

# 2010 Responsibility Report

With financial reports



# Systembolaget's 2010 Responsibility Report

Responsible selling is at the heart of Systembolaget's mandate. This Responsibility Report integrates our annual accounts and our Corporate Governance Report with our Sustainability Report and discusses the issues we have identified as being of importance for our operations and our stakeholders in 2010. For more detailed information on our sustainability work, please see the GRI appendix on Systembolaget's website, [systembolaget.se](http://systembolaget.se).

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### About the Responsibility Report

The Report comprises the Parent Company, Systembolaget AB, the wholly-owned subsidiaries, Gamla Distribution i Jordbro AB, IQ-Initiativet AB and AB K14 Näckströmsgatan. Level B+ Global

Reporting Initiative's (GRI) guidelines are applied in the report. The GRI reporting is certified by Ernst & Young. A full list of contents for GRI is presented on pages 90–91.

# Systembolaget in figures

## Financial key performance indicators

	2010	2009	2008
Net sales, SEK m	24,115	23,360	21,296
Trading margin, incl. alcohol tax, %	12.7	12.7	12.7
Trading margin, excl. alcohol tax, %	21.8	22.2	22.6
Operating margin, %	1.4	1.7	0.6
Net profit/loss for the year, SEK m	302	345	774
Return on shareholders' equity, %	13.8	16.1	36.6
Equity/assets ratio, %	36.9	37.5	38.1

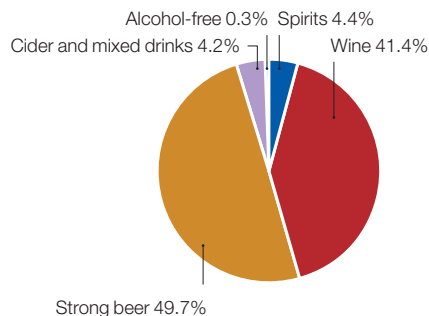
## Net sales, SEK m

	2010	2009	2008
Spirits	5,610	5,573	5,187
Wine	12,266	11,716	10,617
Strong beer	5,373	5,251	4,725
Cider and mixed drinks	695	664	629
Alcohol-free	49	37	29
Total drinks sales	23,993	23,241	21,187
<i>of which organic</i>	758	573	403
Other products and services	122	119	109
Total	24,115	23,360	21,296

## Operational facts & figures

	2010	2009	2008
No. customer visits, million	116	114	108
No. employees	4,825	4,744	4,740
No. stores	414	412	411
No. agents	508	508	511
No. items in fixed range	2,305	2,086	2,181
Age verification checking, %	94	93	90

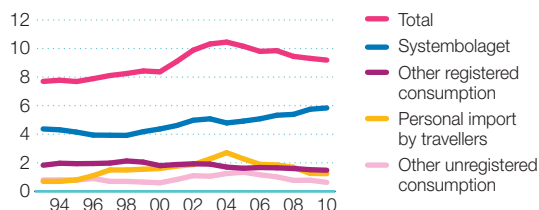
## Sales by product group, volume, 2010



Sales of wine and alcohol-free drinks increased, while sales of other categories fell slightly.

## Alcohol consumption, 1994–2010

(litres of 100 per cent alcohol per head of population aged 15 and above)

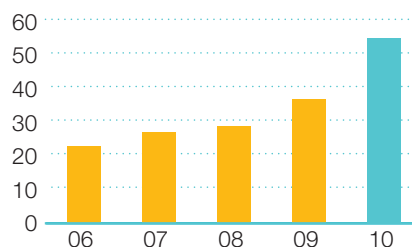


Source: SoRAD

Total alcohol consumption has fallen by approximately 12 per cent since 2004, when it reached a peak after a substantial increase in conjunction with the harmonisation of import quotas.

## Alcohol-free, 2006–2010

SEK m



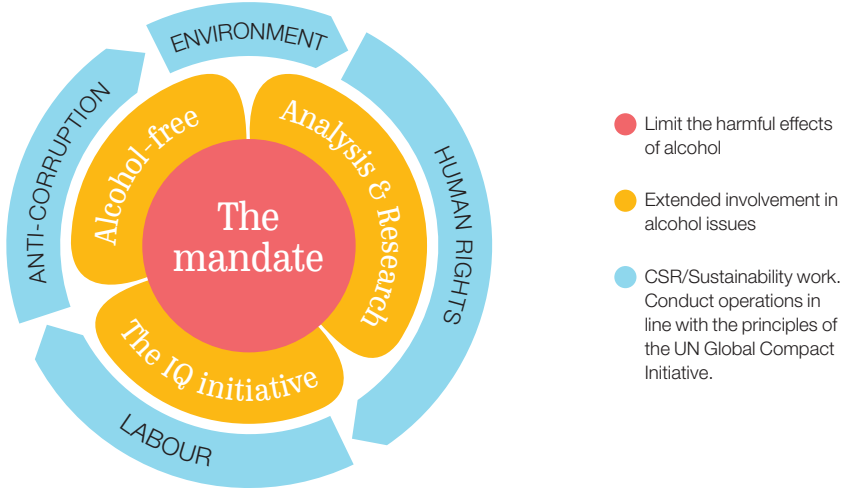
Sales of alcohol-free products increased by 31 per cent in 2010 to just over 1.3 million litres.

*Our mandate:*  
To help limit the harmful effects of alcohol.

*Our vision:*  
A society in which everyone can enjoy alcoholic drinks with due regard to health considerations and without harming either themselves or other people.

*Our business concept:*  
To sell alcoholic beverages responsibly while offering a first-class standard of service and sharing our knowledge of alcohol and health.

## A three-way social responsibility








We divide our social responsibility into three working areas: our alcohol policy mandate, our commitment to the alcohol issue and our CSR work. Our alcohol policy mandate lies at the heart of our business operations.

# Systembolaget in brief

- Alcohol shall be sold with no intent to maximise profits or promote additional sales.
- We do not sell alcohol to anyone who is under the age of 20 or who is notably intoxicated, or where there are grounds for suspecting illegal resale.
- Our customer promise: you should always feel welcome. You should always feel that you can learn something from us. You should always be able to rely on us to sell responsibly.
- Net sales: SEK 24.1 billion
- 4,825 employees
- 414 stores and 508 agents
- Active suppliers: 433
- Just over 10,800 items
  - 2,305 in the fixed range
  - Approx. 8,500 in the available for order range
- Almost 116 million customer visits



# Strategic key performance indicators

Stakeholders	Strategic orientation		Result 2010	Goal 2011	Goal 2013
Society 	We shall actively contribute to the realisation of a public health-orientated alcohol policy and achieve strong popular support.	OPI, %	66	66	66
		Proof of age checks, %	94	94	94
Customers 	We shall develop, through participation, a cutting edge offering and shall invite participation in a dialogue on alcohol and health.	CSI	78	79	80
Employees 	We shall have skilled and committed employees and managers who carry out and communicate our mandate.	ESI	75	75	75
		Short sick leave, %	2.6	2.3	2.0
Suppliers 	We shall be professional and transparent and, in dialogue with our suppliers, live up to our customers' expectations.	LI	65	67	70
Owners 	We shall be sustainable and cost-effective in every process and decision.	Trading margin, %	21.8	22.5	22.5
		Return on shareholders' equity, %	13.8	8.5	8.5



## Increased focus on customer interactions

We who work at Systembolaget must be responsive and balance our actions to ensure that we are in step with events in the outside world – without, for one second, compromising our mandate.

Interest in food and drink, in health and well-being has never been greater. A glass of wine or beer can enhance a good dinner, and we are happy to help out with our expertise when it comes to choosing drinks. More and more of our customers nowadays also want to know how our drinks affect their health and how we can benefit from moderate consumption. And as our alcohol-free range develops, it is becoming a given, for many people, to choose an alcohol-free drink for no other reason than that it tastes good.

Here at Systembolaget, we are tasked with actively helping to reduce the harmful effects of alcohol. Our vision is a society in which everyone can enjoy alcoholic drinks with due regard for health considerations and without harming either themselves or other people. If we are to live up to this, our most important and ever-present task is, in my opinion, to ensure that we achieve the correct balance between responsibility and service.

### **Our mandate is to limit ...**

Our mandate is imposed by the Swedish Parliament. The goal is to limit total alcohol consumption through restricted and responsible sales of alcoholic drinks. Systembolaget's sole right ensures that sales are not driven by efforts to maximise profits or promote additional sales. Parliament has also laid down the framework for the Systembolaget stores' opening hours. The State has also specified the targets for the establishment of new Systembolaget stores. This means imposing a restriction on you, as an individual, but is something that the majority of Swedes support, bearing in mind the negative effects of alcohol on society and on their fellow citizens.

### **... but you, the customer, must be satisfied**

If we are to live up to our mandate, we must be responsive to the outside world. Which means we must be committed to and involved in our encounters with you, the customer. We really do want you to appreciate the way we combine responsibility with good service. Opinion surveys show that Swedes like Systembolaget and support our sole right. The 2010 Opinion Index continued to show high approval levels at 66 per cent and our Customer Satisfaction Index surveys showed that our service is appreciated. The index figure for 2010 was 78, which is the highest figure ever recorded.

A so-called farm shop sales proposal was put forward in December. The proposal covers a wider sphere than that normally meant by farm shop sales. Systembolaget's expert on the Government's investigative committee wrote a special statement on the proposal because the report by the Committee as a whole opened the door to an additional sales channel for alcohol and introduced a private profit interest into the retail alcohol sales sphere.

### **Active responsibility**

One of Systembolaget's most important tasks is not to sell alcoholic drinks to anyone under the age of 20. An external company carries out test purchases every year to monitor how well we are doing in this respect. The results showed that in 2010, we requested proof of age in 94 per cent of the test purchases made by people aged between 20 and 24. We view the few occasions when our age verification checks fail very seriously and follow up with in-store measures when they occur.

We are working, through our IQ subsidiary company, to create a broad, popular movement in Sweden when it comes to attitudes and behaviour



in relation to alcohol. 2010 saw us establish a partnership with the Swedish Sports Confederation for a new and large-scale youth programme across all sports and which was launched in early 2011.

We are also working systematically to expand our alcohol-free range, with the emphasis on quality. Our ambition is that our customers should always be able to find high quality alcohol-free drinks at Systembolaget.

#### **Our promise to our customers**

All of our store managers got together for two days in November last year to agree on and train in “good customer interaction”. Our promise is that you should always feel welcome, that you can always learn something from us, and that you can always rely on us selling responsibly. We will be implementing a programme designed to develop customer interaction in all of our stores in 2011.

In 2010, we launched a web service enabling Systembolaget's customers to order products from our extended range for delivery to any of our stores. The customer can then collect their products from the store of their choice. The service has already become very popular and an average of 6,000 orders are now being placed every month.

#### **CSR issues important**

Systembolaget's mandate entails, by definition, extensive social responsibility. We know, thanks to the just over 50 in-depth interviews we carried out with key stakeholders, that they also expect us to take responsibility in areas such as working conditions, human rights, the environment, and anti-corruption measures, both within the context of our own operations and at the supplier stage of the chain. One of the big challenges we face, for example, is ensuring that our products are sustainably produced. We have also noticed an increased media focus on these issues during the year.

We have been working with our Nordic colleagues as part of an active CSR partnership for a couple of years now. In September, I met with all the Presidents of the Nordic retail monopolies in Reykjavik, where we approved a common Nordic Code of Conduct. We also established a process for monitoring compliance with the Code and agreeing the distribution of responsibility. The goal is, by 2013, to have a systematic methodology that will ensure that our drinks supplier chain functions in a responsible and sustainable way.

#### **A better dialogue**

Systembolaget had almost 116 million customer visits in 2010, making us Sweden's biggest retail chain in any category. As I have emphasised in these comments, we have undertaken to refine our customer interaction and the dialogue on both food and drink still further. We have in-depth experience of generating a good balance between pleasure and health concerns and it is this that all of my colleagues and I are keen to convey to you, the customer – on your terms.

Magdalena Gerger  
*President*

*Our promise to our customers:*

*You should always feel welcome*

*You should always be able to learn something from us*

*You should always be able to rely on us selling responsibly*

## Alcohol in society

For the majority of people, alcohol is mainly associated with the positive sides of life – socialisation, parties and meals. But there are also downsides. Alcohol can cause deaths, diseases, violence and addiction.

Alcohol increases the number of cases of cancer, heart disease, mental problems, liver damage, accidents and sick leave. According to the Swedish Council for Information on Alcohol and Other Drugs (CAN), over 26,000 people received in-patient care for an alcohol-related diagnosis in Sweden in 2009. Several thousand Swedes die every year as a result of diseases or injuries associated with alcohol consumption. The scale of the deaths and injuries caused by drunk driving is difficult to assess: difficult, because available statistics do not include passengers and fellow road-users. What we do know is that almost one third of the car drivers who die in traffic are under the influence of alcohol.

Alcohol also causes major problems indirectly. According to the Swedish National Institute of Public Health, approximately 400,000 children in Sweden currently have a father or mother who drinks to excess. Aggressiveness, youth violence, abuse and social problems are common consequences of alcohol consumption.

### Wide-ranging consequences

The European Commission 2009 report on the implementation of the EU's alcohol strategy states that alcohol is the third biggest risk factor for ill health within the EU and that it is estimated to cause 195,000 deaths every year.

Calculating the precise costs of alcohol to society is difficult. The opinions of different stakeholders have clearly diverged, particularly when it comes to which methodology to use. The Government's Special Commissioner, Gerhard Larsson, estimates that society's bill for alcohol abuse in Sweden is SEK 66 billion every year.

Which means that the costs exceed the income in the form of alcohol taxes and other State revenues by a wide margin.

### Researchers are agreed

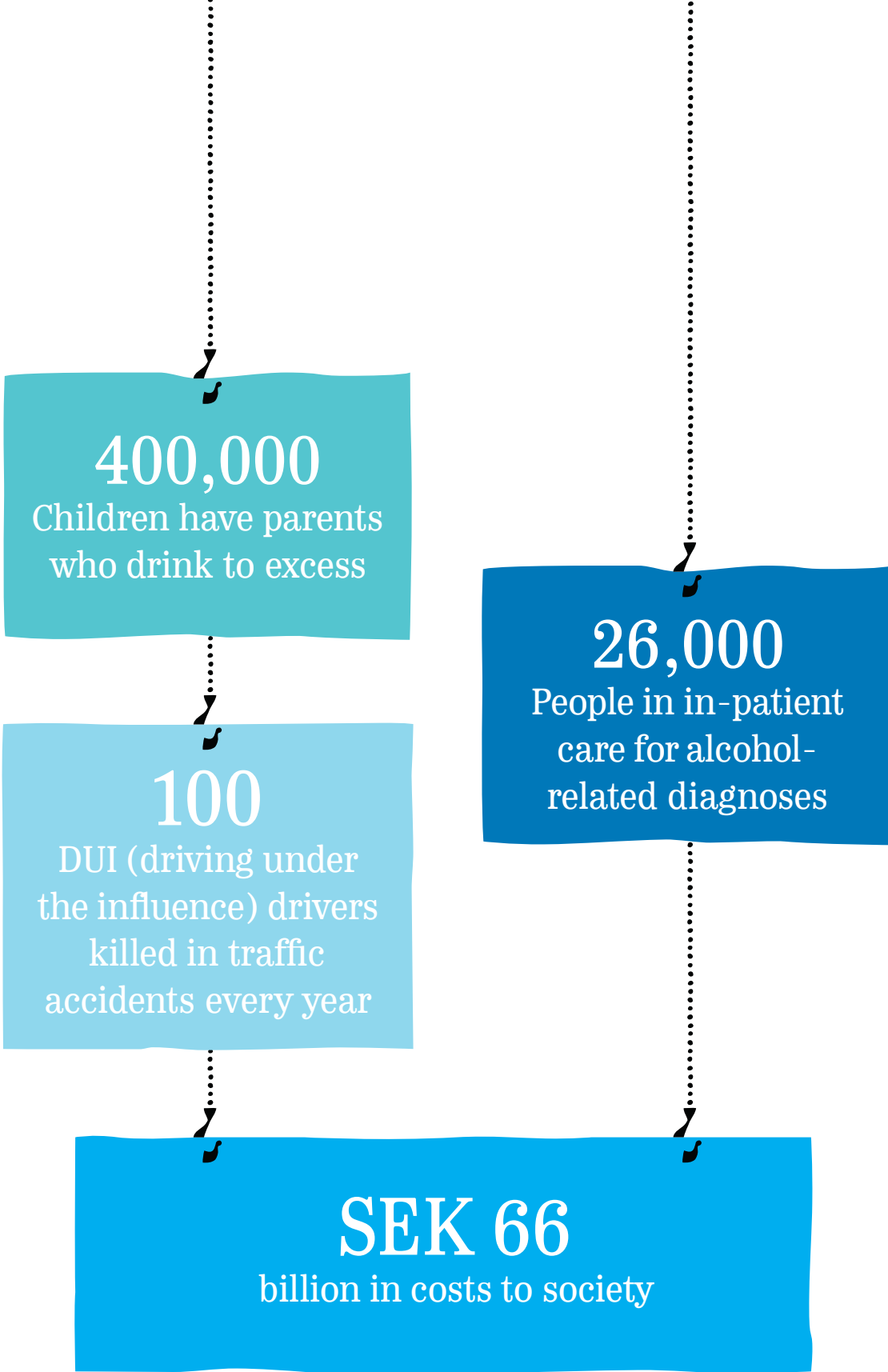
Researchers worldwide are agreed: there is a clear link between a population's average alcohol consumption and the scale of alcohol-related injuries and disease. The risk of a given individual suffering problems is, of course, lower if they consume less alcohol, but even low level consumption can result in disease and injuries. The majority of the problems caused by alcohol are related to the large group of low- and mid-level consumers, and hence many of the combined problems for the population as a whole occur within these groups. This is a very important reason why we must endeavour to reduce consumption by all groups within society, not just the heavy consumers.

Implementing measures that reduce total consumption also influence the heavy consumers to reduce their own consumption. They also reduce the risk of more people becoming heavy consumers, and thereby reduce, in addition, the disease and injury caused.

### Interest in the Swedish model

The General Assembly of the World Health Organisation (WHO) adopted a resolution at the World Health Assembly (WHA) on 1st May 2010 regarding a global strategy for reducing harmful use of alcohol. It includes public health-orientated State alcohol monopolies of the type we have in Sweden and in many other places worldwide, and which have proved to be an effective means of reducing the harm caused by alcohol.





## We have an important role

Superficially, Systembolaget is a retail company. But alcohol is no ordinary commodity. Our sales activities are built on a clearly defined social responsibility expressed in the fact that we do not promote additional sales.

Many of us appreciate beer, wine and spirits, and drink them in moderation. This does not mean that we can ignore the fact that alcohol is, at the same time, one of our greatest public health problems. The more alcohol is consumed, the bigger the negative consequences. The goal of Swedish alcohol policy, as approved by Parliament, is, therefore, to reduce total alcohol consumption. According to SoRAD, alcohol consumption in Sweden has fallen by 6 per cent in the last five years.

### Effective restrictions

One of the ways in which alcohol consumption can be reduced is by limiting its availability in the form of the number of retail outlets and of opening hours. Systembolaget has an important role to play in achieving this goal. We work actively to comply with the Swedish Alcohol Act's regulations governing sales, by not selling alcohol to anyone who is under the age of 20 or who is obviously intoxicated, and by working to counter illegal resale. We also provide information on the risks associated with alcohol in a variety of ways in order to reach as many people as possible.

### A clear mandate

Systembolaget is tasked with working efficiently within the framework of Swedish alcohol policy and with helping to limit the harmful effects of alcohol and thereby improve public health. We hold a monopoly in the retail sales of strong beer, wine and spirits in Sweden – a vital prerequisite of realising the ambitions of Swedish alcohol policy. Our sole right and the fact that we may not attempt to maximise our profits mean that we do not attempt to promote additional

sales. This is where we differ from other retail companies: we must not try to tempt customers to buy more than they had originally intended. By eliminating sales promotional activities such as discount prices, volume discounts and product displays that tempt people to buy more, we can limit alcohol-related problems.

### A balanced approach

Public confidence is vital to our ability to fulfil our mandate. Systembolaget's sole right entails a restriction on the individual that must be supported by the many. At the same time, however, this restriction must be balanced by what the public perceive as good service. We must share our knowledge, both of food and drink and of how to have a healthier relationship with alcohol on the basis of our customers' needs and questions.

### A different business concept

Alcohol is no ordinary commodity and Systembolaget's business concept is based on solidarity with people who are at risk from suffering from alcohol consumption. We have a clear role, therefore, to help establish a more sensible approach to alcohol, wherever it is purchased and whomsoever drinks it, through information and dialogue. Our care doesn't stop with our customers, either: it also extends to teenagers and the children of those who drink, for example.

### A bold vision

Our vision is, in practice, a zero tolerance vision that might seem both bold and utopian. But the point is that it clearly expresses our aim. Our vision entails a far-reaching responsibility.

*Our mandate:*  
To help limit the harmful effects  
of alcohol.

*Our vision:*  
A society in which every-  
one can enjoy alcoholic  
drinks with due regard to  
health considerations and  
without harming either  
themselves or other people.

*Our business concept:*  
To sell alcoholic  
beverages responsibly  
while offering a first-class  
standard of service and  
sharing our knowledge  
of alcohol and health.

## Multidimensional responsibility

Systembolaget's mandate entails, by definition, extensive responsibility in the context of an important social issue. There are also substantial expectations that we take a clearly defined responsibility for working conditions, human rights, the environment, and anti-corruption measures.

Systembolaget exists to limit the harmful effects of alcohol. This responsibility permeates every aspect of our day-to-day operations. We also take responsibility for working conditions, human rights, the environment, and anti-corruption measures. Our responsibility in these dimensions includes not only our own operations but those of our suppliers. The most commonly used collective term for this responsibility is CSR (Corporate Social Responsibility). Systembolaget uses the CSR term in this established sense, even though the basis of our entire range of operations is social responsibility.

### **CSR based on an established framework**

Systembolaget has chosen the UN Global Compact initiative, coupled with our core values of consideration, expertise and inspiration, as the framework for our CSR work. The Global Compact is based on the UN Declaration on Human Rights, the OECD guidelines, the ILO Convention, and the Rio Declaration. By choosing the Global Compact as our framework, we ensure that our CSR work is based on internationally accepted guidelines and definitions for sustainability.

### **Focus on CSR**

Systembolaget charted its most important sustainability-related areas in 2009. The Board and company management then decided on the focus

for Systembolaget's CSR work during the period from 2010 to 2013, based on these findings. The focus areas correspond well to the areas of Systembolaget's CSR work assigned the greatest importance in 2010 by our stakeholders: working conditions, human rights, anti-corruption, environment/climate, integrated sustainability management, skill development in the CSR sector, transparent communication and sustainable purchases.

### **Reporting in accordance with GRI**

We report our CSR work and aspects of our alcohol policy mandate every year in accordance with level B+ of the Global Reporting Initiative (GRI). This is an international framework of guidelines for reporting CSR work. We report goals and results for a number of GRI indicators, as they are known, and which can be equated to key performance indicators.

We report 28 GRI indicators in the report on Systembolaget's goals and results for our alcohol policy mandate and our CSR work for 2010, 20 of which fall within identified areas of responsibility for CSR and 8 of which describe product responsibility and economic sustainability. *Find out more in the GRI appendix at [systembolaget.se](http://systembolaget.se).*

A three-way social responsibility



- Limit the harmful effects of alcohol
- Extended involvement in alcohol issues
- CSR/Sustainability work.  
Conduct operations in line with the principles of the UN Global Compact Initiative.

We divide our social responsibility into three working areas: our alcohol policy mandate, our commitment to the alcohol issue and our CSR work. Our alcohol policy mandate lies at the heart of our business operations.



## CSR – part of everyday life

Our partnership with the Nordic alcohol monopolies has been intensified during the year and we have decided to join a CSR organisation. We have trained drinks suppliers and purchasers, conducted a dialogue trip to southern Europe, and drawn up internal guidelines for sustainability labelling.

The Board of Directors and the company management are ultimately responsible for the CSR work within Systembolaget. They are helped in this work by an interdisciplinary CSR group established in 2010. The group is tasked with strategic planning, following up, coordination and preparation of issues for decisions by company management. Environmental work is coordinated by the environmental group. Every central department at Systembolaget has an established responsibility for control, planning, reporting and following up of a number of CSR activities.

The goal is for the CSR work to follow the company's existing control, planning, reporting and follow-up procedures.

### Clear risk factors

The risk analyses we have carried out during the year have shown that the risk of encountering corruption in the course of our operations is relatively great. Our history shows that the consequences can be considerable: in the early part of the new millennium, it emerged that some of our suppliers had bribed some of our then store managers. The risk of crimes against human rights and working conditions occurring at some point in our worldwide supplier chain must also be regarded as substantial. There is also an increased interest in environmental and climate issues and for the drinks industry. This has resulted in a particular focus on the questions of water consumption, carbon dioxide emissions from transportation, and packaging recycling. Overall, these concerns have resulted in Systembolaget prioritising the CSR sphere and ranking it

as one of the most important areas in our company-wide risk charting process.

### Nordic CSR partnership

Systembolaget works in close partnership on the subject of CSR with the retail monopolies for alcoholic beverages in Norway, Finland, Iceland and the Faeroes. The aim of the partnership is to work, alongside our Nordic drinks suppliers, towards the establishment of a sustainable drinks supplier chain. A common Code of Conduct, containing rules and guidelines that describe how the operations shall be conducted in an ethical and responsible way, is an important part of this work.

A common Nordic platform was drawn up in 2008, based on the UN Global Compact initiative's ten principles, together with an initial draft code of conduct for employees and suppliers alike.

A dialogue with our suppliers on the subject of the Nordic CSR partnership and the contents of the draft code of conduct was established in 2009. The goal was to complete drafting of the Code of Conduct in 2010, but that work was brought to a halt in conjunction with the decision to join a CSR organisation and, as a result, to sign up to that organisation's Code of Conduct. The goals for 2011 include integrating the Code of Conduct into Systembolaget's and the other monopolies' purchasing agreements and drawing up tools in the form of self-assessment forms and incident management systems. The aim is to have established a systematic Nordic methodology for a sustainable drinks chain by 2013. *Find out more on page 36.*

### Membership of BSCI

The Nordic alcohol monopolies have met with a number of international CSR membership organisations in 2010. These organisations provide tools and networks for companies wishing to ensure sustainable supplier chains. The goal in 2010 was to identify an organisation that matches the needs of the Nordic CSR partnership. The Nordic alcohol monopolies have decided that Systembolaget and its Finnish equivalent, Alko, will become members of BSCI (Business Social Compliance Initiative). A different model of ensuring sustainable supplier chains will be reviewed by the Norwegian monopoly, Vinmonopolet, in 2011 and an evaluation will then be carried out.

### A clear plan

The challenge that Systembolaget faces over the next three years is to achieve a more integrated control of its CSR work and to ensure that it permeates the entire operation, with clear goals set for the various levels. CSR shall also be integrated into both our internal skill development programme and our communication. One of the important tasks we face is continuing to work with our Nordic partners and drinks supplies on

ensuring that Systembolaget's range is produced in a socially, environmentally and ethically sustainable way. Another challenge for 2011 is completing the environment investigation of Systembolaget's operational and drinks supplier chain begun in 2010 and then drawing up and commencing the implementation of a short- and long-term environmental plan, based on the results of the investigation.

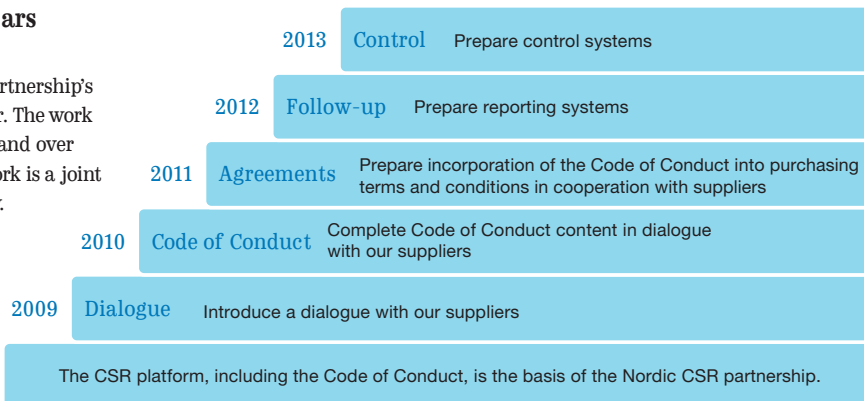
A set of internal regulations for sustainability labelling has been produced in 2010. *Find out more on page 36.*

### Huge interest in CSR issues

We have noticed a successive interest on the part of the media, students and researchers in the way in which Systembolaget is working to secure a sustainable drinks supplier chain. SVT (Swedish Television) drew attention to, amongst other things, the living conditions and pay of workers at one of the South African producers whose products are represented in Systembolaget's range. *Find out more on page 41.* The media has also drawn attention to the State-owned (and hence, also, Systembolaget's) reporting of their CSR work.

### Five steps in five years

The Nordic monopoly partnership's goals and strategy ladder. The work will take place in stages and over time. The basis of the work is a joint five-year Nordic strategy.



## Open dialogue with stakeholders

Systembolaget's stakeholders make individual demands on our operations on the basis of their respective perspectives and we maintain an open dialogue with them in order to ensure we are up to date with their expectations, preferences and demands on us.

The dialogue with our stakeholders is an ongoing one and takes the form of meetings, seminars, monitoring of the outside world, and analyses concerning OPI, ESI, CSI, SI. We are also keen to build and strengthen a mutual, long-term and transparent relationship with all of our stakeholders.

### In-depth interviews

We carried out a dialogue in the form of 52 in-depth interviews in the spring of 2010 with selected individuals from our various stakeholder groups as a platform for our future CSR work, including GRI reporting. The aim was to obtain an overall mapping of their awareness of, attitude to and wishes with regard to Systembolaget, with the emphasis on the CSR work. A summary of the most important roles follows below.

### Overall results

The stakeholders believe that as a State-owned monopoly, Systembolaget must act as a role model in its industry and must continue its strong focus on all areas relating to sustainability and responsibility.

Any significant deficiencies that might emerge within the context of Systembolaget's CSR work would be expected to have a substantial negative effect on the company's reputation and, potentially, to result in employee resignations, negative opinion and campaigns against Systembolaget.

The interviews also show that considerable potential exists for Systembolaget to improve the way in which it communicates what the company is currently doing in the CSR field and what

it plans to do in the future. This applies to both internal and external communication.

The players in the supplier chain state specifically that there is a lack of in-depth dialogue with regard, primarily, to working conditions and human rights. This type of dialogue could help ensure a faster developmental pace for Systembolaget in the CSR sphere.



### Society: “be sure you really carry out checks, out in the field”

Systembolaget's operations shall be conducted in a socially, ethically and environmentally sustainable way. We also have an extended responsibility for our alcohol policy mandate in the form of alcohol-prevention collaborations and the dissemination of clear information on the harmful effects of alcohol. The results of the interviews show that the media feels it is knowledgeable about Systembolaget's CSR work, but would like more transparency, particularly with regard to working conditions and human rights in the supplier chain. The stakeholder organisations and authority that is included in the dialogue does not, however, feel that it has sufficient information about Systembolaget's CSR activities.



**Customers: “the employees are very knowledgeable and professional”**

Systembolaget shall be perceived by its customers as a leading retail chain with regard to product range, expertise, service and responsibility. We work actively with issues such as organically produced products, alcohol-free alternatives, and eco-friendly transport solutions and waste management. The stakeholder dialogue reveals generally low levels of knowledge about Systembolaget and CSR, but the customers assume that the company has these issues under control. They feel that Systembolaget could improve when it comes to taking environmental responsibility. Levels of confidence in our employees are high and the customers would like an easy way to find out more about Systembolaget’s CSR work when they make their purchases.



**Employees: “a lot more to be done”**

Highly trained and committed employees are vital to responsible selling and satisfied customers. Systembolaget works proactively with diversity, equal opportunities, working conditions, and the work environment. The interviews with employees at different levels and in different positions within the company show that knowledge of the company’s CSR work is higher, the higher the employee’s position. Employees want to know about CSR and internal knowledge levels could improve. Considerable scope for improvement and development is apparent across the board when it comes to working conditions and human rights in the supplier chain.



**Suppliers: “could communicate better”**

Systembolaget is a major purchasing player, which entails a special responsibility when it comes to the requirement for neutrality in our choice of products. It also gives us a unique opportunity to influence the drinks industry in a positive, sustainable direction and in favour of low purchasing prices. The stakeholder dialogues show that suppliers are very familiar with Systembolaget’s CSR work and want to see a development in the fields of working conditions and human rights. They would like more concrete information on the CSR-related demands that Systembolaget will make on them. They see it as their role to pass these demands on to the producer stage.



**Owners: “confidence in what they are doing”**

The alcohol policy mandate is the foundation of our operations. Systembolaget is, moreover, tasked with constantly improving its operational efficiency in order to generate the scope for development and renewal. Interviews within this group have been conducted with representatives of two Government Ministries and four Board Members. This group is, generally speaking, satisfied with the company’s work in the CSR sphere, but would like to know more about how working conditions and human rights issues are handled in the supplier stage of the chain.



## Continued support for Systembolaget

Ultimately, it is Swedes' view of the way in which we live up to our mandate that will determine whether we retain our sole right on the retail sales of strong beer, wine and spirits. Public support continued to be strong in 2010.

We will be working to take even clearer responsibility in the area of alcohol and health over the next two years. We must establish a good balance between the two dimensions – responsible selling and good service. Success in this balancing act is vital if Swedes are to continue supporting the concept that underpins Systembolaget: to limit the availability of alcohol – and hence its harmful effects – through a sole right on retail sales of strong beer, wine and spirits.

### Two out of three want to keep Systembolaget's sole right

The Opinion Index (OPI) is one of Systembolaget's strategic key performance indicators and the survey is conducted on a monthly basis. A

representative sample of the Swedish public are asked to respond to the following question: "Do you think that Systembolaget and the monopoly on the sale of strong beer, wine and spirits should be retained, or would you like strong beer, wine and spirits to be sold in other stores?"

The survey was first conducted in 2001, when 49 per cent of Swedes answered that they wanted to retain Systembolaget. In 2009, the opinion index increased to 66 per cent, in what was the highest value ever recorded. This strong level of support was confirmed in 2010. It is notable that support is slightly higher amongst women than men and that it is also higher amongst both the younger age group (aged 15-29) and the older one (aged 65+), and in northern parts of the country.





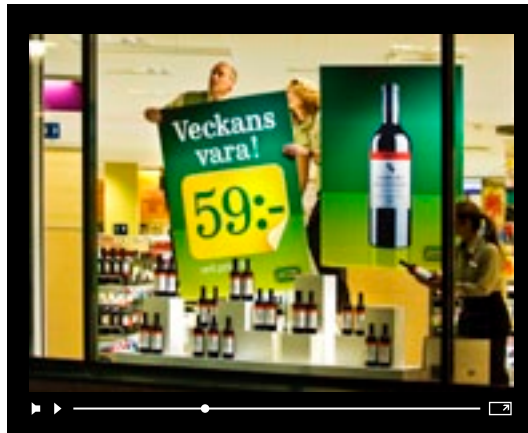


## A different company

A large majority of Swedes support the concept of a monopoly on retail sales of strong beer, wine and spirits, but it has escaped many of them that Systembolaget is not driven by profit maximisation and that our purpose is to help limit the harmful effects of alcohol.

A wide-ranging communication campaign began in the autumn of 2010, addressing the reasons why Systembolaget exists. The aim of the campaign was to highlight the way in which Systembolaget's stores and our sales differ from those of other retail sector players because we do not promote additional sales; we never attempt to persuade customers to buy more than they had originally intended to do, e.g., through discount prices, bait and switch offers, volume discounts or in-store product displays that would encourage additional sales. The communication campaign could be followed on TV, in our stores, and in social media.

A competition on Facebook gave everyone who wanted the chance to do so to suggest ways in which Systembolaget could increase its customer satisfaction levels even more without selling more. All of the 6,000 suggestions received are now being evaluated and passed on to the relevant department.



The winning suggestion was a combination barcode reader and label printer. When you read off the bottle's code, the device prints out a label showing all of the most important information about the product. The winner, Tomas Albinsson from Täby, won a celebratory dinner prepared by the 2010 Cook of the Year.

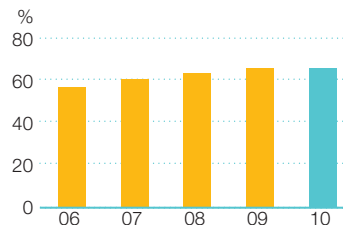
## Control and product range are positive factors

According to the OPI survey, there are two main reasons given by those in favour of retaining Systembolaget's sole right: firstly, that it enables alcohol to be sold in a controlled way that does not promote additional sales, which promotes public health and protects young people, and secondly, that they are satisfied with the range.

An independent company conducts ongoing random testing of our efficiency when it comes to age verification checks. The goal in 2010 was for proof of age to be requested in 93 per cent of control purchases made by people aged between 20 and 24. The result was 94 per cent, so it is clear that our age verification checking has never been better. Whenever we detect deficiencies in age verification checking, we implement a number of measures in the stores in question.

The main reasons given by the 29 per cent of people who believe that the monopoly should be abolished were that they dislike monopolies on principle, and that they believe availability and opening hours would improve in the absence of a monopoly.

## Opinion index, 2006 – 2010



The Opinion Index measures the percentage of Sweden's population who wish to retain Systembolaget and the alcohol retail monopoly.



## A far-reaching commitment

Our social responsibility is one of the factors that has the greatest influence on levels of customer satisfaction with Systembolaget. This is also the area in which we can see the greatest potential for development.



“Young people often have a permissive attitude towards alcohol. IQ’s Alcohol Index clearly shows that a more moderate attitude only develops with age. Young people are formulating new habits in totally new arenas, nowadays. One important change is the widespread use of social media that offer both new opportunities and new risks. Studies show that half of young people see alcohol advertising online every week. This is a clear reminder that the only way to reach young people with a message is to work with those young people’s reality.”

*Arne Modig,  
Senior Advisor  
Greatness PR*

Systembolaget is engaged in a number of activities and partnerships designed to strengthen the way in which we shoulder our social responsibility in line with our mandate. A total of SEK 30.4 million (SEK 28.3 m) was invested in these projects in 2010, including the IQ subsidiary company.

### Local cooperation with the police

Systembolaget and the police have been conducting local partnerships aimed at countering bootlegging and promoting tighter age verification checks in Systembolaget’s stores since 2006. The aim is to restrict young people’s ability to purchase alcohol and thereby reduce the risk of young people becoming the victims of or committing crimes and violent acts.

More and more stores and local police departments are choosing to work together on a local basis. This may involve the police sharing their knowledge of how to spot fake or borrowed ID, talking about bootlegging and other alcohol-related issues in the area or about how the police and stores can work together to reduce the problems. It can also involve a police presence in the vicinity of the stores’ surrounding areas in conjunction with big sales days, in order to prevent and stop bootlegging.

### Support for alcohol research

Systembolaget’s Alcohol Research Council supports socio-scientific and medical alcohol research in line with the company’s role and social responsibility. The long-term aim is to promote interdisciplinary perspectives and the priority is on work aimed at preventing alcohol-induced injuries and diseases. The Council has

nine members, six of whom are leading figures in the field of alcohol research and three of whom represent general societal interests.

The Council works independently, and in 2010, awarded SEK 3 million in research grants. 51 applications for grants were received, 20 of which were approved. The projects covered a wide range of spheres – from “Evaluation of the dopamine stabilizer, OSU6162, as a new pharmaceutical treatment for alcohol addiction” to “Study of the effects of prevention programmes for parents of young people at risk”. Systembolaget conducts audits and ensures that the funds are used in accordance with applicable guidelines.

### IQ – a smarter approach to alcohol

IQ-Initiativet AB is a subsidiary of Systembolaget that works to persuade more people to think about their attitudes towards and behaviour in relation to alcohol. The aim is to reduce alcohol consumption and thereby the harm caused by alcohol. IQ shall promote reflection and consideration, moderation and consideration.

IQ conducts campaigns, highlights good examples of alcohol-prevention measures, carries out surveys and participates in society’s dialogue on the alcohol question. Collaborations with other players are important. The focus of the operations in 2010 was on health, attitudes and social media.

### The Calorie Profile – with a gleam in the eye

Swedes consume an average of 460 million calories every year from alcoholic drinks. That corresponds to the calorie content of 26 billion meatballs! IQ’s aim, through the Calorie Profile, is to



*IQ and the Swedish Sports Confederation launched a big new youth campaign, called IQ Stars, in 2010. The aim is to persuade young people to refrain from drinking alcohol in conjunction with sports.*

show the link between alcohol and calories, and the length of time taken to burn off those calories, in a humorous and easily accessible way.

#### **Activities during Almedalen week**

Those who are working to influence people's alcohol consumption gained a completely new tool when IQ launched their Alcohol Index during Almedalen week. IQ's Alcohol Index summarises the degree of moderation: the higher the index, the more moderate people's attitudes are. Those who respond give their opinions on what is right and wrong. The Index will be measured once a year.

A mapping of alcohol advertising in social media was presented at a seminar in Almedalen. The aim was to spotlight the way in which cam-

paigns, interactive games and entertainment linked to well-known brands of alcohol are spreading across the internet, on Facebook, Twitter, YouTube and in smartphone apps.

#### **New alcohol and sports partnership**

A partnership was established with the Swedish Sports Confederation during the year to promote a massive new youth campaign to be launched in early 2011. The campaign will see IQ United, which was launched by IQ in partnership with the Swedish Football Association in 2006, expanded to all sports and change its name to IQ Stars.



## Developing customer interaction

We are different from other forms of retail outlets in that we do not promote additional sales. This offers us a unique opportunity to take the customer's side and to tailor our retail activities solely in line with customer requirements. We want to help our customers make informed choices.



“Systembolaget feels like a company that takes responsibility for its actions. The focus on health is something that I have become increasingly aware of, partly through the numerous new alcohol-free items, but also by the fact that they are talking about health issues more in-store. I would, however, like to see them develop their knowledge sharing work in relation to food and drink combinations, because I think this is an area where Systembolaget has a lot to give.”

Lena Allblom,  
Älmhult

There were almost 116 million customer visits to Systembolaget's stores in 2010 – the highest number ever and an increase of 1.8 million since 2009. The trend in recent years has seen customers visiting our stores more often, but buying approximately the same overall amount as before.

### Good customer interaction

As a Systembolaget customer, you should always feel welcome, always feel that you could learn something, and always be able to rely on us selling responsibly. We shall share our expertise when it comes not only to food and drink, but also on how to have a healthier relationship with alcohol, based on the customer's requirements and questions. It's about providing you with high quality service, without encouraging additional purchases.

We are implementing a major internal programme of work between 2010 and 2012 with the aim of further enhancing our skills in the area of customer interaction. Systembolaget's 500 or so managers are taking part in a three-stage training programme to create better customer interactions. The programme will be implemented in all of our stores in 2011 and results followed up on in 2012.

### Increasing customer satisfaction

As of 2010, the previously annual CSI survey is carried out quarterly by an independent survey company. Over 60,000 customers are given the chance to rate Systembolaget on everything from the store's accessibility and layout, to the product range, the way in which the staff treat customers, and Systembolaget's social responsibility.

### Employees receive highest rating

The employees' CSI rating was once again high in 2010, at 78. None of the quality parameters showed any deterioration. Systembolaget's employees are the highest rated sector in these surveys, with the staff regarded as knowledgeable in the areas of food and drink and as providing high standards of service for their customers. Every store manager receives the results of the survey for their particular outlet, and can use the data as a basis for the ongoing improvement work.

The survey also allows customers to compare their Systembolaget store with the grocery store in which they buy their foodstuffs. 2010 saw Systembolaget confirm its position as one of the country's best retail companies, with a rating that was eight points higher than the grocery store that received the next best rating. Systembolaget received higher ratings for product range, stores and personnel. The lowest rating was for value for money.

Our social responsibility is very important in terms of how satisfied our customers are with Systembolaget. According to the customer survey, Systembolaget has the biggest developmental potential with regard to social responsibility and product range.

### “Customer interaction” survey in stores

Systembolaget carries out a separate “customer interaction survey” every year as a complement to the CSI survey. An external survey company makes 4,000 visits to all of the self-service stores during the year in order to gain an overview of both the individual store and System-





bolaget as a whole. Customer interaction and the checkout are checked at least five times per year and per store, with the focus on the potential for improvement. The results are fed back to the store in question and used for subsequent operational development.

### Inspiration and information

Our communication activities are not intended to promote additional sales; rather our aim is to disseminate knowledge about how to combine food and drink. Other communication campaigns – run adjacent to the checkout lines – are designed to make people think about alcohol consumption.

### Clear rules

Living up to the Alcohol Act's rules governing selling is an important component of our customer interaction. When customers rate us, they see the age verification checks and our responsibility as an important part of our service. We do not sell to anyone under the age of 20, or to anyone who is obviously intoxicated, or to anyone whom we suspect may sell the products on illegally. These rules are communicated continuously in stores, on the website, on TV and in cinemas. The surveys carried out in 2010 show that our age verification checks have never been better.

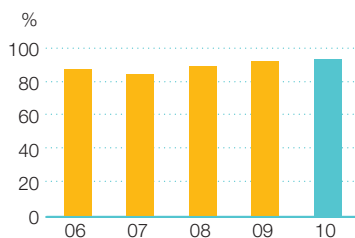


### Important age verification checks

One of Systembolaget's most important duties involves carrying out age verification checks on our young customers to ensure that we do not sell to anyone under the age of 20. Our internal guidelines state that we shall always request ID of anyone we believe to be under the age of 25 and to refuse the sale if they cannot prove their age. An independent company carries out approximately 6,000 test purchases at Systembolaget every year to see how well we are living up to these guidelines. The tests carried out in 2010 showed that we requested ID in 94 per cent of the 5,700 test purchases made in our stores by customers aged between 20 and 24.

Sveriges Television tested our age verification checks in some of our stores in Östergötland in the autumn of 2010. Young people under the age of 20 successfully bought alcohol in six out of fifteen attempts without having to display ID, after claiming that they had forgotten their ID at home. When these findings were released, we immediately instituted a number of measures to follow up on what had happened. These included conducting a dialogue, about what had happened and what lessons we could learn to ensure it was not repeated, with all of our stores nationwide.

### Age verification checks 2006 – 2010



Age verification checks are one of our most important tasks. Test purchases show that we request ID in 94 per cent of cases.







## Systembolaget's various contact points

Most adult Swedes encounter Systembolaget in a variety of different ways in their day-to-day life. We see every such meeting as unique and as a yardstick of our ability to live up to your expectations as a customer.



Most Swedes over the age of 20 visit one of Systembolaget's stores every three weeks, on average. The form taken by these visits has undergone a fundamental change over the last ten years.

### **From over the counter sales to self-service**

The process of refitting every single Systembolaget store as a self-service outlet is now in its final phase. All of the refitting work is conducted in accordance with an eco-friendly, customised building programme that is subject to continuous evaluation. 383 of our 414 stores had been refitted in accordance with this concept by the end of 2010. These stores account for 97 per cent of all customer visits.

Refitting a store so that it moves from over the counter sales to self-service achieves two important objectives. Firstly, it provides the scope for the personnel to work in a more customer-focused way and to become more proactive in this relationship. Secondly, it enhances the customer's opportunities to overview and choose from our wide range of products. The CSI surveys show that our customers appreciate the self-service concept.

### **Popular website**

Systembolaget's website – [systembolaget.se](http://systembolaget.se) – is an increasingly important contact point. The site enables customers to prepare their purchase by



searching the product range, seeing what is in stock in a particular store, and receiving help on combining food and drink. The site also offers a single port of call for information on a healthier relationship with alcohol. Systembolaget's website is very popular and had over 15 million unique visits in 2010, corresponding to an increase of 1.7 million in comparison with the previous year. The most popular sections are our search functions, "Search drinks" and "Stores and opening hours". "Drinks key", our recipe pages with drinks suggestions, are also very popular. The highest number of visits are recorded during the Christmas period, and 2.1 million unique visits were recorded in December 2010.

A web service that enables Systembolaget's customers to order products for collection at any store was launched during the second quarter of 2010. The e-ordering service includes all of the products in the available for order range, i.e. products held in stock by Swedish importers and producers, and then to collect them at their preferred store. The service has become very popular and an average of 6,000 orders are placed via this service every month.

### Social media

In the autumn of 2010, Systembolaget also set up a Facebook page where customers could make suggestions for improvements and in order to expand our dialogue with customers and Swedes in general. 24,000 people had "friended" our Facebook page by the end of the year.

### Knowledgeable Customer Service Department

Our Customer Service Department conducts dialogues with customers, stores and agents, and offers a very high quality service, sharing their extensive knowledge of alcohol.

Skill development programmes focusing on both drinks knowhow and service skills are held every year to ensure we maintain a high quality

service. Systembolaget's Customer Service Department is usually ranked as a leading Swedish customer contact centre in external surveys.

### Inspiring in-store tasting sessions

Systembolaget actively contributes to the development of a healthy drinking culture in a variety of different ways. One concrete example takes the form of the "in-store drinks tasting" service which is provided for our customers by our personnel in 30 or so stores, once the store has closed. Around 10,000 interested customers visit us every year to take part in a drinks tasting session. Wine tastings are the most popular type of session, with tastings involving food and drink combinations a close second.

### Continued interest in drinks auctions

Systembolaget organises drinks auctions four times a year in partnership with the Stockholms Auktionsverk auction house. The drinks auctions make valuable collectors' items available to an interested group of consumers and, at the same time, offers those who own valuable products the chance to sell them. The four auctions sell just over 2,000 items with a value of approximately SEK 13 million every year.



"I'm convinced that Systembolaget fulfils a function and reduces the harmful effects of alcohol in society. It's fun going into a Systembolaget store nowadays, and being helped to find new treasures. The ordering function for new wine where only a limited number of bottles are delivered from the depot is one I use regularly, and it works well. I also like the fact that new items are displayed separately in the store. It might be a good idea, when it comes to sought-after items where the store only has a few bottles in stock, to limit the number of bottles a customer can buy on the first day."

Lars Lindborg,  
Segeltorp





## In every municipality. Bar one.

Store availability is an important element of customers' confidence in Systembolaget. There are now a total of 414 stores, and they are located in all of Sweden's local municipalities, bar one. From Kiruna in the north to Trelleborg in the south. Systembolaget also sells via over 500 agents.



“The good thing about Systembolaget is the extensive product range and the knowledgeable personnel. Areas where they could improve include carrying more types of beer in the rural outlets and offering more bottled beer and the ability to return empty bottles.”

*David Rydebjörk,  
Dorotea*

Systembolaget's Board of Directors has laid down guidelines for opening stores, based on Systembolaget's contract with the Government. The goal is for Systembolaget to be represented in the form of a store in every local municipality area. This will be achieved when we locate suitable premises in the Knivsta local municipality area.

Stores are also established in larger built-up areas, city districts and suburbs, with the establishment order primarily determined by the population base. Central locations are prioritised for the first store in an area, while any subsequent stores are sited with increased regard to other retail centres in the area. Opening hours are generally determined, within the framework of parliamentary rulings, by the local customer requirement.

### Massive scope

Systembolaget's store network is structured on the basis of a service and availability perspective, rather than from a profitability viewpoint. The stores are developed to offer customers one of the world's widest range of drinks and to meet the demands this imposes on guidance, methodology and communication. Sales are still made on an over the counter basis in 29 stores, but these outlets are gradually being refitted as self-service stores. The goal was originally to complete this process by 2010, but this date has now been moved forward to 2012 in conjunction with the prioritising of the refitting of 22 older self-service stores where we reach more customers. 383 of our total of 414 stores were self-service by the end of 2010.

The biggest of Systembolaget's stores has net sales of almost SEK 300 million and just over 700,000 customers on a yearly basis. The smallest has net sales of approximately SEK 6 million and is visited by approximately 30,000 customers a year. It is obviously more difficult for a smaller store to cover its costs than for a larger one, and in 2010, 64 stores reported a loss – 13 stores more than in 2009. The main cause of the losses was increased depreciation costs as a consequence of the refitting of the store network.

Systembolaget's 500 or so agents are located in smaller communities where there is an insufficient customer base for the establishment of a Systembolaget store. Customers who buy via an agent have access to the full range of products, thanks to deliveries from Systembolaget's two product depots in Örebro and Sundsvall. The agents account for approximately 1 per cent of Systembolaget's net sales. They do not keep any products in stock – delivering, instead, to order.

### The right store for different requirements

Systembolaget decides centrally on the layout of every store, the products it will offer, and the messages communicated in store. The stores are divided into different formats, based on local conditions, in order to optimise the way in which we meet customers' expectations.

The small store has net sales of up to SEK 18 million and carries approximately 490 items in stock. The format is designed to be cost-effective for operation in smaller communities. There are 61 stores in this format.





The medium-sized store is designed for small and medium-sized communities. The focus is on a good offering in relation to size. The store carries approximately 900 items and posts net sales of up to SEK 36 million. There were 93 stores in this format in 2010.

The large store is the most common store format and in 2010, there were 188 such stores. This store type posts net sales of SEK 36 million or higher and carries just over 1,400 items in stock, depending on size and location. These stores maintain a balance between a wide offering, cost-effective operations, and a good customer experience.

The very biggest store has sections where gaining an overview is easy, making it easier for the customer to find what they want. This is designed to lead to more informed choice and planned purchases. The range comprises just

over 1,800 items. This type of store is increasingly being introduced in more and more locations, and by the end of 2010, there were 16 such stores of this format.

#### **Wine Cellar and Food Hall stores**

There are a further two types of store, in addition to the four standard-type ones described above. One is the so-called Wine Cellar store which, in addition to the normal range, also carries all of our wines priced at over SEK 100 and all types of spirits. More exclusive items are also launched here in smaller quantities. There were three stores of this kind – one each in our three biggest cities (Stockholm, Gothenburg and Malmö) – in 2010.

The other format is the Food Hall stores, which make a clear link between food and drink as a natural part of the Food Hall's offering. There are currently two such stores, both in Stockholm.





## A world-class product range

Systembolaget has a total of just over 2,300 items in its fixed range. Added to this are all of the temporary items and the just over 8,500 items that are available via the for order range. Last year 2,315 products were launched.



“Systembolaget’s purchasing process produces a range that has a qualitatively high minimum level. Yes, there are both peaks and troughs in the range, but you can generally rely on the quality of the products sold. What I don’t like is when customers approach a store with specific requests for a particular wine they are sometimes routinely informed that it’s sold out. Despite the wine being available in other stores from which it could be requisitioned.”

*Jens Dolk, wine writer and wine expert on TV4’s “Nyhetsmorgon” programme*

The range is primarily designed to offer you, the customer, the widest possible selection, not to maximise our operating profits. And indeed, the annual Customer Satisfaction survey shows that the customers rate Systembolaget’s range highly. This is one of the quality areas that is most important in terms of customer satisfaction.

### Continuity and renewal

Systembolaget’s range comprises a fixed and a temporary range. The fixed range is designed to meet customer requirements for a long-term approach and for continuity. The fixed range is changed twice yearly. The temporary range represents renewal and seasonable variations.

We have changed the way in which we launch new products in 2010 and now link the launches to the season in question – spring, summer, autumn and winter. This enables us to establish a clearer link between seasonal food and the drinks that go with it.

Systembolaget launched a total of 2,315 new items within the range in 2010. The majority of these – 1,459 – are bought in small quantities in the higher price brands. These products are launched in the three Wine Cellar stores and can also be ordered in any of our stores. Customer surveys show, however, that despite the high product launch rate, customers are not totally satisfied with our new product launches.

### Demand decides

Systembolaget decides centrally which components of its range to distribute to the individual stores on the basis of demand. In simple terms, the greater the number of customers who buy a

particular product, the more stores to which the product is distributed. Every store can, moreover, choose up to 50 items solely on the basis of local customer demand.

The product not held in stock in the local store can be ordered from Systembolaget’s product depots in Örebro and Sundsvall and delivered to the store within two days. There is also a dedicated range available to order which is, when ordered by the customer, distributed from the supplier’s warehouses, and which can take a few extra days to arrive. Otherwise, any product at all can be ordered from anywhere in the world via Systembolaget’s private import service.

### Increased sales

Systembolaget’s total sales in 2010 increased by 1.2 per cent, measured in litres. Sales of wine and alcohol-free products increased, while sales of other product groups fell slightly.

187.9 million (181.4 m) litres of wine were sold in 2010, corresponding to an increase of 3.6 per cent in comparison with the previous year. Wines from South Africa, Germany and Italy accounted for the biggest percentage of sales of white wine. South Africa, Italy and Australia were the biggest sellers in the red wine category. Wine accounted for 41.4 per cent of sales by volume in 2010. Almost 56 per cent of all wine was bought in the bag-in-box format in 2010, corresponding to a small increase compared to 2009.

Sales of beer totalled 225.8 million (226.9 m) litres, corresponding to a decrease of 0.5 per cent since 2009. Sales of spirits fell by 0.7 per cent to 20.0 million (20.1 m) litres. 12.0 million litres of organically produced products were





sold in 2010, corresponding to an increase of 40.7 per cent. Almost 2.0 million litres of the products sold in 2010 were Fair Trade-labelled, corresponding to an increase of 4.5 per cent.

### Strict labelling rules

Systembolaget's General Purchasing Terms & Conditions state that our suppliers are responsible for ensuring that packaging complies with both Swedish and EU regulations. The packaging may not contain product samples, gifts, invitations, competition offers, etc.

The EU's rules governing manufacturing specify, e.g. which grapes may be used, which substances may be added, permitted process aids and treatments, the terms under which wine may be blended, and the ways in which the wine shall and may be labelled. The labelling may contain information on sugar levels for sparkling wines, on the bottling company, the actual alcohol content by volume expressed as a percentage, or whether the product is an organic one.

Systembolaget requests a labelling sample prior to every launch, new vintage, or change in design. The aim of the controls is to ensure that products and packaging comply with the rules governing labelling and marketing.

We began work in 2010 on drafting internal regulations for different types of "ethical" and "social" labelling that our suppliers want to use on their packaging. There is no comprehensive set of regulations governing these matters and Systembolaget has consequently, with the help of an external party, drawn up a general requirements list based on ISO 140 24.

### Locally produced products

As of 1st July 2010, a supplier can request that a locally produced product that forms part of the available for order range be stockpiled in three nearby Systembolaget stores. These items could previously only be stockpiled in the nearest

store. The term, local Systembolaget stores, refers to those stores that are located closest to the local production site by car. The purchasing terms and conditions relate to "local" production and manufacturers of alcoholic drinks close to a Systembolaget store, can also stockpile their products in the local Systembolaget stores.



### Focusing on alcohol-free products

One important market trend, and one of Systembolaget's prioritised areas, is to develop a range that, while focusing on health and the environment, inspires a better food and drink experience. The alcohol-free range plays an important part in these endeavours because by offering high quality alcohol-free drinks to go with different types of food, we generate the preconditions for many to adopt a healthier attitude towards alcohol. We define alcohol-free as a drink that contains a maximum of 0.5 per cent alcohol by volume.

In 2010, we conducted a pilot study during which we reviewed the product range, in-store displays, communication, and knowledge of alcohol-free products amongst our employees. The results showed that the range must be expanded in order to reach more customers. A large number of new product types were introduced in the alcohol-free range in 2010, and the launch rate increased 5 times over in comparison with the previous year. The sales trend for alcohol-free products continued to point strongly upwards in 2010, increasing by almost 31 per cent to just over 1.3 million litres, which corresponds to 0.30 per cent of total sales volumes. The goal for 2011 is approximately 1.7 million litres.





## Active environmental work

Systembolaget's stakeholders place high demands on our environmental work and it is consequently an area in which we are working actively to make improvements. The focus this year has been on organic products, waste management, energy usage, personal transport and construction materials.

A new environmental audit was launched in 2010 with the aim of ensuring that we are prioritising the right areas in our environmental work. Systembolaget's new environmental plan will be drawn up in 2011 on the basis of the audit's findings.

### Organic products

By offering our customers organically cultivated products, we make it easier for them to make informed choices when they shop with us. This was on the wish list that emerged from the stakeholder dialogue held last year. Our goal for 2010 was to have at least 100 organic products in the fixed range and we achieved it: by the end of the year, we had 119 items in the fixed range. Our customers continue to buy more organic products, sales have increased and now account for 2.6 per cent of total sales.

One of the wishes expressed by our stakeholders was that we display our organic products more clearly than at present and they would also like to see us provide more information about them in our stores. We have found it difficult to comply with these wishes, however, in that we are required to treat all products equally and in a brand-neutral way, which is why, for example, we do not have a special section for organic products in our stores and use "eco" shelf labels, instead, where the products are positioned by country of origin and price band.

### Focus on waste management

The best alternative from an environmental viewpoint is to reuse and recycle waste, while the worst is to send it to landfill. We imple-

mented a programme during the past year in cooperation with our waste management partner, IL Recycling, with the aim of reducing the amount of waste sent to landfill.

During the year 0.0 (0.6%) per cent of the waste from our stores was sent to landfill. The goal was 0.6 per cent.

Our store employees are generally good at sorting waste at source, but there is room for improvement in those of our stores that produce the most waste, and we are planning a programme of work in this area, in cooperation with our partner, IL Recycling. IL Recycling is also working closely with filling levels in order to reduce the number of transports to and from the stores, and 2010 also saw IL Recycling launch a pilot study looking at transport optimisation at Systembolaget that will entail savings on both the environmental and financial fronts.





### LCA wine packaging

Systembolaget has, in collaboration with other organisations such as the Norwegian Vinmonopolet, conducted a lifecycle analysis of the environmental impact of different types of wine packaging, from production to waste management. The lifecycle analysis has shown that boxes, bags and liquid packaging board generally have a lesser environmental impact than glass bottles. PET bottles come between glass bottles and other types of packaging. The biggest impact for all types of packaging comes in the manufacturing stage. The analysis also shows the importance of making improvements in distribution and that the recycling of waste must be further increased. The results will be used in our product range work, where customer demand, environmental impact, quality issues and our alcohol policy are all taken into consideration.

### Energy usage

The refitting of our stores as self-service outlets demands increased lighting and climate control facilities and we are consequently examining ways in which our energy usage can be reduced. The electricity we buy carries a “Good Environmental Choice” eco-label and is produced from

solar, wind, water and biofuel sources. We continued in 2010 with the work we began in 2009 on installing energy-saving LED (Light Emitting Diode) fittings on a trial basis in one store. LED fittings are 100 per cent recyclable and would halve the energy requirement for our shelf lighting. Systembolaget’s goal of installing LED fittings on the shelves of a further 15 stores in 2010 was achieved.

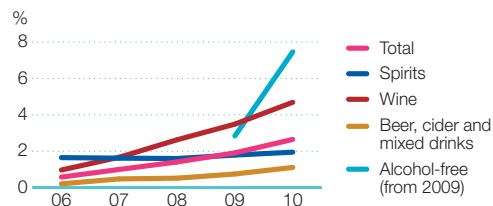
### Eco-friendly travel policy

Meetings and travel are a natural part of Systembolaget’s operations and for several years now, Systembolaget has implemented a travel policy that is designed to help ensure that our travel is as eco-aware and cost-effective as possible. Our environmental group participated in the Swedish Transport Administration’s network for sustainable travel during the year, in order to boost our knowledge of sustainable travel.

### Eco-friendly construction materials

Our goal is, as far as possible, to use construction materials that are recommended from an environmental viewpoint. Only 10 or so of the total of 200 materials used do not currently have this recommendation.

### Organic products as a percentage of sales, volume



### Breakdown of waste from stores by processing technique, %

	2010	2009	2008	2007	2006
Material recycled	97.8	95.7	98.3	99.0	99.0
Energy extraction	1.2	3.7	1.2	0.6	0.5
Landfill	0.0	0.6	0.4	0.3	0.4
Other*	1.0	0.0	0.1	0.1	0.1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

\*Refers to mixed waste that is recycled, energy extracted or sent to landfill.

The table refers to that percentage of the stores’ waste that is collected by our partner for waste product processing, IL Recycling. We do not know the total amount because household waste is processed by the local authority in question.



# More time for the customers

Systembolaget is an unusual retail company. We hold a sole right on retail sales of strong beer, wine and spirits and are not allowed to maximise our profits or promote additional sales. This generates the potential and scope for our employees to commit more to the interaction with you, the customer.



“It can be difficult to tell how old someone is. We have to know, not guess that the customer is over 20 and never sell to someone if they can't produce ID. Our goal is to be personable and pleasant at all times when we ask for ID. We talk a lot at our meetings about how everyone at the store is handling the ID issue, and support and help each other.”

*Ida Carlund, sales staff in Lysekil*

It is Systembolaget's employees who receive the highest satisfaction rating from customers in our ongoing customer satisfaction surveys.

### A clear compass

Our strategic plan for 2010 to 2013 contains the basis for the work being conducted within the employee sphere:

- We shall generate the conditions in which employees and managers shall, through their competence, take responsibility for Systembolaget's mandate and customer interaction.
- We shall build a sustainable workplace in which employees and managers have everything they need not only to perform well, but to feel good in both the short and the long term.

Our three core values – consideration, expertise and inspiration – are the compass for all of us who work at Systembolaget and shall guide us in our work.

### Satisfied and motivated employees

The Employee Satisfaction Index (ESI) measured within Systembolaget in 2010 was 75 and hence remained unchanged at the same high level as in 2009. An index of 75 (on a scale of 1-100) is, generally speaking, a high value, even in comparison with other companies in the Swedish retail sector.

The area rated most highly by our employees is their view of Systembolaget as a whole. The individual statement that receives the highest index is that “Systembolaget fulfils an important function in Swedish society”. The rating for “Clearly communicates the company's goals and visions” is high, too.

The investments we have made in training related to areas of responsibility within the stores has yielded positive results in terms of how our employees view their developmental potential, their duties, and their views of their working group. Key areas in retaining and fur-

### Breakdown of employment positions, 2010 \*

	No. employees	Type of employment, %		Working hours, %	
		Permanent	Fixed period	Full time	Part time
Systembolaget	4,825	83	17	24	76
Sales personnel	3,980	80	20	10	90
Store Managers	429	100	0	97	3
Caretakers	57	89	11	0	100
HQ personnel	359	95	5	96	4
IQ	3	67	33	100	0
<b>Group, total</b>	<b>4,828</b>	<b>83</b>	<b>17</b>	<b>24</b>	<b>76</b>

\* Refers to permanent employees as of 31<sup>st</sup> December.





ther strengthening our ESI are the degree to which duties are stimulating, varied and challenging, better communication of our mandate, and further strengthening our already appreciated management teams.

#### **Good customer interaction**

All managers received “good customer interaction” training in 2010. 2011 will see the launch of a training programme in this field for all Systembolaget employees who will, amongst other things, complete a web-based course that includes learning activities that are designed to meet employees’ need for expertise in the fields of customer interaction, CSR and the effects of alcohol on health. These programmes will, in combination with existing learning activities in such fields as product knowledge and operational knowledge, enable Systembolaget to achieve the goals laid down in the strategic plan.

#### **Staff turnover**

Systembolaget had a total of 3,927 permanent employees at the beginning of 2010. 588 (536) members of staff left the company during the year, yielding a staff turnover figure of 15 per cent. The biggest turnover is amongst retail sales personnel under the age of 30 who work low numbers of hours per week. All Systembolaget employees are covered by a collective agreement.

#### **115 trainee positions**

Systembolaget has made a practice of taking on trainees for many years now, and in 2010, we made 115 trainee positions available via the Swedish Public Employment Service’s focus on State-owned employers as part of the LYFT (LIFT) project. Systembolaget also works with several training courses that include practical work experience elements for their students. Our aim is to help increase the trainees’ opportunities in the labour market.





## Investing in skills

Systembolaget operates in a changing world. Working long-term with skill development is a prerequisite of our ability to fulfil our mandate. So we were delighted when Systembolaget was named “Skills Company of the Year” in 2010.



“We have an exciting and challenging task ahead of us in improving our ability to recommend alcohol-free drinks. Our employees must become more knowledgeable about our alcohol-free range. Once we achieve this we will also, I believe, increase our customers’ interest in alcohol-free taste combinations.”

*Frieda Sheperd,  
Store Manager  
in Nossebro*

Skill development work within Systembolaget is based on a wide-ranging needs analysis. Numerous managers and employees have been interviewed as to the conduct and qualities that are important if people are to succeed in the company. The results of the interviews were used to produce a skills library comprising the 31 different skills that are most important to personal success in Systembolaget. This library forms the basis for our skill development work.

### Shared skill development methodology

We have a structured and organised method of working with skill development within the organisation. The goal is for all employees to be covered by a shared methodology from the moment they are recruited until the day when they leave the company. We call the “toolbox” we use to achieve this, KORUS (Competence And Role Development System).

KORUS comprises a number of tools – the skill library that describes the skills individual employees should possess, the role profiles for every role within the organisation, interview questions linked to the role for use in conjunction with recruitment interviews, learning activities, etc.

Skill development within Systembolaget is designed to help ensure that every employee can carry out their duties in such a way that the company achieves its goals. The role of the managers is to lead and coach in such a way that employees achieve their skills potential in relation to their individual roles. The individual employee is personally responsible for their own learning. Systembolaget offers the necessary support and a wide range of training opportunities.

### Not just “doing a course”

Commitment and responsibility on the part of the individual are vital if the skill development is to be successful. Internally, we use the term, “learning activity” in order to stress that skill development means something more than just “doing a course”. The importance of commitment and responsibility by the employee is symbolised most clearly by the skill we define as “personal learning”, by which we mean possessing the ability to generate scope for reflection, be curious and seek out new challenges.

### Focusing on performance reviews

Systembolaget’s annual performance reviews are known as FOKUS (Future and Competence Performance Review). During these reviews, individual goals and the skills associated with the individual’s roles are followed up and evaluated. Ambitions for the future are discussed, and a new development plan is drawn up for the impending period. Documentation of performance reviews, the booking of training courses, skill requirements inventories and development plans are drawn up in the Skill Portal, which is an IT tool that supports the skill development work. 74 per cent (80%) of all employees had performance reviews with their managers in 2010.

### One-year introduction course

New recruits are introduced using a systematic approach based on assignments and role profiles. The introduction programme for the two main roles – those of sales staff and store managers – run over 12 months and are divided into two periods.



During the first six months, new employees are introduced via learning activities and extensive checklists to ensure that once the six months are up, the employee can “do the job”. The following six months offer a range of learning activities during which managers and employees jointly decide which activities are appropriate, based on the demands of the role in question.

The range of activities is divided into product knowhow, operational knowhow, and leadership, and there are a total of around 60 internally organised courses and a number of external courses, the cost of which is defrayed by Systembolaget. At the end of the 12-month period, every employee should be able to live up to the demands of their respective role profiles.

We have also procured a number of general agreements with external suppliers in order to

meet the requirement for skill development in special areas. The areas in which we use external suppliers include finance, IT, languages and management training and development.

### Skills Company of the Year

Systembolaget was named “Skills Company of the Year” in November 2010 – a prize awarded by the KompetensGruppen company. The award citation read as follows: “Systembolaget conducts purposeful, long-term and multifaceted work aimed at increasing the skills of all its employees.” Our work with skill supply has also had a major impact within the organisation thanks to the fact that managers and employees alike are working to ensure that everyone within the company has the necessary conditions to do as good a job as possible.



### Decision to introduce hours worked per year

A decision was taken in the autumn of 2010 to introduce hours worked per year within Systembolaget. The aim is for hours worked per year to have been introduced in all stores by the end of Q2 2010. The idea behind hours worked per year is that it improves our ability to adapt employees’ contracts in line with actual requirements. Fluctuations in workload are equalised with the aid of an hours worked per year balance. Employees can personally influence the scheduling of their working hours. The same salary is paid every month, irrespective of the current workload.

In the autumn of 2009, Systembolaget and Systembolaget’s staff trade union (Unionen) agreed that hours worked per year would be introduced on a trial basis in 16 stores. Follow-ups took the form of recurring surveys and meetings with employees at the stores in question. Commitment and interest levels were high. A big workshop of 50 or so people was then held at the end of the year in order to evaluate the result. The result was a recommendation from the participants that hours worked per year be introduced in accordance with the project guidelines. The next stage of the process will see a pilot study conducted in a further 27 stores, starting in April 2011.



## Focus on work environment and health

Systembolaget has continued its work environment and health work during the year, with the focus on taking steps to reduce the work environment risks identified in several contexts.

The sick leave rate at Systembolaget in 2010 was 4.9 per cent, corresponding to a reduction of 0.2 percentage points in comparison with 2009. The figure also meant that the target level for 2010 of 5.5 per cent was achieved by a good margin. The reduction occurred in the 50+ age group, but we are also seeing an increase in the under 29 and 30-49 age groups, instead. 2.6 per cent of sick leave lasted between 1 and 14 days, which was the same level as in 2009, while the percentage of sick leave lasting 60 days or more fell by 0.1 percentage points to 1.8 per cent.

### Ongoing collaboration

Our collaboration with the company health care scheme providers continued in 2010 with the aim of reducing absence due to sickness and getting employees on long-term sick leave back to work. Managers conducted a systematic review of all instances of long-term sick leave (90+ days) with the aid of the industrial health service nurses. The review showed that monitoring of employees on sick leave works well and that the rehabilitation process is an active one.

209 employees took advantage of the opportunity to draw up a health and function profile in 2010. The results support the previous data that formed the basis of the work environment on health programmes initiated in 2010.

### Focusing on three risk areas

The primary focus within the framework of Systembolaget's work environment activities during the year was on three identified risk areas: pain problems, physical activity levels and tobacco usage.

A programme of recruiting and developing in-house ergonomics guides was carried out in order to reduce the number of employees suffering pain, primarily in their shoulders, shoulder blades and backs. The aim is to increase usage of existing aids and to persuade more employees to work correctly from an ergonomic viewpoint. The ergonomics guides will begin their assignment in 2011.

A new web portal solution was procured in order to make it easier to find and choose healthy lifestyle services and to encourage increased physical activity and other forms of healthy lifestyle choices.

A tobacco usage cessation pilot group was launched during the year. The group is trying out a new concept for tobacco usage cessation with the support of the company health care scheme providers. The pilot group will be evaluated once the activity is concluded and it is hoped that Systembolaget will be able to offer more employees the same support in the years to come.

### More measures to improve safety

Systembolaget's stores shall be a safe and secure place for employees and customers alike, which is why we continued to focus this year on improving safety-related rules and routines and our technical safety equipment. The work aims to prevent violence and threats, shoplifting, robbery and fires. We also have an efficiently functioning organisation of support counsellors who can provide professional help if a store suffers a robbery or attempted robbery.

Systembolaget is planning to install closed cash handling systems in fifty or so stores within



a five year period. These stores are regarded as high-risk outlets, i.e. they are in an unruly area that is perceived as problematic by employees. Impulse robberies may also be more common-place here. An extra training programme is also being carried out in parallel with this work in order to improve employees' knowledge of how to handle threatening situations. This training will be tested in two stores in the autumn of 2010.

**Learning activities in the work environment sphere**

All managers and health and safety representatives – a total of around 800 employees – took part in this year's Work Environment Day. The aim was to clarify roles and responsibilities within the context of Systembolaget's work environment work and to clarify the tools and routines available within the framework of the systematic programme of work environment activities.

**Ongoing equal opportunities and diversity work**

Systembolaget works to ensure equal rights for all with regard to work, developmental opportunities and terms of employment and other conditions. The principles governing pay structures are communicated openly and must not be discriminatory. Those on parental leave are assessed and their pay is set in the same way as if they were actively working.

**Key performance indicators, employees**

	2010	2009
No. employees*	4,825	4,744
Sales staff, percentage female, %	69	70
male, %	31	30
Store Managers, percentage female, %	53	50
male, %	47	50
Staff turnover, %	15	14
Sick leave, %	4.9	5.1

\* Refers to employees of Systembolaget as of 31<sup>st</sup> December.





## Guided by high ethical standards

Ethical issues are included in the annual performance review discussions between managers and employees. Ethics and values are, moreover, important issues raised as a matter of course during internal training and new recruitment.

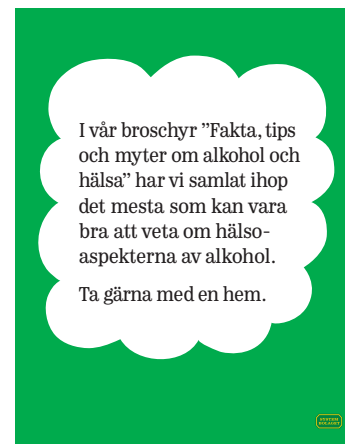
All of Systembolaget's managers, from Store Managers to the company management team, have met up in their respective management groups in 2010 to discuss ethical issues and management. All management groups are obliged to conduct these kinds of ethics dialogues twice a year, and a total of 71 ethics dialogues were held in 2010.

### Ethics Advisor

Systembolaget has had an Ethics Advisor for a number of years now. The role is held by an experienced Store Manager who enjoys widespread confidence amongst employees. The Ethics Advisor is tasked with providing employees with advice on ethical issues and acting as someone to whom employees can turn with information on any deviations from the company's guidelines. The Ethics Advisor handled seven cases in 2010, all of which were of an ethical nature.

### Clear rules for preventing corruption

Contacts with suppliers of alcoholic drinks are primarily made by personnel from Systembolaget's Purchasing Business Area. The store personnel's contacts are limited to study visits to stores by suppliers, or visits to producers for training purposes. The visits are closely regulated. Contact by suppliers with store personnel in an attempt to influence them to favour individual products in any way is not permitted. All new recruits to Systembolaget receive information on the rules governing external contacts and must sign a statement that they have been familiarised with the rules. Managers must confirm, in writing, that they have familiarised themselves with the rules governing external contacts in conjunction with their performance reviews every year. All employees are asked systematic questions about the rules governing



We communicate messages, running adjacent to the checkout lines in our stores, which are designed to make people think about alcohol consumption.





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## Warning signs of alcohol abuse

Systembolaget's store personnel sometimes encounter an ethical dilemma: what to do about customers who obviously have a problem with alcohol? Or how to deal with people who ask for help with regard to relatives who misuse alcohol? Our zero tolerance vision states that no one shall be harmed by alcohol, and this entails a far-reaching social responsibility. At the same time, the scope for action is limited by the formal frameworks that steer our work. Questions of this kind are, therefore, sometimes channelled to the Ethics Advisor.

One of the prerequisites of a credible customer interaction is that we, ourselves, set a good example. We must work both preventatively and supportively when it comes to alcohol abuse amongst our own employees. This imposes a huge responsibility on our managers to react and act to early signals that everything may not be as it should.

Area Managers and Head Office managers have, as part of this work, undergone a repetition of the training activity provided for all managers and health and safety representatives in 2008. The new course is also designed to go into greater depth than the original one. A one-day course on the subject of early warning signs and discussion methodology, with links to our alcohol policy, will be held in 2011. Store Managers will also receive further training and opportunities to review and deepen their existing training.



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external contacts in conjunction with these reviews. In brief, the rules mean that no drinks supplier shall be given an advantage over any other supplier. The rules also include regulations governing accepting gifts.

The sales organisation, which largely comprises our 414 stores throughout Sweden, has an established routine for maintaining employees' and managers' knowledge of ethical issues. Every manager is responsible for conducting dialogues on ethical issues and the regulations concerning external contacts twice every year. The issues addressed include setting limits on improper pressure from suppliers. All managers work with a common body of material.

### Help with finding another job

When an employee leaves the company without having personally initiated their departure, Systembolaget can, in certain cases, offer external help in finding a new position outside Systembolaget. In cases where employees have been given notice due to lack of work, they are covered by the readjustment agreement and can hence receive help from the services provided by Trygghetsrådet (the Swedish Employment Security Council).



## Responsibility throughout the chain

The drinks that Systembolaget sells must live up to our customers' demands in terms of quality, product range and value for money. It is equally important that they are produced under responsible conditions.

We have been conducting an ongoing dialogue with our drinks suppliers since 2008 with the aim of increasing their commitment and responsibility, and of identifying formats that ensure a sustainable drinks supplier chain.

### Working to plan

In 2010, Systembolaget continued the efforts to inform and train our suppliers about the Nordic CSR partnership and about what CSR stands for. We also conducted a survey of 220 suppliers asking for their perceptions of Systembolaget's and the Nordic monopolies' CSR work. The results showed that 60 per cent of the suppliers are aware of the CSR work of Systembolaget and the Nordic monopolies and that awareness is considerably higher, at 85 per cent, amongst those suppliers who have completed Systembolaget's basic CSR training course.

66 people from 45 different suppliers completed Systembolaget's basic CSR training in 2010 and CSR was also included as an information and dialogue point on the agendas at all 10 supplier meetings.

### Closer dialogue

We have included establishing an even closer dialogue with our suppliers in our operations plan for 2011, with the aim of increasing awareness of Systembolaget's CSR work and the way in which this work contributes to a more sustainable supplier chain. This will be achieved through e.g. the newly launched CSR reference group that comprises two industry organisations (the Swedish Spirits & Wine Suppliers Association (SSWS) and the Brewers of Sweden association), some of

their members, and independent suppliers, via Systembolaget's so-called supplier meetings.

### Code of Conduct compliance

A Code of Conduct is a shared undertaking to conduct operations in an ethical and responsible way. The Nordic monopolies drew up a proposal in 2010 for a Nordic process to enable us to follow up on the way in which we could monitor compliance with the Code of Conduct in the drinks supplier chain. In brief, the process means that the Nordic alcohol monopolies, the Nordic importers and the producers worldwide have a shared responsibility for completing a self-assessment form on compliance with the Code every year. If problems are discovered, they must also be highlighted and action plans put in place at an early stage to address them. An independent check must, furthermore, be carried out via a third party to ensure that the problems are genuinely rectified. Purchasers have, as part of their monitoring of the outside work and risk identification for CSR, highlighted threats and opportunities from a CSR perspective.

### Increased clarity on sustainability labelling

The purchasing organisation and legal staff helped to draw up internal regulations governing social, ethical and environmentally sustainable labelling, during the course of 2010. The aim is, via Systembolaget's requests for tender, to help promote the development of new, professional sustainability labelling schemes within the drinks industry that go one step further than the contents of Systembolaget's and the Nordic monopolies' Code of Conduct.



## Dialogue trips for mutual benefit

CSR managers, members of Systembolaget's purchasing organisation and the Nordic retail companies undertook an information and dialogue trip to Spain, France and Italy in 2010. Over the course of six days, they held discussions with producers, trade union organisations, manpower companies, certification bodies, organic organisations, and authorities. All aspects of CSR were covered: working conditions, human rights, the environment, and anti-corruption, and the response was a positive one. All of the players have a strong will to work with these issues and are looking forward to making an active contribution to establishing a sustainable drinks supplier chain. These countries have a long tradition of working systematically and the relevant legislation is clear, which mean the preconditions for solid CSR work are good.

One of the problems with which the trade union organisations and producers are struggling is how to offer greater security for seasonal employees, and the producers are endeavouring to create a full-year contract through flexible cooperation with other types of employer. Environmental issues are also high on the agenda – a developmental trend that is being driven primarily by the market trend in this area.

Systembolaget made a corresponding trip to South Africa in 2009. The four countries visited to date produce approximately two thirds of the wines sold by Systembolaget, and a corresponding information and dialogue trip will also be made to Chile and Argentina in 2011. It is apparent from the feedback generated from the countries we have visited that the Nordic alcohol monopolies' field trips provide an important incentive for the drinks industry to act in a socially, environmentally and ethically sustainable way.



# Quality is critical

Systembolaget has a world-class product range that is based on extensive analyses and customer surveys. Ultimately, it is quality and taste that determines which products we offer our customers.



“It’s great that Systembolaget is so obviously keen to steer its operations in line with its customers’ wishes. That points us in the right direction and gives us a good and credible starting point when we develop products in cooperation with our suppliers. Including a sustainability perspective in the company’s operations is now a matter of course and it’s important that the customers feel confidence in the entire range, not just the products that have a special sustainability label.”

*Anders Almgren,  
MD of Stellan  
Kramer AB*

The Swedish alcohol market is also open to small suppliers and producers. It is not the size of the supplier’s organisation or the supplier’s financial leverage that decides: it is the quality of the products.

### Numerous tenders received

Requests for tender for the fixed and temporary ranges are sent out to Systembolaget’s drinks suppliers via the Delivery Portal. All 824 registered suppliers receive the request for tender and are invited to submit their tenders. The request for tender specifies the launches listed in the launch plan with regard to, amongst other things, the type of product, country of origin, pricing band and taste profile. A number of products are selected from the correctly submitted tenders and samples requested. Systembolaget received 12,579 tenders and sampled 10,726 products in 2010.

### Blind testing decides

The product samples for each request for tender are tasted by a tasting panel. The tasting process is blind, providing no information on brand, supplier or producer. The panel assesses the product’s sensoric quality with regard to the taste description and other specifications provided in the request for tender. The product with the highest rating is brought in.

The way in which the tasting personnel will group the product samples for each request for tender is announced in conjunction with the issue of the requests for tender, in order to increase transparency and predictability. It has also been possible, since 2009, to monitor our

tasting of the products samples on TV screens outside the tasting room.

Once the purchasing decision has been taken, the product is tasted by a complementary tasting group that specialises in describing the products. The taste descriptions customers see on the stores’ shelf labels and on the website are based on this group’s assessments.

### Quality monitoring

Short- and long-term monitoring of the quality and style that won the request for tender process is fundamental at Systembolaget. As a supplier, you should be able to feel secure with Systembolaget’s process. The controls are conducted both sensorially and chemically during several stages in the process, both before and after launch. The launch of five separate products was interrupted in 2010 because they did not match the product sample that had won the request for tender process.

The chemical checks are carried out in Systembolaget’s Jordbro laboratory and are an important resource in our monitoring of launches. The laboratory also checks that the products comply with applicable legislation and that the content corresponds to the information shown on the label.

### Cooperation with suppliers and producers

Close cooperation with the drinks suppliers is a prerequisite of Systembolaget’s ability to provide and develop a product range that meets our customers’ expectations. Meetings with suppliers are, therefore, an important part of the day-to-day work of Systembolaget’s purchasing staff



and category managers. These meetings take place both at Systembolaget's Head Office and at the suppliers' offices, at trade fairs, and through visits to producers all over the world. The purchasing staff and category managers carried out over 50 trips during 2010.

The suppliers are invited, every spring and autumn, to attend information and dialogue meetings. These meetings are spread over five separate dates.

A number of dialogues and exchanges of knowledge with both industry associations and independent suppliers have also taken place during the year. The discussions have primarily addressed CSR and the quality process, but logistics and contractual issues were also on the agenda. The dialogues have been constructive and important in the development of new routines.

Four introductory meetings have been held for new suppliers. The suppliers have also been afforded the opportunity to visit the laboratory and returns depot on two occasions and been given the chance to follow a request for tender process.

In the spring of 2010, the suppliers were invited to join a reference group for cooperation on the development of the new Supplier Portal launched at the end of October. The goal of the portal is to facilitate communication and strengthen the cooperation between Systembolaget and the suppliers.





## Yearly plan launches

A product range strategy that forms the basis of Systembolaget's launch plan is drawn up every year. It provides advance notice of the launches planned for the coming year in both the fixed and temporary ranges. The plan is made available to all registered suppliers.



We have provided suppliers with information about the current yearly plan, together with the work on the launch plan and requests for tender, in order to give them a better understanding of the purchasing process. The yearly plan shows when we want input into the orientation of the requests for tender and when the focus is at product level. We have also continued our efforts to clarify the purpose of each launch.

Every launch is based on a customer segmentation. The aim is to meet the differing

requirements of different target groups. The customer segmentation drawn up during the year gone by will further clarify the purpose of the launches. Target groups and customer requirements for each launch will be clearly specified.

### Several ways in

There are two other ways into the fixed product range, in addition to purchasing after requests for tender. One is purchasing after a decision by an independent panel of consumers. Systembolaget buys 20 per cent of the launches in the fixed product range in response to decisions by this panel. Another way into the range involves qualification via the available for order range, whereby products that achieve high levels of customer demand and sales figures as part of the available for order range can qualify for sale as part of the fixed range.

### From available for order range to fixed range

Normal customer demand determines whether a product is moved from Systembolaget's available for order range to its fixed range. The evaluation of whether to move a product to the fixed range is based on the product's sales during a fixed evaluation period.

Certain other requirements must also be met: the price of the product must, amongst other things, not have changed in the last three months and sales must have been spread over at least four counties. Volume purchases are also discounted as they are not regarded as normal customer demand. We work actively to monitor



and analyse volume purchases in order to ensure that the opportunity to sell a product as part of the fixed range is given in response to genuine demand and not as the result of so-called supporting purchases.

**Strict brand neutrality**

EU law states that Systembolaget must act in a non-discriminatory way towards its suppliers. The Swedish Competition Authority monitors Systembolaget's modus operandi continuously

to ensure that it is not discriminatory. The authority has found no indication that Systembolaget's operations are discriminatory since it began its monitoring in 1995.

Drinks suppliers may appeal Systembolaget's decision to reject a tender or delist a product from the range, via the Swedish Alcohol Product Range Board (part of the Alcohol & Pharmaceutical Product Range Board). Six decisions were appealed in 2010, all of which were rejected by the Board.



**Incident in South Africa**

In April 2010, Systembolaget received information from the SVT Rapport television programme that they had identified problems with the housing conditions of workers at one of the vineyards whose products are represented in Systembolaget's range.

Systembolaget's "incident management" process moves into action when this type of information is received, and this case was no different. In this case, it meant that we contacted our Swedish supplier, who was asked to unearth additional information. We were then able, working in cooperation with the

supplier, the South African producer and the local trade union and CSR organisation, to isolate the problem in question. We then asked the supplier to get back to us with a timetabled action plan supported by both the supplier and the producer.

When the supplier notified us that the problem had been resolved, we asked for checks to be carried out by a third party. This inspection visit was not carried out in 2010 but Systembolaget is monitoring the situation and the incident will not be closed until an independent party has successfully verified that the problem has been resolved.



## Logistics development

Systembolaget's purchases from suppliers include delivery of the products to the stores, and all suppliers must, therefore, have a nationwide delivery system. In 2010, 12 major distributors delivered approximately 99 per cent of the total number of goods ordered.

All of Systembolaget's stores receive an automatic order proposal every day from the product supply system, listing the stock-controlled items that should be ordered. The order proposal is based on historic and anticipated sales statistics unique to the items and to the store, the current stock situation, and the distribution schedule per store and distributor. The store can edit the order proposal and central monitoring is carried out continuously to ensure that a high standard of service is provided and that the customers encounter well-filled shelves.

### Joint distribution offers environmental benefits

The increasing trend towards the use of joint transport solutions amongst larger distributors is continuing, resulting in fewer – but considerably larger – deliveries, generating the preconditions for more rational in-store processing of goods. Fewer deliveries are also good for the environment. The majority of the deliveries to Systembolaget's stores are now made via two major joint distribution distributors, and since 2006, joint distribution has yielded a saving of over 3,900 tonnes of carbon dioxide emissions.

### Sale of Lagena

Systembolaget sold its wholly owned subsidiary, Lagena Distribution AB, on 9th November 2010 in order to further concentrate its focus on its mandate. Lagena is the leading distributor of

alcoholic drinks in Sweden and was bought by the international drinks logistics company, JF Hillebrand.

### Environmental impact

Systembolaget shall, within the framework of its CSR work take an holistic approach to its environmental impact in the supplier chain between 2010 and 2013. Energy consumption and transport are two of the focus areas and the aim is to update our knowledge of our total environmental impact and then to draw up a new environ-





mental plan with clear, quantifiable goals to which we can work.

This distribution that Systembolaget carries out in-house comprises transports from its product depots in Örebro and Sundsvall to stores, and between stores, and generated total emissions of 1,112 tonnes of carbon dioxide in 2010. The corresponding emissions in 2009 totalled 1,299 tonnes of carbon dioxide and the 2010 figures consequently correspond to a reduction of 14 per cent in one year. The reduction was due to the increase in fill levels we implemented in conjunction with these transports.

### Simplified product handling

Delivery notification is via an electronic messaging system that replaces paper delivery notes. The notification simplifies the collaboration with our suppliers by reducing the amount of data registered manually. Delivery notification is also a vital platform for future solutions, such as good arrival control via handheld computers. The number of distributors using delivery notification had increased to nine of twelve by the autumn of 2010.

### Greenhouse gas emissions

CO <sub>2</sub> , tonnes	2010	2009
Indirect greenhouse gas emissions (personnel transportation)*	915	853
Indirect greenhouse gas emissions (Systembolaget, depot-store, depot-agent, store-store)**	1,112	1,299
<b>Total indirect emissions</b>	<b>2,027</b>	<b>2,152</b>

\* The increase in comparison with 2009 is due, in part, to increased travel by air and company car, and, in part, to the lack of data available in 2009 with regard to rental vehicles. The comparison figures from 2009 include 15 tonnes of carbon dioxide in emissions by Lagena

\*\* The comparison figures from 2009 are corrected in line with a new calculation method. See the GRI index in the appendix for details.

### Sustainable purchasing a priority area

Systembolaget's purchases break down into two main groups. The wet goods group comprises drinks, while the dry goods group includes everything from gift-wrapping to store décor, tools, construction contracts and services. The 100 biggest suppliers of dry goods to Systembolaget accounted for approximately 80 per cent of expenditure on dry goods.

Sustainable dry goods purchasing is one of five focus areas chosen for the operating period from 2010 to 2013. We have learnt more about the supplier chain during the year by charting CSR risks in certain purchasing areas and training our purchasers to engage in a CSR dialogue with our suppliers. From a CSR perspective, the most risky purchasing areas are:

- refitting, maintenance, décor and work environment tools;
- working clothes, consumables and electronics;
- transport, energy and travel.

Systembolaget's own purchasing staff conduct a CSR dialogue in the areas of the environment and human rights in conjunction with all procurement processes, e.g. in conjunction with the procurement of construction contracts, customer trolleys, customer baskets, IT operations, electronic gift cards, travel, receipt rolls, office machinery and carrier bags, for example. One concrete result of this work is that Systembolaget's carrier bags are now made from recycled plastic, resulting in a 60 per cent reduction in greenhouse gases (carbon dioxide, methane, etc.) in comparison with ordinary plastic carrier bags. Our goal for 2011 is to conduct a CSR dialogue that results in an agreement with appended CSR requirements in conjunction with all procurement processes.



"Today's youngsters want to work for companies that take a stand on the impact they have on the outside world. For Systembolaget, CSR is partly about human rights, but also about how we follow up on product quality when big deals are on the table. Systembolaget must ensure that the quality of the wine bought in has not been manipulated. I am incredibly proud and delighted to see Systembolaget focus on this area and believe that it will benefit both us and many other professional colleagues in the industry."

*Thomas Holstein,  
MD of Enjoy Wine &  
Spirits AB*





## Our mandate: responsibility and service

Systembolaget exists for one reason and one reason only: alcohol-related problems are reduced if alcohol is sold without endeavouring to maximise profits or promote additional sales. Systembolaget's mandate is to help limit the harmful effects of alcohol, and since 2004, alcohol consumption has, indeed, fallen.



“Systembolaget, as a company, has a unique and very important mandate – to help limit the harmful effects of alcohol and thereby improve public health. Which is also why Systembolaget is not just another retail company. The company shall, for example, sell in accordance with a “not for profit” motive and shall not tempt customers to buy more than they had originally intended, but shall also share its expertise on food and drink. It's a difficult balance, but Systembolaget manages to do it very convincingly and very well.”

*Maria Larsson,  
Minister for Elderly  
Care and Public Health*



Our mandate is governed by the Swedish Alcohol Act, Systembolaget's contract with the government, and by the directives issued by the government in its capacity as Systembolaget's owner. The Owner's Directive establishes a number of key principles: the customers shall receive a high standard of service, the product selection shall be made objectively and neutrally, and the operations shall be conducted in a rational way and shall not seek to maximise profits. These requirements and expectations on the part of the owner provide strict guidelines for the way in which Systembolaget is run and the way in which its operations are monitored.

### The right product range and responsibility

Systembolaget's product range and its social responsibility are the most important parameters when it comes to our customers' overall opinion of Systembolaget. Our owner requires us to choose our products without favouring domestic products, with the choice based solely on the product's quality, with due regard given to harmful effects, customer demand and other commercial considerations. Systembolaget focuses on

ensuring that its purchasing process is as reliable and transparent as possible. From the customer's perspective, this results in only the best products in every category and price range making it onto our shelves, while from the suppliers' perspective, it results in predictability and fairness.

### Customer service and responsibility

Systembolaget's contract with the government states that Systembolaget shall provide good service and we accordingly endeavour to be perceived as a leading retail chain with regard to product range, expertise, service and responsibility. We regularly monitor customers' appreciation of Systembolaget and the service we provide in the form of our Customer Satisfaction Index (CSI). Four measurements were carried out in 2010, yielding an average index of 78 – which was the target figure and which was also on a par with the result in 2009.

### Increased sales in an unchanged total market

Total alcohol consumption in Sweden has fallen since 2004, remaining essentially on a par in 2010 with levels in 2009. Unregistered consump-





tion has decreased at the same time as Systembolaget's sales increased, which means that a large percentage of the alcoholic drinks consumed in Sweden were acquired under controlled forms. The trend over the last few years has seen a fall in the consumption of spirits and strong beer, coupled with a slight increase in wine consumption.

#### **Continued strong support for Systembolaget**

We monitor public support for Systembolaget on an ongoing basis. The Opinion Index (OPI), which is measured each month by the survey company SIFO, is one of our strategic key performance indicators. The public are asked whether they wish to retain Systembolaget and its sole right or would like sales of strong beer, wine and spirits to be made in other stores. These measurements have been carried out continuously since 2001, since when support has increased from 49 per cent to 66 per cent, which was the average value in 2010. Levels of support for Systembolaget and our sole right amongst the Swedish public are now high.

*A campaign film was shown on TV in the autumn with the aim of showing how Systembolaget differs from other retail trade players: we are not driven by a "for profit" motive and we do not attempt to sell the customer more than they had intended to buy, because we sell alcohol. The film showed concrete examples of what a store might look like if we promoted additional sales. Our aim was, in this way, to illustrate simply for our customers and the public that we are a different company.*



## Key performance indicator management

Systembolaget's operations shall be sufficiently profitable that opportunity is provided for the company's development and renewal. This is vital in enabling Systembolaget to fulfil its mandate in a changing world.

The Owner's Directive states that the long-term profit shall correspond to a return on shareholders' equity of 4 percentage points above the ten-year government bond interest rate. For 2010, this corresponds to a required return of 6.9 per cent.

### Increased sales in a stable total market

The profit before tax of SEK 396 million posted by Systembolaget in 2010 exceeded the required return, and was primarily the result both of increased sales during the year and of the capital gain on the sale of Lagena.

Sales increased by 5.3 million litres to a total of 454.3 million litres, corresponding to an

increase of 1.2 per cent in comparison with 2009. The volume of wine sales increased by 3.6 per cent, while sales of alcohol-free drinks increased by 30.8 per cent. Sales of spirituous drinks, strong beer and cider, and mixed drinks fell slightly in comparison with 2009. Recalculated in terms of pure alcohol, sales increased by a total of 1.4 per cent.

Systembolaget's increased sales notwithstanding, however, SoRAD's measurements show that total alcohol consumption has not increased, primarily as a result of a reduction in imports by travellers and in smuggling.

### Key performance indicators, 2010

	2010	Target level 2010	2009	2008	2007	2006
Opinion index, %	66	66	66	64	61	57
Age verification checks, %	94	93	93	90	85	88
Customer Satisfaction Index (CSI)	78	78	78	77	75	74
Employee Satisfaction Index (ESI)	75	75	75	74	72	70
Short-term absence due to sickness, %	2.6	No target set	2.6	2.5	***	***
Supplier Index (SI)*	65	65	59	**	70	**
Trading margin, ex. alcohol tax, %	21.8	22.5	22.2	22.6	23.1	24.3
Return on shareholders' equity, %	13.8	8.5	16.1	36.6	13.9	20.6
Work productivity	833	843	838	798	775	766
Cost productivity	0.38	0.40	0.40	0.46	0.47	0.46
Wastage, ‰	1.22	1.20	1.33	1.28	1.25	1.13
Absence due to sickness, %	4.9	5.5	5.1	5.9	6.2	6.9
Stock turnover rate	25.7	No target set	25.4	23.2	22.3	21.3

\*) New method as of 2009.

\*\*) No survey carried out.

\*\*\*) No information available.



### Strategic key performance indicators

Systembolaget's strategic and operational planning is based on a model that uses a so-called balanced scorecard. The management is based on five different perspectives – society, customers, personnel, suppliers and financial (owners).

Work on attempting to identify company-wide key performance indicators for Systembolaget's CSR work began in 2010.

### Balanced management

Systembolaget endeavours to ensure that its management is as balanced as possible and the aim is for the number of key performance indicators and the frequency with which they are measured shall be relatively evenly balanced between the different perspectives.

### Continuous measurements

Measurements in the social perspective category, for example, include test purchases aimed at testing age verification checking and which are made daily in a number of stores. The Opinion Index is measured once a month. Both of these key performance indicators are critical for Systembolaget in relation to our mandate.

Customer benefit is another important dimension for Systembolaget and Customer Satisfaction Index measurements were consequently taken on a quarterly basis in 2010, rather than once a year as was previously the case.

The suppliers' perspective has been included in the balanced scorecard since 2010. We are still working to establish key performance indicators in this area that can be measured continuously, but at present, the Supplier Satisfaction Index measurement takes place once every year.

Employee Satisfaction Index measurements are taken once a year as part of the employee perspective, and are also broken down into subordinate organisational units, yielding a good

indication of the areas that individual managers need to work on during the coming year.

We also measure absence due to sickness, both as total absence due to sickness and as short periods thereof (less than 14 days). The stores primarily focus on working with short periods of absence due to sickness, as this is easier to influence than long periods.

### Cost control

We work continuously to enhance its operational efficiency, in accordance with the Owner's Directive. Financial efficiency has also increased in recent years, both in the stores and at Head Office. The increased efficiency in the stores is largely driven by the refitting to self-service stores. Work productivity is a key performance indicator that measures efficiency in the stores. The ratio refers to the number of units handled per day's work and is measured daily in every store. In 2010, this value was 833, corresponding to a 0.6 per cent fall since 2009. Other financial key performance indicators monitored in-store include cost productivity and wastage. Cost productivity is a reflection of the number of units sold through the costs that the store can influence. Wastage in SEK over sales in SEK constitutes the key performance indicator for wastage. Both indicators improved in comparison with 2009.

The administrative costs for 2010 totalled SEK 392 million, corresponding to an increase of 5.4 per cent in comparison with 2009. The increase is mainly due to increased IT costs in conjunction with development projects. The improved financial efficiency in Systembolaget is also confirmed by the fall, over the year, in the company's trading margin, which has fallen from 25.5 per cent in 2005 to 21.8 per cent in 2010.

# The Board of Directors



## *Cecilia Schelin Seidegård*

**Chairperson**

**Born:** 1954

**Principal education:** PhD in biochemistry

**Other positions:** Chairperson of the Vårdal Foundation – for Health Care Sciences and Allergy Research and of ClinTrials Skåne AB. Member of the Board of Fouriertransform AB.

**Elected:** Chairperson since 2008

**Positions previously held:** Hospital Director at Karolinska University Hospital, 2003–2007, Member of the Board of Karolinska Development AB, 2003–2008, President of Huddinge University Hospital, 2003. Member of the Board of Getinge AB, 2003. Vice President in charge of Global R&D Operations at AstraZeneca R&D, 1999–2003, Head of Clinical Research and other managerial positions within Astra Draco, 1989–1999.

**Independent**

## *Gert Karnberger*

**Vice Chairperson**

**Born:** 1943

**Principal education:** Qualified graduate from upper secondary engineering course; economics, company management

**Other positions:** Chairperson of the Board of Swedish Industry and Commerce for Better Regulation (NNR), Member of the Boards of Apoteket AB and Swedol AB.

**Elected:** Vice Chairperson since 2009.

Member, 2004–2007

**Positions previously held:** Clas Ohlson AB, Chairperson of the Board, 1990–1996, President, CEO and Member of the Board, 1996–2007. Chairperson of the Board of Clas Ohlson Norge, 1996–2007, Finland 2002–2007. Vice Chairperson of the Swedish Trade Federation and Swedish Distance Sellers. Member of the Boards of Swedish subsidiary companies of the ASKO Group. Own consultancy firm.

**Independent**

## *Johan Gernandt*

**Born:** 1943

**Principal education:** LL.B

**Other positions:** Lawyer and consultant at Advokatfirman Vingé. Chairperson of the Board of Governors of the Bank of Sweden. Chairperson of the Board of the Stockholm Chamber of Commerce Arbitration Institute. Chairperson of the Board of the Svenska Dagbladet Foundation.

**Elected:** 2007

**Positions previously held:** Lawyer and joint owner of Gernandt & Danielsson Advokatbyrå 1992–February 2009. Expert, Limited Companies Committee (Ju 1990:46) 1990–2000.

**Independent**

## *Carl B Hamilton*

**Born:** 1946

**Principal education:** PhD (Economics)

**Other positions:** Professor of International Economics at Stockholm University and the Stockholm School of Economics, 1991–2005, Member of Parliament, 2002–, Chairperson of the Parliamentary EU Council and Member of its Finance Committee, Member of the national party executive and party leadership group of the Swedish Liberal Party.

**Elected:** 2007

**Positions previously held:** Undersecretary of State at the Ministry of Finance, Member of Parliament, 1991–93 and 1997–98, special commissioner, etc. Chief Economist, Handelsbanken, 1995–1999.

**Independent**

## *Annika Nilsson*

**Born:** 1971

**Principal education:** Studies in social geography and economic history at Lund University, General Science course programme.

**Other positions:** Association Secretary, ABF (the Workers' Educational Association of Sweden).

**Elected:** 2006

**Positions previously held:** CFO at ABF, 2007–2008, Member of Parliament (Socialist Party), 1994–2006, Undersecretary of State at the Ministry of Health and Social Affairs, 2005–2006, Member of the Board of Teracom AB, 2003–2006, Chairperson of the Expert Group for Environmental Studies, 2005–2006, Chairperson of the



Sven Andréasson



Kerstin Wigzell



Anna Holgersson



Maria Åström



Erik Bergström



Maj-Britt Eriksson

Commission for the Care of Children and Young People, 2003–2005.

**Independent**

***Sven Andréasson***

**Born:** 1952

**Principal Education:** Doctor of Medical Science, Professor of Social Medicine at the Karolinska Institute.

**Other positions:** Senior Physician, Addiction Centre, Stockholm. Expert in alcohol and narcotics issues, Swedish National Institute of Public Health, Scientific Council for Abuse Issues at the National Board of Health and Welfare.

**Elected:** 2007

**Independent**

***Kerstin Wigzell***

**Born:** 1945

**Principal education:** Behavioural and Social Sciences

**Other positions:** Chairperson of the Board of the Stockholm Academy of Dramatic Arts. Member of the Boards of the Press Council, the National Swedish Police Board's Ethics Council, the Swedish Society for Medical Research, and Vice Chairperson of the Swedish Pensions Agency.

**Elected:** 2009

**Positions previously held:** Director General of the Government Offices of Sweden, Assistant Undersecretary at the Ministry of Health and Social Affairs, Director General

of the Swedish National Board for Youth Affairs and the National Board of Health and Welfare, Director General of the National Swedish Social Insurance Board. Member of the Boards of WHO, the Swedish Council for Working Life and Social Research, and the Swedish National Council on Medical Ethics. Chairperson of the Swedish Council for Working Life and Social Research, Vice President of the Board of Systembolaget.

**Independent**

**Employee representatives**

***Erik Bergström***

**Born:** 1968

**Principal education:** Upper secondary school course in distributive trades/office work, 2-year post upper secondary school course in Purchasing and Sales.

**Other positions:** Employed as a member of the sales team since 1993, Store Manager since 1999. Chairperson of the Bergslagen Managers' Club.

**Appointed:** 2007

***Anna Holgersson***

**Born:** 1977

**Principal education:** M.A. in Human Rights.

**Other positions:** Employed as a member of the sales team in 2001. Chairperson of Systembolaget's Staff Association, Member of the Unionen trade union (for white collar workers in the private sector)

delegation to the South Western Regional Board of Handels (Union of Commercial Employees) and Unionen.

**Appointed:** 2010

***Maria Åström***

**Deputy Member**

**Born:** 1967

**Principal education:** 2-year upper secondary course, training as a chef

**Other positions:** Employed as a member of the sales team in 1996. Member of the Västerbotten Sales Staff Club. Trade Union representative, Ersboda store, in Umeå.

**Appointed:** 2009

***Maj-Britt Eriksson***

**Deputy Member**

**Born:** 1947

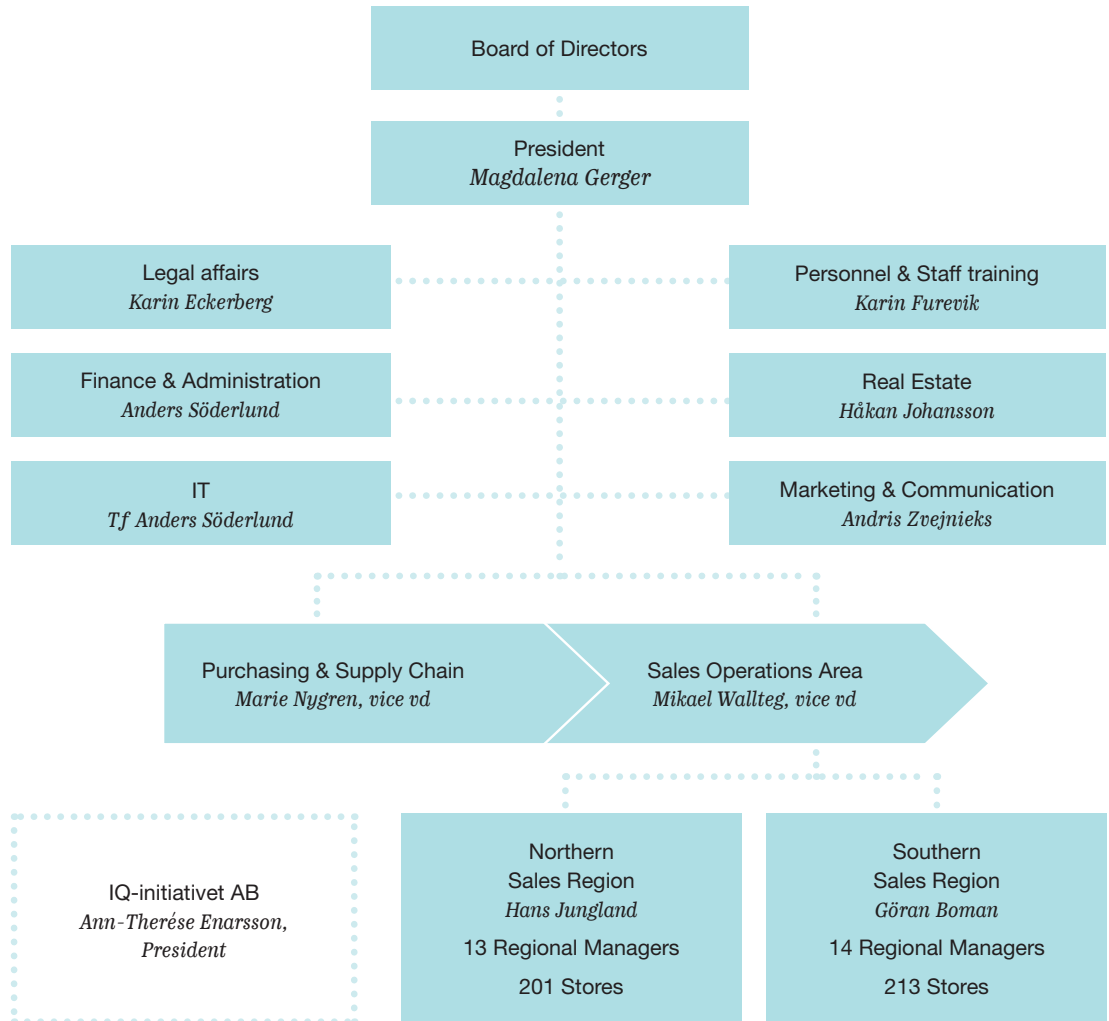
**Principal education:** Upper secondary school general sciences course, Komvux (local government-administered adult education) in Kalmar.

**Other positions:** Summer job, sales team at Systembolaget since 1981, employed full-time since 1987. Chairperson of the South Eastern Sales Personnel Club, Contact Representative for salespersons in the South Eastern Group of Seven, Deputy Member of the Board of Systembolaget's Staff Association.

**Appointed:** 2006



# Organisation



Systembolaget’s organisation is process-oriented, with responsibility for the principal processes lying with the Sales Operations Area and Purchasing and Supply Chain Management.

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

The Sales Operations Area is responsible for operations and sales in the stores. Systembolaget’s 414 stores are organised into 27 areas with between 10 and 17 stores in each area. Each area

has a Regional Manager, who is responsible for the day-to-day contacts between his or her store managers and Systembolaget’s Head Office.

The other central departments act as support units for the primary process and work in such areas as developing and administering the network of stores and the IT systems, information, recruiting and developing employees, legal issues and accounting flows. The President and the corporate management team are responsible for the management process.

# Company management



***Magdalena Gerger***

**President**  
**Born:** 1964  
**Education:** B.Sc. Economics and Business Administration and MBA, Stockholm School of Economics  
**Employed:** 2009

***Andris Zvejnieks***

**Communications Director**  
**Born:** 1957  
**Education:** B.A. in Political Science  
**Employed:** 2009

***Håkan Johansson***

**Real Estate Director**  
**Born:** 1957  
**Education:** Market Economist  
**Employed:** 2001

***Karin Furevik***

**HR Director**  
**Born:** 1954  
**Education:** Management Sociologist  
**Employed:** 2001

***Marie Nygren***

**Purchasing Director, Vice President**  
**Born:** 1965  
**Education:** B.Sc. Economics and Business Administration  
**Employed:** 2007

***Mikael Wallteg***

**Sales Director, Vice President**  
**Born:** 1957  
**Education:** Internally trained at executive level  
**Employed:** 2001

***Karin Eckerberg***

**Senior Legal Counsel**  
**Born:** 1968  
**Education:** LL.B.  
**Employed:** 2004

***Anders Söderlund***

**CFO**  
**Born:** 1963  
**Education:** B.Sc. Economics and Business Administration  
**Employed:** 2003

# Corporate Governance Report for Systembolaget AB

The Corporate Governance Report has been adopted by the Board of Directors and the President of Systembolaget AB, and has been reviewed by the company's auditors.

Systembolaget Aktieföretag is a company wholly owned by the Swedish State. The ownership is administered by the Government through the Ministry of Health and Social Affairs and the responsibility for Systembolaget's management and control is shared between the owner, the Board of Directors and the President.

Systembolaget's corporate governance is conducted principally on the basis of the Swedish Companies Act, other applicable Swedish legislation, the Swedish Corporate Governance Code (the Code), the State's ownership policy, the agreement between Systembolaget and the State, the State's ownership directive for Systembolaget (the Owner's Directive), the Articles of Association, the formal work plan for the Board of Directors, the instructions for the President, and internal steering documents. Systembolaget applies those sections of the Code that are relevant to the company in its capacity as a wholly State-owned company. The Code can be viewed in Swedish on [www.bolagsstyrning.se](http://www.bolagsstyrning.se) and in English on [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se).

Systembolaget has deviated from Code Regulation 1.1 which relates to the publication of information on the shareholders' right of initiation. The aim of this regulation is to give the shareholders plenty of time to prepare for the Annual General Meeting and to have issues included in the notice convening the Annual General Meeting. There is no reason to observe this regulation, in a wholly State-owned company. Systembolaget has also deviated from Code Regulation 2 which refers to the establishment of a Nomination Committee to represent the company's shareholders in conjunction with the election of and determination of remuneration the Board of Directors and Auditors of the company. The deviation occurred because the preparation of nomination issues in State-owned companies is carried out by the Government in the manner detailed in the State's ownership policy. Systembolaget has, furthermore, deviated from Code Regulation 10.2, which requires reporting on the independence of Members of the Board in relation to major shareholders. Such reporting is not performed since the Code Regulation in question

is primarily intended to protect minority shareholders in companies with diverse ownership, and hence is not relevant for a wholly State-owned company.

## The owner

Systembolaget's agreement with the State and the Owner's Directive, in which the owner's requirements on the company are specified, constitute the starting point for the work and responsibilities of the Board of Directors. These two documents set out the company's social mandate, the requirement for financial efficiency and any other requirements on the company's activities.

Systembolaget's mandate is to contribute to the reduction of the harmful effects of alcohol. Systembolaget holds a sole right on retail sales of spirits, wine, strong beer and other fermented alcoholic beverages in Sweden. *Find out more about Systembolaget's mandate and the owner's objectives on pages 1, 4-7 and 44-47.*

Two meetings are held every year between the owner, the Chairperson and the President. Since the owner does not have a specifically appointed representative on the Board, the Chairperson also participates in a number of on-going dialogue meetings with the owner at which the Board's work is discussed. Areas discussed during the past year's meetings with the owner included e.g. following up on the work of the Board, the Annual General Meeting, the 2011 budget, on-going litigation, the CSR work, the operations of IQ-Initiativet AB, the sale of Lagena Distribution AB, the new Alcohol Act, the question of farm-shop sales, and alcohol policy.

## Annual General Meeting

The Annual General Meeting shall, under the terms of the State's ownership policy, be held no later than 30th April every year. The Board of Directors is responsible for issuing a notice convening the Annual General Meeting to the shareholder no later than four weeks and no earlier than six weeks before the Meeting. Members of Parliament are entitled, upon application, to attend the Annual General Meeting and the general public shall also be afforded the opportunity to attend.

*The 2010 Annual General Meeting*

The 2010 Annual General Meeting held on 25th March in Stockholm was open to the public. It was also broadcast live on Systembolaget’s website. The Minutes of the Annual General Meeting are available on Systembolaget’s website.

The Meeting resolved that Cecilia Schelin Seidegård should continue as the Chairperson of the Board for the period until the conclusion of the next Annual General Meeting and that the remaining Members of the Board, i.e. Gert Karnberger (Deputy Chairperson), Sven Andréasson, Lena Furmark, Johan Gernandt, Carl B Hamilton, Annika Nilsson and Kerstin Wigzell should be re-elected for the corresponding period. The owner was represented by Iréne Nilsson Carlsson, who gave grounds for the composition of the Board and declared that the owner considers all Members of the Board, to be independent from the company and its management.

The Meeting approved payment of the following unchanged remuneration to the members of the Board:

- Chairperson: SEK 180,000
- Deputy Chairperson: SEK 109,000
- Remaining Members: SEK 87,000
- Employee representatives: not remunerated.

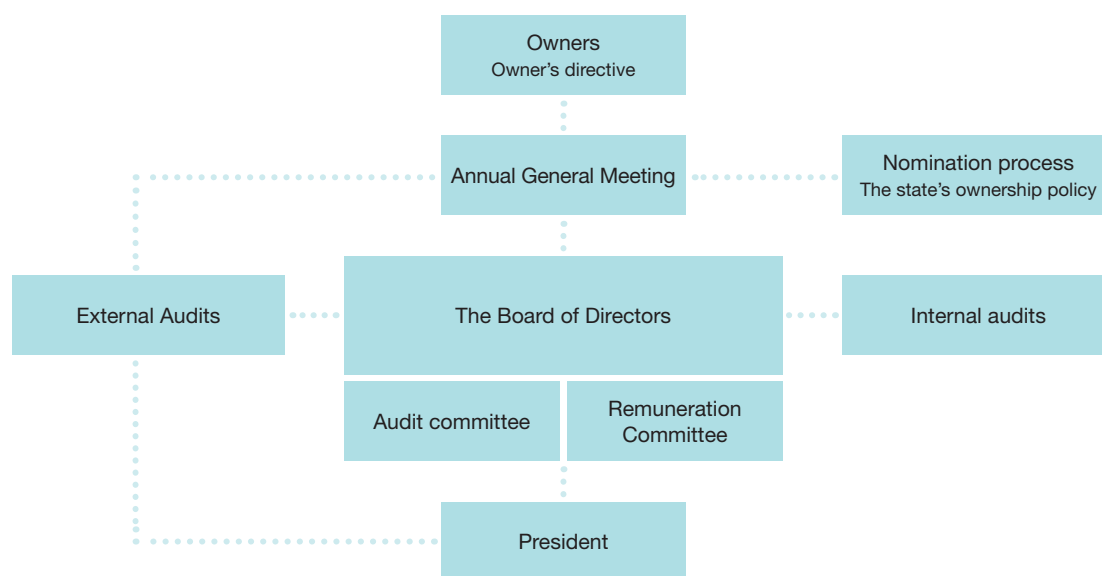
The Meeting also resolved that the following unchanged remuneration should be paid to members of the company’s Board-appointed committees:

- Chairperson of the Audit Committee: SEK 40,000
- Member of the Audit Committee: SEK 30,000
- Chairperson and Members of the Remuneration Committee: not remunerated.

It was announced, at the 2010 Annual General Meeting, that the current registered firm of auditors, Ernst & Young, with Authorised Public Accountant, Torsten Lyth, as the auditor in charge, had been appointed for the period until the conclusion of the 2012 Annual General Meeting. It was further announced that the Swedish National Audit Office had appointed Carin Rytoft Drangel, Authorised Public Accountant, to act as Systembolaget AB’s auditor for the period until the conclusion of the 2014 Annual General Meeting and that the Riksdag Board had appointed three lay auditors and three deputy lay auditors for Systembolaget for the period until the conclusion of the next Annual General Meeting (all were re-elections).

The Chairperson of the Board presented the Board’s proposed guidelines for terms of employment

**Responsibility for corporate governance within Systembolaget**



for senior executives, which comply with the “Government guidelines regarding terms of employment for senior executives in State-owned companies”, adopted by the Government on 20th April 2009. The Board furthermore presented the grounds on which the total remuneration payable to the President and other members of the company management team were based. The Meeting approved the remuneration levels and other terms of employment for the company management proposed by the Board.

The Meeting resolved to adopt the Income Statements and Balance Sheets for the Parent Company and the Comprehensive Income Report and Consolidated Financial Statement for the Group as of 31st December 2009, as submitted by the Board of Directors and the President, and to approve the appropriation of profits and dividend payment totalling SEK 344,880,000 proposed by the Board of Directors and the President. The Meeting further granted the Board of Directors and the President discharge from liability in relation to the company for the financial year.

#### *2011 Annual General Meeting*

The 2011 Annual General Meeting was held on 24th March in Stockholm. The notice convening the Annual General Meeting was sent out at the end of February.

### **The Board of Directors**

Systembolaget’s Board of Directors is responsible, under the provisions of the Swedish Companies Act, for the organisation of the company and the administration of the company’s affairs. According to the State’s ownership policy, the Board of Directors in companies where the State has an ownership interest shall ensure that the companies are operated in a model way within the scope of the legislation, the owner’s instructions and the ownership policy. The Board of Directors of State-owned companies shall also work to ensure that the company sets a good example on issues relating to sustainable development and social responsibility, such as the environment, ethics, working conditions, human rights, combating corruption, and equal opportunities and diversity.

### **The nomination process**

The appointment of the Board complies with the nomination process described in the State’s ownership policy. The nomination process is coordinated by the State Ownership unit of the Ministry of Enterprise, Energy and Communications, (since January 2011, the State Ownership unit of the Ministry of Finance), where a working group analyses the skills requirement on the basis of the company’s operations, situation and future challenges, and the existing composition of the board. The selection is made from a broad recruitment base. To be considered for a seat on the Board, individuals must not only possess high-level competence in the relevant commercial sphere, expertise in commercial developmental, industry know-how, and extensive familiarity with financial issues or other relevant areas, they must also display a strong sense of integrity and the ability to work in the best interests of the company.

### **Composition of the Board**

The Articles of Association prescribe that the Board of Directors shall comprise a minimum of six and a maximum of eight Members appointed by the General Meeting. The employee organisations are also entitled to appoint Members of the Board. The State’s ownership policy states that the composition of the Board shall be such that the Board at all times possesses the industry know-how and expertise that is directly relevant to the company, including the know-how and expertise required when the company develops or the outside world changes. The composition of the Board shall be such that a balance is achieved with regard to background, areas of expertise, experience and gender breakdown. The State’s ownership policy states that the goal with regard to gender breakdown shall be at least 40 per cent of both sexes.

Systembolaget’s Board of Directors comprised eight Members elected by the General Meeting for the majority of the year. However Lena Furmark resigned her seat on the Board on 5th November 2010 due to her Governmental commitments, and the Board has comprised seven Members elected by the General Meeting since that date. The employee organisations have appointed two employee representatives and deputies



to the Board. None of the Members of the Board are part of the company's management. The President, Vice Presidents and CFO attend Board Meetings. The remaining members of the company's management also attend certain meetings as required. Systembolaget's Senior Legal Counsel, who is a member of the management, is the Secretary to the Board.

Systembolaget's Board of Directors has a broad composition with regard to industry know-how and insight into the external issues that influence the company's development. The gender breakdown of the Board during the year was 50 per cent female and 50 per cent male, although this has been affected slightly in the latter part of the year due to Lena Furmark's resignation from the Board as of 5th November 2010.

#### **The Chairperson of the Board**

Pursuant to the provisions of the Swedish Companies Act, the Chairperson shall, lead the work of the Board and ensure that the Board carries out its duties. The Code states that the Chairperson of the Board shall also be responsible for ensuring that the work of the Board is well organised and efficient, for contacts on ownership-related issues, for ensuring that the Board receives sufficient information and source data on which to base its decision-making work, for working with the President to set the agenda for the Board Meetings, for checking that the Board's decisions are implemented, and for ensuring that the work of the Board is evaluated annually.

The Chairperson consults with the President on strategic issues as they arise, and represents the company on issues relating to corporate governance. The Chairperson also has certain additional obligations which are specified in the rules of procedure for the Board of Directors.

#### **The work of the Board**

The Board has adopted a formal work plan which specifies how the work is to be divided between the Board, the committees and the President. The work plan is reviewed annually and was adjusted and adopted in 2010 at the Meeting held by the newly formed Board in March. The work plan states that the Board, as a rule, shall

hold at least five meetings per financial year in addition to the Board Meeting that is held following elections. The Board should, in accordance with the work plan, coordinate its position with representatives of the owner with regard both to major strategic operational changes, major acquisitions, mergers or disposals, and to decisions that entail a significant change to the Balance Sheet or risk scenario for Systembolaget. There is no division of the Board's work between the Members of the Board, other than that of the committees listed in this Corporate Governance Report.

The Board is ultimately responsible for the administration of the company and draws up the strategic plan, the business plan, the budget, etc. The Board also adopts a number of company-wide policy documents based on, amongst other things, legislative and regulatory requirements and the Owner's Directive. A collection of documents (Laws, steering documents etc. for Systembolaget AB) has been prepared to support the Board in its work, which includes certain legislative texts pertaining to the operations, in particular documents issued by the EU, company-related documentation, owner-related documentation and agreements, investment regulations, the strategic plan, Systembolaget's ethical programme, other policies, and information on Systembolaget's subsidiaries.

All Members of Systembolaget's Board of Directors work actively with the issues that it is incumbent upon the Board to address and otherwise with the issues referred to it for consideration. The Board meets annually with the company's auditors. *For further information on the contacts of the Board of Directors and the Chairperson of the Board with the company's auditors, see "The Board's description of internal control of financial reporting," pages 59-61.* The structure of the Board's work is laid down in the Board's work plan, which is revised annually. The work plan forms the basis for the Board's work and stipulates the point during the financial year when special areas of responsibility shall be addressed by the Board. The Board establishes the long-term orientation of Systembolaget in a strategic plan. The strategic plan extends four years forward in time and is revised every third year. Wide-ranging work on a new strategic plan

for Systembolaget began in the autumn of 2008 and continued into the spring of 2009. The plan, which is based on an analysis of the outside world, was finally adopted at the Board Meeting in September 2009 and applies to the period from 2010 to 2013. Systembolaget's mandate, vision and business concept were also slightly reformulated in conjunction with this work.

The strategic plan also contains long-term goals which are based on the perspectives contained in Systembolaget's balanced Society, Customers, Personnel, Suppliers and Financial (owners). A number of key performance indicators within each perspective constitute quantitative goals for the coming four year period and are also broken down by year in the business plan. The Board of Directors receives regular feedback on the strategic key performance indicators. The annual business plans are designed to provide a clear link to the strategic plan and to facilitate the management of various projects and activities on the basis of the strategic goals.

A process known as Lots® was used during the preparation of the 2011 business plan. Lots® is a structured process that includes both operational planning and budgets. The process is based on a "from the outside in" approach that focuses on the needs of cus-

tomers and stakeholders. Working with Lots® creates a clearer overall perspective, a shared tool, and a uniform nomenclature. Using Lots® in this year's development process resulted in a business plan with clear priorities within Systembolaget.

*The work of the Board in 2010*

The Board has held a total of nine Board Meetings during 2010, two of which were extraordinary meetings. The usual follow-up work, both on the company's economic performance and on the social and environmental aspects that arose during the course of the operations has been carried out on an on-going basis by the Board. This follow-up work has taken the form of, amongst other things, the reporting of a number of strategic key performance indicators, such as the Opinion Index (OPI), Age Verification Checks, the Customer Satisfaction Index (CSI), the Employee Satisfaction Index (ESI), and the Trading Margin, as well as Board memoranda on topical issues. In February, the Board met with the auditor, without the presence of the management, as prescribed by the Code. Collectively, this information has afforded the Board the opportunity to monitor the operations' results on an on-going basis, as well as its results in the field of sustainable development.

**Present at Board Meetings in 2010**

Name	Board function	Board meetings <sup>1</sup>	Audit Committee <sup>2</sup>	Remuneration Committee <sup>2</sup>
Cecilia Schelin Seidegård <sup>5</sup>	Chairperson	9/9		2/2
Gert Karnberger <sup>3</sup>	Deputy Chairperson	9/9	4/4	
Sven Andréasson	Member	5/9		
Lena Furmark <sup>9</sup>	Member	5/9	3/4	
Johan Gernandt	Member	9/9		
Carl B Hamilton	Member	5/9		
Annika Nilsson <sup>4</sup>	Member	8/9	2/4	
Kerstin Wigzell <sup>6</sup>	Member	9/9		2/2
Patrik Ström <sup>10</sup>	Employee representative	3/9		
Anna Holgersson <sup>7</sup>	Employee representative	2/9		
Erik Bergström <sup>7</sup>	Employee representative	9/9		
Maj-Britt Eriksson <sup>8</sup>	Employee representative	8/9		
Maria Åström <sup>8</sup>	Employee representative	7/9		

<sup>1</sup> Seven ordinary and two extraordinary Board Meetings were held in 2010.

<sup>2</sup> Four meetings of the Audit Committee and two meetings of the Remuneration Committee were held in 2010.

<sup>3</sup> Chairperson of the Audit Committee.

<sup>4</sup> Member of the Audit Committee.

<sup>5</sup> Chairperson of the Remuneration Committee

<sup>6</sup> Member of the Remuneration Committee

<sup>7</sup> Became a Member in May 2010.

<sup>8</sup> Became a Deputy Member in May 2010.

<sup>9</sup> Resigned from the Board in November 2010.

<sup>10</sup> Resigned from the Board in May 2010.

Aside from the on-going monitoring of strategic key performance indicators, the work of the Board primarily focussed on risk reporting and internal audits, as well as future investments. Other issues addressed by the Board included: on-going litigation, the sale of Lagena Distribution AB, the operations of IQ-Initiativet AB, expansion issues, farm-shop sales (the Alcohol Act Government Committee), analyses of the outside world, on-going work on ethical issues, sustainability issues and CSR.

#### **Remuneration principles**

Directors' fees, as approved by the Annual General Meeting, are payable to the Chairperson of the Board, the Deputy Chairperson and Members of the Board. The fees shall, under the terms of the State's ownership policy, be competitive but not market-leading.

#### **Evaluation of the work of the Board**

A systematic and structured evaluation of the work of the Board is carried out annually and addresses both the processes employed in the Board's work and the performance of the Board itself with regard to a variety of issues. This year's evaluation of the work of the Board was more comprehensive than in previous years and was conducted under the leadership of the Chairperson of the Board with the aid of the consultancy firm, Alumni. The evaluation took the form of questionnaires completed by and interviews with the Board and some members of the company management. The evaluation revealed that the Board works very expeditiously, and possesses the expertise required to handle the issues that arise during the course of the operations, but that there is a small number of development areas where work is required. In October 2010, the Chairperson of the Board notified the Government Offices of Sweden of the results of the evaluation, in accordance with the State's ownership policy. In addition to the Board's own evaluation, evaluations of the Boards in State-owned companies are conducted on an on-going basis as part of the Government Offices of Sweden's internal work on the nomination process.

#### **Audit Committee**

The Audit Committee comprises the Deputy Chairperson of the Board, Gert Karnberger, and Board Members, Kerstin Wigzell (who was appointed by the Board on 27th October 2010 following Lena Furmark's resignation from the Board) and Annika Nilsson. None of the members of the Audit Committee are part of the company's management. Systembolaget's President and CFO, however, participate in the Audit Committee's meetings and Systembolaget's Senior Legal Counsel, who is a member of the company management, is the Secretary to the Committee.

The Audit Committee is responsible for preparing the work of the Board with regard to the quality control of Systembolaget's financial and operational reporting. The Audit Committee is, furthermore, tasked with assessing the procedures for internal control and management of financial and operating risks. The Audit Committee is a planning body for the Board and does not assume the statutory legal responsibility of the Board as a whole with regard to, for example, financial reporting, accounting and internal checks, and nor does the existence of the Committee reduce the requirement for communication by the Auditor to the Board as a whole.

The Audit Committee is also tasked with meeting Systembolaget's auditors on a regular basis in order to familiarise itself with the orientation and scope of the external audit and to evaluate the work and performance of the external auditors, including the scope of any non-audit related engagements which the auditors may have performed on behalf of Systembolaget.

The Audit Committee has held four meetings during the year. The Committee carried out on-going follow-up work on the company's financial performance and a number of strategic key performance indicators of its operations. Systembolaget's auditors have also presented significant accounting and audit issues, as well as internal control and process issues. Issues in connection with such subjects as internal audits, risk analysis and the responsibility report have also been addressed by the Committee. The Committee's Chairperson provided the Board of Directors with regular information on the Committee's work.

### **Remuneration Committee**

The Remuneration Committee consists of the Chairperson of the Board, Cecilia Schelin Seidegård, and Member of the Board, Kerstin Wigzell. None of the members of the Remuneration Committee are part of the company's management. The Committee is tasked with preparing issues relating to terms of employment for senior executives. Decisions on remuneration and other terms of employment for the President, and on the principles governing remuneration and other terms of employment for other senior executives are the preserve of the Board. The Committee has held two meetings during the year.

### **The President and the Company Management**

The President is responsible for the on-going administration of the company's operations pursuant to the provisions of the Swedish Companies Act, other legislation, Government guidelines and the Owner's Directive, the Code, the Articles of Association and within the framework laid down by the Board of Directors, in particular in the instructions for the President. The President, in consultation with the Chairperson, prepares information and documentation to support the work by the Board and to enable the Board to take well-founded decisions. The President also reports to the Board on the company's performance.

*President:* Magdalena Gerger

*Born:* 1964

Magdalena Gerger took over as President of Systembolaget in May 2009. Her previous positions include those of Marketing Director at Arla Foods, Divisional Manager within Nestlé Ltd., and Marketing Director of ICI Paints Ltd.

*Positions currently held:* Member of the Boards of Ingka Holding BV (IKEA), Husqvarna AB and Kungsträdgården Park & Evenemang AB.

*Education:* Graduate in Business Administration, MBA, Stockholm School of Economics, and leadership and management training.

*Independence:* Neither the President nor any persons closely associated with her has any significant shareholding in companies with which Systembolaget has significant commercial links.

### **Management and steering structure**

Systembolaget's management comprises, in addition to the President, eight persons appointed by the President in consultation with the Board of Directors. The company management has, however, only comprised seven persons since April 2010, as the CFO also holds the position of Acting IT Director. A process to recruit a new IT Director has been in progress since the end of 2010. *See the organisational chart on page 50.* The management meets regularly and the work is headed up by the President who, in consultation with the management, takes decisions in relation to the operating activities.

The decisions by the President and the management are based on the guidelines and instructions adopted by the Board of Directors and it is on this basis that the President and management compile source data for the various managers within Systembolaget. These source data delimit the scope of the operating activities in the form of internal steering documents, such as guidelines, internal regulations, and process and information models, etc.

Systembolaget's strategic and operational management is based on the so-called balanced scorecard model described above.

The aim is to ensure that the number of key performance indicators and the frequency with which they are measured are relatively homogeneous between the various perspectives. Under the social perspective, for example, age verification checks are updated daily in all stores, while the Opinion Index is measured monthly. Both of these key performance indicators are critical in terms of Systembolaget's fulfilment of its mandate.

### **Guidelines for senior executives' terms of employment**

Systembolaget follows the Government's guidelines on terms of employment for senior executives in State-owned companies. Systembolaget also complies with the provisions in the Code on remuneration for senior executives, which stipulate that the company shall have formalised and published processes for deciding on the remuneration payable to senior executives.

The remuneration paid to the President and other members of the company's management comprises a

basic salary, other benefits, and a pension. No variable or incentivised remuneration is payable, nor is any remuneration paid in the form of financial instruments.

### Assessment of the President

The Board shall, under the provisions of the Code, carry out a continual assessment of the President's performance. The current President took office on 1st May 2009 and the initial assessment of the President's performance was carried out in the autumn of 2010, under the leadership of the Chairperson and with the assistance of the consultancy firm, Novare. The assessment included the following elements – achievement of targets, media analysis, internal and external relationships with the President, as well as methodology and personal characteristics. The assessment revealed that the President works expediently and enjoys the confidence of the Board, and that the President and the Chairperson collaborate well. The results of the assessment were also good in terms of achievement of targets and media analysis.

### Auditors

The auditor shall, under the provisions of the Swedish Companies Act, audit Systembolaget's annual accounts and bookkeeping, and the administration by the Board of Directors and the President. The auditor is engaged by and reports to the General Meeting and may not allow him- or herself to be guided by the management or the Board.

At the 2008 Annual General Meeting, the current firm of auditors – Ernst & Young – was appointed as the auditors of Systembolaget, with Public Authorised Accountant, Torsten Lyth, as the auditor in charge for the period up to and including the 2012 Annual General Meeting. No audit company election was, therefore, carried out at this year's Annual General Meeting.

It was, however, announced at the 2010 Annual General Meeting that the Swedish National Audit Office, in accordance with a resolution dated 19th March 2010, had appointed Authorised Public Accountants, Carin Rytöft Drangel and Agneta Bergman, to act as auditor and deputy auditor respectively for Systembolaget for the period up to and including the 2014 Annual General Meeting.

It was further announced that the Riksdag Board, in accordance with a resolution dated 17th March 2010, had appointed three lay auditors and three deputy lay auditors for Systembolaget for the period up to and including the next Annual General Meeting (all were re-elections).

A separate agreement at the 2010 Annual General Meeting approved the payment of auditors' fees to the current firm of auditors, Ernst & Young.

### Internal control

#### Based on risk analysis

Every year, Systembolaget carries out a risk analysis that provides a comprehensive description of Systembolaget's risk profile. The starting point for the analysis is the broad definition of "risk" as "an event, or activity that prevents the organisation from achieving its goals." *For a full description of the risk analysis, see pages 66-67.* The risk analysis is the foundation on which both proactive risk management work and verification work rest.

Systembolaget has established formalised processes for internal and external reporting in order to achieve and maintain a high standard of internal control, with the aim, thereby, of enabling optimum monitoring of the operations. Systembolaget uses manuals and descriptions of all important procedures to ensure that the administration is carried out to a high standard.

#### Risk management work

The company's risk management activities were reorganised in 2010 and a revised control structure was set up. As of 2010, risk management is a part of the Controller unit. A number of employees with a range of specialist skills have been involved in this work. The new control structure is based on the overall risk analysis and on the need to further clarify the line responsibility for risk management. The work has resulted in an in-house control programme for stores, returns depots and training centres, which was implemented at the end of 2010. Implementation in other parts of Systembolaget is scheduled for the first half of 2011. An analytical review of the stores' risks will be carried out throughout the year by the Controller unit and stores and, on the basis of this analysis, units will be



selected for targeted review and, where appropriate, other types of checks, such as inventories.

The Board and management monitor compliance with steering documents, process descriptions and guidelines, and the efficiency of the procedures for control. The internal risk management activities are followed up by means of an internal audit, which has been procured from outside the company. The internal audit reports directly to the Board.

A review programme, based on the risk analysis, is set up every year by the Board of Directors. The reviews in 2010 were focussed on the risks deemed most significant: compliance with Systembolaget's General Purchasing Terms & Conditions, debit card processing (PCI DSS), agent management and wastage. No serious deficiencies have been identified. The results of the review are reported continuously to the company management and the Board of Directors and the observations are evaluated. Measures have been implemented or planned where necessary.

### **Description of the internal control of financial reporting**

Systembolaget uses formalised processes for financial reporting and follow-up work. These processes are important in ensuring that the company develops in the right direction in relation to the goals and guidelines adopted by the Board of Directors and management.

The objectives of the internal reporting is to ensure the existence of an appropriate, quick and correct system for follow-up and reporting of the way in which the operations have developed in relation to the agreed business plan and budget. Reports on the company's development are submitted regularly to a number of internal stakeholder groups.

Systembolaget's external reporting is designed to provide regular reports on the company's development for a number of external stakeholder groups. Systembolaget's external reporting complies with applicable legislative requirements and the requirements imposed by the owner.

Systembolaget applies the so-called COSO model to its internal control process.

The basis for internal control is the so-called control environment, which comprises the corporate cul-

ture communicated by the Board of Directors and the management and on which they base their activities. A good control environment generates the structure for the other components of the process, such as risk assessment, control activities, information and communication and monitoring.

### **Risk assessment**

The assessment of the risk of errors in the financial reporting is carried out by the Board of Directors and the management, and as a part of day-to-day operations. The assessment of risk in connection with financial reporting is also influenced by the general control environment within Systembolaget, which is based on a healthy corporate culture with shared values.

A risk analysis with regard to the quality of the financial reporting was carried out at the end of 2009, in which the risk of errors in the Income Statement and Balance Sheet were analysed with regard to significance and probability. The risk analysis entailed the assessment of every single item in the Income Statement and Balance Sheet with regard to specific criteria: volatility, subjectivity, complexity, potential for fraud, history of fraud, significant process changes, lack of GAAP know-how, critical accounting principles and previous significant errors.

#### **The risk analysis identified four critical risk areas:**

##### *Price adjustment and stocktaking*

Risks have been identified in relation both to stocktaking and the adjustment of prices for the item "Finished goods and goods for resale".

##### *Personnel-related items*

A risk has been identified for Balance Sheet and Income Statement items in connection with staff overheads and pensions as the items are associated with both complex and subjective evaluations.

##### *Changes in the value of financial assets*

Risks have been identified for Balance Sheet and Income Statement items in connection with the incorrect calculation and classification of changes in value. The Board of Directors has established a set of Investment Regulations in which permitted investments,

risk management organisation, measurement of investment risks, approved counterparties, and procedures for monitoring risks are clearly specified. The regulations are reviewed annually.

#### *General risks*

The reporting of supplementary information and cash flow analyses is subject to complex regulations that demand extensive expertise and experience in order to ensure correct reporting.

#### **Control activities**

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. Examples of the control structures include the strict application of the duality principle, the principle that no one person alone shall administer the entire processing chain, and the use of several independent external valuation institutions.

#### **Information and communication**

Considerable emphasis has been placed on implementation and quality control of the internal communication process, 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 objective, amongst other things, to promote completeness and accuracy in the financial reporting. Steering documents in the form of internal policies, guidelines, manuals and codes for financial reporting are known to the relevant personnel and are available on the company's intranet.

#### **Monitoring**

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

The accounts department continuously monitors the administrative processes within the organisation, including processes relating to VAT and tax accounting, internal and external entertainment, and compliance with authorisation and delegation regulations. Financial reporting is also monitored continuously.

The Chairperson of the Board meets with the auditors in conjunction with the closing audit and when otherwise 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.

Stockholm, 21st February 2011

Cecilia Schelin Seidegård  
*Chairperson*

Gert Karnberger  
*Deputy Chairperson*

Sven Andréasson  
*Member*

Johan Gernandt  
*Member*

Carl B Hamilton  
*Member*

Annika Nilsson  
*Member*

Kerstin Wigzell  
*Member*

Maj-Britt Eriksson  
*Employee representative for Unionen*

Maria Åström  
*Employee representative for Unionen*

Magdalena Gerger  
*President*

# Annual Report

tillgångar:

Porter/stout  
Genever 750ml  
grappa Brandy  
Alkohol-fritt Sherry  
500ml  
Cognac  
vodka  
cider  
Rosé  
armagnac  
Sake vita vinet  
Whisky  
Calvados  
Bourbon

monstergårds

summa:



# Directors' Report

**The Board of Directors and the President of Systembolaget AB, corporate ID no. 556059-9473, hereby present the Annual Accounts and the Consolidated Accounts for the 2010 financial year.**

## Operations

Systembolaget AB is a state-owned limited company that conducts retail sales of spirituous drinks, wines and strong beer in Sweden. Systembolaget's mandate is to help limit the harm caused by alcohol. The retail monopoly's most important role is to limit total consumption of alcohol by limiting its availability, controlling the store network and opening hours. The operations are run on a not-for-profit basis and Systembolaget does not promote additional sales. The operations are conducted via 414 stores in 289 of Sweden's 290 local municipalities. There are also, in addition to the stores, 508 agents located throughout Sweden and from whom customers can order goods for collection.

The Group's operations are conducted by Systembolaget AB and the wholly-owned subsidiary companies, IQ-Initiativet AB, AB K14 Näckströmsgatan and Gamla Distribution i Jordbro AB. IQ-Initiativet AB works to provide information and mould public opinion with the aim of preventing and reducing alcohol-related harm and injuries. AB K 14 Näckströmsgatan manages Systembolaget's operational real estate. Gamla Distribution i Jordbro was formerly responsible for storage and distribution to the stores and Lagena Distribution AB, formerly a wholly-owned subsidiary company, was sold during the year to JF Hillebrand, an international logistics company.

Systembolaget AB is 100% owned by the Swedish state. There are a total 360,000 shares in the company.

## Significant events during the financial year

The Opinion Index, which is measured every month, was 66 per cent in 2010, which is the same result as in 2009. Systembolaget's fulfilment of its social mandate is the most important reason for Swedes' desire to retain Systembolaget.

The programme of work designed to ensure that people under the age of 20 cannot buy alcohol continues to be successful. Age verification checks are monitored using external control purchases. Proof of age was requested in 94 per cent of control purchases made in 2010, thereby exceeding the target level of 93 per cent. The result has come about due to a long-term programme of work aimed at ensuring that people under the age of 20 cannot buy alcohol, but this work and the good result does not constitute an absolute guarantee that minors will never successfully buy alcohol at Systembolaget. In September 2010, Sveriges Television tested the way in which age verification checks are carried

out. Three young people under the age of 20 were tasked with attempting to buy alcohol in six stores in Linköping and Norrköping. The youngsters managed, on six of their fifteen attempts and despite an inability to produce ID, to convince Systembolaget's personnel that they were over the age of 20 and they were consequently allowed to buy alcohol. This is naturally unacceptable and measures will be taken to further improve our age verification checking and the methods we use for following up on these checks.

Lagena Distribution AB was sold during the year to the international logistics company, JF Hillebrand. Lagena is one of the leading distributors of alcoholic drinks in Sweden and the decision to sell the logistics company was taken by the Board in April in the light of Systembolaget's desire to focus more intensively on its core operations.

Systembolaget had almost 116 million customer visits in 2010, corresponding to an increase of 1.6 per cent in comparison with the preceding year. The in-store interaction has a considerable influence on the way in which customers perceive Systembolaget, and a training programme entitled Good Customer Interaction was consequently launched in 2010 with the aim of further improving the way in which we meet and exceed customers' needs and expectations. Our goal is that our customers should always feel welcome, that they can learn something in conjunction with the visit, and that they can rely on Systembolaget to always sell responsibly.

Interest in online ordering has increased amongst customers during the year, and since May 2010, all of Systembolaget's 414 stores can take orders online. Customers are very happy with the service and find it smooth and easy to use. Approximately 6,000 online orders are currently placed every month.

Systembolaget has been working to increase its range of organic drinks for some years now. Our goal for 2010 was to be able to offer a range of at least 100 organic products. Systembolaget is, at the time of writing, able to offer almost 120 products in this range and demand is constantly increasing: sales rose by 41 per cent in 2010. The alcohol-free range is also becoming more popular and Systembolaget is working systematically to be able to offer customers more high quality, alcohol-free drinks. Sales of alcohol-free drinks increased during the year by 31 per cent – an increase associated with the growing interest in a more healthy lifestyle.

## Sales

Systembolaget sold 454.3 (448.9) million litres of drinks in 2010, corresponding to an increase of 1.2 per cent in comparison with 2009. Wine sales by volume increased by 3.6 per cent, while sales of alcohol-free drinks increased by

30.8 per cent. Sales of spirituous drinks, strong beer, and of cider and mixed drinks fell slightly. Measured in terms of pure alcohol, Systembolaget reported an increase in total sales volumes of 1.4 per cent. Net sales in 2010 totalled SEK 24,115 million (SEK 23,360 m), corresponding to an increase of 3.2 per cent. The increase in net sales is a consequence of increased sales volumes and higher purchase prices. Systembolaget's increase in sales notwithstanding, SoRAD calculates that the total alcohol consumption per capita in Sweden has remained generally unchanged in comparison with 2009. SoRAD's calculations for 2010 show that the total alcohol consumption per capita was approximately 9.2 litres, recalculated as 100 per cent alcohol per head of population aged 15 and above. The corresponding consumption figure for 2009 was estimated at 9.3 litres.

### Result

The operating profit for 2010 totalled SEK 331 million (SEK 394 m), corresponding to a fall of SEK 63 million. The gross profit increased by 3.1 per cent to SEK 3,055 million (SEK 2,961 m). The trading margin, including alcohol tax, was 12.7 per cent (12.7%). Selling costs increased to SEK 2,368 million (SEK 2,256 m), with the increase primarily attributable to increased staff overheads resulting from Systembolaget's investment in a more personal customer interaction and IT project-related costs. The operating margin fell to 1.4 per cent (1.7%).

The profit before tax totalled SEK 396 million (SEK 467 m). Net financial items totalled SEK 65 million (SEK 73 m). The net financial items from the interest portfolio and liquid assets totalled SEK 20 million (SEK 66 m). Interest rates have remained stable during the year at low levels with no pronounced changes in the value of the portfolio. Net financial items in respect of pensions management totalled SEK 8 million (SEK 7 m). Systembolaget's subsidiary company, Lagena Distribution, was sold during the year, making a contribution to net financial items of SEK 37 million.

### Cash flow

The cash flow from operating activities totalled SEK 506 million (SEK 778 m). The cash from investment activities

totalled SEK -173 million (SEK 18 m), of which SEK 39 million (SEK 309 m) referred to net investments in financial assets, while net investments in tangible and intangible fixed assets contributed SEK -277 million (SEK -291 m) to this total. The sale of Lagena Distribution AB, which yielded SEK 65 million, is also included in this figure. The cash flow from financing activities totalled SEK -345 million (SEK -201 m) and refers, in its entirety, to dividends paid.

### Financial position

Shareholders' equity totalled SEK 2,170 million on 31st December 2010, corresponding to a fall of SEK 43 million since the corresponding date in 2009. The change corresponds to the profit for the period, less the dividend paid to the owner. The assets/equity ratio was 36.9 per cent and the owner's target equity/assets ratio is 35.0 per cent. The return on shareholders' equity over the past twelve-month period totalled 13.8 per cent. The Owner's Directive states that the long-term profit shall correspond to a return on shareholders' equity of 4 percentage points above the average 10-year government bond rate. For 2010, this corresponds to a return of 6.9 per cent. Systembolaget does not, as a company, attempt to maximise its profit. If the long-term return exceeds the owners' requirement, it shall benefit the customers in the form of a reduced trading margin. The trading margin has gradually fallen since 2000 and has never been as low as in 2010. The Board endeavours at all times to balance the trading margin such that resources required for the company's development are secured while, at the same time, ensuring that customers benefit from the increases in efficiency.

### The Board's proposed principles regarding terms of employment and remuneration for senior executives

On 20th April 2009, the Government approved new terms of employment guidelines for senior executives in state-owned companies. Systembolaget complies, in every significant respect, with the new terms of employment guidelines adopted for senior executives in state-owned companies and as a consequence of the new guidelines, the retirement age has been renegotiated for three execu-

#### Operations in relation to the Owner's Directive and operational financial requirements

Per cent	2010	2009	2008	2007	2006
Return on shareholders' equity (the Group)	13.8	16.1	36.6	13.9	20.6
Owner's Directive level	6.9	7.2	7.9	8.2	7.7
Equity/assets ratio (the Group)	36.9	37.5	38.1	39.0	39.6
Owner's Directive level	35	35	35	30	30
Proposed dividend as a percentage of consolidated profit/loss after tax	100	100	100*	100	50
Owner's Directive level, minimum	50	50	50	50	50

\* Includes dividend approved by the Extraordinary General Meeting.



tives, from 61 years of age to 62. Two executives have existing defined benefit pension plans with a retirement age of 60. These agreements have already been renegotiated once, in 2003, at which time the pensionable income was locked by setting it at a given number of times the basic amount for income purposes. These agreements were, due to the executives' long service with the company, to the fact that the terms had already been renegotiated once, and to the fact that no corporate financial reason for renegotiation was deemed to exist, left untouched. The President's terms of employment follow the guidelines and the pension plan is a wholly defined contribution plan.

### Personnel

The total absence due to sickness within Systembolaget AB fell by 0.2 percentage points from 5.1 per cent in 2009 to 4.9 per cent in 2010. The reduction occurred within the 50+ age group, and absence due to sickness rose slightly in the other age groups in comparison with 2009. A programme of work designed to reduce absence due to sickness and get people on long-term sick leave back to work, carried out in cooperation with the company health care scheme, has continued in 2010.

### Sustainability issues

Systembolaget has chosen to apply the ten principles of the UN Global Compact initiative with regard to human rights, labour conditions, the environment and anticorruption as the framework for its CSR work. Systembolaget has conducted surveys and dialogues with its stakeholders every year since 2008, and in 2010, Systembolaget conducted in-depth interviews with a total of 52 customers, suppliers, employees, owners, media, authorities and voluntary organisations. The results are unambiguous: all of these groups expressed high expectations that we, as a state-owned company, must take responsibility for labour conditions, human rights, the environment, and anticorruption both within our own operations and throughout the supplier chain. *Find out more on pages 12-13.*

Systembolaget has selected 8 focus areas for the company's CSR work during the period from 2010 to 2013. The focus areas correspond well to the opinions expressed by stakeholders in 2010 with regard to the areas that Systembolaget should prioritise in its CSR work, and with the materiality analysis conducted in 2009.

The challenge that faces Systembolaget over the next three years consists of achieving an even more integrated control of its CSR work that permeates the entire organisation, with clear goals at the various levels. CSR shall also be integrated into both our internal skill development and our

communication. One important challenge we face is continuing our work in cooperation with our Nordic alcohol monopoly colleagues and the Nordic drinks suppliers to ensure that Systembolaget's product range is produced in a socially, environmentally and ethically sustainable way. Another is to complete in 2011 the environmental survey we began in 2010 for Systembolaget's operational and drinks supplier chain, and, on the basis of the environmental survey results, to draw up and commence implementation of a short- and long-term environmental plan. For more detailed information on the Group's sustainability reporting, see the "Appendix to the 2010 Responsibility Report".

### Corporate Governance Report

Systembolaget has elected to prepare a separate corporate governance report, distinct from the annual report. *Find out more on pages 52-61.*

### Significant events after the closing day

There are no significant events to report.

### Future outlook and expectations

The most urgent concern for Systembolaget is that the gradual reduction in total consumption in Sweden continues. The economy is recovering and the Swedish krona has strengthened, which might result in Swedes making more trips abroad and hence reducing their consumption in the Swedish market. Continued uncertainty surrounding private consumption and the effect of exchange rates on travel make it difficult to forecast sales volumes and net sales.

Substantial investments will continue to be made in the years ahead in such areas as the development of Systembolaget's website services and the stabilisation of IT operations.

Overall, the company believes that it will meet the owner's returns requirement in the coming financial year.

### The Parent Company

The Parent Company's net sales increased over the past year by 3.2 per cent in comparison with last year, totalling SEK 24,115 million (SEK 23,360 m). The Parent Company's operating profit totalled SEK 339 million (SEK 424 m) and the profit before tax was SEK 345 million (SEK 533 m). The Parent Company's investments totalled SEK 245 million (SEK -27 m) in 2010. This change was due, primarily, to reduced sales of financial assets.

### Appropriation of profits

*See page 84 for the proposed appropriation of profits.*

## Risks and uncertainty factors

Risks and uncertainty factors are assessed continuously. Risks are managed both by employees as part of the day-to-day operations, and by the work involving store visits and special reviews that are carried out by the risk management unit. Internal audits are carried out in order to review and evaluate Systembolaget's operations, including the way in which identified risks are managed.

### Analysis of general operating risks

A general operating risks analysis is carried out every year within Systembolaget. Risk is defined as an event or activity that prevents Systembolaget from achieving its goals. Thirty or so notable risks have been identified and prioritised with regard to significance and probability. The term, significance, refers to the impact on the ability to achieve existing goals. The risk analysis identifies risks in relation to Systembolaget's goals, the most important of which relates to our social responsibility. Systembolaget accepts a social, environmental and ethical responsibility in the course of its operations, and sustainability-related risks are, therefore, also included in the general operating risks analysis.

### Risk management work

The company's risk management has been reorganised in 2010 and a revised control structure established. Risk management is, as of 2010, part of the Controller unit. A review of the control structure has been carried out, taking the overall risk management as its starting point. A number of employees with a range of specialist skills have been involved in this work. The starting point for the new control structure has been that the control structure shall be based on the overall risk analysis and on the need to further clarify the line responsibility for risk management. The work has resulted in an in-house control programme for stores, returns depots and training centres, and the respective programmes were implemented at the end of 2010. Implementation in other parts of Systembolaget is scheduled for the first half of 2011. A systematic and analytical review of the stores' risks will be carried out on an ongoing basis throughout the year by the Controller unit and stores and units will, on the basis of this analysis, be selected for targeted reviews and,

where appropriate, for other types of checking, such as control inventories.

### Financial risks

The Group's operations are exposed, to a limited extent, to financial risks such as interest, credit and liquidity risks. Systembolaget is self-financing, thanks to a high rate of stock turnover that matches purchasing and payment terms. The Group has no interest-bearing liabilities. Systembolaget's sales are, in every significant respect, made for payments in cash or by credit card and Systembolaget hence has no significant accounts receivable. Systembolaget's product purchases are made in Swedish kronor and the drinks suppliers are responsible for the import of alcoholic drinks and reporting alcohol tax. The Group has very little exposure to currency and exchange rate risks. The financial risk management is steered by Systembolaget's financial policy.

### Different risk categories

The analysis identified risks in four categories, over and above the previously identified financial risks:

*External risks* – risks that arise through changes in the world outside Systembolaget and over which Systembolaget has no control but to which it must adapt its behaviour and which it must manage.

*Operating risks* – refers to risks in relation to Systembolaget's alcohol policy mandate, social, environment and ethical responsibility, personnel, communication, purchasing and relationships with suppliers, and sales.

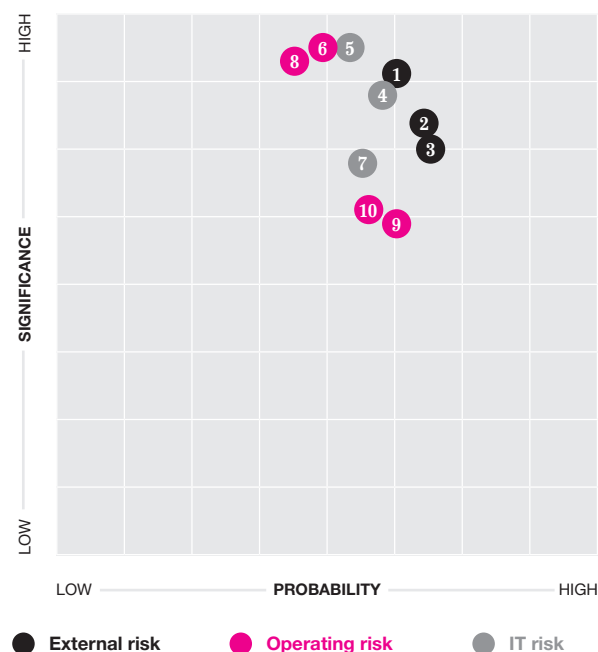
*IT risks* – refers to permissions, security, system support and information availability.

*Reporting risks* – refers to errors and deficiencies in both internal and external financial reporting.

### Key risks

Ten of the risks identified are regarded as key risks. This means that their significance is relatively high, as is the probability that they will occur, and they are adjudged to be critical. Key risks are described below. Of these, two are external risks, five are operating risks, and two are IT risks. The relationship between the risks is shown in the diagram where they are presented on the basis of high or low probability and high or low significance.

## Ten key risks



1. *Negative public opinion* – the risk of public debate and opinion forming that hinders Systembolaget’s ability to manage its mandate. Public debate and the moulding of public opinion with regard, for example, to Systembolaget’s position as a monopoly or to farm shop sales of alcoholic drinks may result in subjective opinions having a disproportional impact, which could make it more difficult for Systembolaget to manage its mandate.
2. *Deficient compliance – suppliers* – the risk of suppliers acting in a way that contravenes existing agreements and regulations, e.g. by attempting to influence their products’ purchasing volumes or display in Systembolaget’s stores, through support purchases of their own goods or through improper contact with store employees and/or purchasers.
3. *Deficient compliance, sustainability work (CSR) – suppliers* – the risk of Systembolaget’s suppliers being unwilling to conduct their operations in accordance with the Global Compact principles. Areas where deficiencies may potentially arise are work with sustainability, human rights, labour conditions and anti-corruption. Any deficiencies in suppliers’ sustainability work may have a negative effect on public confidence in Systembolaget.
4. *Deficient IT support* – the risk of the operations not receiving the system support needed for current and future information requirements and work processes. Systembolaget’s employees use IT systems to perform their duties. If full system support is lacking for critical processes, such as purchasing and sales, our ability to carry out our social mandate effectively deteriorates.
5. *Deficient IT availability* – the risk of interruptions to service bringing operations to a halt, either partially or completely. Systembolaget relies on its IT systems being available in order to be able to conduct its operations. An interruption to service in critical processes, such as sales, would have a substantial effect on operations.
6. *Deficient compliance – sales* – the risk of a failure to comply with rules and guidelines concerning age verification checks, not selling to persons who are visibly intoxicated and/or not selling to those who intend to sell on.
7. *Deficiencies in IT permissions administration* – the risk of permissions not being administered in a way that ensures confidentiality, integrity and access to information.
8. *Deficient compliance with product procurement regulations and guidelines by Systembolaget* – if Systembolaget’s employees fail to comply with existing rules and guidelines for the purchase of goods, it could entail a serious breach of competition and EU law. The consequence could be an undermining of the legitimacy of the entire social mandate.
9. *Deficiencies in case handling* – the risk that incoming cases and documentation are not registered and dealt with in a strictly correct and traceable manner.
10. *Inefficiency* – logistics, warehousing and planning – the risk of logistical solutions being underdeveloped, leading to inefficiency.

# Consolidated ten-year overview

	2010	2009	2008	2007	2006	2005	2004*	2003**	2002**	2001**
<b>Profit/loss (SEK m)</b>										
Income	24,115	23,360	21,296	20,211	19,039	18,083	17,708	18,985	19,132	18,241
Gross profit/loss	3,055	2,961	2,699	2,567	2,525	2,461	2,371	2,499	2,562	2,414
Operating profit/loss	331	394	135	310	559	477	197	172	165	159
Net financial items	65	73	698	56	43	36	43	29	37	38
Profit before tax	396	467	833	366	602	513	240	202	202	197
Net profit/loss for the year	302	345	774	295	419	330	178	138	142	133
<b>Financial position (SEK m)</b>										
Fixed assets	2,623	3,063	2,998	2,720	2,605	1,943	2,101	1,502	1,345	1,360
Current assets	3,252	2,831	2,439	2,830	2,627	3,235	2,246	2,615	3,359	2,435
Shareholders' equity	2,170	2,213	2,069	2,163	2,071	1,989	1,749	1,348	1,409	1,348
Liabilities	3,705	3,681	3,368	3,387	3,161	3,196	2,598	2,768	3,295	2,447
Balance Sheet total	5,875	5,894	5,437	5,550	5,232	5,185	4,347	4,116	4,704	3,795
<b>Cash Flow Statement (SEK m)</b>										
Cash flow from operating activities	506	778	576	706	363	1,039	198	170	1,508	211
Cash flow from investment activities	-173	18	54	-426	-637	-318	-190	-342	-174	-267
Cash flow from financial activities	-345	-201	-868	-210	-330	-90	-80	-302	-216	-802
Cash flow for the year	-12	595	-238	70	-604	631	-72	-474	1,119	-858
<b>Key performance indicators</b>										
Trading margin, incl. alcohol tax, %	12.7	12.7	12.7	12.7	13.3	13.7	13.4	13.2	13.2	13.2
Trading margin, excl. alcohol tax, %	21.8	22.2	22.6	23.1	24.3	25.5	25.2	25.1	25.5	26.7
Operating margin, %	1.4	1.7	0.6	1.5	2.9	2.6	1.1	0.9	0.9	0.9
Return on shareholders' equity, %	13.8	16.1	36.6	13.9	20.6	17.7	11.5	10.0	10.3	10.1
Return on capital employed, %	20.8	24.2	42.2	19.7	31.9	29.7	15.6	15.3	15.1	15.5
Equity/assets ratio, %	36.9	37.5	38.1	39.0	39.6	38.4	40.2	32.7	30.0	35.5
Earnings per share before and after dilution, SEK	839	958	2,151	821	1,164	917	494	384	393	370
Equity per share, SEK	6,028	6,147	5,747	6,008	5,753	5,525	4,858	3,744	3,915	3,743
Cash flow per share, SEK	1,406	2,161	1,600	1,961	1,008	2,886	550	472	4,189	585
Dividend per share, SEK ***	839	958	2,151	821	583	917	250	556	222	222
Work productivity	833	838	798	775	766	743	708	701	662	659
Rate of stock turnover, multiple	25.7	25.4	23.2	22.3	21.3	20.5	19.9	21.9	24.7	27.6
Product wastage, SEK m	22.1	24.8	22.8	19.2	16.0	18.4	18.2	22.0	21.3	11.6
Wastage, ‰	1.22	1.33	1.28	1.25	1.13	1.40	1.05	1.15	1.16	0.68
Opinion Index, %	66	66	64	61	57	55	53	55	50	49
Age verification checks, %	94	93	90	85	88	89	84	83	79	81
Average no. employees	3,255	3,219	3,232	3,049	3,026	2,960	3,127	3,334	3,350	3,403

\* According to IFRS, but not adjusted for IAS 39 Financial instruments.

\*\* Not according to IFRS.

\*\*\* 2010 dividend per share, as proposed by the Board of Directors.

# Consolidated Comprehensive Income Statement

SEK m	2010	2009
Income	24,115	23,360
Cost of goods sold	-21,060	-20,399
<b>Gross profit/loss</b>	<b>3,055</b>	<b>2,961</b>
Other income	299	402
Selling expenses	-2,368	-2,256
Administrative expenses	-392	-372
Other expenses	-263	-341
<b>Operating profit/loss</b>	<b>331</b>	<b>394</b>
Financial income	123	125
Financial expenses	-58	-52
<b>Profit/loss before tax</b>	<b>396</b>	<b>467</b>
Tax	-94	-122
<b>Net profit/loss for the year</b>	<b>302</b>	<b>345</b>
Other comprehensive income	-	-
<b>Comprehensive profit/loss for the year</b>	<b>302</b>	<b>345</b>
There are no minority interests, and hence 100% of the net profit/loss accrues to the Parent Company's shareholders.		
Earnings per share before and after dilution, SEK*	839	958
No. shares at the period end	360,000	360,000
Average no. shares during the period	360,000	360,000
Total proposed dividend, SEK m	302	345
Proposed dividend per share, SEK	839	958
Dividend approved and disbursed during the year, SEK m	345	201

\* Systembolaget has no convertible instruments, options or warrants, and hence no dilution effect occurs.

## Income statement

Income increased by SEK 755 million in 2010 to SEK 24,115 million. The increase in net sales is due to both an increase in sales volumes, primarily within the wine and alcohol-free product groups, and increased purchase prices. But the increase in Systembolaget's sales notwithstanding, the consensus to emerge from SoRAD's research is that alcohol consumption in Sweden has remained unchanged from 2009.

The operating profit decreased by SEK 63 million to SEK 331 million in 2010. Trading margin for the year once again totalled 12.7 per cent (12.7%), including alcohol tax. Selling expenses increased by SEK 112 million, primarily due to increased costs arising from Systembolaget's investment in a more personal interaction with the customer and increased investments in IT projects.



# Consolidated Financial Position Report

SEK m	31st Dec 2010	31st Dec 2009
<b>ASSETS</b>		
<b>Fixed assets</b>		
Buildings and land	180	188
Equipment, fixtures and fittings	840	896
Construction work in progress	115	57
Intangible assets	131	128
Pension assets	693	720
Deferred tax receivables	8	11
Other long-term securities holdings	651	1,057
Other long-term receivables	5	6
<b>Total fixed assets</b>	<b>2,623</b>	<b>3,063</b>
<b>Current assets</b>		
Stock-in-trade	964	881
Accounts receivable and accrued income	8	58
Prepaid costs	91	85
Tax receivables	9	–
Other receivables	4	3
Short-term investments	426	42
Liquid assets	1,750	1,762
<b>Total current assets</b>	<b>3,252</b>	<b>2,831</b>
<b>TOTAL ASSETS</b>	<b>5,875</b>	<b>5,894</b>

## Assets

Inventories increased by SEK 83 million during the year, while accounts receivable and accrued income fell by SEK 50 million. The reduction in accounts receivable is attributable to the sale of Lagena Distribution AB. Liquid assets and financial investments decreased by SEK 34 million.

SEK m	31st Dec 2010	31st Dec 2009
<b>SHAREHOLDERS' EQUITY &amp; LIABILITIES</b>		
<b>Shareholders' equity</b>		
Share capital	360	360
Profits brought forward	1,508	1,508
Net profit/loss for the year	302	345
<b>Total shareholders' equity</b>	<b>2,170</b>	<b>2,213</b>
<b>Provisions</b>		
Short-term provisions	–	9
<b>Total provisions</b>	<b>–</b>	<b>9</b>
<b>Long-term liabilities</b>		
Deferred tax liabilities	185	195
<b>Total long-term liabilities</b>	<b>185</b>	<b>195</b>
<b>Current liabilities</b>		
Accounts payable and accrued costs	3,379	3,260
Prepaid income	1	1
Tax liabilities	–	47
Other liabilities	140	169
<b>Total current liabilities</b>	<b>3,520</b>	<b>3,477</b>
<b>Total liabilities</b>	<b>3,705</b>	<b>3,681</b>
<b>TOTAL SHAREHOLDERS' EQUITY &amp; LIABILITIES</b>	<b>5,875</b>	<b>5,894</b>
<b>Pledged assets and contingent liabilities</b>		
Pledged assets	–	–
Contingent liabilities	2	3

**Shareholder's equity**

The consolidated shareholder's equity decreased by SEK 43 million and the change comprises the net of the dividend of SEK 345 million paid to the owners and the net profit for the year of SEK 302 million. The equity/assets ratio was 36.9 per cent (37.5%), which exceeds the requirement stipulated in the owner's directive of 35.0 per cent. The return on shareholders equity totalled 13.8 per cent (16.1%), which exceeds the requirement stipulated in the owner's directive of 6.9 per cent.

**Liabilities**

Accounts payable and accrued costs increased by SEK 119 million, corresponding to 91.2 per cent of the Group's total liabilities.

## Change in shareholders' equity, the Group

SEK m	Share capital	Profit carried forward	Total equity
<b>Opening balance, 1st January 2009</b>	<b>360</b>	<b>1,709</b>	<b>2,069</b>
Dividend		-201	-201
Comprehensive income for the year		345	345
<b>Closing balance, 31st December 2009</b>	<b>360</b>	<b>1,853</b>	<b>2,213</b>
<b>Changes in shareholders' equity, 2010</b>			
Dividend		-345	-345
Comprehensive income for the year		302	302
<b>Closing balance, 31st December 2010</b>	<b>360</b>	<b>1,810</b>	<b>2,170</b>

# Consolidated Cash Flow Statement

SEK m	2010	2009
<b>Operating activities</b>		
Profit/loss before tax	396	467
Adjustments for items not included in the cash flow		
Depreciation and write-downs	267	238
Capital gain/loss on sales of fixed assets	1	4
Capital gain/loss on the sale of subsidiaries	53	–
Other	8	–30
Cash flow from changes in operating capital		
Change in stock-in-trade	–85	–94
Change in receivables	–6	–22
Change in liabilities	30	268
<b>Cash flow from operating activities after changes in operating capital</b>	<b>664</b>	<b>831</b>
Tax paid	–158	–53
<b>Cash flow from operating activities</b>	<b>506</b>	<b>778</b>
<b>Investment activities</b>		
Sale of subsidiary company	65	–
Acquisition of tangible fixed assets	–237	–237
Sale of tangible fixed assets	9	0
Acquisition of intangible assets	–49	–54
Acquisition/sale of financial assets	39	309
<b>Cash flow from investment activities</b>	<b>–173</b>	<b>18</b>
<b>Financial activities</b>		
Dividend	–345	–201
<b>Cash flow from financial activities</b>	<b>–345</b>	<b>–201</b>
<b>Cash flow for the year</b>	<b>–12</b>	<b>595</b>
Liquid assets at the beginning of the year	1,762	1,167
<b>Liquid assets at the end of the year</b>	<b>1,750</b>	<b>1,762</b>

## Cash flow from operating activities

The cash flow from operating activities decreased by SEK 272 million to SEK 506 million.

## Cash flow from investment activities

The cash flow from investment activities totalled SEK –173 million corresponding to a fall of SEK 191 million from 2009. SEK 39 million (SEK 309 million) of this sum refers to net investments in financial assets, while net investments in tangible and intangible fixed assets comprise SEK –277 (SEK –291 million). The sale of Lagena Distribution AB contributed SEK 65 million to the result.

## Cash flow from financial activities

The cash flow from financial activities refers in its entirety to the dividend.

## Income Statement, the Parent Company

SEK m	2010	2009
Net sales	24,115	23,360
Cost of goods sold	-21,060	-20,399
<b>Gross profit/loss</b>	<b>3,055</b>	<b>2,961</b>
Selling expenses	-2,336	-2,221
Administrative expenses	-386	-366
Other operating income	9	54
Other operating expenses	-3	-4
<b>Operating profit/loss</b>	<b>339</b>	<b>424</b>
Income from participations in Group companies	-15	41
Income from other securities and receivables that are fixed assets	18	65
Interest income	2	2
Interest income from Group companies	2	2
Interest expenses	-1	-1
Interest expenses to Group companies	0	0
<b>Profit/loss after financial items</b>	<b>345</b>	<b>533</b>
Tax	-100	-127
<b>Net profit/loss for the year</b>	<b>245</b>	<b>406</b>

## Consolidated Income Statement, the Parent Company

SEK m	2010	2009
Net profit/loss for the year	245	406
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>245</b>	<b>406</b>

## Balance Sheet, the Parent Company

SEK m	31st Dec 2010	31st Dec 2009
<b>ASSETS</b>		
<b>Fixed assets</b>		
Intangible fixed assets		
Capitalised expenses	131	121
<b>Total intangible fixed assets</b>	<b>131</b>	<b>121</b>
Tangible fixed assets		
Buildings and land	41	43
Equipment, fixtures & fittings	840	879
Construction work in progress	115	57
<b>Total tangible fixed assets</b>	<b>996</b>	<b>979</b>
Financial fixed assets		
Participations in Group companies	15	15
Receivables from Group companies	88	87
Deferred tax receivables	23	25
Other long-term securities holdings	651	1,057
Other long-term receivables	12	12
<b>Total financial fixed assets</b>	<b>789</b>	<b>1,196</b>
<b>Total fixed assets</b>	<b>1,916</b>	<b>2,296</b>



SEK m	31st Dec 2010	31st Dec 2009
<b>Current assets</b>		
Stock-in-trade	964	880
Receivables		
Accounts receivable	8	8
Receivables from Group companies	8	49
Tax receivables	9	–
Other receivables	1	0
Prepaid costs and accrued income	91	82
<b>Total receivables</b>	<b>117</b>	<b>139</b>
Short-term investments	426	42
Cash and bank balances	1,750	1,762
<b>Total current assets</b>	<b>3,257</b>	<b>2,823</b>
<b>TOTAL ASSETS</b>	<b>5,173</b>	<b>5,119</b>

SEK m	31st Dec 2010	31st Dec 2009
<b>SHAREHOLDERS' EQUITY &amp; LIABILITIES</b>		
<b>Shareholders' equity</b>		
Restricted equity		
Share capital	360	360
Statutory reserve	72	72
<b>Total restricted equity</b>	<b>432</b>	<b>432</b>
Non-restricted equity		
Profit/loss carried forward	792	753
Net profit/loss for the year	245	406
<b>Total non-restricted equity</b>	<b>1,037</b>	<b>1,159</b>
<b>Total shareholders' equity</b>	<b>1,469</b>	<b>1,591</b>
<b>Provisions</b>		
Long-term provisions	70	74
Short-term provisions	–	9
<b>Total provisions</b>	<b>70</b>	<b>83</b>
<b>Long-term liabilities</b>		
Long-term liabilities to Group companies	78	1
Deferred tax liabilities	19	22
<b>Total long-term liabilities</b>	<b>97</b>	<b>23</b>
<b>Current liabilities</b>		
Accounts payable	3,202	3,045
Current liabilities to Group companies	31	2
Tax liabilities	–	49
Other liabilities	138	162
Accrued costs and prepaid income	166	164
<b>Total current liabilities</b>	<b>3,537</b>	<b>3,422</b>
<b>TOTAL SHAREHOLDERS' EQUITY &amp; LIABILITIES</b>	<b>5,173</b>	<b>5,119</b>
<b>MEMORANDUM ITEMS</b>		
<b>Pledged assets and contingent liabilities</b>		
Pledged assets	7	6
Contingent liabilities	41	9

## Change in shareholders' equity, the Parent Company

SEK m	Share capital	Statutory reserve	Profit carried forward	Net profit/loss for the year	Total equity
<b>Opening balance, 1st January 2009</b>	<b>360</b>	<b>72</b>	<b>267</b>	<b>687</b>	<b>1,386</b>
Transfer to non-restricted reserves			687	-687	-
Net profit/loss for the year				406	406
Dividend			-201		-201
<b>Closing balance, 31st December 2009</b>	<b>360</b>	<b>72</b>	<b>753</b>	<b>406</b>	<b>1,591</b>
<b>Change in shareholders' equity, 2010</b>					
Transfer to non-restricted reserves			406	-406	-
Net profit/loss for the year				245	245
Dividend			-345		-345
Group contributions			-30		-30
Fiscal effect of Group contributions			8		8
<b>Closing balance on 31st December 2010</b>	<b>360</b>	<b>72</b>	<b>792</b>	<b>245</b>	<b>1,469</b>

# Cash Flow Statement, the Parent Company

SEK m	2010	2009
<b>Operating activities</b>		
Profit/loss after financial items	345	533
Adjustments for items not included in the cash flow		
Depreciation and write-downs	253	220
Capital gain/loss	-14	4
Other	-3	-63
Cash flow from changes in operating capital		
Change in stock-in-trade	-83	-94
Change in receivables	-86	-28
Change in liabilities	201	266
Change in receivables/liabilities from/to subsidiaries	-2	-40
<b>Cash flow from operating activities after changes in operating capital</b>	<b>611</b>	<b>798</b>
Tax paid	-151	-36
<b>Cash flow from operating activities</b>	<b>460</b>	<b>762</b>
<b>Investment activities</b>		
Acquisition of tangible fixed assets	-236	-232
Sale of tangible fixed assets	0	0
Acquisition of intangible fixed assets	-48	-50
Acquisition/sale of financial assets	39	309
Change in financial receivables/liabilities from subsidiaries	77	7
<b>Cash flow from investment activities</b>	<b>-168</b>	<b>34</b>
<b>Financial activities</b>		
Dividend from AB K14 Näckströmsgatan	41	-
Dividend	-345	-201
<b>Cash flow from financial activities</b>	<b>-304</b>	<b>-201</b>
<b>Cash flow for the year</b>	<b>-12</b>	<b>595</b>
Liquid assets at the beginning of the year	1,762	1,167
<b>Liquid assets at the end of the year</b>	<b>1,750</b>	<b>1,762</b>

# Supplementary information

## Note 1 Accounting principles

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

### General

The consolidated accounts comprise the Parent Company, Systembolaget AB, the wholly-owned subsidiaries, Gamla Distribution i Jordbro AB and IQ-Initiativet AB, and the subsidiary group, AB K14 Näckströmsgatan. The companies are referred to collectively as the Group or Systembolaget. The annual accounts comprise the Parent Company.

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

The consolidated and annual accounts for the 2010 financial year were approved for publication by the Board of Directors and the President on 21st February 2011 and will be submitted to the Annual General Meeting on 24th March 2011.

### Bases for preparation

#### Amounts

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

#### Date

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

#### Consolidated accounts

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU, including International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC). The Group also complies with recommendation RFR 1, Complementary Reporting Rules for Corporate Groups, issued by the Swedish Financial Reporting Board, which specifies the supplementary information required by the Swedish Annual Accounts Act, and applicable statements by the Swedish Financial Reporting Board (UFR).

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

#### Annual Accounts

The annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and recommendation RFR 2 issued by the Swedish Financial Reporting Board. RFR 2 entails the application

by Systembolaget AB of all standards and statements issued by IASB and IFRIC, as approved by the European Commission for application within the EU. This shall be done to the extent possible within the framework of the Swedish Annual Accounts Act and with reference to the link between accounting and taxation.

The following accounting principles are the same for the Group and the Parent company, unless otherwise stated.

### Amended accounting principles

The Group applies the same accounting principles as those applied in the 2009 annual accounts with the following exceptions that have arisen due to new or revised standards, interpretations and improvements adopted by the EU and which shall be applied as of 1st January 2010.

#### IFRS 3 Business Combinations

The changes in IFRS 3 entail amendments to the reporting of future acquisitions of business operations.

#### IAS 7 Statement of Cash Flows

Only those expenses that result in the reporting of an asset can be presented in the statement of cash flows as a cash flow attributable to the investment activities.

#### IAS 24 R Related Party Disclosures

The definition of related parties has changed and there has been a certain easing regarding information for state-owned companies. The amended principle shall be applied from 1st January 2011. Systembolaget has chosen not to implement the recommendation in advance.

#### IAS 27 Consolidated and Separate Financial Statements

Changes to IAS 27 have changed the way in which losses arising in partly-owned subsidiary companies are reported and the way in which the loss of a controlling influence in a subsidiary company is reported.

### Future standards, addenda and interpretations

#### IFRS 9 Financial instruments

The Group has elected not to evaluate all of the effects of the new standard until such time as all parts thereof have been approved.

### Important estimates and assessments

The Group makes estimates and assumptions with regard to the future, based on the latest available and most reliable information and on historic experience. Changes to preconditions may entail adjustments to the reported amounts for assets and liabilities in the next financial year due to the fact that the actual results can differ from the reported amounts. The estimates that may entail substantial changes in the reported amounts relate to pensions.

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

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

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

#### *Important assessments*

When applying the company's accounting principles, the company management makes various assessments that can have an effect on the reported amounts in the Income Statement and the Balance Sheet. The reporting assessments made by the company management that have the most significant effect on the reports are the assessments of capitalization of costs for system development.

### **Consolidated accounts**

#### *Subsidiaries*

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

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

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

#### *Consolidation principles*

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

#### *Transactions between Group companies*

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

#### *Internal pricing*

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

### **Foreign currencies**

Transactions in foreign currencies are converted to the functional currency at the exchange rate applicable on the transaction date. Monetary assets and liabilities expressed in foreign currencies are reported

in the Balance Sheet after conversion at the rate applicable on the closing date. Exchange rate differences arising in conjunction with conversion are reported in the Income Statement.

### **Segment reporting**

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

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

### **Revenue recognition**

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.

The subsidiaries' operations, distribution of products, provision of information and real estate management are reported under the "Other operating income and operating expenses" heading.

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

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

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

### **State subsidies**

Subsidies are reported at fair value when a reasonable certainty exists that the subsidy will be received and that the Group will comply with the terms and conditions associated with the subsidy.

Subsidies intended to cover costs – in Systembolaget's case, wage subsidies of minor value only – are reported net in the Income Statement presentation of staff overheads.

### **Cost accounting**

The Income Statement is presented by function and costs are accordingly classified on the basis of their function.

The cost of goods sold primarily comprises the purchase of goods for resale.

Selling expenses include costs arising from the store operations, largely comprising personnel- and premises-related costs.

Administrative expenses include costs arising from the central administrative staff functions at the head office.



### Leasing

Leasing agreements where the lessor, in every significant respect, retains the economic risks and benefits associated with ownership, are classified as operational leasing. The vast majority of the Group's leasing agreements are exclusively operational.

#### Leasing

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

### Income tax

Reported tax comprises the combined sum of current and deferred tax calculated on the basis of the profit/loss for the period. Current tax is the tax that is payable or receivable during the current period, including adjustments to current tax for previous periods. Current tax is calculated on the basis of the taxable result for a period, including adjustments to the current tax for previous periods. Current tax is calculated and valued on the basis of the tax rules and tax rates approved, or approved in practice, on the closing day.

Deferred tax is calculated using the Balance Sheet method whereby temporary differences, i.e. differences between the reported and fiscal values of assets and liabilities, give rise to deferred tax liabilities or tax receivables. Deferred tax liabilities are calculated on the basis of all fiscal temporary differences while deferred tax receivables are reported to the extent that it is likely that a future fiscal surplus will exist, against which the temporary differences can be offset.

Deferred tax is calculated and valued in accordance with the tax rules and at the tax rates approved or announced on the closing day and which are expected to apply when the tax receivable in question is realised or the tax liability is settled. The tax rate is 26.3 per cent, as of 1st January 2009.

On every closing day, the reported value of the deferred tax receivables is reassessed and reduced to the extent that it is no longer probable that sufficiently large fiscal surpluses will be available. The reduction is reversed to the extent that it is subsequently deemed likely that sufficient fiscal surpluses will be available.

Current tax and deferred tax are reported in the Income Statement with the exception of fiscal effects attributable to transactions or events reported directly to equity.

#### The Parent Company

Deferred tax liabilities are – due to the link between accounting and taxation – not reported separately for legal entities, but rather, as part of the untaxed reserves to which they are attributable. Untaxed reserves are reported in the Balance Sheet and the receivable is reported under Appropriations in the Income Statement. Both untaxed reserves and appropriations are consequently reported in gross amounts in the Balance Sheet and Income Statement.

### Information on related parties

Systembolaget defines Group companies, pension funds, senior executives, Members of the Board and close family members of these persons as related parties. Systembolaget has elected to implement IAS 24, Related Party disclosures, in advance which means that disclosures regarding transactions with government-owned companies in which the government has a controlling influence need no longer be made, other than when the value of the transactions was substantial.

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

### Tangible fixed assets

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

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

AB K14 Näckströmögatan owns properties that are leased out to and used by, amongst others, the Parent Company, Systembolaget AB. The properties reported in the consolidated accounts consequently comprise real estate used in business operations and are valued using the cost method.

### Intangible assets

Expenses for the development are reported as intangible assets when the following criteria are met:

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

The reported value includes expenditure arising from the purchase of services and materials. Intangible assets are valued using the acquisition method at their acquisition value, less any accumulated depreciation and any accumulated write-downs.

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

### Depreciation

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

Asset	Useful life
Buildings	17–33 years
Machinery and fixtures & fittings	3–5 years
Rebuilding in store	7 years
Intangible assets	5 years

Expenses attributable to improvements in another party's premises are depreciated over a period of between 7 and 20 years. Land is not depreciated.

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

### Write-downs

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

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

### Remuneration to employees

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

#### *Defined benefit pension plans in the Group*

The Group has defined benefit pension plans, which means that the Group has an undertaking to disburse the agreed remuneration to current and former employees and that the Group, in every significant respect, carries the actuarial risk and the investment risk. The actuarial risk is the risk that the remuneration will cost more than expected and the investment risk is the risk that the assets invested will prove insufficient to provide the expected remuneration. The defined benefit pension plans are primarily secured through pension funds, but also through provisions made in the Balance Sheet and, to a limited extent, through insurance premiums. Actuarial methods are used, when reporting defined benefit pension plans, in order to calculate the remuneration amount earned by the employee during the current period and previous periods reliably. The Group makes assessments, known as actuarial assumptions, of the demographic and financial variables that affect the cost of the remuneration. The remuneration amount calculated is discounted annually by independent actuaries applying what is known as the "Projected Unit Credit Method". The current value of the defined benefit undertaking is determined by discounting estimated future cash flows using the interest rate for Swedish government interest bonds with a term comparable with the pension liability in question.

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

The net of the current value of the undertaking on the closing day plus any actuarial profits not yet reported, less the fair value of the plan assets, any expenses in relation to previous periods' employment

not yet reported and any actuarial losses not yet reported are reported within the Group. If the net amount is positive, a liability (pension undertaking) is reported in the Balance Sheet, whilst if the net amount is negative, an asset (pension asset) is reported there.

#### *Defined contribution pension plans in the Group*

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

#### *Parent Company pensions*

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

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

#### *Severance payments*

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

### Financial instruments

Financial instruments comprise every type of agreement that gives rise to a financial asset in a company, or to a financial liability or equity instrument in another company. They include liquid assets, accounts receivable, accounts payable and financial investments.

#### *Reporting in and removal from the Balance Sheet*

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

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

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

#### *Valuation*

When financial instruments are reported for the first time, they are valued at fair value. Transaction costs directly attributable to the acquisition of the financial asset or liability are added to the fair value for those financial instruments that do not come under the heading of financial assets and liabilities valued at fair value via the Income Statement.

Settlement date accounting is applied for those financial assets classified as financial assets valued at fair value via the Income Statement and financial assets that can be sold. Transaction date accounting is applied for other categories of financial assets and liabilities.

Subsequent valuation is effected either at the fair value or at the accrued acquisition value by application of the effective interest method. The valuation method used is determined by the category to which the respective instruments belong.

The fair value is the amount at which an asset could be transferred or a liability settled between knowledgeable and independent parties who have an interest in completing the transaction.

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

#### Classification

Financial instruments are classified in accordance with the table below. The Group classifies its financial instruments into one of the following categories: loan receivables and accounts receivable, assets valued at their fair value via the Income Statement, or financial liabilities valued at their accrued acquisition value, which are described below. The classification is based on the purpose for which the instrument has been acquired.

#### Financial assets valued at their fair value via the Income Statement

The category, financial assets valued at their fair value via the Income Statement, has two sub-groups, namely financial assets held for trading purposes and financial assets identified in conjunction with the first reporting instance as an instrument valued at its fair value via the Income Statement. A financial asset is classified in this category if the expectation is that it will be sold in the short term or if the Group management classifies it as such. Remaining financial assets are identified in this category when reported for the first time.

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

#### Loan receivables and accounts receivable

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

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

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

#### Financial liabilities valued at the accrued acquisition value

This category includes accounts payable, which are reported in the Balance Sheet when the counterparty has performed as agreed and a contractual obligation to pay exists, even if an invoice has not been received. Financial liabilities are valued on an ongoing basis after being reported for the first time at the accrued acquisition value, using the effective interest method.

#### Liquid assets

Liquid assets comprise cash and bank balances and short-term liquid investments with a maximum term from the acquisition date of 90 days and which can easily be converted to a known sum and which are only exposed to an insignificant risk of fluctuations in value.

#### Net profit and net loss

The result of financial assets valued at fair value in the Income Statement is reported under Net financial items. The result of financial assets and liabilities reported at accrued acquisition value are reported in the Income Statement when the asset or liability is removed from the Balance Sheet or written down.

#### Categories

Types	Category	Valuation
<b>Financial assets</b>		
Other long-term securities holdings	Financial assets valued at fair value via the Income Statement	Fair value
Other long-term receivables	Loan receivables and accounts receivable	Accrued acquisition value
Accounts receivable and accrued income	Loan receivables and accounts receivable	Accrued acquisition value
Short-term investments	Financial assets valued at fair value via the Income Statement	Fair value
Liquid assets	Financial assets valued at fair value via the Income Statement	Fair value
<b>Financial liabilities</b>		
Accounts payable and accrued expenses	Financial liabilities valued at accrued acquisition value	Accrued acquisition value

**Stock-in-trade**

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

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

**Fixed assets held for sale and liquidated operations**

A fixed asset or a disposal group is classified as a fixed asset held for sale if their reported value will primarily be recovered through sale and not through ongoing use. To be classified as an asset held for sale, the asset must be available for immediate sale in its current condition and it must be very likely that a sale will be made.

A fixed asset or disposal group shall be reclassified when an assessment made indicates that the sale is very probable, which means that a decision shall have been taken at management level, there shall be an active programme aimed at completing the sale, the sale price shall have been set at a reasonable level in relation to the fair value, and the sale shall normally take place within one year of the decision having been made.

The fixed asset or the disposal group is valued at whichever is the lower of the reported value and the fair value, less selling expenses. Assets and liabilities attributable to the fixed asset are reported separately in the Balance Sheet. A fixed asset is not depreciated as long as it is classified as being held for sale.

**Provisions**

A provision is defined as a liability that is uncertain with regard to the due date or the amount. Provisions are reported in the Balance Sheet when the Group has an existing legal or informal undertaking as a result of an event that has occurred, and for which it is likely that a disbursement of resources will be required to clear the commitment and the amount can be reliably estimated. Provisions are valued at the amount that is the best estimate of the amount which, on the closing day, is required to clear the existing commitment. When the effect of the point in time at which payment is made is significant, the current value of anticipated future cash flows is calculated. Provisions are reviewed as of every closing day and, if necessary, adjusted to reflect the current best estimate.

**Contingencies/contingent liabilities**

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

**Cash Flow Statement**

The Cash Flow Statement demonstrates the inflow and outflow of monies attributable to the operating activities, investment activities and financial activities, and which has occurred during the period.

The Cash Flow Statement is prepared using the indirect method, whereby the result is adjusted for:

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

**Events after the closing day**

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

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

## Proposed appropriation of profits

The Board of Directors proposes that the profits available for allocation, comprising SEK 1,036,710,826, be allocated as follows:

Dividend (SEK 839 per share)	302,040,000
Carried forward	734,670,826
<b>Total</b>	<b>1,036,710,826</b>

It is proposed that the dividend be disbursed on 1st April 2011.

The Board of Directors is of the opinion that the proposed dividend payment is justifiable with reference to the requirements laid down in chapt. 17:3, §§ 2 and 3 of the Swedish Companies Act, and with reference to the requirements that the nature of the operations, their scope and their inherent risks make of the shareholders' equity in

the Parent Company and the Group. The dividend payment is also deemed justifiable from the point of view of the Parent Company's and Group's consolidation requirements, liquidity and position in general, and is compatible with the owner's requirements and expectations.

The Board of Directors and the President hereby affirm that the annual accounts have been prepared in accordance with generally accepted accounting principles and that they provide a true and fair view of the company's position and result. The undersigned also affirm that the consolidated accounts have been prepared on the basis of the IFRS international accounting standards referred to in the European Parliament and European Council ordinance (EC) no.1606/2002, dated 19th July 2002, and that they provide a true and fair view of the performance of the company and Group operations, their position and their result, and that they describe significant risks and uncertainty factors faced by the company and the Group's component companies.

Stockholm, 21st February 2011

Cecilia Schelin Seidegård  
*Chairperson*

Gert Karnberger  
*Deputy Chairperson*

Sven Andréasson  
*Member*

Johan Gernandt  
*Member*

Carl B Hamilton  
*Member*

Annika Nilsson  
*Member*

Kerstin Wigzell  
*Member*

Maj-Britt Eriksson  
*Employee representative for Unionen*

Maria Åström  
*Employee representative for Unionen*

Magdalena Gerger  
*President*



# Audit Report in respect of the Annual Accounts

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

We have examined the annual accounts, the consolidated financial statements, the accounting records and the administration by the Board of Directors and the President of Systembolaget AB for 2010. The company's annual accounts are shown on pages 62–84 of this document. These accounts, the administration of the company, the application of the Swedish Annual Accounts Act, and compliance with international accounting standards, IFRS, as adopted by the EU, when preparing the annual accounts and the consolidated financial statements, are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual accounts, the consolidated financial statements and the administration based on our audit.

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

accounts and consolidated financial statements. As the basis for our opinion on discharge from liability, we have examined significant decisions, actions taken and 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 statement.

The annual accounts 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 Statement and Balance Sheet of the Parent Company and the Consolidated Comprehensive Income Statement and the Consolidated Financial Position Report be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Directors' Report, and that the Members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, 21st February 2011

Ernst & Young AB

Torsten Lyth  
*Authorised Public Accountant*

Carin Ryttoft Drangel  
*Authorised Public Accountant*  
*appointed by the Swedish National Audit Office*

## Review Report in respect of the Annual Accounts

**To the Annual General Meeting 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 2010 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, 21st February 2011

Karin Nilsson

Lars U Granberg

Rolf Gunnarsson

## The Auditors' Report on the Corporate Governance Report

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

We have audited the Corporate Governance Report for 2010 as shown on pages 52-61 of this document. The Corporate Governance Report, and ensuring that it is prepared in accordance with the provisions of the Swedish Annual Accounts Act, are the responsibility of the Board of Directors. Our responsibility is to express an opinion on the Corporate Governance Report based on our audit.

The audit has been carried out in accordance with the auditing standard, RevU 16, The auditor's examination of the corporate govern-

ance statement, issued by FAR SRS (the institute for the accountancy profession in Sweden). This standard requires that we have planned and performed the audit to obtain reasonable but not absolute assurance that the corporate governance statement is free of material misstatements. An audit includes examining, on a test basis, a selection of evidence supporting the information contained in the corporate governance statement. We believe that our audit procedures provide reasonable basis for our opinion set out below.

In our opinion, the corporate governance statement has been prepared in accordance with and is compatible with the annual accounts and the consolidated accounts.

Stockholm, 21st February 2011

Ernst & Young AB

Torsten Lyth  
*Authorised Public Accountant*

Carin Ryttoft Drangel  
*Authorised Public Accountant*  
*appointed by the Swedish National Audit Office*

# The Board of Directors on the Sustainability Report

The Sustainability Report, which includes all of the sustainability-related information provided in Systembolaget's 2010 Responsibility Report, together with the associated GRI annex, as presented on

Systembolaget's website (see GRI list of contents on pages 90–91) have been approved for publication by the Board of Directors on 21st February 2011.

Stockholm, 21st February 2011

Cecilia Schelin Seidegård  
*Chairperson*

Gert Karnberger  
*Deputy Chairperson*

Sven Andréasson  
*Member*

Johan Gernandt  
*Member*

Carl B Hamilton  
*Member*

Annika Nilsson  
*Member*

Kerstin Wigzell  
*Member*

Maj-Britt Eriksson  
*Employee representative for Unionen*

Maria Åström  
*Employee representative for Unionen*

Magdalena Gerger  
*President*

# Auditors' Report in respect of a combined review of Systembolaget AB's Sustainability Report

## To the readers of Systembolaget AB's Sustainability Report

### Introduction

We have been engaged by the Board of Directors to perform an assurance engagement related to Systembolaget AB's sustainability report for 2010. It is the Board of Directors and the executive group management that are responsible for the continuous activities regarding the environment, the work environment, quality, social responsibility and sustainable development, and for the preparation and presentation of the sustainability report in accordance with applicable criteria. Our responsibility is to express a conclusion on the Sustainability Report, based on our examination.

### The orientation and scope of the review

Our assurance engagement has been performed in accordance with FAR SRS (the institute for the accountancy profession in Sweden) draft recommendation "RevR 6 Assurance of Sustainability Reports". An audit is aimed at obtaining a reasonable but not absolute level of assurance for our conclusion that the information contains no significant inaccuracies. An audit includes examining a selection of evidence supporting the quantitative and qualitative information in the sustainability report. A review consists of making enquiries, primarily of persons responsible for sustainability matters and applying analytical and other review procedures. Consequently, the conclusion based on our review does not provide the same level of assurance as the conclusion of our audit. Since this constitutes a combined assurance engagement, our opinion regarding the audit and the review will be presented separately.

Our engagement includes a review of the following areas with the purpose of either providing a reasonable but not absolute assurance (hereinafter referred to as an audit) or limited assurance (hereinafter referred to as a review):

1. Our review comprises the information presented in the GRI list of contents on pages 90–91 and the pages in the responsibility report referred to in this list of contents.
2. Our audit included the following information:
  - a. key performance indicators for the sale of organic products, GRI indicator EN26;
  - b. HR training hours in GRI indicator HR3;
  - c. structuring and scope of the routines that evaluate the operations' societal impact, GRI indicator SO1;
  - d. percentage with regard to the risk of corruption. GRI indicator SO2, and
  - e. Customer Satisfaction Index, GRI indicator PR5.

Our assurance does not include the undertakings used or any information relating to whether it is possible for the company to achieve future performance figures (i.e. goals, expectations or ambitions).

We have not reviewed the information presented by Systembolaget AB on its website at <http://www.systembolaget.se>.

The criteria used in the course of performing our review are based on applicable parts of the "Sustainability Reporting Guidelines", G3, issued by The Global Reporting Initiative (GRI), suitable for the sustainability report, and specific measurement and reporting principles developed and issued by the company. We consider these criteria to be suitable for the preparation of the sustainability report.

### Review procedures:

The most important procedures in our review comprised the following:

- a. updating our knowledge and understanding of Systembolaget AB's organisation and activities;
- b. assessing the suitability and application of the criteria in relation to the stakeholders' need for information;
- c. assessing the result of the company's stakeholder dialogues;
- d. conducting interviews with responsible management, at Group level, subsidiary level and at selected business units, with the aim of determining whether the qualitative and quantitative information contained in the Sustainability Report is complete, correct and sufficient;
- e. studying internal and external documents to determine whether the information reporting is complete, correct and sufficient;
- f. evaluating the design of the systems and processes used to obtain, manage and validate sustainability information;
- g. evaluating the model used to calculate carbon dioxide emissions;
- h. conducting an analytical review of reported information;
- i. reconciling financial information with the company's Annual Accounts for 2010;
- j. evaluating the company's stated application level with regard to GRI guidelines;
- k. considering the overall impression given by the Sustainability Report, and its format, with regard to the mutual correspondence between the information and the criteria applied; and
- l. reconciling the reviewed information with the sustainability information contained in the company's 2010 Annual Report.

**Audit procedures:**

Our audit has included the following audit procedures:

- a. examining the design and function of relevant internal controls within the systems and processes used to obtain, handle and validate information in respect of the selected indicators during the period to which the report refers;
- b. reconciling reported information with internal and external source documentation and conducting detailed tests of selected indicators, namely EN26, HR3, SO1, SO2 and PR5 in the sustainability report; and
- c. reconciling the financial key performance indicators on pages 68–83 with Systembolaget AB's 2010 annual accounts.

We consider that the evidence collected during our review is sufficient and relevant to support our conclusions, as presented below.

**Conclusions****Our conclusion based on our review**

Based on our review, nothing has come to our attention that causes us to believe that the information contained in the Sustainability Report included in our review has not, in all material respects, been prepared in accordance with the above-mentioned criteria.

**Our conclusion based on our audit**

Based on our audit, we believe that the information contained in the sustainability report included in our audit has, in all material respects, been prepared in accordance with the above-mentioned criteria.

Stockholm, 21st February 2011

Ernst & Young AB

Göran Tyréus  
*Authorised Public Accountant*

Torsten Lyth  
*Authorised Public Accountant*



# List of contents for GRI

Systembolaget reports in accordance with level B+ of the Global Reporting Initiatives (GRI) guidelines, which has been verified by Ernst & Young AB. The report for the 2010 financial year comprises the parent company, Systembolaget AB, the wholly-owned subsidiaries, IQ-Initiativet AB, and AB K14 Näckströmsgatan, and comprises the operations over which Systembolaget exercises control with regard to financial and operating policies. The basic principle is that all of these units are represented in every indicator. Any deviations from and comments on the GRI indicators are reported in the GRI annex to the

2010 Responsibility Report, which is available from systembolaget.se.

The list of contents includes all core indicators and the supplementary indicators that Systembolaget adjudges to be relevant to its operations, based on the company's most important sustainability issues. The table below shows where the indicators are present – in the 2010 Responsibility Report (unless otherwise indicated) or in the GRI annex (A) on Systembolaget's website.

**W** = Wholly reported    **P** = Partially reported    **N** = Not reported

## PROFILE

		Page reference
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1.1	President's Statement	W 2–3
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2.6	Nature of ownership and legal form	W 78
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<b>Scope and boundary of the report</b>		
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3.6	Boundary of the report	W A3
3.7	Limitation of scope or boundary of report	W A3
3.8	Reporting principles for jointly owned companies subsidiaries, etc.	W A3
3.9	Data measurement techniques and bases for calculation	W A3
3.10	Explanation of effect of re-statements of information provided in earlier reports	W A3
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report	W A3
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<b>Assurance</b>		
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<b>Governance</b>		
4.1	Governance structure	W 52, 53
4.2	The role of the Chairman of the Board	W 55
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4.4	Mechanisms for shareholders' and employees' to provide recommendations etc., for the Board	W A7

4.5	Remuneration to senior executives	W 56, 58
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4.7	Process for determining the qualifications of Board Members	W 54, 57
4.8	Mission or value statements, code of conduct, etc.	W 8–11
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4.10	Processes for evaluating the work of the Board	W 57
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4.11	Application of the precautionary approach or principle	W 79
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<b>Stakeholder engagement</b>		
4.14	Stakeholder groups	W 12–13, A5
4.15	Identification and selection of stakeholders	W A5
4.16	Approaches to stakeholder engagement	W 12–13, A5
4.17	Key topics and concerns arising through stakeholder engagement	W 12–13

## PERFORMANCE INDICATORS

<b>5</b>	<b>Economic Performance Indicators</b>	
Management approach		44, 46, 47, A8
<b>Economic performance</b>		
EC1.	Generated and distributed direct economic value	W 16, A8
EC2.	Financial implications and other risks and opportunities, due to climate change	N
EC3.	Coverage of the organisation's defined benefit plan obligations	W 81
EC4.	Significant financial assistance and received from government	N
<b>Market</b>		
EC5.	Standard entry level wage compared to local minimum wage at significant locations of operation	N
EC6.	Policy, practices, and proportion of spending on locally-based suppliers	N
EC7.	Procedures for local hiring and proportion of senior management hired from the local community	N
<b>Indirect economic impacts</b>		
EC8.	Investments infrastructure and services for public benefit	N
EC9.	Description of significant indirect economic impacts, including the extent of impacts	P A8
<b>6</b>	<b>Environmental Performance indicators</b>	
Management approach		26–27, 42, A8
<b>Materials</b>		
EN1.	Materials used by weight or volume	N
EN2.	Percentage of materials used that are recycled input materials	N

<b>Energy</b>			
EN3.	Direct energy consumption by primary energy source	N	
EN4.	Indirect energy consumption by primary energy source	N	
EN5.	Energy saved due to conservation and efficiency improvements	W	27
<b>Water</b>			
EN8.	Total water withdrawal by source	N	
<b>Biodiversity</b>			
EN11.	Location and size of land used in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	N	
EN12.	Significant impacts on biodiversity in protected areas and areas of high biodiversity value outside protected areas	N	
<b>Emissions, effluents and waste</b>			
EN16.	Total direct and indirect greenhouse gas emissions by weight	N	
EN17.	Other relevant indirect greenhouse gas emissions by weight	P	27, 43, A9
EN18.	Initiatives to reduce greenhouse gas emissions and reductions achieved	W	42
EN22.	Total weight of waste by type and disposal method	W	26, 27, A13
EN23.	Total number and volume of significant spills	N	
<b>Products and services</b>			
EN26.	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	W	26, 27, A9
EN27.	Percentage of products sold and their packaging materials that are reclaimed by category	N	
<b>Compliance</b>			
EN28.	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	N	
<b>7 Social Performance Indicators</b>			
<b>Labour practices an decent work</b>			
Management approach			28–35
LA1.	Total workforce by employment type, employment contract and region	W	28, A10
LA2.	Total number and rate of employee turnover by age group, gender and region	W	29, A11
LA4.	Percentage of employees covered by collective bargaining agreements	W	29
LA5.	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	N	
LA7.	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	P	32, A11
LA8.	Education, training, counselling, prevention and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases	N	
LA10.	Average hours of training per year per employee by employee category	N	
LA11.	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	W	30, 35, A12
LA12.	Percentage of employees receiving regular performance and career development reviews	W	30, A12
LA13.	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	W	51, A12
LA14.	Ratio of basic salary of men to women by employee category	P	A12

<b>Human rights</b>			
Management approach			8–11, 36
HR1.	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	N	
HR2.	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	W	36, 37, A13
HR3.	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	W	37, 43, A13
HR4.	Total number of incidents of discrimination and actions taken	W	33, A13
HR5.	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	N	
HR6.	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour	N	
HR7.	Operations identified as having significant risk for incidents of compulsory labour, and measures to contribute to the elimination of forced or compulsory labour	N	
<b>The organisation's role in society</b>			
Management approach			4, 6, 34
SO1.	Nature and scope of the routines that assess the impacts of operations on communities, including entering, operating and exiting	W	1, 14, 15, A13
SO2.	Percentage and total number of business units analysed for risks related to corruption	W	A13
SO3.	Percentage of employees trained in organisation's anti-corruption policies and procedures	W	30, 34, A13
SO4.	Actions taken in response to incidents of corruption	W	34, A13
SO5.	Public policy positions and participation in public policy development and lobbying	N	
SO8.	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	N	
<b>Product responsibility</b>			
Management approach			18, 25, 38
PR1.	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	N	
PR2.	Total number of incidents on non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	W	A14
PR3.	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements	W	25, A14
PR5.	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	W	18, 44
PR6.	Programmes for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship	W	6, A14
PR7.	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communication, including advertising, promotion, and sponsorship by types of outcome	W	A14
PR9.	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	N	

# Definitions

## Age verification

Age verification measures the number of occasions when proof of age has been requested as a percentage of control purchases. The control purchases are made by people in the 20–24 age group. Systembolaget engages an external consultancy company to conduct the purchases. A total of ca. 6,000 control purchases are made per year. Age verification is measured and reported every month.

## Average number of employees

The number of hours worked divided by the normal number of hours worked per year.

## Average number of shares

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

## Capital employed

The Balance Sheet total less non-interest-bearing liabilities including deferred tax liabilities.

## Cash flow per share

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

## CSR – Corporate Social Responsibility

A company's responsibility for its environmental and societal impact on the world in which it operates (both people and the environment), over and above that required by law.

## Customer Satisfaction Index – CSI

The CSI measures how satisfied customers are with Systembolaget. The total index is an average value obtained from responses to the following three questions:

- How satisfied or dissatisfied are you with the Systembolaget store, overall?
- How well does the Systembolaget store live up to your expectations?
- How close to or far from ideal do you think that the Systembolaget store is?

The customers' answers, which are given on a scale from 1 to 10, are converted to a figure between 10 and 100. Systembolaget engages an external consultancy company to conduct the survey. The survey base comprises a total of ca. 60,000 randomly selected customers, spread over all of the stores. The CSI is measured and reported once a year.

## Dividend per share

Proposed/disbursed dividend divided by the average number of shares.

## Earnings per share

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

## Employee Satisfaction Index – NMI

The ESI measures how satisfied employees are with Systembolaget as an employer. The total index is a median value obtained from responses to the following two questions and two statements:

- How satisfied are you, generally speaking, to be an employee in your workplace?
- How close to or far from ideal is your workplace?
- I feel motivated in my work.
- I always look forward to going to work.

The employees' responses, which are given on a scale from 1 to 10, are converted to a figure between 10 and 100. Systembolaget engages an external consultancy company to conduct the survey. All Systembolaget employees complete the survey. The ESI is measured and reported once a year.

## Equity/assets ratio

Shareholders' equity as a percentage of the Balance Sheet total.

## Global Compact

A UN initiative and framework for sustainable enterprise. Global Compact is based around ten principles within the following four areas: human rights, labour conditions, the environment, and anti-corruption.

## GRI – Global Reporting Initiative

A global network that issues a framework with guidelines for sustainability reporting.

## Income/net sales

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

## Independent

A Member of the Board who is, according to the Nomination Committee, to be regarded as independent in relation to the company and the company management.

## Operating margin

Operating profit/loss as a percentage of income.

## Opinion index – OPI

The Opinion Index measures the percentage of the Swedish population who wish to retain Systembolaget and the monopoly on retail sales of strong beer, wines and spirits. The survey base is asked to respond to the following question:

- Do you think that Systembolaget and the monopoly on the sale of strong beer, wines and spirits should be retained, or

would you prefer strong beer, wines and spirits to be sold in other stores?

Systembolaget engages an external consultancy company to conduct the survey. A total of 1,500 randomly selected individuals aged between 15 and 74 are interviewed every month. The Opinion Index is measured and reported every month.

## Product wastage

Wastage of goods, as established during stocktaking, pro mille of income.

## Return on shareholders' equity

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

## Return on capital employed

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

## Shareholders' equity per share

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

## SoRAD

The Centre for Social Research on Alcohol and Drugs, at Stockholm University.

## Stock turnover rate

Income divided by the average stock value at sale price.

## Supplier Index - SI

The Supplier Index measures how satisfied Systembolaget's suppliers are and provides a summary of:

- Drinks suppliers' overall satisfaction with Systembolaget.
- Their perception of the way in which their relationship with Systembolaget works at present.
- What suppliers regard as important in terms of their relationship with Systembolaget.

## Trading margin excluding alcohol tax

Gross profit as a percentage of income excluding alcohol tax.

## Wastage

Wastage, as established during stocktaking, pro mille of income, including both product and cash wastage.

## Work productivity

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

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## Ten years in brief

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
<b>Sales per head of population aged 15+, by product group (litres)</b>										
Spirits	2.6	2.6	2.5	2.5	2.5	2.5	2.6	3.0	3.2	3.2
Wine	24.1	23.3	21.6	20.9	19.9	19.1	18.7	19.2	18.6	17.0
Strong beer	28.9	29.0	27.5	27.1	25.9	23.9	23.3	24.3	23.3	21.4
Cider & mixed drinks	2.5	2.5	2.4	2.4	2.4	2.3	2.3	2.5	2.3	1.9
Alcohol-free	0.2	0.13	0.11	0.11	0.10	0.10	0.09	0.07	0.06	0.05
Total as pure alcohol	5.8	5.8	5.4	5.3	5.1	4.9	4.8	5.1	5.0	4.6
<b>Sales in millions of litres, by product group</b>										
Spirits	20.0	20.1	19.1	19.3	18.9	18.8	19.2	22.1	23.3	23.4
Wine	187.9	181.4	166.5	159.5	150.5	143.0	138.7	141.8	136.5	124.2
Strong beer	225.8	226.9	212.4	207.1	195.7	179.0	172.9	179.1	170.5	156.0
Cider & mixed drinks	19.3	19.4	18.5	18.1	18.3	17.0	16.8	18.7	17.1	13.7
Alcohol-free	1.3	1.0	0.9	0.8	0.7	0.7	0.7	0.5	0.4	0.4
Total as pure alcohol	45.5	44.8	41.6	40.5	38.4	36.4	35.6	37.4	36.4	33.6
<b>Retail network</b>										
No. communities with stores	324	322	322	322	322	322	323	323	315	314
Stores	414	412	411	411	410	411	417	426	419	416
Agents	508	508	511	540	552	560	576	580	590	579

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# Annual General Meeting

The Annual General Meeting of the company's shareholders was held in Stockholm on 24th March 2011.

## Financial calendar 2011

29th April 2011	Interim Report, January – March 2011
12th August 2011	Interim Report, January – June 2011
28th October 2011	Interim Report, January – September 2011
15th February 2012	Preliminary Financial Statement, 2011



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