of upper secondary education

Other positions held: Member of Parliament (Socialist), Member of the Board of the National Board of Institutional Care and the Swedish Prison and Probation Service

Elected to the Board of Systembolaget AB: Regular Member since 1999

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

Ewa Persson Göransson

Born: 23rd February 1951

Principal education: 1973, degree in journalism, Gothenburg College of Further Education

Other positions held: Director General of the National Board of Institutional Care, Member of the Board of the Swedish Agency for Public Management

Other positions previously held: Chairman of the National Alcohol Commission, Undersecretary of State and the Ministry of Health and Social Affairs, 1998–2005, Chairman of the Swedish Inheritance Fund, Undersecretary of State at the Ministry of Communication, Head of the Prime Minister's Office Baltic Group, Undersecretary of State (Nordic Issues) at the Ministry for Foreign Affairs, Information Director at the Swedish Working Life Fund, et al.

Elected to the Board of Systembolaget AB: Regular Member since 2001

Independent: 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 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)

Principal former positions: 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: Regular Member since 1999

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

Robin Dahl

Born: 6th May 1946

Principal education: economics at the University of Uppsala

Other duties: Chairman of the Board of the Men's Anti-violence Clinic, Chairman of the Board of Music in Uppland, Deputy Chairman of the Uppsala County Council Medical Programme Committee, Member of the Board of the Uppsala County Council Patient Board

Positions previously held: Association Director for County Council Commission (LSR)

Elected to the Board of Systembolaget AB: Deputy Member since 1995, Regular Member since 2005

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



From the left: Patrik Ström, Robin Dahl, Anna Hedborg, Ulf Melin, Olof Johansson, Gert Karnberger, Marianne Nivert, Ewa Persson Göransson, Karin Pilsäter, and Margareta Andersson. Not shown: Elisebeht Markström and Margot Herrdin.

Employee Representatives

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

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 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

The **Deputies** for the Employees' Representatives are **Sven-Olof Danielsson**, born 9th June 1945, and **Eva Rand**, born 30th November 1959.

Corporate Governance

Report for Systembolaget AB

The Board of Directors of Systembolaget AB, corporate identity no. 556059-9473, hereby submits its report regarding corporate governance for the 2005 financial year.

The report has been prepared in accordance with Chapter 5 of the Swedish Code of Corporate Governance and has, at the request of the Board of Directors of the Company, been reviewed by the company's authorised public accountants.

Implementation of the Code of Corporate Governance at Systembolaget AB

Implementation of the Code of Corporate Governance at Systembolaget AB began in 2005. Systembolaget intends to continue this implementation during the initial months of 2006. This report accordingly contains no evaluation of the reasons for implementing the Code in some cases but not in others. The company intends to detail, as part of its Corporate Governance Report for 2006, the ways in which the Code of Corporate Governance has been implemented and in any cases where the company has deviated from the Code, the reasons for so doing.

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

The 2005 Annual General Meeting resolved that the 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 (10 members in 2005). No Deputy Members have been appointed as a result of the resolution by the Annual General Meeting.

Systembolaget AB is 100 per cent owned by the Swedish state. The nomination process is conducted in accordance with the principles described in pages 7 and 8, article no. N5039 of Sweden's ownership policy for 2005. The document can be ordered or downloaded using the following link: <http://www.regeringen.se/sb/d/5095/a/46948>".

Members of the Board

Olof Johansson (Chairman)
Anna Hedborg (Deputy Chairman)
Ewa Persson Göransson
Ulf Melin
Gert Karnberger
Karin Pilsäter
Marianne Nivert
Margareta Andersson
Elisebeht Markström
Robin Dahl

Employee representatives:

Patrik Ström
Margot Herrdin
Sven-Olof Danielsson (Deputy)
Eva Rand (Deputy)

See page 84 of this Annual Report for personal details of the Board Members, and page 83 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 store network and opening hours. Systembolaget shall also uphold the selling rules, which are 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 spirits, wine, and strong beer 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 establishment of stores and opening hours, but can ensure that alcoholic drinks are not sold to people under the age of 20, 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.

Division of duties amongst the Board

All Members of the Board of Directors of Systembolaget AB address 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

The Chairman heads up the business of the Board. The Chairman prepares the Board Meetings 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 business is the Board's business plan, which is adopted annually. The business plan forms the basis of the operations and stipulates the point during the financial year when special areas of responsibility shall be addressed by the Board. The Board adopts an overall strategic plan for operations for three years at a time. The current strategic plan comprises the years from 2005 to 2007, inclusive. 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 2005 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* – skills development: we must further develop the provision of strategically needed skills and management, the work environment, and ensuring internal communication.
- *Financial* – increased efficiency: we must increase operational efficiency, improve control/follow up activities, and secure benefits to customers.

Strategic target figures have been set within each perspective, as shown in the Annual Report. The Board monitors key performance indicators and reports on them regularly at the Board meetings.

Board business in 2005

Systembolaget AB's Board of Directors comprises ten Members and two Regular Employee Representatives, together with two Deputies to the same. The Board has held a total of seven ordinary Board meetings and no extraordinary Board meetings in 2005.

The business of the Board has been characterised by efforts to refine financial reporting, alcohol tax-related discussions, the implementation of the Corporate Governance Code, and reporting on and the consequences of the prosecutions brought as a result of the bribery and corruption reports submitted to the police by Systembolaget.

Economic performance and a number of operationally strategic key performance indicators have been followed up quarterly.

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 store network, the ongoing work on ethical issues, and the reports by the Swedish Competition Authority to the EU. The Board of Directors

meets annually with the company's auditors. For additional 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."

Present at Board Meetings in 2005

	23rd Feb	17th Mar	20th Apr	20th/21st Jun	7th Sep	27th Oct	7th Dec
Olof Johansson							
Anna Hedborg		–					
Ewa Persson Göransson			–				
Ulf Melin							
Gert Karnberger							
Marianne Nivert							–
Elisebeht Markström	–	–				–	
Margareta Andersson	–	–					
Karin Pilsäter		–					–
Robin Dahl		–		–			
Patrik Ström, emp. rep.	–	–					
Margot Herrdin emp. rep.						–	–

– Absent

Quality assuring financial reporting

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

The President

Anitra 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 Director General of the Swedish Tax Agency.

Positions currently held: Member of the Boards of SAS, the Almega forum for service companies, and Södersjukhuset AB

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

Independent: The President has no significant share holding in companies with which Systembolaget has significant commercial links.

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 12 on page 69.

Principles for remuneration to senior executives

The Board of Directors

Directors' fees, as approved by the Annual General Meeting, are payable to the Chairman of the Board, the Deputy Chairman, Members and Deputy Members. The fees are disbursed monthly and are adjusted annually on 1st May. Employee Representatives receive no Directors' fees.

The President and other members of the company's senior management

Remuneration to the President and other senior executives are comprised of the basic salary, other benefits, and pension benefits. Neither variable, bonus-based remuneration is payable, nor remuneration in the form of financial instruments and the like. The term, other senior executives, refers to those persons who, together with the President, comprise the company's senior management.

Pension agreement terms

The President

The retirement age for the President is 60. A defined-benefit pension, in accordance with older terms, is payable in the amount of 70 per cent of the pensionable income for the year 2001, which totalled SEK 1,660,000. The amount is index-linked. The defined-benefit pension is earned in full. As of 1st January 2002, the President also receives a defined-contribution pension with an annual premium of three times the price base amount plus 25 per cent of that part of the pensionable income that exceeds SEK 1,660,000. The President is also covered by the complementary pension scheme, Kåpan, in accordance with the collective bargaining agreement.

Other members of the senior management

The normal retirement age is 65, and pensions are payable in accordance with Systembolaget's collective bargaining agreement pension plan for salaried employees. Senior executives also receive a defined-premium pension with a premium comprising 16 per cent of the pensionable monthly salary, which is defined as the fixed monthly salary multiplied by 12. The aim of the defined-premium pension is to enable retirement before the age of 65. The individual is also covered by the complementary pension, Kåpan, in accordance with the collective bargaining agreement. For senior executives employed before 1st January 2003, please see the Annual Report.

Notice of termination and severance pay agreement terms

The President

In the case of employment being terminated by the President, 6 months' notice is required. Where employment is terminated by Systembolaget, severance pay corresponding to 24 monthly salary payments will be payable. Any other earned income during this period will be deducted.

Other members of senior management

In the case of employment being terminated, 6 months' notice is due on both sides. Where employment is terminated by Systembolaget, over and above remuneration during the period of notice, severance pay of 6–18 monthly salary payments will be payable, depending on the employee's age, although for no longer than until the age of 61 years is attained. Any other earned income during this period will be deducted. For members of the senior management employed before 1st January 2003, please see the Annual Report.

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 2005 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. Systembolaget AB is currently evaluating the requirement for an internal audit function.

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 corporate 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 the overall level and in greater detail, 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, 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

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

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 control of financial reporting in 2005

The control environment within Systembolaget

Systembolaget's internal controls are designed to identify, evaluate, and minimise risks within the operational sphere. The activity 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 nature of correct and incorrect behaviour has been clearly explained to every employee of the company, as is apparent from, amongst other things, the ethics and value-related activities carried out during the financial year.

Organisation and structure

The control environment forms the basis for internal control. The term, control environment, refers to the organisation, decision-making routes, authorisations, and responsibilities documented in steering documents such as the agreement with the state, the owner's directive, 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, authorisation and delegation regulations, and accounting and reporting instructions, provides one example of a steering document. This organisation and structure is supported by the company employees and is available via Systembolaget's intranet.

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 mandate

The Board of Directors and the senior management have been working on further clarifying and firmly establishing Systembolaget's mandate and shared values. The following areas have been the subject of particularly intensive efforts:

- *Recruitment.* An internal quality-assured recruitment process has been developed on the basis of the extensive recruitment of new store managers that has taken place.
- *Introduction.* Introductory training has been updated with the latest information on Systembolaget's mandate and values.
- *Performance reviews.* A common model for performance reviews has been developed, providing scope for a discussion of Systembolaget's mandate, values, and objectives.
- *Discussions of ethics and values.* Every Systembolaget manager has attended a one-day seminar on ethics and values.

- *Theme meetings* have been held with every Systembolaget employee to firmly establish both the company's shared values and what constitutes commendable customer interaction at Systembolaget.

Process descriptions

The company's processes have been developed and the process descriptions updated in 2005. The organisation has been adapted in line with the process descriptions, which has resulted in changes both at head office and in the stores. Particular emphasis has been placed on working with the primary processes: procurement (requests for tender, purchasing, and distribution) and sales in stores. Control structures have also been put in place to ensure Systembolaget's brand- and product range-neutrality.

The Board has also worked on introducing the Swedish Corporate Governance Code into the organisation during 2005.

Risk assessment

Risk assessment is carried out by the Board of Directors and senior management, in the context of the day-to-day operations, with the aim of minimising the risk of errors in the financial reporting. The organisation and structure of the risk assessment is developed and analysed continuously to ensure it can fulfil the requirement for efficient risk assessment. The biggest risks have been identified, on the basis of the requirements of Systembolaget's operations and financial reporting requirements, within the following areas: procurement (requests for tender, purchasing, and distribution), sales and cash accounting, adaptation to the International Financial Reporting Standards (IFRS), and IT. The risk of irregularities and fraudulent behaviour is inherent in the operations. In the light of the criminal offences and breaches of internal regulations that have been revealed in recent years, efforts have been made to minimise the risk of continued fraudulent behaviour and of the company's assets disappearing.

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 approved and established financial reporting policies.

Control activities

The Board of Directors and the senior management monitor compliance with steering documents, process descriptions, policies, manuals and codes, and the efficiency of the control structures. One of the tools used to carry out this monitoring is a unit with special responsibility for internal control. The unit's role and responsibilities have been clarified in 2005, and it has developed, amongst other things, a control programme for inspection of the store operations.

An internal control index (IC Index) for reviewing the stores has been developed to raise awareness of the quality of the internal control process to even higher levels. 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) during the past financial year.

Stocks and inventories are inventoried on a regular basis in accordance with established routines. Cash and invoice accounting are monitored and reconciled on an ongoing basis.

Information and communication

Considerable emphasis has been placed on charting and clarifying the internal communication process in 2005, 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 have been made available and known to the relevant personnel via the company's intranet. The financial handbook and manuals have also been revised and made available on Systembolaget's intranet during 2005.

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 at each Board Meeting. The Board also addresses the Group's financial position and result at every Board Meeting, and 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. All transactions and commercial events in cash register systems and business systems are, for example, logged and analysed. Abnormally large product purchases and deliveries are also monitored and analysed at product item level.

The Chairman of the Board meets with the auditors at the ordinary meeting in the autumn, at 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 2005

Systembolaget strives continuously to develop and secure good internal control. These efforts include both preventative and monitoring measures, intended to identify evaluate and minimise the operational risks.

The Board launched an investigation in 2005 into the way in which an internal audit function can be incorporated into the organisation. The Board is expected to reach a decision on whether to implement the function in 2006.

The Board is of the opinion that the internal control has developed and is of a high standard.

The Board's report on internal control of financial reporting has not been reviewed by the company's auditors. According to FAR, the institute for the accounting profession in Sweden, a review of this kind would not be compatible with good professional practice, as no review criteria exist for 2005.

Stockholm, 22nd February 2006

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Gert Karnberger Ewa Persson Göransson Marianne Nivert

Margareta Andersson Robin Dahl Karin Pilsäter

Patrik Ström

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Suggested Reading – About Alcohol

Alcohol and public health, international overviews

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- Norström, Thor, ed. (2002), Alcohol in postwar Europe. Stockholm: Almqvist & Wiksell International. www.fhi.se/templates/Page2cols___616.aspx.
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Alcohol and public health, various international organisations' positions

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Effects of alcohol on health

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- Gränslös utmaning – alkoholpolitik i ny tid. Final Report by the Swedish Government's Alcohol Import Commission, SOU 2005:25. www.regeringen.se/sb/d/108/a/40647.
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Alcohol trends in Sweden

- Alkoholutvecklingen i siffror. The Swedish National Institute of Public Health http://www.fhi.se/templates/Page___3254.aspx.
- Drogutvecklingen i Sverige 2005. CAN rapport nr 91. 2005. Summary at www.can.se/docs/press_rapporter/CAN_RS_91_sammanf.pdf.
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The alcohol retail monopoly

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Total consumption

- Norström, Thor, and Ramstedt, Mats. Mortality and population drinking: a review of the literature. Drug and Alcohol Review; November 2005; 24; 537 – 547.

Ten Years in Brief

Sales per head of population aged 15 and above (litres)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Spirits	3.7	3.4	3.2	3.2	3.2	3.2	3.2	3.0	2.6	2.5
Wines	14.5	14.4	14.6	15.6	16.1	17.0	18.6	19.2	18.7	19.1
Strong beer (class III)	14.2	15.3	15.6	17.9	19.6	21.4	23.3	24.3	23.3	23.9
Cider and mixed drinks	0.9	1.7	1.5	1.8	1.8	1.9	2.3	2.5	2.3	2.3
Total, as pure alcohol	3.9	3.9	3.9	4.2	4.4	4.6	5.0	5.1	4.8	4.9

Sales in millions of litres

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Spirits	26.8	24.3	23.3	23.3	23.4	23.4	23.3	22.1	19.2	18.8
Wines	103.8	103.6	105.5	112.5	116.6	124.2	136.5	141.8	138.7	143.0
Strong beer (class III)	102.2	110.2	112.5	129.6	142.4	156.0	170.5	179.1	172.9	179.0
Cider and mixed drinks	6.5	12.0	11.1	12.8	13.2	13.7	17.1	18.7	16.8	17.0
Alcohol-free	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.5	0.7	0.7
Total, as pure alcohol	28.4	28.3	28.3	30.2	31.7	33.6	36.4	37.4	35.6	36.4

From the Parent Company's Income Statement (SEK million)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Net sales	15 837	15 320	15 352	16 456	17 175	17 996	18 809	18 985	17 708	18 083
Operating profit before appropriations	151	238	350	463	194	185	182	202	194	461
Pre-tax profit	146	196	292	382	261	158	176	188	208	889
Tax on profit for the year	-46	-58	-82	-112	-106	-52	-51	-57	-55	-254
Profit for the year	100	138	210	270	155	106	125	131	154	635

Retail network

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
No. communities										
with stores	293	296	298	304	310	314	315	322	323	322
Stores	395	396	397	403	411	416	419	426	417	411
Local agents	571	589	586	575	575	579	590	580	576	560

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